Knowledge Transfer and Family Influence: Effects on Innovation and Performance

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Purpose

The main objective is to analyze what characteristics possessed by a family firm and its family-member employees promote behaviors that share and transfer knowledge between them and non-family employees, customers and suppliers, and how this knowledge can improve the firm's innovation and performance. We can contribute to the literature on family firms in three ways. **First**: by bolstering recent research on managing knowledge and innovation in family firms and their impact on performance (Price, Stoica & Boncella 2013; Schillaci, Romano & Nicotra 2013; Chen, Tsao, & Chen 2013; Kraus, Pohjola & Koponen 2012). **Second**: by improving our understanding of how family influence affects innovation, knowledge management and performance; and **Third**: by basing our analysis on data from family firms in a Latin American country (Chile), the first time we believe this has been done as a research investigation.

Data set

The data used to test the model's hypotheses are drawn from a database of 109 Chilean family firms. The average age of these businesses was 39 years. To be included in the database a firm had to be controlled by a single family (i.e., with an ownership more than 50%) and have an official Board of Directors. The average number of board members of the firms was 5.1. Five of them (4.6%) were listed on the Santiago Stock Exchange while the rest were privately held. In 91% of cases, the CEO was a member of the controlling family, and 8.2% had a Family Council. Of the 761 directors, senior managers and other executives at these firms, 14% responded to the survey conducted for this study between July and November 2013.

Methodology

Built around a model of knowledge transfer within family firms that represents a system of theoretical relationships between the four main constructs. To determine whether these theoretical relationships are borne out by the Chilean data, we estimate the model using SEM (*two-step structural equation modeling*) and factor analysis. For each of the four constructs in our model a group of factors were defined. To gather information on these factors, the survey contained 38 questions divided into these 4 sections:

- Family Influence:
  1. Current generation of the firm
  2. Percentage of senior management positions occupied by family members
  3. Percentage of family ownership
- Knowledge Transmission
  1. Trust among family members
  2. Commitment to the family firm
  3. Intensity of relationships
  4. Company culture
  5. Decision-making
- Innovation
  1. Innovation budget
  2. New products/processes
  3. Innovation projects currently in progress
- Performance
  1. Net benefit
  2. Growth in sales
  3.Growth in net equity

Findings

The testing of our model found that four of the hypotheses were confirmed at a statistically significant level while the fifth was partially supported:

Description of Path Hypotheses	Standardized Path Coefficient	Hypothesized Direction	Hypothesis supported?
H1: Family influence moderates knowledge transmission within the firm	0.016***	+	Yes
H2: Family influence moderates the innovation relationship within the firm	0.640*	+	Yes
H3: Knowledge transmission within the firm positively influences innovation.	0.361**	+	Yes
H4: Knowledge transmission within the firm positively influences firm performance.	0.749	+	Partially supported
H5: Innovation positively influences firm performance	0.041*	+	Yes

*** $p \leq .001$, ** $p \leq .01$, * $p \leq .05$ ns= non significant

Conclusions & Implications

This study demonstrated the existence of a strong relationship between innovation and performance in Chilean family firms. Knowledge management was identified as a key variable in innovation by these companies. Our findings are conclusive that family influence moderates all of the relationships positively, and is statistically significant when it moderates the relationship between knowledge transmission and innovation. **Theoretical implications** of our research provide firm support for the idea that family firms are geared towards innovation and successful management of knowledge resources. The relationship between innovation and performance in family firms depends on their knowledge-based capabilities and the processes involved in knowledge acquisition and management. **Practical implications** by establishing a relationship between knowledge, innovation and degree of family influence, our results suggest that family firm owners and senior managers should aim to manage these resources efficiently and pay particular attention to the processes involved in a variety of factors such as the acquisition of new knowledge for its implementation in the formation of new products and services.