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RESEARCH ARTICLE

STRATEGIC PRACTICES OF FAMILY FIRMS: AN EMPIRICAL STUDY OF AUSTRALIAN FAMILY FIRMS

***Pradeep Dharmadasa**

University of Colombo, Sri Lanka

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ABSTRACT

This study explores the business strategies of family firms and investigates the association between business strategies and firm life cycle. The data employed in this study are drawn from the Australian Centre for Family Business and the centre has collected the data from family firms located in all states and territories of Australia by a questionnaire. The sample consists of 276 family firms in all sectors of business which includes agriculture, forestry and fishing, mining, manufacturing, constructing, transportation, communication and utilities, wholesaling, retailing, finance, insurance and real estates. The findings of the study suggest that while differentiation strategy is significant to family firms, diversification strategy is less important. In addition, study found that family firms favour for the cost leadership at the decline stage rather than other stages.

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INTRODUCTION

Strategy has been a subject of interest over time in the strategy literature. The thrust of literature is somewhat fragmented with different studies concentrating on different factors (Miller and Toulouse, 1986). Whilst studies relating to strategy and life cycle suggest that a firm strategic direction and scope will vary along with its corporate life cycle (Craig., 2006; Miller and Friesen, 1984), research on structure, environment and strategy describe that firm strategic focus and direction is largely dependent on its structure and environment (Dess *et al.*, 1997; Dess and Origer, 1987; Priem *et al.*, 1995). Although it is widely held belief that family firms play a significant role in the economic development (Chrisman *et al.*, 1988; Family Firm Institute, 2006), little research has been done on the strategies in this area. Most of the extant studies have explored the strategy in large firms (Miller and Friesen, 1984; Mintzberg and Waters, 1982). In the context of family firms, Ward (1998 as cited in Tanewski, 2003) found that the strategic orientation of family firms are different from non-family counterparts because they incorporate family goals into their business objectives. Some studies emphasize that research on the corporate, business and functional strategies of family firms will contribute the development of a theory of the firm and, have an immense practical and pedagogical value (Chrisman, 2003). In this backdrop, this paper explores the business strategies of family firms and investigates the association between business strategies and firm life cycle. The empirical findings are based on a sample of Australian family business. The paper is organized in the following manner. Section two discusses the Australian family firms in brief. The third section reviews the extant literature and develops the research preposition. Whilst research method and the results are discussed in fourth and fifth sections respectively, finally conclusions are drawn in the section six.

***Corresponding author: Pradeep Dharmadasa,**
University of Colombo, Sri Lanka.

Family firms in Australia

Family firms play a key role in generating employment, promoting innovation (Glassop, October 2005; Tanewski, 2003), and creating economic wealth in economies. This sector is recognized as one of the significant areas of Australian economy. The Family Firm Institute (FFI), UK, (1996) indicates that 67 per cent of all private sector firms in Australia fall into the category of family firms and they employs more than 50 percent of the work force. Australian Institute of Management (2004), (as cited in Glassop, 2005) indicates that "the wealth of family and private businesses in Australia is estimated at $ 3.6 trillion and account for 40 per cent of Australia's private sector output." Dunemann and Barett (July 2004) indicate that about 27% firms listed on the Australian Stock Exchange are family controlled. According to Getz (2000), about half of all enterprise in Australia qualify as family business. Kotey (2005) notes that two-third of small and medium firms in Australia are family firms. Moreover, Australian Bureau of Statistics (ABS) indicates that machinery and equipment, metal products, other manufacturing and printing publishing and recorded media are the major sectors of family business in the manufacturing industry.

Literature review

Strategy is the key area for business firms and it ensures the firm existence and longevity. Academic literature classifies strategies in a variety of ways. While Mintzberg (1973) classified them into three modes – entrepreneurial, adaptive and planning (Miller and Friesen, 1983), Miles and Snow (1978) classified as prospector, analyser, defender and reactor. However, in the context of generic level strategy at business level, Hofer's (1975) "contingency theory" made a considerable contribution to the strategic field. Subsequently, Porter's (1980) well- known competitive strategy identified three business level strategies viz cost leadership, differentiation and focus. On the whole, strategies demonstrate the ways and means; a firm adopts to achieve its organizational goals. However, no doubt, strategies are critical and important for any kind of firms. Firms progress through an orderly succession of stages as they grow and age (Beverland & Lockshin, 2001; Miller and Friesen, 1983). These stages are characterized by differences in the strategies (Miller & Friesen, 1983, 1984; Quinn and Cameron, 1983), behaviours (Masurel, 2006) and changes in the growth levels. Quinn and Cameron (1983) synthesized nine life cycle models of different researchers and developed a four-stage life cycle model which includes entrepreneurial stage, collectively stage, formalization and control stage, and elaboration of structure stage. Beverland and Lockshin (2001) argue that as firms develop; they go through a series of stages, adopt different strategies. Although studies use different dimensions to develop life cycle models (Masurel, 2006; Quinn and Cameron, 1983), all of them concluded that firms adopt different strategies along their life cycle. In this study we adopt Miller and Friesen life cycle model. Miller and Friesen (1983) found that firm has a five-stage life cycle: birth, growth, revival, maturity and decline and strategies will shift from highly innovative to more conservative across the stages of firm life cycle. This model further describes that whilst major or incremental product/service innovation, diversification and vertical integration are prominent strategies in the birth, growth and revival phases, price cutting, lobbing, product substitution are major in the maturity and decline phases. The strategies associated with each phase of Miller and Friesen model are shown in Table 1.

Table 1. Strategies in the Phases of Life Cycle

Phase	Major Strategy
Birth	• Innovation in product lines • Niche strategy
Growth	• Broadening product market scope into closely related areas • Incremental innovation in product lines
Maturity	• Consolidation of product/market strategy • Focus of efficiently supplying a well-defined markets
Revival	• Product /market diversification • Movement into some unrelated markets • Substantial innovation
Decline	• Price cutting • Low level of innovation • Consolidation of products-markets • Liquidation of subsidiaries

Our thrust in this study is the family firms. Family firms have been defined variously by different researchers and academics. Most of the studies point that family's influence, interests and values play a key role in family firms compared to their non-family counterparts (Sharma, 1997). However, Craig and Moores (2006) describe that operational and strategic issues of ownership, control and management contribute to make the family business complex. Research stresses that family firm objectives are highly associated with personal/ family interests and values (Sharma, 1997; Tanewski, 2003). In this context, some studies argue that business strategies of family firms are inseparable from family objectives (Habbershon, 1999). Sharma *et al.* (1997) further describes that family firms have multiple complex and changing goals over non-family firms. Moreover, literature indicates that family firms are risk-averse, less growth oriented and are more conservative (Dunemann, 2004) in their strategic behaviour than non-family firms and also highly concentrated to the defender type strategy (Daily and Dollinger, 1991). In light of this, it can be said that family firms are not similar to their non- family counterparts in terms of their objectives and strategies. Based on the prior research, it seems reasonable to assume that there is a link between firm strategy and firm life cycle. As suggested by the Miller and Friesen (1983), we regard firm strategies will vary along with its firm life cycle. Thus, we surmised that; H1: S*trategies pursued by family firms vary along the stages of firm life cycle.*

Method

Sample: The data employed in this study are drawn from the Australian Centre for Family Business. The centre has collected the data from family firms located in all states and territories of Australia by a questionnaire. The sample consists of 276 family firms in all sectors of business. The 276 family firms represented a wide variety of businesses, including agriculture, forestry and fishing, mining, manufacturing, constructing, transportation, communication and utilities, wholesaling, retailing, finance, insurance and real estates.

Analysis: To examine the strategies adopted by the family firms, strategy related questions were selected. The study identifies 17 questions which relate to strategies and then factor analysis was used to categorize them into three major strategies with the objective of exploring how strategies relate to firm life cycle. All the 17 items were on a seven point Likert type scale. Descriptive statistics was used in the study. All statistics analyses were conducted by using of SPSS.

RESULTS

Significance of Strategy

Respondents were asked to circle one number of seven beside each 17 statements relating to strategies with the anchors being *" Not at all"* and *"Very common"* (for statements 1-9,11 and 14) and *"not important"* and *"very important*" (for statements 10, 12, 13 and 15 –17). The descriptive statistics - *mean and standard deviation* - of responses received to these 17 statements are shown in table 2. The most interesting result is that "importance of product/service quality" (*mean 6.31 out of 7*) is the most significant strategy of family firms. The franchising (*mean = 1.39*), vertical integration both upwards (*mean =1.79*) and downwards (*mean = 1.56*) and related diversification by acquisition (*mean = 1.90*) were the strategies largely rejected by family firms.

Table 2. Significance of strategy to family firms (n=276)

Strategy	1 Not at all (valid at % of responses)	2	3	4	5	6	7 Very common	Mean	SD
Product /service innovations	3.6	13.0	17.4	21.0	19.2	15.9	9.8	4.26	1.635
Product /service modifications	2.5	9.0	12.3	20.6	27.1	15.5	13.0	4.59	1.559
First to new markets	5.8	11.2	11.2	15.2	22.7	20.6	13.4	4.53	1.750
Related diversification by acquisition (externally)	57.4	20.6	7.9	5.8	5.1	3.2	0	1.90	1.363
Related diversification- internally	39.7	25.3	11.9	8.7	7.2	5.8	1.4	2.42	1.623
Geographical expansion	21.3	13.4	13.0	14.4	18.4	9.0	10.5	3.64	1.989
Franchising	89.5	2.9	0.4	1.1	1.8	1.4	2.9	1.39	1.299
Vertical integration – upwards	73.3	8.3	4.0	4.0	3.6	4.7	2.2	1.79	1.586
Vertical integration – downwards	79.4	7.6	2.5	4.0	2.9	1.8	1.8	1.56	1.338
Importance of advertising	11.2	11.6	14.4	12.3	17.3	16.2	17.0	4.30	1.972
Dominance of distribution channels	28.5	10.5	10.5	16.6	15.2	14.1	4.7	3.40	1.971
Importance of new product introduction	6.9	8.7	10.1	15.5	21.3	14.8	22.7	4.71	1.850
Importance of market segmentation	10.5	9.4	8.3	15.5	23.1	19.9	13.3	4.44	1.856
Lobbing with government	29.6	23.5	9.7	12.3	13.0	7.6	4.3	2.96	1.857
Importance of prestige price	11.2	10.5	13.7	14.8	19.9	15.9	14.1	4.26	1.900
Importance of price cutting	7.6	14.4	14.8	17.3	16.6	14.4	14.8	4.23	1.855
Importance of product/service quality	1.1	1.1	1.1	4.3	7.9	23.5	61.0	6.31	1.145

Table 3. **Principal component analysis of strategy, total variance explained (eigenvalue>1)**

Component	Rotation sums of squared loadings		
	Eigenvalue	% of variance	Cumulative %
1	3.273	19.255	19.255
2	1.855	10.911	30.166
3	1.452	8.541	38.707

Table 4. Principal component analysis of strategy, rotated component matrix

	Component factor loadings		
	1 Differentiation Strategy	2 Diversification strategy	3 Cost Leadership strategy
Importance of new product development	0.743		
First to new markets	0.730		
Product/service innovations	0.723		
Product/service modifications	0.597		
Importance of market segmentation	0.574		
Importance of prestige price	0.537		
Importance of product/service quality	0.473		
Importance of advertising	0.424		
Dominance of distribution channels	0.386		
Related diversification – externally		0.700	
Related diversification – internally		0.684	
Vertical integration – upwards		0.567	
Geographical expansion		0.490	
Lobbing with government		0.353	
Vertical integration – downwards			0.694
Importance of price cutting			0.573

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

Table 5. Analysis of means of business strategies

	Means					
	Birth	Growth	Maturity	Revival	Decline	F
N=	3	223	37	8	5	
Strategy						
Differentiation strategy	4.41	4.61	4.19	3.72	4.87	2.863**
Diversification strategy	3.26	2.58	2.42	2.17	1.96	1.347
Cost leadership	2.83	2.93	2.66	2.81	3.40	0.589

** $P < 0.05$

A factor analysis on the 17 items relating to strategies was run; using the *principal component analysis.* The factors were then rotated, using Varimax rotation with Kaiser Normalisation. This resulted in three factors that explained 38.7 per cent of the variance. Table 3 shows the three factors generated from the factor analysis with eigenvalue is more than 1.0. The factor loadings were used in developing the strategies. Two of the three factors reflect Porter's generic strategies namely differentiation and cost leadership. The remaining factor reflects the diversification strategy suggested by Ansoff (1965). The factor 1 (Cronbach's = 0.76) was labelled as differentiation strategy and represented the 19.25% of the variation. This strategy consists of nine items of which *"importance of new product development", "first to new markets"* and *"product/service innovations"* were loaded as more significant. Factor 2 (Cronbach's = 0.50) has been labelled as diversification strategy and represented 10.9% of the variation. Factor 3 (Cronbach's = 0.28) has been named as "cost leadership" strategy assuming that downward vertical integration and price-cutting are related to cost leadership. The cost leadership strategy represented 8.5% of the variation.

Strategy and firm life cycle

In order to examine the strategies adopted by family firms across their firm life cycle, the standard deviation of the strategies were used. It was found that family firms relied most heavily upon differentiation strategy across the stages of life cycle. However, it also shows us that at the revival stage, family firms are not much favour for the differentiation strategy. The diversification strategy has been given a less priory in each stage of life cycle except birth stage, suggesting that family firms have a lesser interest towards the diversification strategy. The diversification at birth stage is slightly contradictory to the findings of others (Adizes, 1979; Miller & Friesen, 1984) and may be unique to the family firms in the sample. The result shows that cost leadership strategy – price-cutting and downward vertical integration – is significant at the decline stage than other stages. This result provides some support to Miller and Friesen (1983), who found, pricing-cutting as a strategy at the decline stage. Thus, analysis shows that differentiation is the dominant strategy of family firms across their life cycle (Table 5).

Conclusions and Future research

This paper has provided an analysis of business strategies of family firms across their firm life cycle. The findings of the study suggest that while differentiation strategy is significant to family firms, diversification strategy is less important. In addition, study found that family firms favour for the cost leadership at the decline stage rather than other stages. Some findings of the study are in contrast with the evidence of previous strategy - life cycle studies. However, little support was found for the preposition that family firm strategies vary across their life cycle. Findings of the study should be considered in the light of two limitations. First, since firms at the birth, revival and decline stages are not adequately represent in the sample, caution should be exercised in generalising the results for stages of life cycle. Although it is accepted that firm size influences the strategy formulation and selection, the study disregard this phenomenon in analysing the strategy and firm life cycle. Therefore, it will be the second limitation in generalising the results. It might be useful for subsequent studies to examine the family firms in different sizes – small, medium and large - to determine if the similar relationships exist. In addition, a comparative analysis of family and non-family firms' strategies across the life cycle would be of interest.

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