Tacit Knowledge Sovereignty: Are Some Small Family Businesses Reluctant to Relinquish Their Smallness?

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Abstract: It is a conventional understanding that all businesses desire to grow and expand in terms of revenue, bottom-line profit margins, and employee count. In an apt environment, growth is natural, and all small businesses – including family businesses - desire to scale up into medium and eventually large firms. Nevertheless, despite supportive macroeconomic factors, some family businesses deliberately choose to remain small. This research aims to identify the reasons behind this counterintuitive but conscious decision of some small family businesses to remain small. Specifically, this paper challenges the conventional development framework of small family businesses and questions the assumption that all small family business owners desire their firms to grow. The purpose of this paper is to explore the reasons for maintaining such intentional resistance to expand and also to generate research propositions that support the implausible argument that at least some small family business owners deliberately remain small for varied reasons. A qualitative grounded theory method was used with small family business owners who were willing to participate in the study. Purposive sampling was used to identify small family business owners, and unstructured, in-depth interviews with 12 such participants were conducted, recorded, and transcribed. Open and axial coding identified two major and three minor themes. A major inference was an unwillingness to share tacit knowledge outside their family. The participants revealed that, as they did not want their embodied family knowledge to lose its boundaries and to maintain tacit knowledge sovereignty, they opted to stay small while remaining content with the growth of their business. Another major reason was to ensure the members' well-being, making succession planning easier. In addition, three minor themes emerged to explain why they are reluctant to relinquish their smallness: core skill focus, relinquishing authority, and compliance overhead. The identified themes were validated through member checking, thereby enhancing the credibility of the findings. Research propositions are developed from these themes and could fuel further research.

Keywords: Family business, Small business, Tacit knowledge, Grounded theory, Tacit knowledge sovereignty

1. Introduction

Family Businesses are enterprises in which two or more family members hold management positions, have sufficient voting rights, and have a succession process (Cano-Rubio et al., 2017). Conventional wisdom suggests that organisational growth is a natural phenomenon (Greiner, 1998), and therefore, family-run small businesses (FSBs) should mature into medium-sized enterprises and eventually become large. Firm's growth may be identified as increased financial turnover, increased employee strength, or improved market share (Figueroa Herrera and Murcia, 2025) or all of these. However, many FSBs maintain the status quo, despite being small for a long time by any given measure of growth. Researchers have offered varied explanations for this stuntedness, including the unavailability of financial support, a lack of infrastructure, and a shortage of skilled labour (Adhikari, 2017). These external factors assume that the FSBs desire to grow and scale up. It is only rational to presume that although they want to, FSBs could not scale up due to various reasons [*want to grow, but can't grow*] (Tsuruta, 2018). We challenge this presumption and explore a meaningful heterodoxy (Pidduck and Tucker, 2022) that, although they could, at least some FSBs do not want to grow and scale up [*can grow, but don't want to*]. There can also be some FSBs that want to grow and can grow, but are putting it off until it becomes absolutely necessary for them to do so [*can grow, but not so soon*]. We aim to generate a taxonomy of reasons and propositions and establish a research agenda that revolves around the fundamental question of whether the smallness of FSBs is by purpose (Khan, 2019). We specifically seek answers to understand the reasons for this meaningful heterodoxy.

2. Growth of FSBs as a Choice Rather Than a Natural Progression

There are more than 63 million micro enterprises and 0.33 million small enterprises in India (MSME, 2026), and more than 50% of these are family-owned (SPIJMR, 2023). Most of these FSBs are more than a few years old and, by conventional standards, have well surpassed the typical growth period (Hanks et al, 1994). If the owner-manager is satisfied (Pechlaner et al, 2004; Rachevski and Shami, 2025) with the FSB's current state, s/he could decide not to grow any further. The owner-managers of such FSBs do not consider their smallness a liability, nor are frustrated by it; instead, they may even derive pleasure and satisfaction from questioning the status quo. By doing so, they apparently build a cult (Bainbridge and Stark, 1979), simply by defying societal expectations.

It is indeed important to have a purpose for an organisation (Jones-Khosla and Gomes, 2023) to justify its existence. It is also beneficial to have a defined or tacit boundary within which the firm can formulate ad hoc tactics to serve its purpose. Resource management in FSBs – financial, human, or infrastructure - is often practiced in an impromptu fashion (McPherson, 2008). Advocates of formalisation of processes in FSBs assume that a miniature of similar processes in large organisations would suit FSBs (Nolan and Garavan 2016). We do not argue against formalisation. A complete formalisation of management processes in FSBs is impossible, non-pragmatic, and futile. It may save time by developing templates or processes for repetitive tasks (such as payroll, tax returns), but the cost of designing and implementing them should justify their benefits (Singh and Vohra, 2009). Such formal and informal practices should coexist (Heilmann et al., 2020), and the FSB should have the flexibility and ability to sense the situation, assess, and select an appropriate process. Relinquishing the informality in management processes thereby avoiding formalisation may be a conscious decision by the owner-manager (Nguyen and Bryant, 2004).

Formalisation may introduce standardisation of procedures and eliminate subjectivity. This is precisely what some FSBs are trying to avoid. They would want to preserve their competency by building an intangible moat that prevents knowledge leakage. These FSBs fully understand the opportunity cost and voluntarily choose to remain small. No studies have been found that explore this paradoxical phenomenon.

3. Method

The precursor to this study was data collected from owner-managers of FSBs to analyse their HRM practices, conducted as part of a classroom assignment for MBA students. The students contacted and interviewed 71 owner-managers of Indian Family-owned MSMEs to gain an understanding of the formalisation of the HRM practices in their respective FSBs. While evaluating the transcripts based on these interviews, we observed that a few owner-managers indicated they had intentionally limited the growth of their FSBs. This counterintuitive information led to the design of the research that resulted in this paper.

We conducted interviews with 39 additional owner-managers of FSBs. Of the total 110 owner-managers, 92 were contemplating growth, and 18 acknowledged that they chose to stay small or preferred to grow very slowly. Own-account enterprises (small firms that do not employ any staff), as well as unorganized and agricultural businesses, were excluded. We also excluded four FSBs that were less than five years old, following the rationale of Hanks et al (1994): the average age of a start-up is 4.29 years, with 6.4 employees, before it expands. Only owner-managers who manage an enterprise with at least six employees were interviewed (inclusion criteria). Two owner-managers declined to participate. Finally, we conducted unstructured, in-depth interviews (Fontana and Frey, 2005) with 12 owner-managers. All the owner-managers we interviewed were founders of their respective firms. Qualitative studies using depth interviews typically employ 12-60 participants (Saunders and Townsend, 2016). Given the unique nature of our research question, the information gathered from 12 participants is sufficient to generate research propositions. We obtained their consent prior to each interview and visited them several times to establish rapport. We ensured that the necessary ethical considerations, such as information confidentiality and anonymity, were in place.

The objective of our interview was to identify the reason(s) for their choice to stay small. The mean interview duration was about 84 minutes. Although not purposeful, all the owner-managers in this study were males. Five of them were under 35, and seven were between 35 and 50. Six had completed their engineering degrees, two were science graduates, one had completed high school, and the other participants chose not to disclose. Interview questions were loosely framed and structured to identify their reluctance to grow, the reasons for their choice to remain small, and their perceived future position in the FSB. Some of the questions we asked were: “Why are you maintaining the growth level in a small and more or less uniform manner while many of your contemporaries have scaled fast?” “Why are you not planning to add more employees?” “How do you feel about the growth you have had so far, and do you think you could have grown better and faster?” and “What stops you from scaling up?” We prepared detailed transcripts after each interview. The responses were translated into English.

3.1 Qualitative Grounded Theory Approach

We used qualitative Glaserian grounded theory (GGT) (Glaser, 1998; 2009) to analyse the transcripts and derive themes. The GGT method was adopted over other known qualitative methods, specifically grounded theory methods, as we aim to generate propositions rather than validate existing theories. To conceptualise the raw information into an emergent theory, we employed theoretical sensitivity (Simmons, 2025).

4. Results and Discussion

Following the guidelines recommended by Glaser (2009), we analysed the transcripts to delineate meaning units and five basic emergent themes that influence the owner-managers of family business to remain small were generated: tacit knowledge sovereignty, member benevolence, core skill focus, authority relinquishment, and compliance overhead (Figure 1)

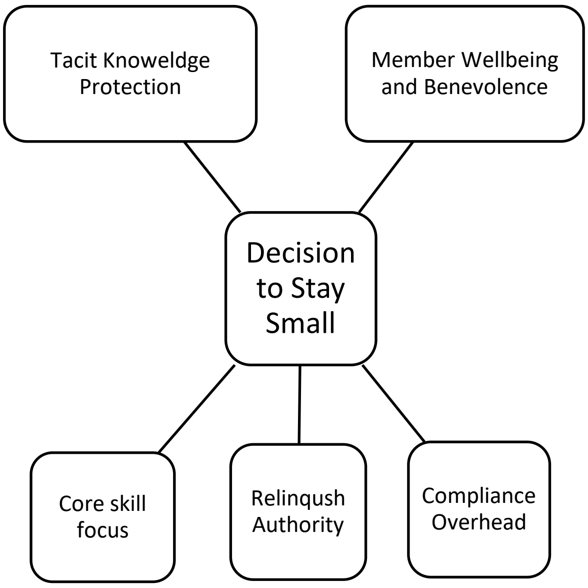

Figure 1: Reasons why some small family businesses stay small

4.1 FSB and Tacit-knowledge Protection

All the owner-managers in our study repeatedly indicated that if their business grows beyond a certain point, they will be forced to enforce systems and procedures. They divulged that their business is guided by conventional philosophies and that they did not want them diluted by introducing a revolutionary thought process, which they feared might weaken their supremacy and dominance (Duh, 2014). They confessed that they have been maintaining a tradition in place for decades and did not want any standardisation process, so as not to make the business feel impersonal. Although this may bring in more revenue and growth, they may be forced to share their specific knowledge, such as culinary intuition by way of secret ingredient for food and beverage manufacturers, mastering craftsmanship by way of continued training since their childhood, or design sensitivity that they honed by way of multiple instances of trial and error. There are cultural and political reasons for this behaviour as well (Mansouri and Moufdi, 2026).

Such tacit knowledge deeply embedded in their family tradition, they say, is their strategic asset and competitive advantage (Luong et al, 2024). When such knowledge is made explicit, it may become easy for competitors to copy and customize. Tacit knowledge is often an intellectual property that owners choose not to disclose for fear of losing not only revenue but also their heritage. By maintaining sovereignty over their tacit knowledge, family businesses preserve their socio-emotional wealth and ensure continuity through a proper succession plan.

Proposition 1: Some FSBs choose to remain small so as to maintain their tacit knowledge sovereignty and protect their competitive advantage.

4.2 Informal Work Relations at FSB and Member Benevolence

Some owner-managers are genuinely happy with the size they are currently at. They said they are operating at full capacity and do not want to add more employees unless it is absolutely necessary. In this way, they can pay more and better attention to the needs of existing employees. They (inadvertently) follow Theory Y (McGregor,

1960) and presume that existing employees can perform better when well cared for. In particular, most of them are strong proponents of stewardship theory regarding member benevolence (Waldkirch and Nordqvist, 2016). They are convinced that increasing the number of employees does not necessarily translate into better collective performance.

Members of FSBs are not typically recruited through a formal process. The owner-manager develops a sense of kinship and accepts the member as part of the business. With such closely knit groups, the owner-managers can better communicate the business objective and get acceptance of the vision. This shared vision helps all members to stay on the same page and is reflected in all other activities in the firm. Such affinity of the owner-manager towards their employees creates and thickens the bond.

Proposition 2: Some FSBs willingly remain small to ensure member benevolence.

4.3 FSB and Core Skills Concentration

All the owner-managers in our study were experts in their fields and built their businesses to operationalise their ideas. They are well-versed in their core skills (often technical), but are not very competent at managing the business (Chatterji et al, 2019). Lack of management sophistication, combined with their years of experience running their business on a small scale, has left them fixated in a comfort zone from which they are reluctant to deviate.

The owner-managers of FSBs, by virtue of their position, are expected to manage other family members, their employees, sales, and finance (Ahmadi et al, 2021), albeit on a smaller scale. Some decide to keep such non-core activities to a minimum so they can focus on their core. By focusing on what they are good at, they can carve out a personal niche. There could be an intrinsic motivation (Tripathi et al, 2025) and desire among these owner-managers to be known for their technical skills rather than as ‘successful’ businesspersons.

Proposition 3: Some FSBs choose to remain small so as to focus on and to build on their core skills.

4.4 FSB and Owner-manager Authority

A few owner-managers reported deriving pleasure from retaining decision-making power in their firms. They would demand and expect all information concerning their firm to pass through them and to be at the forefront of matters that concern the firm. Some were apprehensive that, with higher growth, they might be relegated to a “corner office” and bypassed in major decisions. This fear of relinquishing their overall authority makes them reluctant to add more employees, except for replacements.

Ostensibly, there exists some degree of fuzzy trust among members and owner-managers. In an extreme scenario, they anticipate a boardroom coup (Croucher et al, 2007). This air of mistrust might also be reflected in poor production or service that indirectly contributes to their smallness. It is quite possible that they have developed an attitude of continuing to operate in a highly centralised way and not growing beyond what is required. Most owner-managers do not want to give up their style, personality, and the firm's culture that they have nurtured so far.

Proposition 4: Some Owner-Managers of FSBs deliberately remain small so that they retain their authority and autonomy.

4.5 FSB and Compliance Overhead

Some owner-managers presume that the larger the number of employees, the more complicated the process - not just the internal processes, but also the administrative responsibilities associated with legal compliance. The applicability of labour regulations increases in proportion to the number of employees in an organisation (Gupta, 2019; Mehrotra, 2019). While outsourcing the statutory compliance process saves time and effort, they fear that confidentiality may be compromised and that they may become susceptible to undue advantage from a third party (Jovanovic, 2018). Although the procedural entanglement associated with legal compliance is not a pull-back factor per se, it can delay the decision to grow beyond a threshold for a considerable period.

Proposition 5: Some FSBs choose to remain small so as not to be too focused on statutory compliance and to avoid procedural entanglement.

The representative statement from the owner-managers of FSB, the axial coding using GGT, and the emergent themes are detailed in Table 1.

Table 1: Emergent themes identified from GGT

Emergent Themes	Axial Codes	Representative Statement
Tacit knowledge sovereignty	Sustaining family legacy	*“ We have been in this* [jewellery] *business for about a century. There are methods by which we do business. Gold and precious metals are considered divine, and we have been prosperous due to this. If we let someone else run the business, we lose our heritage.”*
	Preventing knowledge leakage	*“We are a close-knit family. There are customs and procedures that will only be shared with one member in the next generation. This way we maintain our tradition and avoid a third person getting to know what we do and how we do.”*
	Retaining Power and Control	*“What comes to your mind when you say a formal organisation? Yes, maybe we can make more money. But we will then be answering someone else’s questions and attending a business meeting where we stand there giving ridiculous sales figures. We don’t want that to happen. Here* [in that FBS], *what I say is the rule, and I can easily sense the changes and ask my family to act accordingly. Quick decisions can be taken. I want to maintain that.”*
	Avoiding cultural dilution	“*I do not really believe in the concept of standardization; I believe in intellectual valuation. I want to learn about technology and processes, and manage a small team. This way, I can protect my culture. Having our knowledge within the family, we would increase our collective intelligence, and, of course, this will be reflected in our offerings. This can only happen if we can maintain a strong and stable culture, where all members are dedicated, particularly in maintaining our talents and knowledge*”.
Member Benevolence	Member well-being	*“As the most experienced member in the family running this business, I feel it's my responsibility to make my family members comfortable running this business. If I hire a professional help, then they may start directing, without really understanding the family sentiment. I will not let that happen, and family members are my priority.”*
	Succession of business	*“See, this is a family business. What does that mean? It means that when I step down, someone else in my family should run the business. For this, we have our own bylaws and codes that govern our selection of a successor. We don’t let anyone else interfere in our business, and it that restricts our growth, so be it.”*
	Family bond and altruism	*“Simply put, business is a way of maintaining the close ties with all out family members. I can also say that it is because of this business, our family members are closely attached with each other. So it is our responsibility to take care of each other. When we grow, we may branch out, and eventually this close ties will fall out of place. That will be sad.”*
Core skill mismatch	Not interested in people management	*“For the last 12 years I have been doing this, and I am very happy with what I do. Occasionally there are some issues in the company that requires me to mediate a negotiation. However, I don’t want any more issues and from my experience, more employees mean more issues. I can’t manage that. I’m just happy with my current size.”*
	Focus on learning and improving skills	*“I joined my family business 10 years back, before which I was with an MNC. I can finally do what I am interested. I don’t want to loose this freedom, and am happy with what I can do and learn from this position “*
Relinquishing autonomy	Decision Making	*“I am the CEO, which means all executions should be overseen by me and based on my decision. If someone else is deciding for me, what then is the point of me being the CEO?* “

Emergent Themes	Axial Codes	Representative Statement
	Leadership	*"I have invested my effort in this* [firm]*; Nobody else can fathom the dream I have for this organisation and I should have the ultimate authority to make any decisions inside my organisation. I do not want to outsource my decision making authority."*
Compliance Overhead	Avoiding bureaucratic encounters Procedural entanglement	"*Too many people, would mean to many issues. I follow rightsizing. This way I don't have to pay more for various acts and laws, which are too complicated for me to understand.*"

5. Theoretical Implications

We employed an abductive reasoning approach to offer a paradoxical set of propositions: not all FSBs want to scale up and grow. Smaller firms are easier to manage and control (Schumacher, 2011) and would also effectively deflect regulatory barriers (Padmakumar, 2022). While several factors affect the growth of small firms (Garcia-Martinez et al, 2023), the owner-manager's attitude is scarcely discussed. We contribute to the existing literature by showing that owner-managers' attitudes also determine the firm's smallness. This attitude is driven by internal or external attributions, as proposed by attribution theory (Kelley and Michela, 1980; Stiensmeier-Pelster and Heckhausen, 2025). The findings underscore that FSB growth is attributable to the internal attributes of owner-managers, regardless of conducive external factors. Furthermore, the owner-manager's confidence in maintaining the firm's smallness would also stem from a high internal locus of control (Pandey and Tewari, 1979; Nazir and Das, 2025). As opposed to agency theory (Eisenhardt, 1989), the owner-managers of the FSBs evidently adhere to stewardship theory, which characterises them as trustworthy individuals who maintain a conflict-free work environment and maximise organisational health and sustainability. These characteristics ensure that their tacit knowledge remains within their FSBs and is not promulgated, thereby reducing the risk of threats to their survival. They maintain their enigmatic existence, partially protected by their sovereignty over tacit knowledge.

6. Agenda for Future Research

As a preliminary exploratory study, we identified several notable characteristics among the cognitive patterns of some FSB owner-managers and proposed additional questions for further consideration. We relaxed the conventional presuppositions - growth as a natural phenomenon, FSBs with informal procedures are harder to manage, and all owner-managers of FSBs want to grow. The owner-manager of FSBs need not be an expert in all functional areas of business management to commence operations (Read and Sarasvathy, 2005); rather, their growth is facilitated by entrepreneurial thinking focused on building a strong enterprise (Read et al, 2016). Some owner-managers develop a status quo bias (Cossette, 2014) and regulate the number of employees. It is interesting to note that Gibrat's Law of Proportionate Effect (the growth rate of a firm is independent of its size) applies to these FSBs, and owner-managers do not juxtapose growth and the number of employees (Nassar et al, 2014). It would therefore be interesting to explore the cognitive patterns of owner-managers who choose to remain small along the dimensions we identified. A deductive method to confirm these possibilities could enable policymakers and researchers to design a more effective plan for scaling up.

7. Conclusion

In this paper, we explored possible reasons why some small family businesses choose to remain small, despite a conducive environment for growth. Using grounded theory, we identified five reasons that explained their apprehension about 'mature' moving into the next phase: tacit knowledge sovereignty, member benevolence, core skill focus, relinquishing autonomy, and compliance overhead. We developed propositions and research agendas based on these themes. There are limitations regarding the number of participants, which, although it satisfies the methodological requirements, is too small and homogeneous to support generalization with certainty. The propositions need to be corroborated with a larger sample of owner-managers through an empirical study.

Ethics declaration: Ethical protocols were followed for interviews, and no specific ethics clearance was required for the study.

AI declaration: The authors used AI only for grammar checks, not for creating this paper.

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