Familiness and Business Strategy: Unraveling the Moderating Effect of Familiness on Performance in Family Firms

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Existing literature has examined several viewpoints in the field of family business research. Nevertheless, the correlation between strategy and performance in family enterprises has not been extensively studied. Furthermore, the extent to which family influence impacts the link between strategy and performance is not well-defined. The distinguishing factor between family businesses and non-family businesses is the concept of familiness, which refers to the unique qualities and talents that stem from family influence. The current body of research focuses on examining the moderating influence of familiness on the link between strategy and performance in family businesses. This study focuses on examining the impact of business strategy on the development of exceptional performance in family firms. Additionally, it investigates if familiness has a moderating function in this connection. This study aims to conduct an empirical analysis of the connection between strategy and performance in family-owned businesses. Additionally, it seeks to investigate the influence of familiness as a moderating factor in this relationship. The research population consists of individuals who own or manage family businesses. A total of 203 owners/managers were chosen using a simple random sample method from the family businesses located in Multan. Data were obtained using a cross-sectional survey, and the hypothetico-deductive technique was employed in the research design. Partial least squares structural equation modeling (PLS-SEM) was utilized for assessing data. The research findings suggest a direct correlation between familiness and the performance of family businesses. The results also reveal that familiness moderates the association between family business strategy and family company performance. The findings of this research have crucial significance for family company owners/managers by underlining the fact that family business strategy’s influence on family business performance may be strengthened by concentrating on the aspects of familiness; power, experience, and culture. This research also contributes to the family business literature by evaluating the moderating influence of familiness on the strategy-performance relationship in a family company setting.

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1. Introduction

Family-owned businesses account for 70% to 90% of the global annual GDP, with family businesses accounting for 70% to 95% of all business entities in many countries worldwide (Dennis, 2020). Family-owned companies are the backbone of Pakistan’s economy, with nearly 80% of employment created by these businesses, making them the most controlled and family-owned entities in the country (Afghan & Wiqar, 2007). Family businesses, the most prevalent form of business globally (Kim, Kandemir, & Cavusgil, 2004), have a significant economic impact on national economies. Despite this, researchers have shown less interest in studying family businesses, despite their widespread study at various levels of analysis (Litz, 1997).

Business managers, researchers, and policymakers are increasingly interested in understanding the performance mechanisms of family businesses due to their potential to generate employment and wealth in an economy (García Pérez de Lema & Duréndez, 2007). The literature on family business has thoroughly investigated numerous aspects contributing to its success, with studies also focused on predictors of company performance. The strategy-performance link in family business research is underexplored, with the premise that good strategies lead to increased business performance (Morrow Jr, Sirmon, Hitt, & Holcomb, 2007; Parnell & Dent, 2009). The link between strategy and performance is well-established in strategic management literature, yet well-designed plans can lead to variances in corporate performance (Parnell & Dent, 2009). These variances in performance encourage the researcher to consider other elements that might impact the intensity of the strategy-performance relationship.

Familiness, a family firm’s unique resources, and competencies, significantly influence the relationship between strategy and company performance, enhancing business performance through a sustained competitive advantage and improving overall business performance (Astrachan, Klein, & Smyrnios, 2002). However, familiness impact as a moderator as the strategy-performance relationship has not been systematically studied. Existing work has centered on investigating the moderating effect of familiness on the link between family business strategy and performance (Cliff & Jennings, 2005). Family business, despite its global influence, is under-researched. While prior research has addressed several major topics, more needs to be studied. This research was initiated after addressing two main challenges in family business research: insufficient research on the strategy-performance link and a lack of evidence on the moderating influence of familiness in previous literature.

The research aims to explore the relationship between family firms' strategy performance, the impact of family on business performance, and the moderating role of familiness in this relationship.

2. Theoretical Framework and Hypotheses

2.1 Family Business Strategy and Family Business Performance

(Porter, 2011) asserts that a business’s growth and survival are largely determined by its specific strategy, which acts as an engine for the firm’s outperforming. The relationship between strategy and performance is based on the belief that the highest level of performance is achieved through the implementation of effective goal-oriented strategies (Anderson & Reeb, 2003). Strategy-performance relationship is crucial in family businesses, enhancing performance if well-planned and tailored to specific business needs, and these strategies are efficient for different family influence levels (Brews & Hunt, 1999). Firms should focus on differentiation strategies to strengthen their organization and innovate, as they have a greater impact on firm performance (Pelham, 2000). This review addresses the underresearched issue of strategy performance in family businesses, highlighting the need for more
comprehensive studies on family business strategy and performance, particularly in the context of observational research. It was thus hypothesized that:

**H1:** Family business strategy is positively associated with family business performance.

### 2.2 Familiness Relationship with Family Business Performance

"Familiness is the unique bundle of resources a firm has as the result of the interaction of the family, firm, and individual family members with one another" (T. Habbershon, Williams, & Macmillan, 2001). The strategic direction and family relationships of a family business can be influenced by the owners, and analytical research in family businesses can enhance our understanding of how special resource endowments impact the company's operations. This knowledge can be beneficial in shaping the company's operations (Yasser, 2011). Research reveals that variables affecting family influence in family enterprises contribute to firm performance benefits (Chrisman, Sharma, & Taggar, 2007), and (T. G. Habbershon & Williams, 1999) believe that distinctive resources and competencies, or "familiness," play a vital role in a family firm's performance advantage.

Familiness in family corporate culture goes beyond founders and family members, as values, beliefs, attitudes, and assumptions are internalized. Culture promotes performance, but for it to have a good effect, it must be lucrative, unusual, and peerless (Barney, 1986), thus the family's unique and uncommon resources significantly enhance the company's performance and have a positive impact on its overall performance.

**H2:** Familiness is positively associated with the family business performance.

### 2.3 Moderation of Familiness

Businesses with unique resources (familiness) can execute strong strategy performance connections, while others struggle (Miller, Le Breton-Miller, Lester, & Cannella Jr, 2007). Familiness plays a significant role in this connection, as it moderates the strategy-performance relationship, resulting in the best and desired performance (T. G. Habbershon & Williams, 1999). Familiness can be a significant moderator in the relationship between strategy and performance in a family firm. A firm with unique capabilities and resources can have a strong strategy performance relationship, as it can use its resources effectively and increase performance. This suggests that familiness can significantly influence the correlation between strategy and firm performance, making it an effective factor for future studies. It was thus hypothesized that:

**H3:** The relationship between family business strategy and family business performance is moderated by familiness.

![Fig1: Conceptual Framework of Study](image-url)
3. Methods
3.1 Participants and Procedure

This study focuses on family firms in the Multan division, specifically in cloth, cotton, and oil mills. A total of 423 firms were identified through data from chambers of commerce and personal business contacts. A sample of 270 firms was selected using simple random sampling for surveying study variables, highlighting the significant presence of family firms in this sector.

The respondent's profile is provided in Table 1. As shown in the below table, the sample contains 91% males, in the age bracket of 30-40 years (36%) and 40-50 Years (30%). In terms of education, most of the participants of this study had an education level of 10 to 16 years of education.

Table 1: Respondents Demographic Profile

<table>
<thead>
<tr>
<th>Description</th>
<th>Classification</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>185</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>18</td>
<td>9</td>
</tr>
<tr>
<td>Age</td>
<td>30-40</td>
<td>74</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>40-50</td>
<td>61</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>50-60</td>
<td>42</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>60-70</td>
<td>26</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>&lt; 10 years</td>
<td>07</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>10 years</td>
<td>43</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>12 years</td>
<td>52</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>14 years</td>
<td>47</td>
<td>23</td>
</tr>
<tr>
<td>Qualification</td>
<td>16 years</td>
<td>45</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>18 years</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>&gt;18 years</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

4. Measures

The study used a seven-item scale from (Elhamma, 2013) to measure family business strategy, with each item focusing on prospector strategy. Respondents were asked to rate their firm's strategic position on a seven-point rating scale from 1= strongly disagree to 7= strongly agree, with a Cronbach's alpha value of 0.798, indicating good reliability.

Firm performance was measured by using five questions of subjective measures (Chrisman, Steier, & Chua, 2008). The researcher used the Likert scales of five-point ROI (Return on Investment), ROA (Return on Assets), gross sales, company's overall performance, and company's overall assessment as compared to other competitors in the last 5 years. The respondents were asked to compare the performance of the firm with its competitors (Olson et al., 2003). The rating scale of five-point Likert begins from 1 for the lowest 20 % to 5 for the top 20 %. This kind of measure is generally used for non-listed family firms (Zellweger, Eddleston, & Kellermanns, 2010)

F-P EC is an appropriate measure for familiness, proposed by (Zellweger et al., 2010) and also validated by (Astrachan et al., 2002; Rutherford, Kuratko, & Holt, 2008). The F-P EC scale, a measure of familiness, consists of three dimensions: power, experience, and culture. (Merino, Monreal-Pérez, & Sánchez-Marín, 2012) developed a shorter version with 14 items, focusing on culture, power, and
experience dimensions of familiness. The study utilized a hierarchical component model to incorporate the F-PEC scale into its structural model (Sarstedt, Ringle, & Hair, 2021), following the reflective-reflective approach which is suitable for such type of research (Jarvis, MacKenzie, & Podsakoff, 2003).

4.1 Analysis and Results of Data

4.1.1 Internal Consistency

The measurement model’s internal consistency is assessed using Cronbach’s Alpha and composite reliability, with composite reliability values exceeding 0.70, indicating high reliability. The values of the measurement model assessment below Table show the results meet the criteria of internal consistency and Reliability.

<table>
<thead>
<tr>
<th>LO Constructs</th>
<th>A</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture (LO Construct)</td>
<td>0.832</td>
<td>0.889</td>
<td>0.669</td>
</tr>
<tr>
<td>Experience (LO Construct)</td>
<td>0.790</td>
<td>0.877</td>
<td>0.704</td>
</tr>
<tr>
<td>Familiness (HO Construct)</td>
<td>0.905</td>
<td>0.867</td>
<td>0.562</td>
</tr>
<tr>
<td>Performance</td>
<td>0.860</td>
<td>0.879</td>
<td>0.646</td>
</tr>
<tr>
<td>Power (LO Construct)</td>
<td>0.739</td>
<td>0.851</td>
<td>0.655</td>
</tr>
<tr>
<td>Strategy</td>
<td>0.918</td>
<td>0.885</td>
<td>0.672</td>
</tr>
</tbody>
</table>

4.1.2 Convergent Validity

Convergent validity is the measure’s correlation with different measures of the same concept, calculated using outer loadings of indicators and average variance. Credible indications have an outer loading of 0.708 or greater, as described in the below table.

<table>
<thead>
<tr>
<th>LO Constructs</th>
<th>Items</th>
<th>Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture</td>
<td>Cul2</td>
<td>0.707</td>
</tr>
<tr>
<td></td>
<td>Cul3</td>
<td>0.868</td>
</tr>
<tr>
<td></td>
<td>Cul4</td>
<td>0.88</td>
</tr>
<tr>
<td></td>
<td>Cul5</td>
<td>0.803</td>
</tr>
<tr>
<td>Experience</td>
<td>Exp1</td>
<td>0.783</td>
</tr>
<tr>
<td></td>
<td>Exp2</td>
<td>0.87</td>
</tr>
<tr>
<td></td>
<td>Exp3</td>
<td>0.862</td>
</tr>
<tr>
<td>Power</td>
<td>Pow1</td>
<td>0.817</td>
</tr>
<tr>
<td></td>
<td>Pow2</td>
<td>0.81</td>
</tr>
<tr>
<td></td>
<td>Pow3</td>
<td>0.802</td>
</tr>
<tr>
<td>Performance</td>
<td>Per1</td>
<td>0.603</td>
</tr>
<tr>
<td></td>
<td>Per2</td>
<td>0.863</td>
</tr>
<tr>
<td></td>
<td>Per3</td>
<td>0.866</td>
</tr>
<tr>
<td></td>
<td>Per4</td>
<td>0.89</td>
</tr>
</tbody>
</table>
(Hair Jr, Sarstedt, Hopkins, & Kuppelwieser, 2014) propose eliminating elements with outer loadings below 0.40, including items Cul1 and Cul 6 to 8, from construct (Culture) because of their lower loadings.

4.1.3 Confirmatory factor analysis (CFA)

Confirmatory factor analysis was done to ensure the convergent validity of the constructs in the research model (Fornell & Larcker, 1981), and Cross-loadings were used to ensure validity as shown in Table 5 the outer loadings of all 22 indicators on respective constructs are higher than on other constructs. The outer loadings connected with the familiness indicator are greater than those associated with performance and strategy, demonstrating discriminant validity in the Cross Loadings/CFA table. This indicates that the loadings linked to familiarity are more significant than those related to performance.

Table 4: Cross Loadings from CFA

<table>
<thead>
<tr>
<th>Familiness (HO Construct)</th>
<th>Performance</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cul2 0.669</td>
<td>0.094</td>
<td>-0.014</td>
</tr>
<tr>
<td>Cul3 0.786</td>
<td>0.474</td>
<td>0.383</td>
</tr>
<tr>
<td>Cul4 0.789</td>
<td>0.671</td>
<td>0.550</td>
</tr>
<tr>
<td>Cul5 0.739</td>
<td>0.463</td>
<td>0.366</td>
</tr>
<tr>
<td>Exp1 0.681</td>
<td>-0.063</td>
<td>-0.165</td>
</tr>
<tr>
<td>Exp2 0.783</td>
<td>0.257</td>
<td>0.208</td>
</tr>
<tr>
<td>Exp3 0.826</td>
<td>0.344</td>
<td>0.305</td>
</tr>
<tr>
<td>Pow1 0.807</td>
<td>0.188</td>
<td>0.044</td>
</tr>
<tr>
<td>Pow2 0.650</td>
<td>0.128</td>
<td>0.097</td>
</tr>
<tr>
<td>Pow3 0.741</td>
<td>0.485</td>
<td>0.506</td>
</tr>
<tr>
<td>Per1 0.276</td>
<td>0.603</td>
<td>0.388</td>
</tr>
</tbody>
</table>
4.2 Assessment of Structural Model

The study suggests conducting a PLS examination without a moderator to examine the relationship between family business strategy and the impact of familiness on performance in family businesses (Sarstedt et al., 2021). Figure 5.1 reveals that the main effect model reveals that family business strategy and familiness account for 73% of the variance in implementing evidence-based exercises, with an $R^2$ value of 0.730 which is a substantial effect (Sarstedt et al., 2021). Hence our first hypothesis regarding the positive relation of family business strategy with family business performance is supported ($\beta_{\text{family business strategy}} = 0.171$, $t$-value = 3.63), and the second hypothesis regarding the positive relationship between familiness and family business performance is also supported ($\beta_{\text{familiness}} = 0.784$, and $t$-value = 22.71).

![Diagram of Family Business Strategy and Familiness](image.png)

*Sig relationship at Value $P<0.001$

Fig 2: The direct effect of Family Business Strategy and Familiness on Family Business Performance
4.3 Assessment of Moderation Effect of Familiness

The moderating impact is quantifiably influenced by the coordinated interaction between the indicator and moderating components (Hair, Ringle, & Sarstedt, 2011). The interaction term in our PLS-SEM moderation model has been created using the product indicator technique in which each pointer of the arbitrator variable is duplicated with each pointer of the exogenous idle variable, with the mean-focused pointer being the one that is duplicated (Srivastava & Panigrahi, 2019).

![Diagram showing moderation effect of Familiness]

**Means significance of relationship at p < 0.01

Figure 3: Moderation effect of Familiness between Family business strategy and performance

The study reveals that 74% of the variance is explained by the exogenous variable, with a moderator and a significant correlation exists between family business strategy and performance, with a coefficient of $\beta=0.197$ and between familiness to family business performance the value of $\beta$ is 0.735, and their impact is significant with $p<0.01$. According to (Baron & Kenny, 1986) the moderator variable hypothesis is supported when the association is notable, as demonstrated in this model with a noteworthy association impact ($\beta = 0.111, t = 2.35, p < 0.01$).

The study suggests that a one-SD increase in familiarity can significantly enhance the connection between family business strategy and performance implementation utilization, with a value of $0.197 + 0.111 = 0.308$, making family business strategy's influence on family company performance more significant.

The analysis of the moderating variable effect involves comparing the main impact and directing impact models to determine the overall effect size ($f^2$) using $R^2$ values (Cohen, 2013). (Chin, Marcolin, & Newsted, 2003) used the equation.

$$f^2 (FBS*F > FBP) = [R^2 (interaction model) - R^2 (main effect model)] / [s1 - R^2 (interaction model)]$$

to determine the effect measure for cooperation, stating communication impact sizes range from 0.02 to 0.35 from small, medium, and large respectively.
The $f^2$ effect size, calculated using the equation, is 0.038, indicating that familiarity can significantly influence the link between family company strategy and business success. Despite its small impact size, these coefficients (beta estimates) provide insight into the circumstances under which familiarity can become a powerful factor in influencing the relationship between family company strategy and business success, and this suggests that familiness can play a significant role in shaping family business strategies and success (Chin et al., 2003).

5. Discussion on Results

The empirical evidence clearly shows that implementing a family business strategy has a significant and beneficial impact on the success of family businesses, and this study aligns with previous research by (Morrow Jr et al., 2007; Parnell & Dent, 2009) which also found a direct correlation between strategy and performance of family business. The study tested this hypothesis based on the relationship between family company strategy and performance through an experiment, based on observational evidence supporting this association. The study found a significant positive correlation between family business success and familiarity, indicating that businesses with unique familiness performed successfully (Van de Ven, Zeelenberg, & Pieters, 2011).

The study indicates that familiness plays a significant role in influencing the relationship between family business strategy and family business success, and the result also reveals that familiness influences the relationship between family business strategy and performance, suggesting that firms with lower familiarity levels are less viable in producing strategy performance relationships, aligning with agency, stewardship, and resource-based theories (Davis, Schoorman, & Donaldson, 2018; Jensen & Meckling, 2019; Peteraf, 1993).

This research provides empirical evidence on the influence of family business strategy on family company performance. It also investigates the link between strategy and performance, emphasizing the influence of family on the firm's core strengths or distinctive talents. The study reveals that family firms may either lower or boost their performance by reducing or enhancing their family's talents. It also recommends that we should move beyond traditional ideas on the fundamental influence of family business strategy and study its implications on numerous elements.

6. Implications of the Research

Family firms can enhance their performance through effective tactics, but businesses must identify elements that deepen this link. Each family company's unique culture, experience, and power can be leveraged to strengthen the strategy-performance relationship within the family, enhancing overall business performance.

7. Limitations and Future Directions of the Research

Using a cross-sectional design, it is not feasible to infer a causal link. So, an exploratory outline is more suitable. This investigation, be that as it may, employed a cross-sectional plan which restricts its ability to decide the actual bearings and causal associations. In the future, researchers can apply experimental design/or longitudinal design for this sort of study. Furthermore, the outside common sense of our conclusions can be confined because of the sample choice from certain family enterprises. In the future, researchers can use this approach in other business categories and geographic locations.
References


Chin, W. W., Marcolin, B. L., & Newsted, P. R. (2003). A partial least squares latent variable modeling approach for measuring interaction effects: Results from a Monte Carlo simulation study and an electronic-mail emotion/adoption study. *Information systems research, 14*(2), 189-217.


