



# Organizational Learning and Knowledge Development

## Peculiarities in Small and Medium Family Enterprises

### Abstract

The aim of this theoretical contribution is to analyze the processes of organizational learning and knowledge development within the small and medium sized family firm. Due to its founding characteristics, family SME seems to be a closed, hermetic and rigid organization. Besides, the specificity of mechanisms of learning and knowledge management, in general, within this entity are justified by:

- First, the overlapping of "family" and "company" spheres: the family sphere realizes a unique contribution because it constitutes a supplementary source of knowledge inbound to the company compared to a firm without family involvement,
- Then, the frequency of the exchanges within the organization: the processes of exchange of piece of information and knowledge take place not only in the organizational context but also and especially in the family context. The family meetings constitute, for example, supplementary occasions for exchange and sharing of knowledge.

Schematically, two major characters inherent to this entity constitute obstacles to organizational learning. Indeed, conservatism and independence orientation strongly influence the processes of learning and knowledge development.

The literature suggests that the family system attempts to create and maintain a cohesiveness that supports the family "paradigm" which is described as the core assumptions, beliefs, and convictions that the family holds in relation to its environment. Information that is not

consistent with this paradigm is resisted or ignored (Davis, 1983). The search for security, conformism and tradition are characteristic of conservative organizations. Particularly to the family firm, the conservative posture could be studied through three dimensions (Miller and ali., 2003). First, on the governance level, the conservatism is exhibited by the plateauing and the growing rigidity of the owner-manager and by the inefficacy of the board of directors. Second, on the strategy level, conservative family SME favorites its actual markets, customers and products and globally is unwilling to change and adopt new paradigms. Then, on the organizational and cultural levels, this entity tends to be closed and introvert. These three components have an impact on knowledge development as the conservatism tends to limit the variation and the exposition to new environments. In short, within this entity the level of organizational knowledge would be weak.

The second variable influencing the processes of development of knowledge within family SME is the independence orientation. This orientation is a consequence of the family long-term commitment to the business. Paradoxically, this commitment has two contradictory effects on growth. First, it implies the pursuit of future development and continuity of the firm to make sure that the family heritage is passed on to the following generations. On the other hand, commitment implies a strategy of conservation of the heritage which passes by a strong seek for the independence. Aiming to guarantee its continuity, the (small and medium-sized) family firm establishes an independence orientation of three different types. First, from the financial point of view, it avoids as much as possible turning to outside partners (Hirigoyen, 1985). Then, on the human plan, it would be favorable to the appointment of family members or individuals belonging to the close relational circle to the posts of direction and would be reluctant to the recruitment of professional directors. Finally, to maintain the decision-making in hands of the family, the family firm tends to avoid the inter-organizational relations, cooperative investments, and tries to limit the sharing of the control of its investments. The

contribution of outsiders (financiers, directors or partner organizations) can, however, be precious to the company. And the introversion would be a major obstacle to the perpetuity of the firm because it inhibits growth. As a consequence, independence orientation limits the accumulation of knowledge because, on one hand, the horizons of the company will be limited and little varied, and on the other hand, the potential valuable knowledge contribution of outsiders is excluded.

The study of these variables raises questions about the efficacy of the organizational memory within the family firm. This organization runs particular risks because of the peculiarity of its knowledge management mechanisms. Because of its founding natural characteristics, the family firm nurtures mechanisms which reinforce the causal ambiguity (Nelson and Winter, 1982) by strengthening the voluntary effort to avoid either a too fast imitation or the loss of knowledge-based resources if the individual or the group holding it leaves the organization (Arrégle, 1995). In short, family firms show an inclination to concentrate the processes of knowledge management around its tacit dimension by encouraging its formation contrarily to the explicit component. However the weak externalization of knowledge coupled with the avoidance of sharing outside the family causes serious risks. First, an obvious risk of deterioration is present because of the weak importance of the organizational protection mechanisms and the strong reliance on individual memory. Moreover, we suggest a risk of erosion of knowledge due to the fragmentation caused by successions that do not preserve the unity of the firm. There is risk of "fragmentation" of the strategic knowledge if the company is shared between the potential successors. This risk would be less pronounced if a prior sharing of knowledge with outside directors had been engaged.

Another particularity of family firms is about the intergenerational transmission and transfer of knowledge (Cabrera-Suarez and ali., 2001). Mechanisms inciting to intergenerational transfer of knowledge must be set up because of the negative impact of conservatism and

independence on organizational knowledge and due to the fragility of family firm organizational memory.

**Keywords:**

Organizational knowledge, family business, conservatism, independence orientation

## **Organizational Learning and Knowledge Development**

### **Peculiarities in Small and Medium Family Enterprises**

A series of observations carried out by various authors leads to the observation that the crucial value-creating activities of the firm are based on knowledge. The greatest part of the activity of employees consists in processing information and managing competences and knowledge (Wright et al., 1995). Generally, the performance of the firm depends more and more on its capacity to develop, gather, integrate, mobilize and exploit flows of knowledge. Accordingly, knowledge-based approaches of the firm try to conjure up an integrated vision of the firm as a locus of knowledge creation (Nonaka and Takeuchi, 1998) or as an applicator of knowledge (Grant, 1996), knowledge being considered as the main valuable resource (Drucker, 1993). This new trend of conceptualization conceives the firm as a portfolio of knowledge-based resources (Wright et al., 1995). These resources are varying in transferability and imitability and evolving along a life cycle and different phases of maturity. In an extreme vision, the elements of the value chain of the firm could be redefined in terms of knowledge-based activities or services (Wright et al., 1995). Already, for Penrose (1959), connections between tangible organizational resources and the services they provide are established through managerial knowledge, an ever-growing intangible resource. For Penrose, the firm is at the same time an administrative organization and a set of productive, human and physical resources. More importantly, the inputs of the production process are not the resources themselves but the services originating from them. It is on this level that knowledge intervenes since the services are function of accumulated experience and knowledge that are specific to the firm. In sum, knowledge-based view and its different components emphasizes the role of knowledge within the organizational processes and allows for a new conceptualization of this entity.

Despite the profusion of research about knowledge-based processes within the firm, rare studies tried to analyze them for the family firm<sup>1</sup>. The family firm can be defined as a firm controlled by one or more families involved in governance or management or at least holding capital stakes in this organization<sup>2</sup>. Due to its specificities, this entity exhibits a specific behavior as for the creation, development, sharing, protection and transmission of knowledge. Habbershon and Williams (1999) initiated the research aiming at the identification of the specific resources of the family firm. But, more than specific resources and capacities, the family firm uses a collective tacit knowledge needed to integrate, coordinate and mobilize effectively its resources (Cabrera-Suarez et al., 2002). The aim of the present contribution is to analyze the characteristics of the family firm critical to the knowledge-based processes. Due to its founding characteristics, family SME seems to be a closed, hermetic and rigid organization. Although this description can be criticized and challenged, it remains valid for many of these entities. The interaction between the family system and the firm system appears to be the essential element preventing the organization from quickly adapting to the changing conditions (Moloktos, 1991). Moloktos (1991) explains that when the life cycles of these two systems do not evolve at the same speed, the risks of crisis are significant. Thus, conservatism constitutes a first obstacle to knowledge development. Besides, small and medium family enterprise is strongly oriented towards independence which has advantages but also many drawbacks. The impact of this orientation on the system of resources and in particular on knowledge can be crucial.

This article is structured as follow: after analyzing the two main variables influencing the development of knowledge within the family SME, we discuss some theoretical implications. Indeed, the study of these variables raises questions about the strength of the organizational

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<sup>1</sup> The study of Cabrera-Suarez et al. (2002) seems to initiate a knowledge-based approach for the family firm.

<sup>2</sup> The recurring problem of family firm definition will not be addressed. On this question, Cf. Astrachan et al. (2002); Litz (1995). Here we choose to adopt a general and common definition.

memory within the family firm. This organization runs particular risks because of the peculiarity of its knowledge management mechanisms. Intergenerational transmission and transfer of knowledge could be the solution to protect and perpetuate valuable knowledge.

## **1- IDIOSYNCRATIC CHARACTERISTICS OF SMALL AND MEDIUM FAMILY ENTERPRISE AND DEVELOPMENT OF KNOWLEDGE**

Knowledge is an individual interpretation of information based on experience, abilities and personal competences (Bollinger and Smith, 2001). It is about understanding, awareness or familiarity acquired, through time, by the study, investigation, observation or experience. Generally, within organizations, two types of knowledge are encountered. The first form is the individual's or the team's knowledge. It is a specific expertise of the firm which is made up of a simple network, i.e. having few components and having easily identifiable limits (Arrégle, 1995). The second form of knowledge present within organizations is a collective one. It is organizational knowledge defined as a set of organizational routines created by a complex network of components (Arrégle, 1995). These routines do not depend on individual components but on the whole organization to exist. The collective aspect is emphasized by Bollinger and Smith (2001) who conceive organizational knowledge as the collective and cumulative knowledge or the "wisdom of the organization". Accumulated through time, incrementally and cumulatively, organizational knowledge constitutes the base which attracts, organizes and deploys other knowledge resources which are independent of the organization. Organizational knowledge is also essential to define the organization's operations and to found its identity. Organizational knowledge could be considered as a result of the organizational learning processes. Indeed, a large number of approaches and research in the field of organizational learning assimilate this phenomenon to a process of knowledge development. Serving to improve the performance of the organization or to enable it to

explore new strategic paths, organizational learning should produce organizational knowledge.

Two variables are distinctive as for the processes of knowledge development within the family SME. These are characteristics frequently emphasized by the literature as being specific to this organization. We will study the effects of conservatism and independence orientation on the development of the knowledge base of small and medium family enterprise.

### **1.1- Conservatism**

Conservatism is the attachment to the choices of the past (Timur, 1988). The literature about cultural specificities emphasizes the willingness to maintain the *status quo* and harmonious relations not only within the group but also within the entire society. The pursuit of security, conformism and tradition are characteristic of conservative organizations. The conservatism limits the variation and accordingly the extent of knowledge developed by the firm. Indeed, the literature stresses that this variation, i.e. the diversity of environments to which the firm is exposed, is strongly correlated with the amount of accumulated knowledge. Organizations exposed to a variety of business and institutional actors are likely to develop knowledge of an important set of events and thus learn more than poorly exposed ones. They are more able to define problems, errors and opportunities than firms whose horizons of action are more reduced. The weak variation indeed implies a limited number of customers, competitors and other institutional actors. Accordingly, conservative organizations carry out only a simple loop learning which does not reform their theories-in-uses since they accumulate little knowledge. Particularly with the family firm, Miller et al. (2003) explain that the conservative posture of this entity is reflected on its governance, strategy and organization (mainly culture). We will discuss these three components in order to be able to understand their impact on the knowledge base.



### 1.1.1- Conservatism and firm governance

The first sphere concerned with conservatism is the governance of the firm<sup>3</sup>. Conservative organizations and particularly family firms are characterized by the persistence and substantial power of old generations who exert a strong supervision on the owner-manager. Otherwise, conservatism can be due to the owner-manager himself. He plays a significant role in the processes of organizational learning and influences the strategic posture that his firm adopts. A patriarchal family controlling a paternalist organization is the extreme case of figure (Jenster and Malone, 1991): being dependent to a high degree on its founder, the organization would be unable to promote change as it is not instigated by him. However, the founder or owner-manager may be unwilling to promote change. Hambrick, Geletkanycz and Fredrickson (1993) call this tendency to slow down the change “commitment to the *status quo*” (CSQ). The management believes in the permanent accuracy of current strategies or organizational behaviors (Hambrick et al., 1993). Therefore, personal paradigms which by the past proved their efficacy constitute inhibitors to change. Thus, in spite of the evolution of the environment and performance requirements, the owner-manager could become inflexible and rigid by promoting practices and strategies resulting from past successes and avoiding decisions which can threaten his image or his economic wealth (Ward, 1997). Consequently, he perceives a weak need for adjustment even in case of critical changes in the external environment. In sum, conservatism of the owner-manager constitutes a significant barrier to organizational learning and knowledge development within family SME.

The efficacy of the board of directors<sup>4</sup> is an indicator of the struggle against conservatism and strategic inertia. According to theoretical descriptions, this corporate body constitutes a source of strategic initiative and relevant information and also a source of expertise, counsel and

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<sup>3</sup> In France, Gérard Hirigoyen distinguishes between government and governance, the first pertaining to direction and decision, the second dealing about mechanisms of control.

<sup>4</sup> For the firms which adopt one.

control since it must also correct the trajectory in case of unsatisfactory management. However, its role within family SME needs to be moderated. Mustakallio and Autio (2001) argue that the role of the board of directors, measured by its composition and by the intensity of the control it exerts, would be more significant as the implication of the family members in the management decreases - suggesting at the opposite that the more the family is involved, the less decisive the role of the board would be. In general, the traditional family firm is known to have a board of directors whose members, selected according to their status and influence within the family and not according to their knowledge of the activity or industry, occupy their positions for long periods and have insufficient or inadequate professional competences. According to this description, they constitute a barrier to any attempt of change potentially threatening the stability of the firm. Ranft and O'Neill (2001), notice that the founders of high-performing firms are even tempted to weaken deliberately the board of directors of their firms in order to maintain the *status quo*. The inward orientation is more corroborated in some family firms who simply do not implement such a body (Melin and Nordqvist, 2000).

However, the role of the board of directors can be crucial since it should increase the amount of information available to the operational management when planning or implementing strategies. This role is accomplished by insiders as well as external administrators<sup>5</sup>. The insiders contribute through their thorough understanding of the firm. The outsiders would prevent from the dominance of a single line of thought by challenging the assumptions underlying the firm's strategies and injecting external knowledge. The results obtained by Schwartz and Barnes (1991), based on a sample of 262 family firms, prove the relevance of the incorporation of external administrators. The authors find that they provide unbiased points of view and constitute a precious means for the establishment of networks. In brief, the

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<sup>5</sup> Nevertheless, the positive role of outsiders is frequently questioned and authors criticize their lack of knowledge of the firm and his environment, their low availability and weak authority.

role of counsel accomplished by the board would have a significant influence on the strategic orientation of the firm by improving the variety and quality of information available for the strategic processes and, consequently, the variation, selection and retention of alternative paths of development (Mustakallio and Autio, 2002). This function of counsel should thus improve the capacity of the firm to innovate and establish new strategic directions. Unfortunately, small family enterprises do not seem to rely strongly on such a body.

The study of the conservatism of the family firm governance is a first necessary step because this factor has consequences on firm's strategy selection and implementation. Indeed, an analysis of the strategic manifestations of this posture has to be outlined.

### **1.1.2- Strategic conservatism**

Second, the conservatism of the firm is expressed strategically. Generally, the family firm has a tendency to be strongly devoted to a strategy which becomes a source of rigidity. The literature suggests that the family system attempts to create and maintain a cohesiveness that supports the family "paradigm" which is described as the core assumptions, beliefs, and convictions that the family holds in relation to its environment (Gudmundson et al., 1999). Information which is not consistent with this paradigm is resisted or ignored (Davis, 1983). The more the family is conservative the less it works for change. Strategic conservatism implies stagnation and risk of insularity (Miller et al., 2003). The firm carries out few changes in its objectives, business and product lines or markets (Miller et al., 2003). Generally, family SME is known to maintain its differentiation through the same activities and policies (Gallo and Sveen, 1991) and to privilege a defensive position with protection of its niche. Accordingly, its market shares are likely to be narrowing and its market potential exhausting. Consequently, the conservative strategic attitude can inhibit knowledge development. In fact, the organizational learning remains weak since the top directors focus primarily on problem solving rather than on the search and pursuit of new opportunities. Indeed, they have a

tendency to deal exclusively with internal issues pertaining to the efficiency of operations or quality of products and neglect issues pertaining to the evolution of market requirements or consumers needs.

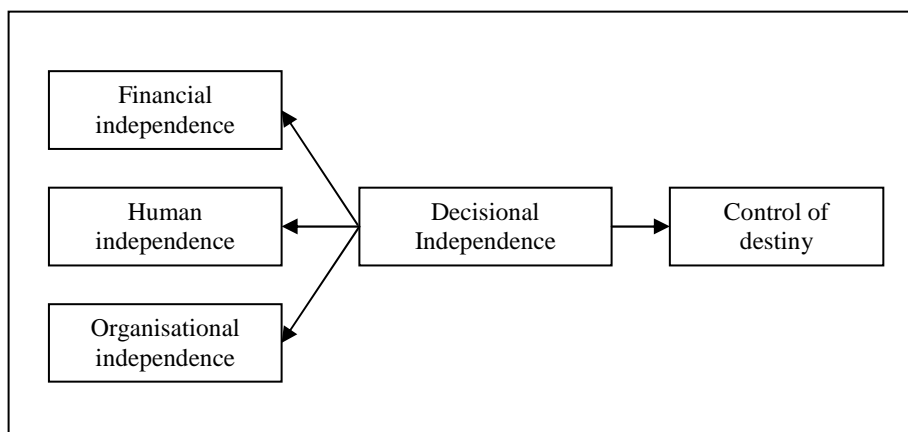
The third dimension where conservatism is exhibited is the culture of the firm. Instead of nurturing the will of change and development, cultural conservatism implies characteristics of preservation and rigidity.

### **1.1.3- Cultural conservatism**

How conservative organizations are culturally characterized? According to theory, they are strongly impregnated by tradition and behave in a bureaucratic and centralized manner (Miller and ali. 2003). Decision-making is exclusively in hands of top directors and formal communication is favored. Moreover, the organization tends to maintain the same hierarchy, the same interpretation schemes and communication modes. This description may easily be transferable to the traditional family firm. More precisely, the pursuit of the goal of culture and identity protection constitutes the last element exerting a negative influence on the learning orientation within the family SME. Many authors emphasize the central role of culture and values in shaping the competitive posture of this organization (Dyer, 1986). For instance, analyzing values in the family firm, Salvato et al. (2002) show that they influence activities and routines of the organization aiming to create a competitive advantage. The family firms show an inclination to be independent from their environment and the external culture (Donckels and Fröhlich, 1991). In addition, they insist on artifacts which generally originate from the firm's local environment and are the result of the influence of certain members of the family, in particular that of the founder (Gallo and Sveen, 1991). Consequently, cultural conservatism would have detrimental effects on the knowledge bas as it inhibits any will of change and organizational learning.

## 1.2- Independence orientation

The second main variable influencing the processes of knowledge development within family SME is independence orientation. This orientation is a consequence of the family long-term commitment to the business. Paradoxically, this commitment has two contradictory effects on growth. First, it implies the pursuit of future development and continuity of the firm to make sure that the family heritage is passed on to the following generations. On the other hand, commitment implies a strategy of conservation of the heritage which passes by a strong seek for the independence. Aiming to guarantee its continuity, family SME establishes an independence orientation on three levels (see Figure 1).



**Figure 1. Dimensions of the independence orientation**

First, from the financial point of view, it avoids as much as possible turning to outside partners (Hirigoyen, 1985). Then, on the human plan, it would be favorable to the appointment of family members or individuals belonging to the close relational circle to the posts of direction and would be reluctant to the recruitment of professional directors (Astrachan and Kolenko, 1996; King et al., 2001). Finally, to maintain the decision-making in

hands of the family, the family firm tends to avoid the inter-organizational relations, cooperative investments, and tries to limit the sharing of control of its investments (Donckels and Fröhlich, 1991). The contribution of the outsiders (financiers, directors or partner organizations) can, however, be precious to the company. And the introversion would be a major obstacle to the perpetuity of the firm because it inhibits growth. Independence orientation limits the accumulation of knowledge because, on one hand, the horizons of the company will be limited and little varied, and on the other hand, the potential valuable knowledge contribution of the outsiders is excluded.

### **1.2.1- Financial independence**

Devoted to its goal of continuity, family SME tries to evolve in a more or less hermetic universe. Accordingly, external financial intervention is avoided because it could deteriorate the independence of the firm. The resource dependence theory provides an explanation to this attitude (Davis et al., 2000): the higher the dependence to the (resource) capital, the more the potential financier would have greater power and influence in the decision-making within the firm (Davis et al., 2000). Consequently, family SME seems reluctant to adopt modes of financing other than internal ones. Schematically, it appears strongly predisposed to implement or at least to adhere to the recommendations of the pecking order theory (Myers and Majluf, 1984). It favors generally internal financing by the retention of earnings and the constitution of reserves. Moreover, it avoids opening financially to external sources. First, it tends to avoid debt and relies enormously on costly internal capital. Financing through equity has other specificities that fear family SME. Quotation, for instance, could involve a major change in the ownership structure and governance of the firm due to the entry of external shareholders (Schulze et al., 2003).

Financial independence has significant consequences on the knowledge base of the firm. Initially, even if internal financing helps to avoid the diffusion of the cognitive map of

management and endangering growth opportunities not perceived by competitors (Charreaux, 2002), this advantage is compensated by the fact that, at the same time, internal financing implies an inward orientation and a weak development of the knowledge base as it prevents from the penetration of a potentially relevant external cognitive contribution. In addition, debt avoidance, even if it permits to limit the risk of diffusion of information and management cognitive schemas towards bankers implies a lot of disadvantages relatively to the firm's knowledge base. Indeed, the contribution of the bank could be valuable since it can take part in the development of the knowledge base through adhering or enriching the management vision and cognitive map (Charreaux, 2002). Lastly, external shareholders can play a valuable role as for the firm's knowledge base. First, they could exert their influence on the development of the vision of the firm. Then, they can play a significant role in providing proposals for investment opportunities. External ownership thus makes it possible to extend the knowledge base. Family SME seem not to recognize these valuable contributions and follow a conservative financial behavior (Hirigoyen, 1985). As a result, financial independence is likely to limit the amount of knowledge inbound to the small and medium family firm.

### **1.2.2- Human independence**

The pursuit of independence inhibits knowledge development from the human point of view. The family firm adhering completely to the principle of managerial independence is limited quantitatively and qualitatively by the lack of human resources. Indeed, trying to avoid loss of control, family management tends to limit external managerial implication even it would be valuable to undertake organizational learning. To justify the customary recruitment of directors and managers from the family sphere, the literature speaks about paternalist management and nepotism which would be characteristics of the traditional family firm. Welsch (1996) observes that when the family firm makes a decision relating to its human

resources, it is more influenced by family values and personality issues more than by a standardized set of performance and competence indicators. The altruism characterizing the owner-manager, generally the father or head of the family, implies a feeling of natural right among members of family. The owner-manager is thus incited to make use of firm resources to provide employment and other privileges to the family members (Schulze et al., 2001). Dunn (1995) emphasizes a critical consequence of this behavior. Indeed, the pursuit of the objective of preferential employment of family members may often signify the hiring of sub-optimal employees. Besides, the analysis of Harris et al. (1994) shows that the rigidities of the family firm when it is about change of paradigm are primarily due to the sclerosis to the human element:

- Family firm privileges internal succession, which is one of its main goals, and devotes the principle of loyalty, whereas new paradigms are likely to originate from outside employees or management,
- Internally-trained successors have weak external experience whereas new paradigms are likely to emerge from the variety of personal experiences,
- Heir of the entrepreneur can suffer from a lack of self-confidence whereas the possibility of emergence of new paradigms generally requires a great confidence in its personal judgment.

Another characteristic of family firms is to be emphasized. This type of organization is known to be loyal i.e. seeking to keep the same employees for long periods. According to Miller et al. (2003), the same policies of recruitment and promotion, for example, are implemented at the profit of the same people. The absence of recruitment implies, however, an ageing of human resources and management in particular (Jenster and Malone, 1991).

Overall, the prerequisite in external competences is explained by the contribution in knowledge resources that outsiders can offer. Therefore, human independence, implying



exclusively internal recruitment and responsibility transfer, has a notable negative impact on the knowledge base of the small and medium family firm.

### **1.2.3- Relational independence**

Gray (1995) observes that owner-managers of small firms adhere to an organizational culture impregnated by individualism and anti-participation. The potential attenuation of independence constitutes a short or long term threat explaining probably the weak co-operative orientation of family SME. Indeed, the co-operation contains a dynamics which can make evolve the co-operation to a relation of global dependence. Indeed, the attenuation of the independence, initially limited to the only field of agreement, would be extended to the entire firm (Adam-Ledunois and Le Vigoureux, 1998). Another explanation of the weak organizational networking of family SME can be induced from the explanations of the network approach. Belonging to a network implies, indeed, acceptance of the external influence. The position of a firm within its network can influence and is also influenced by the expectations of other actors as for the way it should behave and interact with other organizations (Johanson and Mattson, 1988). Consequently, the position occupied by a firm, even if it permits access to new and valuable resources, relations and markets, is constraining because it shapes its role and relations with the other firms.

According to some authors, when they cooperate, family firms would choose their similar i.e. other family firms. Indeed, pursuing the same principles, in particular independence, and having a comparable size, they would not constitute a threat to independence<sup>6</sup>. In summary, family SME exhibits a weak co-operative orientation and a disinclination to integrate economic networks (Donckels and Fröhlich, 1991). Consequently, it is likely to develop a poor knowledge base since the role of the network can be crucial at least on three levels. First,

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<sup>6</sup> According to Adam-Ledunois and Le Vigoureux (1998), when they cooperate, the natural preference of SMEs goes for situations which see emerging a mutual dependence rather than the subservience for one of the parties (Adam-Ledunois and Le Vigoureux, 1998).

through its implication in a network, a firm can develop a high awareness of opportunities and threats pertaining to its activities since it is strongly exposed to environment. Second, its decisions and actions (concerning strategies to be adopted, for example) can be founded on an imitation of other more experienced actors of the network. Finally, the network may allow for a direct transfer of knowledge between participants. In sum, we can argue that the influence of relational independence orientation on the development of knowledge is negative.

## **2- IMPLICATIONS: SPECIFICITIES OF LEARNING AND KNOWLEDGE DEVELOPMENT WITHIN FAMILY SME**

The characteristics of conservatism and independence orientation strongly influence the processes of organizational learning and knowledge development within family SME. The justification of this specificity is due to the fact that this entity shows:

- First, the overlapping of "family" and "company" spheres: the family sphere realizes a unique contribution because it constitutes a supplementary source of knowledge inbound to the company compared with a firm without family involvement,
- Then, the frequency of the exchanges within the organization: the processes of exchange of piece of information and knowledge take place not only in the organizational context but also and especially in the family context. The family meetings constitute, for example, supplementary occasions of exchange and sharing of knowledge.

Two main consequences are to be analyzed. In this entity, the activities of organizational learning and development of strategic knowledge are centered on the family encouraging causal ambiguity. The second phenomenon is that within the family, knowledge is preserved and perpetuated through a process of intergenerational transfer.

## **2.1- The family in the heart of the processes of knowledge development**

The analysis of the conservatism and independence orientation raises questions about the efficacy of the organizational memory within the family firm. What are the mechanisms of preservation of knowledge within the family firm? This organization runs specific risks because of the singularity of the mechanisms of knowledge management.

The typical paternalistic management of the family firm which implies a centralization of power and decision allows obviously the flexibility of the organization. But, at the same time, it influences the processes of learning and development of knowledge which are henceforth centered on the family sphere. The family holds the monopoly of the acquisition, sharing and transfer of knowledge within the organization. Taking advantage of its rights of decision and control, the family dominates the management of knowledge. Overall, internalization of strategic knowledge would be primarily the fact of the owner-manager and his family. Then, the family firm shows a weak socialization of strategic knowledge out of the family circle. In spite of the contribution they provide to the development of the knowledge base outsiders are likely to be excluded. The essence of knowledge, i.e. its tacit component, being mainly acquired by the family members, there is a tendency to limit its diffusion. There would be, consequently, a conscious will of the top familial management of not engaging a process of externalization. Firms whose “familiness” (Habbershon and Williams, 1999) is weak would behave differently and tolerate sharing activities of strategic knowledge management with outsiders. This sharing should have a beneficial effect on the construction and development of the organization’s knowledge base because of the variety and richness of externals’ contributions.

Therefore, because of its founding natural characteristics, the small family firm nurtures mechanisms which reinforce the causal ambiguity (Nelson and Winter, 1982) by strengthening the voluntary effort to avoid either a too fast imitation or the loss of knowledge-

based resources if the individual or the group holding it leave the organization (Arrégle, 1995). The family firm is quite inclined to privilege mechanisms of protection of knowledge such as:

- Strengthening the tacit aspect and avoiding formalizing,
- Voluntarily maintaining the complexity.

In short, family firms show an inclination to concentrate the processes of knowledge management around its tacit dimension by encouraging its formation contrarily to the explicit element. However, the weak externalization of knowledge coupled with the avoidance of sharing outside the family causes serious risks. First, an obvious risk of deterioration is present because of the weak importance of the organizational protection mechanisms and the strong reliance on individual memory. This risk depends on the level of learning, local or organizational, and more particularly seems to be expressed when knowledge is attached to particular groups of individuals. This risk of deterioration is also correlated with the extent of diffusion of knowledge. Particularly to Chinese family firms, Tsang (1999) observes that they can be classified as "the one-man institution" within Shrivastava's (1983) typology. The owner is the man "who is knowledgeable about all aspects of the business, (and) is the key broker of organizational knowledge. He acts as a filter and controls the flow of information to and from every important manager" (Shrivastava, 1983, p. 20). In sum, even if the family firm exhibits a weak erosion of knowledge because of the weak rotation of directors, an important risk is inherent to the eventuality of a sudden loss of a key member of the family and the company. The organizational memory of the family firm is fragile. Thus, even if operational knowledge gained from the daily activities and profiting to the operational management team is better protected from extinction, the strategic knowledge held primarily by the owner-manager and the members of his family is endangered. Moreover, we suggest a risk of erosion of knowledge due to the fragmentation caused by successions that do not preserve the unity of

the firm. There is indeed a risk of "fragmentation" of the strategic knowledge if the company is shared between the potential successors. This risk would be less pronounced if a prior sharing of knowledge with outside directors had been engaged.

In summary, in order to protect experience and knowledge acquired from its activities, which could be lost with the departure of the person or the team holding it, the organization have to set up mechanisms of sharing and diffusion. The solving of the problems of diffusion and transfer of knowledge can, in the case of the family firm, be founded on a specific process: the intergenerational transfer of knowledge.

## **2.2- Intergenerational transfer of knowledge: means of knowledge preservation**

Mechanisms inciting to intergenerational transfer of knowledge must be set up because of the negative impact of conservatism and independence orientation on the knowledge base and due to the fragility of family firm organizational memory. The process of transfer of knowledge through generations is thus crucial to be able to maintain the competitive advantage of the firm. It is important to operate a distinction between the strategic knowledge on one hand and the operational knowledge, on the other hand. Strategic knowledge is the competence generally held by the management involved in decision-making. Operational knowledge is that used or acquired by employees confronted to daily operational management. In fact, the modes of appropriation of these types of knowledge are different. Ward and Aronoff (1996) make a similar distinction between the acquisition of business knowledge and the acquisition of leadership capacities. Initially, the successor has to be able to acquire and use the operational knowledge which encompasses the founding know-how of the company. But the learning of the successor is more importantly about strategic knowledge stemming from the experience of direction acquired by the predecessors. It is a question of passing on not only the content of knowledge founding the advantage of the firm but the way of operating and of running business. Indeed, the transfer concerns a managerial competence of direction.

Competence being a competence in action (Le Boterf, 1994), the successor has to show competence i.e. that he can act with competence. Not subject to be formalized, the most suitable strategy of transfer of strategic knowledge would be observation that young managers make supplemented by a process of action learning. The predecessor has to delegate to the potential successor increasingly significant missions. Thus, the successor has to learn from his actions, discoveries and interactions and also from his experiences and the observation of his peers (Hugron and Boiteux, 1998). The learning of the successor is grounded mainly on an intense process of socialization. Indeed, strategic knowledge is shared within the family management and communicated to potential successors. In sum, transmission is less about content of knowledge than a methodology of problem solving.

Intergenerational transfer of knowledge within family firms is nevertheless problematic. Cabrera-Suarez et al. (2001) identify four obstacles against knowledge transfer:

- Characteristics of transferred knowledge, its causal ambiguity,
- Characteristics of the source (the predecessor) and especially its lack of motivation,
- Characteristics of the target (the successor): its absence of motivation, limited absorptive and retention capacity,
- Context of the transfer: sterile organizational context or difficult relations between the predecessor and the successor.

## **Conclusion**

This contribution tries to develop an analysis of the processes of organizational learning and knowledge development within the small and medium sized family firm by focusing mainly on its characteristics of conservatism and independence. Even if conservative behavior can be justified in case of extreme uncertainties or abnormal risks weighing on the economic

environment, it is, nevertheless, criticisable. Conservatism establishes an attitude and a thinking hostile to renewal. Yet, the theories of organizational learning stress that the commitment of management team is an essential condition to the trigger and success of organizational learning. A strong and committed management is necessary in order to motivate the organization and to help it overcome the difficulties. Since human capital of the family firms shows positive characteristics of strong commitment, cordial, friendly and close ties, and also the potential allowing for a deep specific tacit knowledge, we can suppose that this organization could successfully implement organizational learning activities. A condition would be that family SME could draw, from its human resources, the necessary commitment to struggle against the forces of conservatism. In order to obtain human resources commitment, it is necessary to involve all levels of direction and management and to sensitize them to the importance of their implication for the success of this orientation. The presence of a strong personality (generally the founder or the owner-manager) who motivates the employees and bring them together to achieve the organizational goals is essential. In particular, the owner-manager should support and encourage the process and also could transmit the knowledge accumulated through his personal commitment to other family members (Tsang, 1999). Thus, in spite of a rigid organizational structure, the owner-manager can lead his organization towards flexibility and change. More generally, the entire organization must change its posture and adopt a positive attitude and open-mindedness.

In addition, family SME needs to tolerate an attenuation of its independence on the financial, human and relational plans. Indeed, the policy of conservation of financial independence can constitute a significant barrier to organizational learning. Opening up, the family firm can facilitate its access to capital by the institutionalization of appropriate governance mechanisms. In order to ensure that the aspirations of capital suppliers, on the one hand, and those of the family, on the other hand, are taken into account simultaneously for decision-

making and pursuit of organizational goals, Davis et al. (2000) recommend a dual structuring of organizational governance processes. Family SME must, in addition, overcome its human independence and seek outside for these valuable resources. This can be done through a process of "familization" i.e. the incorporation to the dominant family of certain external elements through alliances and marriages. This process is justified by the quality of the relations established with those people and by their honesty and value in the eyes of the family. "Familization" indicates a relative broadmindedness and an attenuation of the independence attitude. Also, family SME can open up through its natural tendency to networking which could allow for an intense exposure to international economic environment.

Another factor which could influence knowledge development positively is social networking. The network orientation of the owner-manager and his family is to be distinguished from organizational networking. The family firm shows a weak cooperative orientation in the sense of the pursuit of common objectives with an economic partner but a strong orientation toward social networking. It favors social relationships to economic ones that risk alienating its decision-making independence. The role of social networking in development of knowledge is crucial. Overall, networking was defined as an organizational means aiming to strengthen entrepreneurial processes. In total, social networking influences positively the amount of knowledge of family SME.

Schematically, not only small and medium family firms internalize and develop weak knowledge but they also externalize and share a little knowledge. The risks associated with this knowledge strategy are the possible extinction of valuable knowledge. Therefore, the process of knowledge transfer through generations would be crucial to the family SME in order to be able to maintain its competitive advantage. In addition, if know-how is the core resource underlying this competitive advantage then its "transferability" will determine the period during which its holder will obtain returns (Spender, 1996). In sum, small and medium



family firms have to implement a deliberate strategy of knowledge preservation through, for instance, externalization of articulable tacit knowledge and socialization of non articulable knowledge with external managers (Nonaka and Takeuchi, 1998). This strategy is not optional but could be vital to ensure the survival of these firms.

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