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The relationship between organizational culture and entrepreneurial orientation in family firms: Does generational involvement matter?

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ABSTRACT

In family firms, organizational culture evolves through an ongoing dynamic process of intergenerational interaction. Previous research has examined the nexus between family organizational culture and entrepreneurial orientation (EO), but has ignored the moderating role that generational involvement could play on this relationship. To address this limitation in the literature and explore the existence of its potential role, this study draws from the Competing Values Framework to examine the extent to which generational involvement shapes the effects of clan culture and hierarchical culture on EO. From a quantitative study of 106 family SMEs, the results show that there is no single cultural path for developing and maintaining long-term family firm's entrepreneurial orientation. While clan culture fosters higher levels of EO when only one generation is involved, it is hierarchical culture that fosters higher levels of EO when multiple generations are simultaneously involved. This research pinpoints the importance for family firms that wish to ensure long-term entrepreneurial orientation to introduce changes in their cultural patterns when multiple generations are involved. It also reinforces the notions of formalization and control system in family firms, and their importance for long-term EO. This study calls for further empirical research on the potential role of hierarchical culture in setting up professionalization and family governance mechanisms, and to explore how they affect sustainable entrepreneurial family firm.

"*Live together like brothers and do business like strangers.*"

Arabian proverb

1. Introduction

The question of why some family firms continue to be more entrepreneurial across generations than others has attracted, and remains to do so, considerable attention among scholars studying family firms. Researchers have offered two competing explanatory perspectives of the long-lasting family firm's entrepreneurial orientation. On the one hand, some scholars argue that beyond the founding generation (i.e., first generation), family firms may turn risk averse and exhibit a conservative and less innovative behavior towards pursuing entrepreneurial strategies (e.g., Duran, Kammerlander, Van Essen, & Zellweger, 2015; Jones, Makri, & Gomez-Mejia, 2008; Nordqvist & Melin, 2010; Short et al., 2009). This happens when family members, who are in control of the firm, become highly preoccupied with protecting family assets (Naldi, Nordqvist, Sjöberg, & Wiklund, 2007) or resist to give up ownership to an outside family member(s) in order to preserve family control (Habbershon & Williams, 1999).

On the other hand, other researchers argue that family firms may provide a context that is highly conducive towards firm-level entrepreneurship over generations (Discua Cruz, Howorth, & Hamilton, 2013; Miller & Le Breton-Miller, 2005; Nordqvist, Habbershon, & Melin, 2008; Rogoff & Heck, 2003). This virtue may stem from the stewardship behavior of the generation in control (Miller & Le Breton-Miller, 2005; Zahra et al., 2008), the disposition of subsequent generations to drive entrepreneurial pursuits (Kellermanns & Eddleston, 2006; Salvato, 2004), and to reach long-term orientation (Lumpkin, Brigham, & Moss, 2010) through particular configurations of resources and capabilities (Dyer, 2006; Habbershon & Williams, 1999; Sirmon & Hitt, 2003). Furthermore, governance, which is more expected to be present in multigenerational family firms (Dyer, 1988), is likely to be beneficial for family firm's entrepreneurship (Le Breton-Miller, Miller, & Bares, 2015).

Prior opposing findings may stem from lack of consideration that family firms are heterogeneous (e.g., Chua, Chrisman, Steier, & Rau, 2012; Melin & Nordqvist, 2007), mainly because of: 1) family organizational culture, as it is embedded in family history and business (Dyer, 1986; Gersick et al., 1997), and of 2) generational involvement in management and control (Chua, Chrisman, & Sharma, 1999; Kellermanns & Eddleston, 2006; Kellermanns, Eddleston, Barnett, & Pearson, 2008; Steier, Chrisman, & Chua, 2015). Therefore, family organizational culture could

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evolve significantly and manifest distinctive characteristics (Chrisman, Chua, Pearson, & Barnett, 2012; Chrisman & Patel, 2012) depending on generational involvement (Adiguna, 2015; Dyer, 1988).

Family organizational culture is "*an important strategic resource that family firms can use to achieve a competitive advantage by promoting entrepreneurship and enhance the distinctiveness of these firms' products, goods, and services*" (Zahra, Hayton, & Salvato, 2004: 373). Because family organizational culture evolves and varies across generational involvement; therefore, its influence on the family firm-level entrepreneurship may differ significantly from one generation involved to multiple generations involved.

Although the influence of organizational culture on family firms' EO has been identified as a central theme in López-Fernández, Serrano-Bedia, and Pérez-Pérez's (2016) bibliometric study, however scholars' understanding of the sustainable relationship between organizational culture and EO is limited when it comes to know which salient culture affects a family firms' ability to nurture EO over time.

As argued by Jaskiewicz, Combs, and Rau (2015), nurturing entrepreneurship across generations presents a real challenge because family firms are expected to become less entrepreneurial after the founding generation. To understand the challenge of entrepreneurial dynamics across generations, scholars highlighted the need to examine EO as one of the main predictors of entrepreneurship in family firms (e.g., Jaskiewicz et al., 2015; Kellermanns et al., 2012; López-Fernández et al., 2016; Lumpkin et al., 2010; Zellweger et al., 2012). In this study, EO is defined as a strategic posture through which a firm exhibits innovation, risk-taking and proactiveness activities (Covin & Slevin, 1991; Miller, 1983, 2011). Entrepreneurial orientation refers to the driving force behind the organizational pursuit of entrepreneurial activities (Covin & Wales, 2012); hence, it represents a critical antecedent to firm-level entrepreneurship and performance (e.g. Rauch, Wiklund, Lumpkin, & Frese, 2009).

Based on the aforementioned discussion, the literature on entrepreneurial family firms seems to lack theory as well as empirical investigations that examine the dynamics between organizational culture and entrepreneurial orientation across generational involvement. To address this limitation, this research adopts Competing Values Framework, generational involvement and entrepreneurial orientation perspectives to better understand these dynamics, by answering the following research question: *To what extent does generational involvement moderate the relationship between organizational culture and EO in family firms?*

The study asserts that the number of family generations simultaneously involved in management of the firm is a key determinant that moderates the relationship between organizational culture and family firm's entrepreneurial orientation. In this study, I examine 106 family SMEs. The results show, respectively, significant evidence for a positive effect of clan culture and a negative effect of hierarchical culture on EO. Furthermore, generational involvement moderates significantly these effects.

This study contributes to the literature in several ways. First, it develops theory asserting that generational involvement moderates the relationship between organizational culture and EO. Specifically, it asserts that the nature and the strength of clan and hierarchical cultures' effects on EO vary from a single generation to multiple generations involved. By doing so, the results and theory show that there is no single cultural path for developing and maintaining long-term entrepreneurial orientation. This study offers an empirical evidence on the important role of generational involvement in shaping the nexus between organizational culture and EO, and in understanding such a dynamic over generations. These findings respond to Zahra et al's. (2004) call to explore cultural differences across generations and to examine how they sustain family firms' entrepreneurship over time. They also respond to Chrisman et al's. (2012) call to devote more attention on the mediators and moderators of family involvement's effects.

Second, this study challenges the conventional perception that a hierarchical culture could be a perpetual hindrance to entrepreneurial orientation. It shows that the aspects of hierarchical culture, such as formalization, efficiency and control systems (Cameron & Quinn, 2006) can positively affect a family firm's EO when multiple generations are involved. This research not only reinforces the notions of formalization and control in family firms, and their importance for long-term EO, but it also contributes to the literature on family governance and professionalization of family firms.

2. Theoretical framework and hypotheses development

This study aims to examine the moderating role of generational involvement that shapes the nexus between organizational culture and EO. The conceptual model, depicted in Fig. 1, is based on two complementary arguments. First, the argument on the direct effect of clan and hierarchical culture on EO (H1a and H1b). Second, the argument of the moderating effect of generational involvement on the clan culture − EO (H2a), and the hierarchical culture − EO relationship (H2b), respectively. Taken together, these hypotheses indicate that explanatory power of the complex role of the dimensions of organizational culture for the long-term entrepreneurial orientation of family firms can make greater sense when the role of generations involved is considered. In the following paragraphs, each type of organizational culture is defined and theory development is presented regarding its relationship with the EO and generational involvement.

3. The importance of organizational culture and entrepreneurial orientation in family firms: The competing values framework

Since the 1980s, studies in strategy and organizational behavior have underlined the key role of organizational culture for firm growth, effectiveness, and competitive advantage (Barney, 1986; Cameron & Quinn, 2006; Fiol, 1991; Quinn & Rohrbaugh, 1983; Wilkins & Ouchi, 1983). Organizational culture is defined as "*the underlying values, beliefs, and principles that serve as a foundation for an organization's management system as well as the set of management practices and behaviors that exemplify and reinforce those basic principles*" (Dension, 1990: 2). In corporate entrepreneurship research, organizational culture is identified as an important antecedent of entrepreneurial decision making (Covin & Slevin, 1991; Lumpkin & Dess, 1996; Zahra et al., 2004). It is also presented in a context within which EO may or may not emerge (Covin & Slevin, 1991).

In a family firm context, organizational culture is recognized for its role to determine organizational success beyond the first generation (Dyer, 1988). Further research has argued that it plays a role of a potential antecedent that could promote or hinder the pursuit of entrepreneurial activities (Chirico & Nordqvist, 2010; Craig, Dibrell, & Garrett, 2014; Fletcher, Melin, & Gimeno, 2012; Goel & Jones, 2016; Zahra et al., 2004; Zahra et al., 2008).

In addition, family organizational culture is re-produced from a continuous dynamic process of intergenerational interaction (Adiguna, 2015) that combines the family firm's history, its industry characteristics, current relationships among family members, and finally, the beliefs and values embedded within the family (Astrachan, Klein, & Smyrnios, 2002; Dyer, 1986; Gersick et al., 1997). Given such attributes that contribute to heterogeneity of family firms (Chrisman et al., 2012; Melin & Nordqvist, 2007), every family firm is likely to manifest particular cultural characteristics, especially when multiple generations are involved. Such dynamics could affect the firm's entrepreneurial endeavours.

This research adopts the Competing Values Framework (Cameron & Quinn, 2006) that offers an effective representation of organizational culture at the firm-level, through which it analyses the basic values, beliefs and principles shared by the members of an organization (Harrington & Guimaraes, 2005; Naranjo-Valencia, Jiménez-Jiménez, & Sanz-Valle, 2011) on strategic, political, institutional and interpersonal aspects (Cameron & Quinn, 2006). The Competing Values Framework is relevant to this study as its core cultural types mirror Dyer's configuration (1986, 1988) of family organizational culture and Dyer's typology (2006) of family firms. More precisely, this study focuses on two types of organizational culture: Clan culture and