

Knowledge Accumulation and Its Effects on Organizational Effectiveness in Family Firms

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Abstract In the family firm, the process of knowledge accumulation is strongly influenced by the common history of the family, the relationships of trust, and the affective relationships between the family members that foster communication, which improves knowledge management and promotes learning. All of this leads to better organizational effectiveness in this particular group of firms. With the goal of verifying these relationships, we provide a series of propositions in order to pave the way for future studies to address and test these relationships of family involvement and essence, basic to the concept of the family firm, which should have distinct effects over the process of knowledge accumulation affecting the organizational effectiveness, behavior, and performance of the firm.

Keywords Competences · Dynamic capabilities · Effectiveness · Essence · Family firms · Involvement · Knowledge sharing · Knowledge accumulation

1 Introduction

The research suggests that family firms excel in performance over non-family firms (Anderson and Reeb 2003); however, the mechanisms and processes that bring about these differences in performance still need to be studied in detail (Chrisman et al. 2009). Contributions from the resource-based theory indicate that family involvement in the firm is the source of the bundle of distinctive resources and capabilities a particular organization possesses because of the interaction between the family, its individual members, and the business (*familiness*) (Habbershon and

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Williams 1999), source of competitive advantage in the family firm (Habbershon et al. 2003).

In the process of creating *familiness* in a firm, the founder and descendants must have the desire to pass the business onto the next generations. With this, the family's values and cultures are imprinted on the firm, and at the same time, the family transfers its experience and knowledge in a way that permits the viability and expansion of the firm. The family vision is thus projected onto the firm, making it have distinctive characteristics supported by the family and the family relationships; at the same time, the family absorbs the qualities of the business and its impacts on life and family routines (Sorenson 2000).

Thus, the *familiness* has an essential role in the process of knowledge accumulation, as recognized by Chirico (2008) in his empirical study of four cases of family firms in the wine sector in Italy and Switzerland. These results allow proposing a model of knowledge accumulation that goes further into the analysis of other different particularities of knowledge in family firms (Chirico and Salvato 2016) and serves as the starting point in the study of the process of knowledge accumulation in family firms. While this model also poses the effects of knowledge accumulation on the survival of family firms, further research is needed to improve the understanding of this relationship, considering the organizational routines that are generated as a result of this survival (Teece 2007).

It is the aim of this chapter to further the understanding of the antecedents and the consequences of the process of knowledge accumulation in family firms from the model proposed by Chirico (2008). We use the existing literature on family firms that suggests that the involvement (ownership, management, and generational transfer) and the family essence (family values and cultures, predisposition of the family to maintain the business for the long term) constitute the distinctive elements of the family firm and form a fundamental part of the process of knowledge accumulation. In addition, we use the fundamentals of the dynamic capabilities approach to discover the relationships between this process of the accumulation of knowledge and its effects on the generation of effective organizational routines that guarantee the survival of the family firms.

Our study contributes to the literature on family firms in several areas. First, in the sphere of family firm research, it improves the understanding of how the involvement and essence of the family in the firm promote the process of knowledge accumulation (Chirico 2008). Second, this work contributes to the understanding of how family involvement and essence promote the generation of resources and capabilities as basic elements of organizational effectiveness, behavior, and performance of the family firm (Astrachan 2010). Third, this paper contributes to the incorporation of dynamic capabilities, providing a discussion about how involvement and essence can contribute to this process of dynamic capabilities building in the family firm (Chirico and Salvato 2008).

This chapter is organized as follows. In Sect. 2, we first present the conceptual framework and a series of propositions. In Sect. 3, the conclusions are outlined. Finally, Sect. 4 discusses interesting lines for further investigation.

2 The Process of Knowledge Accumulation in the Family Firm

Family firms are, in general, organizations where the learning process and knowledge management are accomplished in a distinct manner, promoted by the intense social interactions between family members (Cabrera-Suárez et al. 2001). In particular, from social capital theory, those interactions are referred to as structural (connections and networks between members), cognitive (shared experiences and understandings between members that provide enduring relationships) (Cunningham et al. 2017; Pittino et al. 2018), and relational (the nature and quality of connections) (Nahapiet and Ghoshal 1998). These social interactions generate the unique capabilities of the family firm which are responsible for those distinctive processes. Moreover, the specific knowledge of the family firms and the abilities to create it and transfer it are considered fundamental assets (Woodfield and Husted 2017; Grant 1996a), which are positively associated with high levels of performance (Pittino et al. 2018; Cabrera-Suárez et al. 2001) and organizational effectiveness (Gold et al. 2001; Zheng et al. 2010).

In particular, the process of knowledge accumulation in the family firm is unique; the emotional involvement, the common life history, and the use of private language in family firms all improve communication between family members (Tagiuri and Davis 1996). The knowledge accumulation is a mechanism of organizational learning from which the firm's organizational routines are developed, providing the basis for the generation of dynamic capabilities (Zollo and Winter 2002) that permit an organization to create, extend, or modify its resource base (Helfat et al. 2007). Dynamic capabilities allow a firm to broaden, change, or create ordinary capabilities by accessing and recombining knowledge, thus enabling success in its organizational effectiveness and generation of value over time (Teece et al. 1997; Eisenhardt and Martin 2000; Zollo and Winter 2002). In the particular field of family firms, knowledge accumulation refers to the explicit (family protocols) and tacit (learning by doing) knowledge that the family members that work in the firm obtain and develop through education and experience (Chirico 2007).

This process of knowledge accumulation allows them to create more efficient routines of knowledge exchange with greater privacy in comparison with non-family firms, thus developing an idiosyncratic knowledge which fosters the recombination and re-configuration of family resources and the continuity of the business from generation to generation (Chirico and Salvato 2008). The interactions of the family, the firm, and the family members influence the bundle of resources that are available in the organization (Habbershon and Williams 1999; Habbershon et al. 2003); in order to use these resources, the family firms foster their idiosyncratic process of knowledge management and learning; this process is strongly conditioned by the family's presence in the firm through ownership, management, and generational involvement. It is particularly important to analyze the components of tacit knowledge of family firms; to live in the family and work in the firm from a young age allow the family members to develop profound levels of specific tacit knowledge of

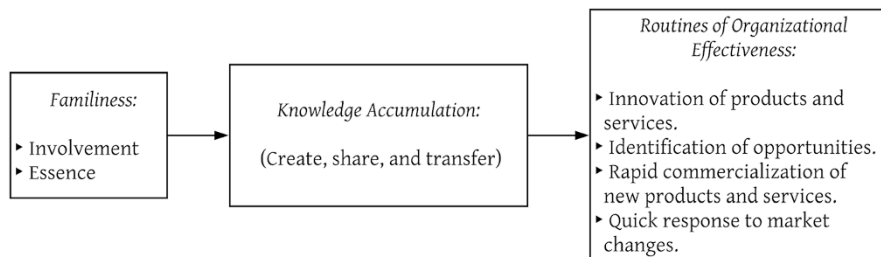


Fig. 1 The process of knowledge accumulation and its effect on organizational effectiveness in family firms. Source: Authors

the firm (Chirico and Nordqvist 2010). Thus, the accumulation of knowledge can start within the family, in the home, and continue throughout a career in the firm (Gersick et al. 1997; Chirico and Salvato 2008). Moreover, it is vital to the development of the process of accumulation of knowledge that a sense of trust exists between the family members that facilitates the ease of their interactions (Chirico 2008).

Therefore, the family provides the firm with a particular endowment that the literature refers to as *familianness*—family involvement and essence (Chrisman et al. 2005)—to create an idiosyncratic process of knowledge accumulation that foster organizational effectiveness (Chirico 2008) (Fig. 1).

2.1 *Family Involvement and Essence and Knowledge Accumulation*

The involvement approach has been utilized by scholars in order to distinguish family firms from non-family firms (Chua et al. 1999); in other words, it is based on family ownership, family management, and the presence of multiple generations of the family in the firm. Family involvement is a necessary condition, but it cannot predict the extent to which the family applies its influence (Chrisman et al. 2012). The essence approach considers the intentions of trans-generational control and family commitment, manifested through the long-term orientation of the firm, the longevity of the managers, the strong social capital, and the socioemotional wealth that usually characterize firms with substantial family involvement (Chua et al. 1999).

Family involvement is a precondition to essence (Chrisman et al. 2012). Together, involvement and essence constitute family influence (*familianness*) (Chua et al. 1999). This influence is manifested in a variety of ways: through the strategic decision-making process of the firm (Klein et al. 2005); in the family's intention to maintain the control (Litz 1995; Gómez-Mejía et al. 2007); in the behavior that is a consequence of the vision developed by a dominate coalition that controls the firm with the intention that the firm be sustainable throughout the generations (Chua et al.

1999); and the generation of unique resources, indivisible and synergistic capabilities derived from the involvement of the family and its interactions (Habbershon et al. 2003).

Both approaches complement and incorporate each other in capturing the diversity of family firms (Chrisman et al. 2005; Chrisman et al. 2012). In this sense and according to Basco (2013), we use both approaches in an integrated manner in order to try to explain how the effects of the family can influence the process of knowledge accumulation.

2.1.1 Family Involvement and Essence and the Process of Internal Knowledge Accumulation

Family influence in the firm is exercised through involvement, that is to say, by means of the ownership and management structures, the family involvement in management, and the generations that participate in the firm (Chrisman et al. 2012), and the essence, which is generated from the family's intention to maintain control over successive generations (Litz 1995; Chua et al. 1999; Chrisman et al. 2004), which, from a socioemotional perspective, reveals the commitment of the family with the firm (Klein et al. 2005) and promotes the implementation of knowledge accumulation, with the clear objective to maintain control and preserve the family's socioemotional wealth in the long run (Gómez-Mejía et al. 2007).

The literature emphasizes that involvement is a precondition to essence in a family firm (Chrisman et al. 2012); thus, involvement is related to essence—if the former increases, the latter should also increase (Chrisman et al. 2012). Therefore, essence measures the family's intention to manage the firm in order to achieve its vision of the business that goes beyond the life expectancy of the current generation (Chua et al. 1999; Gómez-Mejía et al. 2007) and that leads it to pursue non-economic objectives (Chrisman et al. 2012). It represents an unequivocal signal that the family will exercise its influence to establish processes that guarantee knowledge accumulation, particularly processes between family members that will permit knowledge transfer to the following generations, thus creating and preserving the socioemotional wealth of the family members (Gómez-Mejía et al. 2007; Gómez-Mejía et al. 2011a).

Family commitment directs the personal values and beliefs of the family members toward the objectives of the firm (Chrisman et al. 2012); this commitment not only derives from being shareholders of the firm—a necessary but not completely sufficient condition—but it also requires that the family feels that the firm is theirs and requires that its members involve themselves in the firm activities, even in an informal way (Carlock and Ward 2001). Not all of the family members will have the same level of commitment and interest in the family firm, especially after the second or third generation (Thomas 2001); thus, family members from different generations can have differing perspectives, and these differences can generate conflicts (Gersick et al. 1997; Grote 2003) affecting their commitment to the firm. In this sense a low level of commitment with the family firm can negatively affect the

process of knowledge accumulation (Barach and Ganitsky 1995; Nonaka and Takeuchi 1995; Astrachan et al. 2002). In view of all of the above, it is suggested that the components of involvement (power and experience) can have different impacts over the essence. Family members, who want to retain the family in the firm, are willing to go beyond the parameters of their normal job duties, which help in the transfer of knowledge and experience (Chirico 2008). The normal co-worker relationships go beyond the boundaries of the workplace which give rise to the existence of better cooperation and interchange of information and experiences, helping to overcome workplace conflicts (Kusunoki et al. 1998). The close workplace relationships allow family members to acquire experience and develop practical skills in the family firm (Chirico 2007); furthermore, the trans-generational communication in the family firm can help knowledge creation in the long term (Gersick et al. 1997; Cabrera-Suárez et al. 2001; Kellermanns and Eddleston 2004).

Thus, the power represented by the family's involvement as shareholders and directors in the firm, as well as the depth of experience, shown by the number of generations involved in the ownership, governance, and management, affects the family essence—in other words, the commitment and the sense of emotional belonging of the family members. This essence becomes an element that mediates the relation between the components of involvement and the process of internal knowledge accumulation in the family firm. Thus, we formulate the following hypothesis:

Proposition 1 Essence has a mediating effect in the relationship between the components of involvement and the process of internal knowledge accumulation in the family firm.

2.1.2 Family Involvement and Essence and the Process of External Knowledge Accumulation

Involvement and essence are considered key aspects of the desire to preserve capital, not just shareholder equity but also socioemotional capital throughout the generations, causing the family firm to hire family members to occupy management positions—mainly for reasons of control and flexibility—instead of hiring non-family executives (Eddleston et al. 2008). Prior research suggests that family firms are reluctant to professionalization (Kets de Vries 1993; Gersick et al. 1997; Gómez-Mejía et al. 2007); this tendency is based on the desire for the preservation of socioemotional wealth of the family in the family firm (Gómez-Mejía et al. 2011a). Delegating authority to non-family members reduces control over strategic decisions; one example is that hiring an expert, who has a specialized knowledge which differs from the experience of the family owners, increases the asymmetries of information (Gómez-Mejía et al. 2011b). In particular, hiring of non-family directors increases the conflicts about the firm's goals due to the divergent motivations and career objectives of the family employees versus those non-family employees (Gersick et al. 1997).

Family firms are usually less formal with their human resource policies; the selection processes are normally limited to a small number of candidates who share the same family values and cultures (Cruz et al. 2010). In addition, they put more emphasis on informal relationships (Kotey and Folker 2007) and give more importance to personal relationships (Fiegener et al. 1996). The intention of trans-generational family control puts emphasis on long-term planning, while, in general, external training focuses on short-term goals; therefore, new employees are involved with the values and norms of the organization, strengthening their identification with the firm and building the socioemotional wealth of the family (Gómez-Mejía et al. 2011a). In short, the family's desire to build an atmosphere that helps transmit the family culture and values is associated with a lower propensity to use external sources of knowledge accumulation. This argument allows us to propose the following hypothesis:

Proposition 2 Essence has a mediating effect on the relationship between the family involvement components and external knowledge accumulation in the family firm.

2.1.3 Knowledge Accumulation and Organizational Effectiveness

Organizational effectiveness can be defined as the degree to which a firm makes good decisions which allow it to capture a greater market share and get better results in growth and innovation compared to its competitors (Zheng et al. 2010; Feranita et al. 2017). Research confirms that knowledge management is a key tool for the achievement of organizational effectiveness (Gold et al. 2001; Zheng et al. 2010). Thus, a firm can take advantage of learning to improve its capabilities and create values over time and, in agreement with Gold et al. (2001), improve its ability to innovate, coordinate efforts, quickly market new products, respond to changes in the market, and maintain the capability to anticipate unexpected changes (Nonaka et al. 2000), promoting organizational effectiveness (Gold et al. 2001; Zheng et al. 2010).

Knowledge needs to be accumulated in order to generate values over time (Chirico 2008); thus, accumulation of knowledge is the motor for organizational learning mechanisms (Nielsen 2006) and constitutes the basic pillar for the generation of dynamic capabilities (Nonaka 1994; Grant 1996b; Zollo and Winter 2002; Nielsen 2006). In this way, organizational learning mechanisms allow the configuration and re-configuration of the firm's resources and operational routines (Cepeda and Vera 2005) by means of the management of knowledge within the firm (Easterby-Smith and Prieto 2008). New knowledge and the exploitation of current knowledge facilitate an understanding of a complex and uncertain environment (Zollo and Winter 2002).

2.2 *Internal Knowledge Accumulation and Organizational Effectiveness*

The internal knowledge accumulation in the family firm links the bundle of resources and capabilities provided by the family with the development of dynamic family capabilities that permit the continuous development¹ of closer relationships—more family-like—with distributors, which in turn can provide benefits such as insight into changing consumer tastes.

Internal knowledge is manifested in the wisdom and skills that the family members have acquired and developed through education and experience both within and outside of the firm (Chirico 2008). Thus, the form in which the firms create, transfer, and use knowledge has an impact on their performance and skill in competing within an industry (Nonaka 1994; Grant 1996a; Spender 1996). Consistent with Chirico (2008), in family firms, knowledge is better accumulated when the family members value the family workplace relationships within the firm, the commitment and psychological ownership with the firm, as well as in-house training courses and family firm experience, and/or hiring of family executives in the firm. In this manner, the family firm develops a strong organizational culture of continuous improvement and learning in which the family workplace relationships have great weight in the process of continuous improvement, achieving greater levels of organizational effectiveness. Thus, we propose the following hypothesis:

Proposition 3 The internal accumulation of knowledge has a positive influence on organizational effectiveness in the family firm.

2.3 *External Knowledge Accumulation and Organizational Effectiveness*

In regard to external knowledge accumulation, training outside the family firm is a form of learning in which the family members have the opportunity to create new knowledge, combining their tacit knowledge with their explicit knowledge (Nonaka and Takeuchi 1995). This type of training allows family members to acquire new knowledge and develop skills which, when brought to the firm, can be shared and transferred to the other members of the firm (Chirico 2007) and transferred across the generations (Ward 1987; Barach and Ganitsky 1995). Once internalized, this knowledge serves to develop a sense of family identity oriented to develop new strategies, administrative systems, or operating systems in the firm (Ward 1987). Thus, the knowledge acquired outside of the family firm, when shared and transferred over time within the firm, generates positive returns for family firm management (Chirico

¹The continuous development incorporates the notion of change and evolution of knowledge and learning over time (Zollo and Winter 2002).

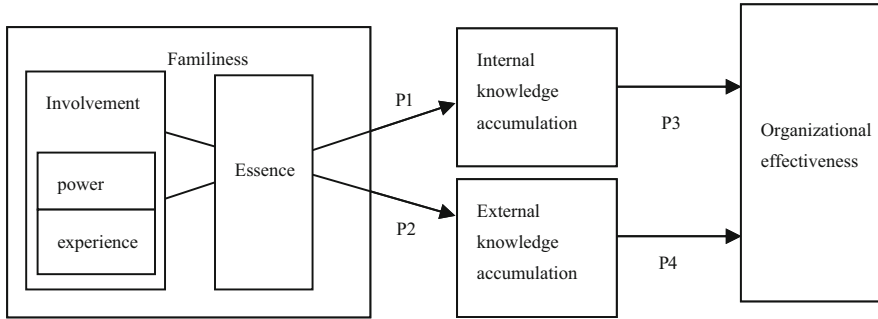


Fig. 2 Proposed research model and study propositions

2007). Likewise, when the knowledge and experience are acquired by employing the talents of non-family members (specially qualified people) who work for or have relationships with the family firm, it increases the openness and flexibility of the family firm (Ward 1987; Jaffe and Lane 2004).

To summarize, absorbing, combining, and integrating the new external knowledge with that already available in the firm offers new perspectives of sustainability for the firm over the generations (Chirico 2008). Obtaining new external knowledge results in management improvement, fostering family organizational effectiveness. In agreement with these approaches, we propose the following:

Proposition 4 The accumulation of external knowledge has a positive influence on organizational effectiveness in the family firm.

Figure 2 summarizes the suggested research model and propositions.

3 Conclusions

This research offers various contributions to the study of family firms. The first contribution to the field, and consistent with the suggestions of Chirico (2008), is to provide an outline of research with respect to the relation between involvement and essence in the family firm and the process of knowledge accumulation. The second contribution, in agreement with Astrachan (2010), is to provide an improved understanding of how involvement and family essence could promote the generation of resources and capabilities as basic elements of organizational effectiveness, behavior, and performance of the family firm. Another contribution of this work, following Chirico and Salvato (2008), is the incorporation of dynamic capabilities, providing a future discussion about how involvement and essence can contribute to this process in the family firm. These contributions, taken together, provide a better understanding of the behavior, performance, and heterogeneity of the family firm. With respect to the business practices of the family firm, our work provides ideas to the executives and managers as to what aspects condition the firm and what factors promote the

accumulation of knowledge in the firm. We discuss these contributions in detail in the following paragraphs.

Our results could have implications for the managers of the family firms, and therefore it is essential that they be familiar with the mechanisms of knowledge accumulation and the aspects of the firm that foster them; this will permit the managers to create a collaborative environment for the exchange of information and knowledge, especially tacit knowledge, coming from both family members and non-family members. The executives should promote a climate of trust and commitment that facilitates the interaction of the firm members and the family members, providing the necessary incentives that stimulate the accumulation of knowledge in the family firm. Management has a mission to ensure that the different generations consolidate their relationships in the context of the firm; in this way the family members will be able to make the vision and the organizational values their own across the generations, guaranteeing the permanence of the family firm. Thus, and in agreement with Chirico (2008), those strong affective ties—the trust and the closeness of the relationships—will create a sense of belonging to the firm where the firm is part of the individual and the individual is part of the firm.

4 Future Lines of Research

This research opens interesting lines for further investigation; studies can be developed to identify the behavior and the impact of the variables of knowledge accumulation over time and capture its dynamic essence as a possible case method. Other possible future research could be directed to evaluate our model in other contexts and cultures, contributing to its mainstreaming and adaptation. In addition, further studies could be devoted to study the possible moderating effect of the components of the involvement, in the relationship between the essence and the accumulation of external knowledge. Finally, the next step in research could evaluate how this accumulated knowledge could be integrated and used as a source of value and continuity; in this sense, it would be interesting to evaluate how socioemotional factors might influence the process of knowledge management and generate dynamic capabilities in the family firm.

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