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Human capital in family businesses: Focusing on the individual level

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ABSTRACT

This article focuses on the construct of human capital in family businesses. It makes three key contributions. First, it furthers our understanding of human capital in family businesses by identifying the underlying dimensions of human capital, involving not only knowledge, skills and abilities but also individual attitudes and motivation. Second, the article puts forward the conditions under which family businesses can achieve and sustain over time an alignment of interests between individual human capital and organizational goals. These conditions will vary depending on whether the external environment is static or dynamic. Third, the article heeds the call, shared by strategic management scholars, to focus on the individual level as well as on the (predominant) group- and organizational-level constructs.

It is widely recognized that family businesses play a significant role in the global economy (Anderson & Reeb, 2003; Chrisman, Chua, Chang, & Kellermanns, 2007) and are key for the entrepreneurial process (Rogoff & Heck, 2003). However, not all family businesses fit into this description. Some of them primarily pursue value creation through non-economic benefits, such as giving jobs to family members and preserving family ties. These firms, which have been labeled lifestyle firms (Chrisman, Chua, & Litz, 2003), often resist change, are unwilling to hire non-family managers, and become cautious in their strategy making, thereby reducing their potential for future growth and profitability (Zahra, 2005). Instead, enterprising family businesses are those that mainly pursue wealth creation, support entrepreneurial activities, and recognize opportunities, thanks to long-term vision and strong relationships with key stakeholders (Chrisman et al., 2003). These are the firms that play an important role in employment creation, technological innovation and economic progress (Zahra, 2005; Zahra, Hayton, & Salvato, 2004).

Family business scholars are still trying to fully understand why enterprising family businesses have performance advantages over other family businesses as well as many non-family businesses. Several studies have focused their analysis on the group and the firm level. For example, at the group or interpersonal level (Sharma, 2004), scholars have explained these advantages by taking into account social capital (Pearson, Carr, & Shaw, 2008; Salvato & Melin, 2008). Family businesses are uniquely characterized by a strong shared component deriving from social relations – such as obligations, expectations and social norms – among individuals (Coleman, 1988). Social capital is a valuable resource because it reduces transaction costs, solves problems of coordination and aids flows of information among individuals (Bolino, Turnley, & Bloodgood, 2002; Lin, 2001). At the firm level, competitive advantage in family businesses has been explained through the construct of familiness (Habbershon & Williams, 1999; Sharma, 2004). Familiness has been defined as a firm-level bundle of idiosyncratic resources and capabilities deriving from the interaction between the family (its history, traditions, and lifecycle), the family members (the interests, skills, and life stage of participating family owners/managers) and the business (its strategies and structures) (Habbershon & Williams, 1999; Habbershon, Williams, & MacMillan, 2003).

The aim of this article is to complement our understanding of performance advantages of family businesses by focusing on the individual level of analysis. As the strategic management literature reminds us, "organizations are made up of individuals, and there is no organization without individuals... In fact, to fully explicate organizational anything – whether identity, learning, knowledge or capabilities – one must fundamentally begin with and understand the individuals that compose the whole, specifically their underlying nature, choices, abilities, propensities, heterogeneity, purposes, expectations and motivations" (Felin & Foss, 2005, p. 441). However, family business literature has not devoted much attention to human capital. In reality, scholars have not delved much beyond offering a taxonomy of individual family members' human capital (henceforth family human capital) as including their knowledge, skills and abilities (Carney, 2005; Coleman, 1988; Danes, Stafford, Haynes, & Amarapurkar, 2009; Habbershon & Williams, 1999; Salvato & Melin, 2008; Sirmon & Hitt, 2003). Therefore, there is a key question that remains unanswered: given that family businesses often have limits to their individual human

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capital, because suboptimal employees may be hired simply by virtue of their family ties and qualified non-family managers are kept away due to limited potential for professional growth and limitations on wealth transfer (Covin, 1994; Dunn, 1995; Sirmon & Hitt, 2003), how can we explain their competitive advantage over non-family businesses, as witnessed by several studies (e.g., Anderson & Reeb, 2003; Lee, 2006; McConaughy, Matthews, & Fialko, 2001; Miller, Le Breton-Miller, Lester, & Cannella, 2007; Villalonga & Amit, 2006)? In other words, if the individual human capital of family businesses is often inferior to that of non-family businesses, how can it lead to superior social capital and, ultimately, to the systemic synergies, or distinctive familiness, which are associated with competitive advantage for the family firm (Chrisman, Chua, & Steier, 2005)? The core argument of this article is that there is more to family human capital than family members' knowledge, skills and abilities. I argue that there is a further dimension to family human capital, relating to the attitudes of family members (Kulik & Roberson, 2008). It is thanks to this dimension that family businesses are often able to create and sustain a competitive advantage over non-family businesses.

By drawing on the family business, human capital and human resource management literature, this article makes three main theoretical contributions. First, it furthers our understanding of family human capital by identifying the underlying dimensions of family members' human capital, involving not only knowledge, skills and abilities but also individual attitudes and motivation leading to an alignment of interests between individual and organizational goals. Second, the article puts forward the conditions under which family businesses can achieve and sustain over time a competitive advantage that is based on an alignment of interests between family members' human capital and organizational goals. These conditions will vary depending on whether the external environment is static or dynamic. Third, the article heeds the call, shared by strategic management scholars, to focus on the individual level as well as on the (predominant) group- and organizational-level constructs (Felin & Foss, 2005).

The article proceeds as follows. First, it addresses the development of human capital theory and address the antecedents of family human capital. Second, it outlines three dimensions of family human capital, which are termed – as mnemonics – *head* and *hand* (referring to the capacity to perform) and *heart* (referring to the willingness to perform, achieved through interest alignment). Third, it presents propositions relating to how family businesses can create and sustain interest alignment between their human capital and organizational goals. Fourth, it discusses the implications of the theoretical model presented. Finally, the article draws conclusions, highlighting limitations and directions for further research.

1. Development of human capital theory

The development of human capital theory started in the 1960s, when Theodore Schultz (who was later, in 1979, awarded the Nobel prize in economic sciences) introduced the idea that "skills and knowledge are a form of capital" (1961, p. 1). Although Adam Smith had already, in the 18th century, referred to individual abilities as forming part of a country's capital, Schultz was the first to argue formally against the predominant values and beliefs, which had held scholars back from "looking upon human beings as capital goods" and as "wealth that can be augmented by investment" such as education and training (1961, p. 2). Schultz also highlighted a connection between human capital and economic growth, by associating investments aimed at enhancing "human capabilities to do productive work" with an increase in their productivity (1961, p. 8). Another instrumental figure for human capital theory was Gary Becker, also an economist and winner of the 1992 Nobel prize in economic sciences. Becker expanded the definition and theory of human capital and focused on investments in human capital, that is, the "activities that influence future real income through the imbedding of resources in people." These included "schooling, on-the-job training, medical care, vitamin consumption, and acquiring information about the economic system" (1962, p. 9). Schultz (1961) identified similar antecedents to human capital, including health facilities and services (aimed at improving life expectancy, as well as individuals' strength and vitality), on-the-job training, formal and continuing education, as well as migration.

Later studies have emphasized the importance of organizational culture as another key antecedent of human capital. For example, some organizational cultures are oriented towards promoting learning, thus contributing to generating a sustainable competitive advantage (Barney, 1986; DeLong & Fahey, 2000; Zahra et al., 2004). An externally focused organizational culture is likely to encourage its individuals to acquire knowledge from a variety of external sources, such as customers, competitors and suppliers, thus increasing the firm's entrepreneurial activities (Kanter, 1983; Zahra et al., 2004). In family businesses, an organizational culture that is based on nepotism – the frequently followed practice of hiring relatives (Vinton, 1998) – may have an effect on a firm's human capital, either positively through the value of upholding the family's tradition and allowing future owner/managers to get to know the business intimately by growing up around it (Bellow, 2004) or negatively through the creation of agency problems, caused by privileges and a sense of entitlement, which are costly to mitigate (Gersick, Davis, Hampton, & Lansberg, 1997; Schulze, Lubatkin, & Dino, 2003).

This paper is focused on the human capital of family members in family businesses. This resource is distinctive for several reasons. For example, it is developed through learning-by-doing and apprenticeships that differ from those available in non-family firms because they are often provided by other family members at home, through summer jobs, and so on (Le Breton-Miller & Miller, 2006; Memili, Chrisman, Chua, Chang, & Kellermanns, 2011). This allows for the development of tacit and highly specific knowledge, which is not easily transferable (Sirmon & Hitt, 2003). Furthermore, the human capital of family members in family businesses is unique because, unlike non-family members, family members are often willing to work without pay (Danes et al., 2009). Generally family members have greater commitment and cooperation than non-family employees, especially if the latter perceive the decision-making processes and outcomes as being unfair or unjust (Barnett & Kellermanns, 2006). This may be caused by uncertainties due to the fact that non-family members are part of the business but not of the family system (Mitchell, Morse, & Sharma, 2003).

Family human capital is defined in the literature as the knowledge, skills and abilities of individual family members (Carney, 2005; Coleman, 1988; Danes et al., 2009; Habbershon & Williams, 1999; Salvato & Melin, 2008; Sirmon & Hitt, 2003). Stocks of family human capital represent a potential resource advantage for the firm (Sorenson & Bierman, 2009). By being made available to the family and the business, these flexible resources can flow where needed (Sharma, 2008), contributing to firm success as well as to the quality of life of family members (Rothausen, 2009; Stafford & Tews, 2009).

Human capital theory suggests that there is a correlation between human capital and organizational performance, which can benefit from the accumulation of firm-specific, valuable human capital (Danes et al., 2009; Strober, 1990). According to the resource-based view, human capital is the most valuable and difficult type of resource to imitate because it is, to a large degree, the product of complex social structures that have been built over