Financial performance enhancing strategies: Small family firms vs. small non-family firms

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Abstract

Advancing prior research on the key determinants of firm financial performance, we identify the internal performance-enhancing strategies (i.e., raising employee commitment and investment in employee training) and external performance-enhancing strategies (i.e., boosting the learning orientation and adopting an emphasis on marketing). We argue that these performance-enhancing strategies will be positively associated with sales and profits, for both small family firms and small non-family firms, yet the effect will be stronger for family firms that often lag behind in these management domains. We test our hypotheses on a sample including 36 family firms and 28 non-family firms. While some hypotheses received support (e.g., investment in employee training was positively associated with sales in family firms), other hypotheses did not receive support (e.g., employee commitment was not associated with sales in family firms, and emphasis on marketing was negatively associated with sales in family firms). We discuss the theoretical and practical implications of our study and outline directions for future research on firm financial performance.

Introduction

Family firms play a significant role in the economies of many countries around the globe (Chua, Chrisman, & Chang, 2004; La Porta, Lopez-De-Silanes, & Shleifer, 1999; Poza, 2007). Given their importance as the key economic driver of regional economies and entire countries, family firms have attracted significant attention in academic research. A major focus of academic inquiry has been the differences between family firms and non-family firms, especially in terms of their culture, operations, innovativeness, and financial performance (e.g., Anderson & Reeb, 2003; Gomez-Mejia, Nuñez-Nickel, & Gutierrez, 2001; Heileman & Pett, 2018; Mahto, Ahluwalia, & Khanin, 2014; Miller, Le Breton-Miller, & Scholnick, 2008). However, the empirical findings in the literature comparing family and non-family firms have been mixed (e.g., Ahluwalia, Mahto, & Walsh, 2017; Carney, Van Essen, Gedajlovic, & Heugens, 2015; Miller et al., 2008; Wagner, Block, Miller, & Schwens, & Xi, 2015). Some studies have shown that family firms exhibit superior performance compared to non-family firms (e.g., Anderson & Reeb, 2003; Audretsch, Hulsbeck, & Lehmann, 2013; Miller & Le Breton-Miller, 2005). Other studies have established the opposite (e.g., Bloom & Van Reenen, 2007; Lubatkin, Durand, & Ling, 2007; Morck & Yeung, 2003; Pérez-González, 2006; Schulze, Lubatkin, & Dino, 2003).

So far, most research efforts have been focused on examining large, publicly listed firms (e.g., Anderson & Reeb, 2003; Villalonga & Amit, 2006), even though relatively few such firms exist in the world (De Massis, Sharma, Chua, & Chrisman, 2012; Miller et al., 2008). In contrast, small and unlisted family firms that represent approximately 70% of all family firms in any country (Astrachan, Klein, & Smyrnios, 2002; Chrisman, Chua, & Litz, 2004; Sharma, 2004) have been understudied, with less than 20% of papers in the family-business literature dedicated to such firms (e.g., Wagner et al., 2015). Moreover, even research on small- and medium-size firms (SMEs) has paid most attention to larger family SMEs with over 500 employees (De Massis et al.,
2012). And yet we still know little about small family firms and what makes them unique compared to other small firms (Shanker & Astrachan, 1996).

Moreover, such preoccupation with larger SMEs could make understanding the specificity of the family business, in general, more difficult. After all, large family firms are likely to resemble non-family firms (Kirzner, 1979; Simon, Houghton, & Savelli, 2003). Therefore, it is important to examine whether the findings of prior research comparing family and non-family firms will hold in the context of small family firms, especially for firms with fewer than 100 employees (De Massis et al., 2012; Heileman & Pett, 2018). Currently, we have not developed a sufficient understanding of the differences between small non-family firms and small family firms. Our paper seeks to fill this gap and thus increase our understanding of the uniqueness of family firms.

Based on prior literature on family firms (De Massis et al., 2012; Dyer, 1989; Patel & Chrisman, 2014; Patel & Cooper, 2014), we identify the key performance-enhancing strategies: internal (i.e., firm investment in employee training and raising employee commitment) and external (i.e., a firm’s efforts to boost its learning orientation and emphasis on marketing). We suggest that the relationships between these variables and firm performance will be stronger for family firms than for non-family firms. We base our predictions on the theory that family firms exhibit both a stewardship orientation—that is, care and dedication to the business, employees, and community (Donaldson & Davis, 1991), and stagnation orientation—that is, resistance to innovation (De Massis et al., 2012; Patel & Chrisman, 2014; Patel & Cooper, 2014) and unfair attitudes toward non-family employees (Vallejo, 2009). We test our hypotheses on a sample of small firms that includes family and non-family firms from the U.S. Southwest.

Our paper makes four important contributions to the family-firm literature. First, it establishes that investment in employee training is especially important for family firms as the key predictor of sales and profit growth. Second, it discovers that the marketing orientation may play a positive role and a negative role for small firms’ financial performance. Such ambiguity regarding the expected impact of the marketing orientation on small firms’ balance sheet deserves further examination. Third, it determines that learning orientation and employee commitment could influence financial performance of small non-family and family firms differently. This finding calls for rethinking what we know about small family and non-family firms. Fourth, it demonstrates that sales growth can affect generation of profits in small family firms and in small non-family firms differently. This finding, in our view, has important practical implications, as it seems to imply that small non-family firms over-invest in their marketing efforts and learning, which dampens their profitability.

**Theoretical Framework & Hypotheses**

Although there are many studies comparing the financial performance of family firms and non-family firms, their findings have been inconsistent (e.g., Mazzi, 2011; Wagner et al., 2015; Carney et al., 2015). Curiously, two recent meta-analytic studies (Carney et al., 2015; Van Essen et al., 2015) arrived at opposite conclusions about whether family firms achieve better performance than non-family firms, or vice versa. Other meta-analytic studies (O’Boyle, Pollack, & Rutherford, 2012; Wagner et al., 2015) found that family firms have a slight performance advantage over non-family firms. Scholars provided different explanations for such apparent inconsistencies in empirical findings by pointing out that different researchers: (1) may define family firms differently; (2) apply different measures of financial performance; (3) focus on examining different types of firms; (4) use different country data, and (5) examine listed versus unlisted firms (e.g., Mazzi, 2011).

Miller, Le Breton-Miller, and Scholnick (2008) suggest researchers predict superior or inferior performance of family firms to non-family firms depending on their overriding theoretical perspectives. Specifically, studies applying the stewardship theory’s lens (Davis, Schoorman, & Donaldson, 1997) that emphasizes managers’ personal integrity and professionalism generally view family managers as dedicated and competent leaders and portray family firms positively. Conversely, studies applying the agency perspective, especially the Behavioral Agency Model (BAM) which suggests that family owners may be strongly driven by their desire to preserve the Socio-Emotional Wealth (SEW) of the firm (Gómez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Jaskiewicz, Block, Combs, & Miller, 2017), generally view family managers as owners rather than professionals, and respectively, portray family firms negatively (e.g., as less competitive than non-family firms). In addition, there are some important differences among family firms that may influence the findings. Thus, some family firms may have a culture that emphasizes long-term goals and non-financial aspects of performance (Mahto, Davis, Pearce, & Robinson, 2010). Conversely, other family firms may practice an entrepreneurial approach, seeking to grow faster while placing a greater emphasis on obtaining abnormal profits in the short run (Kassicieh, Ahluwalia,
launching new products and processes and adopting a learning-oriented managerial style (Allouche & Amann, 1998). The family firm owner’s stewardship obligations may also motivate them to invest in solidifying their firm’s roots in the community as well as building its market share (Chadeau, 1993; Collins, et al, 2016). The resulting dominant position in the market and the industry may offer the family firm many advantages, none more important than the ability to withstand market shocks. Importantly, for family firms, the path to dominant position requires investment in marketing effort over the long term (Miller et al., 2008).

In contrast, owners or managers of small non-family firms are likely to be primarily motivated by quick generation of financial rewards associated with their innovative endeavor (Kirzner, 1997). This entrepreneurial approach may compel the owner-managers of non-family firms to seek higher efficiency with minimum emphasis on investment in creating the knowledge orientation, enhancing employee skills, building a strong organizational culture, and buttressing relationships with external stakeholders for the long term (Covin & Slevin, 2017). However, over the short-term, the non-family managers may invest in the firm to achieve rapid growth and gain momentum to make their firm appealing to potential buyers. Also, unlike family-firm owners, entrepreneurs or managers of non-family firms can indulge in high-risk endeavors that could turn out to be advantageous and profitable (Gómez-Mejía et al., 2007). As a result, non-family firms operate in a completely different context compared to family firms. Given the importance of internal performance-enhancing strategies (e.g., investment in knowledge and learning or investment in employee capabilities and advancement) and external performance-enhancing strategies (e.g., investment in marketing), we propose to examine the relationship between internal and external performance-enhancing strategies and family firms’ vs. non-family firms’ performance.

In the family firm literature, the main predictors of firm performance, based on the stewardship perspective, are employee training, learning orientation, and employee commitment (Miller et al., 2008). Studies of human resource management and organizational development have found that investment in employee training positively influences firm performance (e.g., Chandler & McEvoy, 2000; Delaney & Huselid, 1996). In the small-firm context, empirical findings have supported the positive impact of employee training on firm performance (e.g., Kotey & Folker, 2007) although the relationship appears to be more complicated than in big firms (Hoy, 2003; Sharma, 2004). Employee training is likely to enhance the performance of small-business firms, as employees in such firms may not always have
appropriate education and experience. Professional training could reduce the gaps in employee education and help employees acquire professional skills. Moreover, family firms could benefit significantly more from employee training than could non-family firms since family firms often disregard the importance of employee training (Kotey & Folk, 2007), and, thus, those family firms that do pour resources into employee training could receive greater returns on their investment compared to non-family firms. To summarize:

**Hypothesis 1A.** Employee training will be associated positively with a small firm’s financial performance.

**Hypothesis 1B.** The positive relationship between a company’s investment in employee training and financial performance will be stronger for small family firms than for small non-family firms.

Learning orientation has been shown to positively influence desired organizational outcomes, such as firm innovation and firm performance (e.g., Calantone, Cavusgil, & Zhao, 2002; Tippins & Sohi, 2003; Wang, 2008). Learning helps firms build their dynamic organizational capabilities that facilitate ongoing adaptation to the changing business environments. Furthermore, learning has been found to positively influence small-firm performance (e.g., Macpherson & Holt, 2007; Wolff & Pett, 2006). This is because small firm owners and managers neither have the resources to set up learning processes nor recognize the importance of learning, as they are engulfed by the details of running a business. In addition, family firms may be oblivious to the importance of innovation (De Massis et al., 2012). Hence, those family firms that do adopt a learning orientation could reap greater benefits from this emphasis compared to non-family firms. To summarize:

**Hypothesis 2A.** Learning orientation will be positively associated with a small firm’s financial performance.

**Hypothesis 2B.** The positive relationship between a company’s learning orientation and financial performance will be stronger for small family firms than for small non-family firms.

Employee commitment has been studied extensively in psychology and organizational behavior (Meyer, Becker, & Vandenberghe, 2004; Meyer, Stanely, Herscovitch, &Topolyntsky, 2002). The construct measures an employee’s psychological attachment to the firm as expressed in feelings of belonging and loyalty. It has been consistently shown to contribute positively to firm performance, either directly (e.g., Ahluwalia, 2012; Gong, Law, Chang, & Xin, 2009) or indirectly (Meyer & Allen, 1984). This is because committed employees have lower absenteeism and turnover rates (Meyer et al., 2004) and display higher task performance (Shore & Wayne, 1993). Commitment has been found to be associated positively with desired organizational outcomes, both in small family firms and small non-family firms (Mahto et al., 2010; Mahto & Khanin, 2015). In fact, more-committed employees can work longer hours, exhibit greater diligence and stronger work ethics, and seek to be more innovative than employees with lower levels of commitment are. Unfortunately, non-family employees in family firms often do not feel like they are part of the family since family employees may enjoy various advantages, such as better training, salary increases, and promotions (Vallejo, 2009). No wonder that non-family employees may show lower levels of commitment compared to family employees, and even family employees may take their jobs for granted and fail to develop commitment to the family firm. Therefore, raising the commitment of employees in family firms could provide even greater benefits for such firms compared to raising employee commitment in non-family firms. To summarize:

**Hypothesis 3A.** Employee commitment will be associated positively with a small firm’s financial performance.

**Hypothesis 3B.** The positive relationship between employee commitment in a company and its financial performance will be stronger for small family firms than for small non-family firms.

Marketing is one of the most important performance-enhancing activities for any firm. Many studies have shown that adroit marketing is absolutely critical for improving firm performance (e.g., Krasnikov & Jayachandran, 2008; Morgan, Vorhies, & Mason, 2009). Empirical investigations of this relationship in the small-business literature established similar findings (e.g., Pelham, 2000; Wiklund & Shepherd, 2005). However, family firms often exhibit weaknesses in the area of marketing compared to non-family firms. Therefore, we expect that the benefits of adopting a marketing orientation will be proportionately greater for family firms in comparison with non-family firms.

**Hypothesis 4A.** Marketing orientation will be associated positively with a small firm’s financial performance.
Hypothesis 4B. The positive relationship between companies’ marketing orientation and financial performance will be stronger for small family firms than for small non-family firms.

These relationships can be seen in Figure 1.

Method

We tested study hypotheses on a sample of small firms operating in the US Southwest. We used a mail survey to collect the data. The small firms targeted for the survey were part of a list compiled by the executive education office of our business school. We randomly selected a group of 300 small firms and called each of them on the phone, inviting the owners to participate in the survey. The phone call was followed by mailing the survey questionnaire to the firm’s top manager. Sixty-six firms responded positively to our invitation, resulting in a response rate of 22%. Thirty-six firms in the sample described themselves as family firms, whereas 29 firms in the sample described themselves as non-family firms. One respondent failed to identify the firm as either a family firm or non-family firm, and therefore, was excluded from the sample. On average, the family and non-family firms in our sample had sales revenue ranging from $1 million to $2 million and employed 14 employees. The average annual growth rate was about 5%.

Study Measures

Dependent Variable (DV). We measured a small firm’s financial performance using two widely used measures of financial performance: Sales and Gross Profit. We obtained this information by asking respondents to indicate a firm’s gross margin and sales revenue in the previous year. Even though both measures are correlated, we run our analysis using one dependent variable at a time. In order to obtain accurate information, we assured respondents of confidentiality and did not ask for any firm or respondent identifying information.

Independent Variables (IVs). Learning Orientation. We measured Learning Orientation using two questions. These questions were drawn from the learning orientation scale commonly utilized in the marketing literature (Sinkula, Baker, & Noordewier, 1997). The first question asked respondents about the importance
of learning to the firm’s competitive advantage. The second question asked respondents about inclusion of learning in the firm’s basic values. Respondents indicated their preference on a five-point Likert scale, where 1 = Strongly Disagree to 5 = Strongly Agree. As the Cronbach’s alpha (α = .82) indicated high reliability for the scale, we averaged the two items to obtain our measure.

**Employee Commitment.** The Employee Commitment variable used in the study is based on the three-part effective-commitment scale developed by Meyer and Allen (1984). The first item measures commitment to the organizational vision of the company. The second item measures commitment to the principal goals of the company. Finally, the third item measures if the employees feel that they are genuinely involved in formulating the strategic course for the company. The firm respondents indicated their preference for each question on a five-point Likert scale similar to the previous measure. We averaged the scale for the analysis as the Cronbach’s alpha (α = .69) indicated acceptable level of reliability for the scale.

**Employee Training.** We assessed the investment in employee training variable based on a survey question that asked the respondents to report the percent of revenue spent on training of employees.

**Marketing Orientation.** We measured a firm’s marketing orientation using a single item measure that asked respondents to indicate percentage of sales revenue the firm devoted to advertising or creating product or service awareness. The respondents indicated their preference on a scale where 1 = Less than 1% to 5 = more than 10%.

**Firm Type (Family Firm vs Non-Family Firm).** We operationalized this variable by asking respondents to categorize their firm as a family firm or non-family business.

Table 1 provides summary statistics for variables used in this study.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Summary statistics of sample variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A: Full Sample</strong></td>
<td></td>
</tr>
<tr>
<td>Variable</td>
<td>Obs</td>
</tr>
<tr>
<td>Sales</td>
<td>64</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>63</td>
</tr>
<tr>
<td>Employee Training</td>
<td>61</td>
</tr>
<tr>
<td>Marketing</td>
<td>63</td>
</tr>
<tr>
<td>Learning</td>
<td>65</td>
</tr>
<tr>
<td>Employee Commitment</td>
<td>65</td>
</tr>
<tr>
<td><strong>Panel B: Family Firms</strong></td>
<td></td>
</tr>
<tr>
<td>Variable</td>
<td>Obs</td>
</tr>
<tr>
<td>Sales</td>
<td>36</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>35</td>
</tr>
<tr>
<td>Employee Training</td>
<td>35</td>
</tr>
<tr>
<td>Marketing</td>
<td>35</td>
</tr>
<tr>
<td>Learning</td>
<td>36</td>
</tr>
<tr>
<td>Employee Commitment</td>
<td>36</td>
</tr>
<tr>
<td><strong>Panel C: Non-Family Firms</strong></td>
<td></td>
</tr>
<tr>
<td>Variable</td>
<td>Obs</td>
</tr>
<tr>
<td>Sales</td>
<td>28</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>28</td>
</tr>
<tr>
<td>Employee Training</td>
<td>26</td>
</tr>
<tr>
<td>Marketing</td>
<td>28</td>
</tr>
<tr>
<td>Learning</td>
<td>29</td>
</tr>
<tr>
<td>Employee Commitment</td>
<td>29</td>
</tr>
</tbody>
</table>
Analysis

In this study, we utilized an ordinal logit regression model to test our hypotheses, as some of the independent variables are categorical. Table 2 reports correlation among the study variables. As can be observed in the table, none of the inter-variable correlation reach high enough to introduce the possibility of multicollinearity bias. For example, sales numbers were found to be positively correlated with most of the variables except for marketing, which had a negative correlation with sales. We found similar results for gross profit, but the magnitude of the observed correlations was much smaller.

Results

Table 3 shows the results of our regression analysis. As can be seen in the table, the employee training is not associated with the combined sample’s sales, thus failing to support our Hypothesis 1A. However, Hypothesis 1B, which proposes family firm employee training to be associated with sales, is supported. The coefficient for training of employees’ variable is \( \beta = 1.42, p < .05 \) positive and significant. In contrast, for non-family firms the positive relation between employee training and sales does not hold and is in fact negative and insignificant.

Hypothesis 2A, which proposes learning orientation of non-family firms to be associated with sales, is partially supported. Hypothesis 2B failed to receive support (family-firm learning orientation was not associated with sales). The coefficient for learning for non-family firms is over three times the size of the comparable coefficient for family-firm and total samples and is significant at a 10% level.

Hypothesis 3A, proposing employee commitment in non-family firms to be associated with sales, received partial support, but Hypothesis 3B did not find support. Coefficient for employee commitment is negative and significant for non-family firms. However, for family firms the same coefficient is positive, but insignificant.

Finally, Hypothesis 4A, proposing marketing orientation to be associated with sales, is supported. But, Hypothesis 4B is not supported, as although marketing in family firms was associated with sales, the relationship was negative. Importantly, sales in family firms (but not in non-fam-
ily firms) served as significant predictor of gross margin.

We also ran our results using an alternative dependent variable: Gross Margin (Profit), to measure financial performance. The results of the regression analysis on the alternative dependent variable are shown in Table 4.

Table 4

<table>
<thead>
<tr>
<th>Dependent Variable Sales</th>
<th>Family Firms</th>
<th>Family Firms</th>
<th>Non Family Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>0.3908**</td>
<td>0.5489**</td>
<td>-0.1486</td>
</tr>
<tr>
<td>(0.1677)</td>
<td>(0.2479)</td>
<td>(0.3001)</td>
<td></td>
</tr>
<tr>
<td>Training of Employees</td>
<td>-0.1853</td>
<td>-0.02118</td>
<td>-0.4974</td>
</tr>
<tr>
<td>(0.3378)</td>
<td>(0.5556)</td>
<td>(0.4706)</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>0.07081</td>
<td>0.2975</td>
<td>-0.08119</td>
</tr>
<tr>
<td>(0.2224)</td>
<td>(0.3386)</td>
<td>(0.3133)</td>
<td></td>
</tr>
<tr>
<td>Learning</td>
<td>-0.1668</td>
<td>-0.6202</td>
<td>1.2264</td>
</tr>
<tr>
<td>(0.4226)</td>
<td>(0.5305)</td>
<td>(0.8869)</td>
<td></td>
</tr>
<tr>
<td>Employee Commitment</td>
<td>0.1200</td>
<td>0.4782</td>
<td>-1.9039*</td>
</tr>
<tr>
<td>(0.4103)</td>
<td>(0.5135)</td>
<td>(1.0577)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-1.6956</td>
<td>-0.7782</td>
<td>-6.9982*</td>
</tr>
<tr>
<td>(1.8960)</td>
<td>(2.3809)</td>
<td>(3.7038)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>58</td>
<td>34</td>
<td>24</td>
</tr>
</tbody>
</table>

Standard errors in parentheses
* p < 0.10, ** p < 0.05, *** p < 0.01

As can be seen from Table 4, for gross profit employee training is not significant, but, interestingly, the magnitude of the coefficient is over 20 times lower (less negative) than that of the coefficient for family firms. In terms of magnitude of coefficient, employee training is much more positively associated with gross profits for family firms as compared to non-family firms. The finding is directionally similar to the finding for sales. Similarly, coefficient of learning is insignificant and negative for family firms, but it is positive for non-family firms. Again, the finding is directionally similar to the finding for sales. Thus, Hypotheses 1A, 1B, 2A, and 2B are directionally supported by the gross-profit measure of financial performance.

Hypothesis 3A is partially supported (employee commitment in non-family firms was associated with gross profit), but Hypothesis 3B is not supported (employee commitment in family firms was not associated with gross profit).

Finally, neither Hypothesis 4A nor Hypothesis 4B is supported. For example, although marketing in family firms is associated with gross profit, it was associated positively for family firms and negatively for non-family firms. Overall, results are weaker for gross profit as a measure of financial performance as opposed to sales, but directionally the results are consistent.

Discussion and Conclusions

In this paper, we contrast internal performance-enhancing strategies (i.e., investment in employee training and raising employee commitment) and external performance-enhancing strategies (i.e., boosting the learning orientation and adopting an emphasis on marketing). We argue, therefore, that employee training, learning (knowledge) orientation, employee commitment, and emphasis on marketing are the key determinants of a small firm’s financial performance. Additionally, we predict that small family firms may reap greater returns than small non-family firms may when they pursue effectively these four performance-enhancing strategies.

This argument is based on the theory that family firms may exhibit both a strong stewardship orientation and strong agency conflicts (Miller et al., 2008) so that their performance may at times be superior and at times inferior compared to non-family firms. Thus, previous studies have demonstrated that family firms are weaker than non-family firms in the areas of employee training (Astrachan & Kolenko, 1994), learning orientation (De Massis et al., 2012), employee commitment (Vallejo, 2009) and emphasis on marketing (Mahto & Khanin, 2015) compared to non-family firms. Although family firms have a stewardship orientation, they may also suffer from various agency conflicts (Schulze et al., 2003) and try to preserve the SEW (Gomez-Mejia et al., 2007; Gomez-Mejia, Campbell, Martin, Hoskisson, Makri, & Simron, 2014) foregoing smart business strategies. The resulting conflict between stewardship orientation and agency conflicts in family firms (Miller et al., 2008) may lead to a non-linear relationship between family involvement and firm performance (Sciascia & Mazzola, 2008).

Our results suggest that the effect of these key determinants of financial performance turned out to be more complex than we expected. First, only sales emerged as a meaningful predictor of profits, and then only for family businesses. This suggests that family businesses could be more frugal than non-family businesses so that growing sales typically result in greater profitability for family businesses.
firms but not for non-family firms. It is also possible that non-family businesses invest more as they grow sales in innovation and learning, marketing campaigns, and employee training than non-family firms so that greater sales volume does not lead to greater profits.

Second, employee training was significantly related to sales for the entire sample and for family firms but not for non-family firms. This suggests that, as we expected, family firms lag behind non-family firms in terms of employee training so that those family firms that do provide employee training may substantially improve their financial performance. It is also possible that non-family firms provide more employee training so that the benefits of enhanced training for them have a weaker effect on performance. In any case, the fact that investment in training was significantly related to sales for all the firms in the sample, and especially for family firms, is very important. It demonstrates that even small investments in training may have a significant effect on family firms’ performance, and since sales is related to profits for family firms, growing sales, thanks to employees’ increased competence and expertise, will lead to palpable results.

Third, our study shows that marketing was positively related to sales for the entire sample, yet negatively related to sales for family firms. This is an unexpected finding that could possibly be explained in that family firms do not stand to benefit from emphasis on marketing as much as non-family firms and could actually suffer from giving prominence to marketing as opposed to deemphasizing marketing efforts. Apparently, family firms grow their sales based on word-of-mouth and reputation, so that customers may feel that family firms adopting a strong emphasis on marketing betray themselves. Another explanation is that family firms may adopt a marketing orientation out of despair when failing, hence the negative association between marketing and sales. Positive association between sales and marketing for the entire sample supports our assumption that greater marketing effort in small businesses results in increased sales.

Neither the learning orientation nor employee commitment were related to sales either for the entire sample or for family firms but were related to sales for non-family firms. It is possible that this could be because small firms are well-entrenched in their niches and know them thoroughly so that additional learning efforts do not add much. It is also possible that small firms need to strengthen their learning orientation to a greater extent before they will experience the benefits of learning. Moreover, it may also indicate that non-family employees in family firms do not identify with the firm and exhibit low levels of commitment. If so, this is an important warning to family firms that need to make non-family employees feel like they are part of the family. The stewardship orientation characteristic of family firms needs to become more inclusive.

Overall, the main contributions of our study are as follows. First, our study establishes that family firms need to provide more training to employees since this is the area where they get the greatest returns or the most substantial benefits relative to their investment and efforts. Second, family firms may want to approach their marketing efforts cautiously since over-emphasis on marketing could actually be related negatively to family firms’ sales. Third, family firms need to pay much more attention to enhancing their learning (knowledge) orientation and employee commitment since their efforts do not appear to be sufficiently effective in these domains. Fourth, non-family firms benefit the most from boosting their learning orientation, employee commitment, and emphasis on marketing and should prioritize these performance-enhancing strategies.

Research Limitations & Future Research Directions

This study has certain limitations. First, we used a sample of small firms (i.e., with less than 100 employees) from only one region of the United States. Hence, the generalizability of our findings may be in doubt, and we encourage scholars interested in the subject to reexamine our findings by conducting studies in other regions of the United States and other countries. Second, we utilized a single respondent to obtain all firm-related data, which introduces the possibility of a single respondent bias. However, we did assess the possibility of a single respondent bias in our sample by conducting Herman’s single-factor test. The results ruled out the possibility of a single-respondent bias in our sample. Also, we included a mix of subjective and objective measures in our survey to avoid single-method bias. Finally, we utilized cross-section data to test our hypotheses, which limited any inferences about the causality of the observed relationships. Researchers seeking to establish causality should investigate these relationships in a longitudinal study.

Practical Implications

Family firms should invest more in employee training since this investment has the most direct effect on their sales and profits. At the same time, family firms need to consider transforming their culture so that they gradually boost the level of non-family employee commitment and learning
orientation. Non-family firms should prioritize learning and marketing efforts since these are the performance-enhancing strategies that appear to be most beneficial for them.

References


