The Positive Impact of Relation Capital in Family firm: The Latent Generation

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Abstract: The purpose of this paper is to focus on the role that the family system plays in the creation of a family firm and during the first generation. The concept of latent generation emerges, a generation, coeval with the first generation, which through the constant and mutual sharing of the dimensions of the relational capital that has a positive impact on strategic choices of the family firm.

Keywords: Family firms, Conceptual Model, Latent Generation, Relation Capital, Knowledge management

1. Introduction

Family Firms (in abbreviation FFs) play a significant role in the current economic system. FFs are organizations in which two or more family members influence the making strategic choices (Tagiuri and Davis, 1996; Davis et al, 1997) through the exercise of family ties, management roles or property rights. In FF there is a unique interaction between “family system” and the “business system” (Davis et al., 1997; Tagiuri and Davis, 1996). Kellermanns et al. (2008) argue that FF must satisfy at least one of three criteria: (i) being family ruled/managed, (ii) having a vision for the company consistent with the strategic direction held by the family and (iii) be potentially sustainable across multiple generation in the organization. The influence of the family, in business system, can vary over time e it can be manifested in many different ways (Astrachan et al., 2002; Klein et al, 2005). Generational involvement in FF represents a relevant element as family members of the new generations tend be a driving force for change (Kepner, 1991) and innovation (Litz and Kleysen, 2001). These interpersonal relationships defined by frequent interactions involve family members in many decisions. A large field of research has focused on the dilemma of long-term survival. In particular, scholars identify the succession as the most critical moment in the life of the FF. Succession is a challenge for FF, as it may involve the successor’s ability to acquire the predecessor’s key knowledge and skills adequately in order to maintain and improve the company’s organizational performance (Cabrera-Suarez, et al., 2001). Starting from the assumption that FFs, even during the first generation, integrate family and business interests (Handler, 1994; Bozer, et al., 2017) creating complex relational dynamics that can interfere with the survival of FF, consequently, emerges the presence of a unexplored and not considered generation and currently not considered by the academic literature. We have defined this unexplored and not considered generation as “latent generation” that is, the generation that precedes the first generation made up of family members of the entrepreneur and that for relational dynamics and relational capital that affect the management of FF (Arregle, et al., 2007). The term relational capital collectively captures a firm’s intangible assets, including the quality of relations, general business environment, collaboration, communication, value and image of the firm, as well as trust, obligation, and identification between various firm stakeholders (Cucculelli et al., 2019; Daspit and Long, 2014). The relational dimension represents the resources acquired or generated through personal relationships, such as trust, obligations, norms, and identification (Carr et al., 2011; Nahapiet and Ghoshal, 1998). Relational capital has been shown to create value and lead to competitive advantages (Adler and Kwon, 2002, Maurer et al., 2011, Carey et al., 2011, Kohtamäki et al., 2012) through ability to develop trust and identification (Daspit and Long, 2014), and overall positive impact on a firm’s success and performance (Niazi, 2017; Sullivan, 1999). Lawson et al. (2008) and Villena et al. (2011) describe that relational capital occurring through the frequent interaction process. Granovetter (1985), Kale et al. (2000) and Nahapiet and Ghoshal (1998) explained that relational capital is demonstrated by mutual trust, mutual respect and friendship that exists between the two parties who conduct business relationships through interactions that occur from year to year. Other researchers reiterate this, stating that it is represented by various attributes, again such as mutual trust (Carey et al., 2011), mutual reciprocity (Mathwick et al., 2008) and commitment (McLure et al, 2005). In managerial and organization studies, a consolidation of a new phenomenon requires a reflection to evaluate futures directions in order to obtain an in-
depth and organic vision of the phenomenon. For this reason, our study extends the theoretical framework on FFs and the relationship between the first generation and “Latent generation”. The purpose of this conceptual paper is to provide a moment of reflection for the field of FFs studies, offering a clear understanding of the phenomenon by focusing on the first generation and the previous generation (latent generation). The study therefore aims to investigate aspects of the academic literature currently not fully addressed and to offer new theoretical approaches. The results of this study offer scholars and practitioners interested in FF studies to gain new insights about the first generation and relationships with family members. We also argue that an “implicit” generation handover also exists in the first generation.

2. Theoretical Framework

2.1 Defining family and business system

Mainstream on FFs studies focuses on understanding the mutual impact of family relations and business systems, identifying these relations as the critical variable of these firms (Astrachan, 2003; Dyer, 2003; Habbershon et al., 2003; Rogoff and Heck, 2003; Zahra, 2003 Chrisman et al., 2003). For decades, a very large area of academic debate has focused on models and mutual relationships in FF. Recognizing that the family and the business are fundamental elements in FFs, several studies suggest that the success of FFs depends on the overlap between family and business (Olson et al., 2003, Mitchell, et al., 2003). These studies aim to encourage the simultaneous development of the family system and the creation of profitable businesses (Stafford, et al., 1999).

Researchers in the field of management and organization theories have begun to define FFs, based on the presence of the “family” component within the ownership and management of the company (De Massis, et al., 2018; Daspit et al., 2021). Following these studies, it emerges that there are three elements to be analyzed for the definition of the FFs: a) ownership, i.e. the property is controlled by a family unit; b) management is mainly entrusted to family members; c) transgenerational succession, i.e. at least two generations are present at the same time. Chrisman et al. (2003) define an FF based on the degree of family involvement in a variety of business-related aspects such as ownership, management or succession.

Given that the success of a succession process is positively related to the harmonious coexistence of its family members (Venter, et al., 2005), family principals may exercise pressures on the social capital in their company (Ruiz Jiménez, et al., 2015) as a form of power to achieve family harmony.

Additionally, the greater the desire to transfer the firm to the next generation, the greater the legitimacy and the urgency of the family will be to pursue family harmony and to stimulate family members’ identification with the firm (i.e., family-centered noneconomic goals).

![Figure 1: Overlap of family and firm system in FF](source: Tagiuri and Davis, 1996)
Figure 1 shows the reciprocal relationships between business system and family system (Tagiuri and Davis, 1996). Within a FF, the assets of the business system and the family system are combined. According to this perspective, the FF is the integration of different assets and orientations. FFs have a complex two-component nature, consisting of a combination of family and business systems. Family members are part of both the family system and the business system. This situation can generate a conflict as each system has its own rules, roles, values and knowledge. While close relationships are an important factor in family systems; the business system is a system in which rationality and formal relations are more dominant. Family ownership and management can provide the business with valuable resources and strategic skills in the value creation process. Habbershon and Williams (1999) identify FFs as a set of distinctive resources and skills, resulting from the interaction of family members with the business. The advantage of these relationships consists in the creation of assets that are difficult to imitate by competitors, being combined in a unique way and largely dependent on family relationships with the company. A high degree of family involvement can increase the company's tendency to prioritize the control and survival of the FF over profit maximization or growth objectives (Berrone, et al., 2012; Kotlar and De Massis, 2013; De Massis, et al., 2016). In the creation of a new business, family members are actively involved and can provide both intangible and tangible assets such as commitment, long-term reputational and emotional investment in the company, specific knowledge and operational know-how, and actively involved and can provide both intangible and tangible assets such as commitment, long-term reputational and emotional investment in the company, specific knowledge and operational know-how, and relational capital (Habbershon and Williams, 1999; Sirmon and Hitt, 2003; Miller and Le Breton-Miller, 2006; Gomez-Mejia, et al., 2007). Academic literature has focused on family management and involvement from the first generation to the next. On the other hand, a high level of family involvement is evident right from the creation phase of the new business activity, with the aim of preserving the family assets invested in the business (Berrone et al. 2012; Gómez-Mejia et al. 2007; Carney 2005). The level of family involvement in the board of directors is not formalized but is able to influence the planning and implementation of strategic initiatives. McNeish et al. (2010) discussed that the relational capital acts through knowledge sharing. Infact, Andersén (2015) discussed that a family firm’s level of relational capital, derived from mutual relationship of family, play an important role in facilitating organizational learning thus enabling it to better transform and use internal and external knowledge. The result of knowledge sharing in relational capital can make the latent generation and first generation focus on the long-term benefits of the relationship (Luhmann, 1979; McAllister, 1995; Wicks and Berman, 2004; Williamson, 1981; Zaheer et al., 1998). In the current competitive environment, knowledge is the most important strategic resource for the success and survival of an organization (Nahapiet, et al., 1998; Spender et al., 1996). The ability of an organization to exploit knowledge depends on the people within the organization who create share and use knowledge. Knowledge transfer is a process that requires commitment of resources, managerial time, attentions, and efforts. To make the knowledge transfer effective, family firms may leverage relational capital with the generations to mobilize their own organizational and human capital for achieving a better knowledge (Chung-Jen Chen, et al., 2009).

Knowledge sharing is a core activity in most companies, nevertheless, the studies and research exploring knowledge sharing in family context appear limited (Woodfield and Husted, 2019). Sirmon and Hitt (2003) argue that FFs have many sources of knowledge held by individuals within the organization, which when combined can enrich the knowledge base and ultimate competitive advantage of the business. Sanchez-Famoso and Maseda (2014) argue that to activate knowledge in FFs, sharing through interaction is also essential to strengthen or transform existing organizational knowledge. In this sense, Woodfield and Husted (2017) underline that FFs benefit from a greater relational flow between the members of the organization, which is particularly relevant to tacit-to-tacit knowledge transfer. Knowledge sharing is a social, interactive, and complex process, which includes both tacit and explicit knowledge (Polanyi, 1966). Trevinyo-Rodriguez and Bontis (2010) emphasize that the sharing of knowledge between family members (so-called family wisdom) is essential and benefits future generations. In FFs, knowledge sharing is often framed as mentoring process or knowledge accumulation (Chirico, 2008). Durst and Edvardsson (2012) argue that in FFs knowledge sharing is often characterized by the managerial awareness and intentions of the individual in leadership positions in the organization. Lin (2013) found that FFs share knowledge through sharing networks where the intention to share is based on a reciprocal and multidirectional flow to the benefit of the entire organization. In accordance with Ganesan et al., 2005, although unencoded and tacit knowledge is particularly difficult to share, the strong relational bonds of FFs can produce powerful informal mechanisms for sharing knowledge. Frequent face-to-face meetings, many shared values can be the basis for informal and effective knowledge sharing. Informal social interactions increase the opportunities for sharing ideas and knowledge within FFs. Several authors (e.g., Ensley and Pearson, 2005) point out that "familiarity" can be a source of relevant, rare and inimitable resources and skills. Habbershon and Astrachan (1997) argue that the informal knowledge-sharing practices of well-known FFs are impromptu meetings and discussions that help build unity and consensus on organizational goals, values and decisions.
Within a FF, conversations and relations do not necessarily take place within the business context, but also outside of it, such as during family events or in casual conversations after work. These informal exchanges can foster shared knowledge, a re-evaluation of beliefs, generating a greater understanding of the collective vision. Pieper and Klein (2007) see each individual in the organization as capable of influencing the business system.

Knowledge sharing in FFs is therefore seen as the process of transferring the wisdom, skills and know-how of individuals to generate a greater resource of knowledge. Cunningham et al. (2016) highlight that sharing knowledge should not seek to build a static stock of resources but should allow for the mobilization of knowledge in mutual and meaningful exchanges.

3. Methodology

This study uses a dual methodological approach: qualitative and exploratory. Through an exploration of the literature reconstructs a conceptual framework based on the reciprocal relationships between business and family and the informal mechanisms of knowledge sharing, capable of facilitating an alternative analysis of the family firm. The model proposed is based on the analysis of case study, semi-structured interviews and observed participation.

4. Results

The academic literature on FFs highlights that the reciprocal relationship between the business system and the family system manifest themselves as continuous and interdependent flows of knowledge and information exchange. Several studies focus on relationships and the composition of the board of directors of FFs (Maseda, et al., 2019; Molly, et al., 2019), focusing on the presence of family and non-family members. While studies on the role of relationships in FFs, during the creation phase and the first generation, seem limited. The vast majority of FFs, especially in the creation phase and the first generation are SMEs (European Commission, 2009). In the early phase of the life of a FF and during the first generation, the entrepreneur is supported by the family, which aims to preserve the resources invested. The family, therefore, does not formally enter the board of directors or the management of the new FF, but is able to influence strategic choices. Informal governance mechanisms allow FFs to develop and generate stakeholder value (Chrisman et al., 2018). The conceptual model proposed below is based on these assumptions. Several studies show the importance of social relations as flows of knowledge and information exchange in FFs (Sievinen, et al., 2021; Calabrò, et al., 2018; De Massis and Foss, 2018). The conceptual model is first result obtained by our study and it focuses on the informal relationships that influence the creation and strategic management of the FFs during the first generation, forming an informal board of directors.

Figure 2: The Conceptual model of latent generation
Source: own elaboration
Figure 2 represents the relationship between the latent generation and the first generation. Figure 2 relates two dimensions: Level of Complexity (LoC) and Time (t). The first dimension - LoC - is a generic dimension that represents the evolution of the organizational model (Ventura, et al., 2020). The second dimension is time. FFs are subject to generational change over time. This generational change allows the FF to survive over time. Figure 2 highlights the passage from one generation to another over time. This step leads to an increase in organizational complexity. The innovative element of figure 2 is the presence of the latent generation. The latent generation is a generation coeval with the first generation. Often represented by close relatives (e.g., parents, brothers or uncles) who are not formally on the board of the FF but influence the governance of the FF itself. As mentioned above, latent generation influences governance through informal knowledge sharing mechanisms.

In figure 2, the latent generation is represented overlap to the first generation. Hult et al. (2002) explain that the sharing of knowledge occurring relationships between latent and first generation can lead to improved performance (Jacobs and Swink, 2011; Prahinski and Kocabasoglu, 2006). Furthermore, the knowledge that is shared between latent and first generation is required trust, which is one of the important dimensions of relational capital (Carey et al., 2011). The relational capital and knowledge of the latent generation represent the levers of the competitive advantage for the first generation. The latent generation has accumulated specific knowledge and relational capital before the first generation starts the business. In figure 2, the overlap between latent generation and first generation represents the influence that the family determines in strategic choices. Through the knowledge sharing and informal mechanisms, the latent generation determines influences in the life of the company. For this reason, in the figure 2 the latent generation is represented before the origin of the axes. The other main feature of the latent generation is the lack of a real generational shift with the first generation. The latent generation, through an "implicit" generation pass, supports the first generation for a limited period.

Interactions that occur in the family firm relationships create relationships manifested by mutual trust and respect, and good friendships. As stated, relationships based on good intentions and manifested through a number of attributes are known as relational capital. Relationships built on trust, friendship, of mutual respect and reciprocity are what makes the latent generation willing to share knowledge with the first generation. This leads to facilitating the first generation to make decisions, thought to apply latent generation knowledge, impacting on performance by first generation (McNeish et al., 2010; Rashed et al., 2013). The latent generation supports the first generation by knowledge sharing, especially relational capital. The latent generation possesses specific knowledge and relational capital in the sector in which the 1st generation starts their entrepreneurial activity. However, these authors also found that high levels of familiness inhibited family firms in terms knowledge acquisition. (Intihar and Pollack, 2012). Hammond, Pearson, and Holt (2016) viewed relational social capital as contributing to social legacy in family firms through enhancing consensus among family members and argued that a strong relational aspect was necessary for family firm continuity.

5. Conclusions and opportunities for future research

This study contributes to the development of FF studies, supporting the theory that a "generation" (latent generation), not previously considered in the literature, influences the life of the FF in the early stages, through the sharing of knowledge and relational capital. The conceptual model provided highlights the importance of the relatives (e.g., parents, brothers and/or uncles) of the founding entrepreneur of FFs. The concept of "latent generation" is deduced, meaning the close relatives of the founding entrepreneur who support the growth and management of the FF through a continuous and mutual flow of knowledge and information. Studies on FFs focused on a generation that includes parents, siblings and/or uncles that affects the strategic choices of the FF, even though it is not formally present. The latent generation, therefore, determines the emergence of an "informal board of directors" and "informal mechanisms for knowledge sharing". The reflections on the latent generation focus on the composition of the informal board of directors with close family members of the entrepreneur, not belonging to the company. Our model suggests that FFs, during creation and the first generation, are supported by a coeval generation that, through informal relationships, influences strategic choices. We have positioned our study in the area of knowledge management studies, focusing the attention of the flows between the business system and the family system on sharing knowledge.

This study is not without limitations. First, it is necessary to highlight that the issue of FFs and the relationship between business and family remain social and economic phenomena that are often difficult to generalize. The theoretical model proposed in Fig. 2 requires empirical validation. Furthermore, the proposed model does not
consider the phenomenon in relation to the economic sector, the type of product, the genre or the initial investment.

Above all, we are still testing the implications that the proposed conceptual model of latent generation has on the cases under analysis in a study. The study provides new direction to the family firms, which are analysed during the first generation. The analysis of the latent generation, from the perspective of informal relationships and sharing of knowledge, can be useful for analyzing the role of the family and relationships during entrepreneurial action. However, we will consider our efforts successful if we encourage other scholars to work on the impact of the latent generation, currently unexplored.

Future research could introduce and analyze the concept of latent generation through empirical investigation, to understand which variables to consider. Therefore, while aware of its limitations, we hope that what we propose in this article will help to advance the debate on FFs. We welcome future research efforts to examine aspects of latent generation.

References


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