A Qualitative Study Exploring the Fit Between Ability as Resources and Innovation Strategy

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# Chapter 1: Introduction

Resources and capabilities are the primary elements that define the success of an innovation process, as well as the success of a firm as a whole. Klingbiel and Rammer (2014) indicate that the success of a firm’s spectrum of innovative processes and activities are determined by the amount and quality of resources dedicated to the task. According to De Massis, Kotlar, Frattini, Chrisman and Nordqvist (2016), the role of governance in a family business is not to bring about innovation but to manage the resources towards the attainment of the business’ innovation strategy. Innovation plays a critical part in determining the long-term survivability of an organization, enhancing its success, and sustaining its competitive advantage. Villan, Silva, and Camilo (2016) state that innovation is one of the main ways for a company to improve its position against its competitors. Innovation aids in filling the gap created from fast and intense environmental changes, which cannot be addressed by traditional approaches of strategy that are low-performing abilities. Nonetheless, companies are still faced with the challenge of simultaneously conducting stratagems and having a capacity for continuous innovation (Villan, Silva, & Camilo, 2016).

Wang, Liang, Zhong, Xue, and Xiao (2012) identified resources and capabilities as the two key elements employed to create the foundation of competitive advantage. Noting resources are rare, un-substituted, and unique to the firm, and resources enables an organization to implement a value-creating strategy to generate profits, The authors further stated capabilities are non-exchangeable and firm-particular abilities that mix, distribute, and help use other resources within an organization. In other words, resources are inputs of production processes, while capabilities refer to the capacity of an organization to deploy resources using organizational processes (Wang, Liang, Zhong, Xue, and Xiao, 2012). It is for this reason that Broekaert, Andries and Debackere (2016) asserted the importance of harnessing family capabilities in driving innovation in family-owned enterprises. On the same note, Casprini, De Massis, Di Minin, Frattini and Piccaluga (2016) emphasized the need to make open family innovation in family-owned businesses.

Teece, Peteraf, and Leih (2016) define the importance of capabilities and resources. The authors establish that they are integrated in all parts of business performance, yet analytically separated by the resources and capabilities paradigms established in the field of strategic management. Predominantly addressing enterprise performance issues, Teece et al. (2016) and Teece (2014) divide a firm's capabilities into two competences, dynamic and ordinary which fall within three categories (administrative, operations, and governance). Dynamic capabilities are competencies that assist a firm in rapid innovation, the ability to quickly adapting to change and create change that is favorable to consumers and unfavorable to competitors (Teece et al., 2016). While ordinary capabilities are defined as competencies that permit some level of degree of sufficiency (and possibly excellence) in the performance of a well-delineated task (Teece, 2014). Additionally, they are capabilities that are reflected in an organization’s skilled personnel (administrative), facilities and equipment (operations) and process and routines (governance); (Teece, 2014). Finally, Talaja, (2012) and Kozlenkova, Samaha, and Palmatier, (2014) in their contribution to the Resource Based Theory (RBV) show that strong dynamic capabilities, highly skilled human resources, and useful strategies supported by hard-to-imitate resources are the foundations for the sustained competitive advantage showcased by several firms that have survived for decades even if the focus of these firms' activities have shifted over the period.

Kraus, Pohjola, and Koponen (2012) attempt to draw parallels between family and non-family firms based on the resource and abilities. The researchers indicated that non-family firms have more access to managerial resources than the family firms. The resource availability then influences the organizational culture and risk appetite of the firms. The researchers found that the resource differences may be one of the major reasons why the family firms have lower levels of innovation as compared to the non-family firms.

## Background

The study of the fit between ability as resources and innovation strategy within family firms is anchored on the finding that abilities and resource availability greatly influences the innovation culture. This was established in the comparative study conducted by Kraus, Pohjola, and Koponen (2012). In another study, Massis, Frattini, and Lichtenthaler (2012) indicated that family involvement in family firms has direct implications on technological innovations in that it results in differential allocation of both human and capital resources to innovative courses. Further, the study establishes the possibility of major breaches on the availability of adequate abilities to push the innovation agenda. Using the agency theory, the researchers asserted the need to build capabilities for technological innovations.

The inability to match abilities and resources to innovative courses is considered a barrier to innovation in the family firms. Wang et al., (2012) asserted this when the authors indicated that family-owned enterprises failed to maintain the competitive edge due to inability to stream resources and capabilities to innovation. Chrisman, Chua, Massis, Frattini, and Wright (2014) confirmed the challenge of maintaining competitiveness in the family firms. The authors indicated that while in some family businesses the ability as resources may be available, the discretion to act greatly influences the direction of activities with regard to innovation. The discretion and disposition to act therefore become the major factor of consideration when dealing with ability resources in the family firms.

The trend in continued uptake of technological innovations has continued to shed light on the differences between the family-owned enterprises and the publicly owned businesses. The family-owned enterprises are not predisposed to technological innovations as much as the publicly owned businesses. Quite notably, this has been due to the differences on how the family firms approach innovation and the manner in which resources are allocated by such enterprises. Moving forward, it is expected interest in family-owned enterprise swill continue to grow; hence, the need to focus on the fit between ability as resources and innovation strategy within family firms.

## Statement of the Problem

There has been a rising concern with regard to how family businesses handle innovation. There is a certain trend that the family-owned businesses are not able to keep up with the current technological trends. Recently, many researchers have attempted to explain the trend with the family firms vis-à-vis the non-family enterprises that more openly accept innovative technological solutions.

The specific problem of a family-owned business is the inability to properly use the available, internal resources whether these resources are tangible such as plant, equipment, and technology, or intangible resources such as human resources, brand reputation, managerial and organizational capabilities with the objective to be productive, and competitive in the markets they serve. Research has shown that family-owned businesses lose market share to larger, non-family-owned firms. Wang et al., (2012) claimed that resources and capabilities are essential elements needed to maintain competitive advantage and continuous innovation. Holtzman (2014) further elaborates on the study by Wang et al. (2012) stating that organizations driven by continuous innovation can radically improve their products, processes, services and the competitive landscaping creating an exponential value that serves as a sustainable advantage (Holtzman, 2014).

Carnes and Ireland (2013) found that developing and employing a successful innovation process remain to be a challenging factor for many firms more so for family firms. De Massis, Di Minin, and Frattini (2015) suggest that the Family-Driven Innovation (FDI) model ensures a close fit between decisions and three characteristics that define family firms: the where the how, and the what of family firms.

* Where describes the direction in which the family firm wants to go,
* How describes the discretion a family firm has to move in that direction, and
* What describes the resources and capabilities needed by family owners to lead to that direction.

Similarly, the FDI draws parallels to strategic decision making in business and how it relates to innovation and how the three characteristics be used to play vital role in performance. Chirico, Sirmon, and Ireland (2013) argued recently that possessing *and* appropriately managing resources are critical to innovation success in family firms (Chirico et al., 2013). The argument was strengthened by De Massis et al. (2015). They indicated more research was needed to build knowledge on the innovation practices in family firms, including the fit between the capabilities and resources of family owners and the innovation strategy adopted by the firms (De Massis et al., 2015).

## Purpose of the Study

The purpose of this qualitative study is to explore the capabilities and resources needed by family-owned firms to become more innovative, strategic, and profitable. The capabilities and resources of family-owned firms are the main elements of profitability and competitive advantage (Teece, 2014). Using a case study design and semi-formal approach, telephone interviews will be conducted with the owners, middle or top level managers who are involved in the innovation process of innovative family firms, to understand the different barriers encountered during innovation process. Participants will be selected from the list of The Division of Corporations with the criteria that these entities are registered in the State of Florida.

The study targets a sample of 10 innovative family firms located within the State of Florida. The implications are that the study of these companies would be considered representative of the population under analysis. The contacts will be collected for the purpose to identify and approach the firms via telephone interviews, as a pre-selection plan, to ensure that only the right candidates with knowledge or direct involvement in their organization innovation process are selected.

## Theoretical Framework

The Resource Based View (RBV) refers to a theoretical model that considers resources as a key factor in superior firm performance. The resources enable a firm to gain and even sustain competitive advantage in a firm (Chae, Olson, & Sheu, 2013). However, the resource must be characterized by value, rareness, low imitability, and organization. In this particular study, the resource under consideration is the firm’s ability in technological innovations. Researchers argue that organizations should look inside the firm in order to find the resources of competitive advantage instead of looking at the competitive environment for it (Neubauer & Lank, 2016).

 RBV deems that resources and capabilities are different across all organizations. The difference in the level of resources and capabilities over time enables firms to sustain competitive advantage. Possession of a unique bundle of resources and capabilities, showcased by a firm’s technological and operational activities, consequently gives firms a competitive advantage over their peers (Chae et al, 2013). A firm’s resources may be bundled together with its opportunities producing special “capabilities” that the firm uses for competitive advantage despite facing static economic settings. Unique capabilities help an organization raise barriers to entry if competitive advantage is to be gained (Sodhi, 2015).

## Research Question

Family-owned firms are sometimes unable to identify potential internal resources and capabilities that could be utilized by family owners to lead their firms towards a productive and competitive direction. In efforts of addressing the given issue, the researcher formulated the following questions:

RQ1. What are the operational barriers that exist preventing family owned firms from understanding and implementing the internal resources they have towards innovation?

RQ2. What risks exist to the family-owned firms if they do not utilize the internal resources they have towards innovation?

## Nature of the Study

The study utilizes a qualitative research method. The collection of qualitative data is required to meet the objectives of the study as herein presented. Data shall be collected through the use of telephone interviews using a case study research design is preferred in order to fully understand the concept under this study. Case study and use of telephones and interviews will enable the collection of first hand data, which is more reliable. The study shall test two critical variables that include the resources as the independent variable and the innovation as the dependent variable. Therefore, the study will track the technological innovations in the companies under study in relation to the abilities of the family firms that will be selected for the study. It is vital to consider how both the willingness and ability of the firms influence investment in innovation (Casprini, De Massis, Di Minin, Frattini, & Piccaluga, 2016).

## Significance of the Study

The study benefits various stakeholders groups including academia and businesses in the across the world. On the academia, the study contributes to the body of knowledge by answering key research questions on innovation in family firms. There has been ongoing research in this area of study; hence, there is a need to create new knowledge with regard to family firms. To the business fraternity, the study creates new knowledge with regard to how the companies can capitalize on internally available resources to build competitive advantages especially on the innovative frontier.

## Definition of Key Terms

**Capabilities.** Firm-particular, non-tradable abilities that mix, distribute and help utilize other resources within an organization (Gibbons & Henderson, 2012).

**Family firms**. Businesses or companies described with a minimum of two generations of a family and when this chain has had a prevailing influence on company policies and the interests and objectives of the family (Harms, 2014).

**Innovation**. The organization creation of a new service, new product, new technological processes or a new administrative practice; or an important improvement to an existing service, product, technological process or administrative practices (Jantz, 2012).

**Resources**: Resources are rare, non-substitutable and inimitable firm-particular assets that facilitate an organization to carry out a value-innovate strategy to generate profits (Schriber & Löwstedt, 2015).

**Resource Based View/ Resource-Based Theory**. A theory that centers on the relationships existing between organization’s internal elements and competitive advantage (Hart & Dowell, 2011).

## Summary

Chapter one introduces the proposed study. The study focuses on identifying the operational barriers that prevent family-owned firms from understanding and implementing the internal resources that they have in terms of innovation. The study is anchored on the understanding of family businesses’ nature and issues concerning the available internal resources and abilities for driving technological innovations. The study is informed by the resource based view as the model of study. RBV asserts that resources enable a firm to gain and even sustain competitive advantage in a firm. By completing the proposed study, the researcher will be adding knowledge to the current understanding on innovation in family firms.

# Chapter 2: Literature Review

A detailed examination of the theoretical literature and a critical literature of the resource based is assessed. The research study also analyzes resources and capabilities as factors of innovation progress and competitive advantage, the relationship between resources, capabilities and innovation and finally an empirical review of resources, capabilities, and innovation in family firms.

Literature Strategies

The information gathered to elaborate this review of the literature was collected from various databases available at Northcentral University’s Library such as ProQuest, EBSCOhost, and Sage Journal. Several contemporary peer-reviewed and scholarly articles written withing the past five years were obtained from the databases before mentined, although older publications were also reviewed; other sources utilized in the elaboration of this literature review included books with more than one author, articles from governmental websites, and finance and management journals. Keywords used: Innovation, Capabilities, Family Firms, and Resource Based Theory.

Resource Based Theory

The resource-based theory (RBT) elaborates the rareness, value, non-comparability and inimitability of organizations resources (Shaw, Park, & Kim, 2013). Competitive firms have been using RBT (Ingram, Lewis, Barton, & Gartner, 2014) to explain and predict the basis of competitive advantage and performance in family-owned businesses. However, it was not until the early 1980s that the theory began to materialize. Studies by Kozlenkova, Samaha, and Palmatier (2014) indicated that industrial-level factors were the dominant paradigms that determined the profit potential of firms. Nonetheless, researchers began to argue that internal factors of a firm, namely, its resources and capabilities played a significant role in determining the profits of a firm too (Kozlenkova, Samaha, & Palmatier, 2014).

Talaja (2012) stated the resource-based theory assesses the relationships existing between organization’s internal components and competitive advantage. Talaja posited that RBT assumes that companies or firms within a given industry are heterogeneous or diverse regarding resources they control. Firms have different kind of resources available do them, and not all of them use the same kind of resources. The resource heterogeneity ideology states that some companies are highly skilled for specific activities. Deviations in organizational resources may also endure as a result of the complexity of trading resources among various firms which eventually allows the advantageous benefits of heterogeneous resources to sustain over time (Talaja, 2012; Kozlenkova et al., 2014). Bennedsen and Foss (2015) and Carnes and Ireland (2013) suggested that family businesses are uniquely differentiated because they possess the capability of establishing their ventures or business endeavors and innovation strategies on particular kind of resources. Especially family assets, which are peculiar to family firms (Bennedsen & Foss, 2015; Carnes & Ireland, 2013).

Resources garnered by an organization can either be financial, physical, human or organizational assets utilized by an organization in developing, manufacturing and delivering products and services to end consumers. Financial resources take the form of debt, equity, retained earnings, as well as corporate capital. Physical resources include manufacturing plants, processing plants, machines, and buildings. Human resources are the skills, knowledge, expertise and ability to make judgment, risk-taking propensity and wisdom of individuals related to an organization (Talaja, 2012). Additionally, organizational assets or resources encompass the history, confidence, connections, formal reporting structures and the organizational structures, compensation policies and management control systems established in an organization.

Costa, Cool, and Dierickx (2012) showed that the resource-based view centralizes its ideology on unique organizational resources, which are the significant or fundamental sources of competitive advantage and huge profits. Family assets are of interest to the owners of family firms as they fall under a unique category of assets deployed by family businesses to achieve a competitive edge. Understanding that RBV is articulated and applied through two primary lenses: resources and capabilities. The paper briefly reviews these two lenses and later critiques the theory explicitly to show the researcher's contributions to RBT theory.

1. Resources as Factors of Innovation Progress and Competitive Advantage
2. Among the major streams used in RBT literature is the idea that competitive advantage originates from the acquisition and full control of rare, valuable, inimitable and non-substitutable resources. Glavas and Mish (2014) identified the above factors as the Value Rarity Inimitable Organization (VRIO) framework of competitive advantage; with the initials identify the unique competitive elements. The VRIO framework initiates four basic questions about the availability of resources; the question of value, inimitability, and organization. The authors argued that resource scarcities and rareness of resources lead to the competitive advantage which consequently improves organizational performance. Additionally, the writers further claimed that the levels in which an organization’s resources are inimitable that is, costly and difficult to imitate, and no substitutable leads to sustained advantage over competitors because they have limited or no access to those resources.
3. Pesic, Milic, and Stankovic (2012) identified the VRIO framework as a good performance measurement of acquired or possessed organizational resources. Developed by Barney in 1991, Pesic et al., (2012) provided that the VRIO framework assisted in identifying whether an organization’s resources acted as strengths or weaknesses of the firm. The authors further provided brief, but precise, elaborations of four elemental terms; these elemental terms are (a) value represents the resource valuable regarding counteracting the threats and exploring opportunities existing within a firm’s external environment, (b) rarity denotes the resource is hardly existing among a company’s peers or potential competitors, (c) inimitable indicates the resource is costly or expensive or difficult to imitate, and (d) organizational resource utilized by a firm, or methods in which a firm organizes the efficient usage of the resources.
4. Capabilities as Factors of Innovation Progress and Competitive Advantage

In strategic management, organizational capabilities are viewed as crucial success elements in organizational performance. In addition, Schreyogg and Kliesch-Eberl (2007) stated that currently, each and every firm strives of doing their daily processes in an outstanding manner. However, the researchers further claimed that the meaning or the essential features that build up capabilities have vaguely been elaborated. Some research studies address capabilities as well-known colloquial expressions while other researchers emphasize on particular dimensions.

Le Breton-Miller and Miller (2015) identified capabilities as unobservable and invaluable elements that can only be sold as part of a unit. The firm’s power to attract resources and coordinate them efficiently is another important element. Further elaboration by Breton-Miller and Miller defined capabilities as a firm’s power of using its resources in conducting a coordinated set of tasks or activities to achieve an intended objective (Le Breton-Miller & Miller, 2015). Le Breton and Miller called these elements the 4Cs; continuity, community, connection and command. These resonates the strong ideas and concepts that make the business capable to be run within the family. The core element would be the fact that these bundles of resources available to the company in terms of familiness. Carrasco-Hernandez and Jimenez-Jimenez (2012) argued that familiness was determined by the family power, experience and culture (Carrasco-Hernandez & Jimenez-Jimenez, 2012). Konig, Kammerlander, and Enders, (2013) used the term familiness in a similar way although not identical in their meaning, family involvement, family influence, family control, and familiness are terms that researchers employ

to describe the essence of a family business. Because familiness results from interactions

among individuals, a family, and a firm over time (Konig, Kammerlander, & Enders, 2013).

Within the capabilities literature is an assumption that capabilities are equivalents of competencies. In fact, studies by Vincent (2008) indicated the ambiguity and overlapping definitions of competencies, capabilities, and capacity. All three terms are usually used interchangeably hence creates unnecessary confusion. A key to note is that Vincent argued that all three terms are habitually paramount in providing innovation practitioners with a framework within which to better discern what is needed and where it is needed, particularly when the catchall phrase ‘innovation culture’ is broached. Vincent further emphasized on the differentiation of competencies, capabilities, and capacity, particularly when attempting to cultivate an organization’s ability to innovate (Vincent, 2008).

Dosi, Faillo, and Marengo (2003) defined capabilities as even-handedly large-scale process of analysis, which has an identifiable objective expressed regarding the important results it is supposed to modify, and that conscious decisions significantly direct both in its development and deployment (Dosi, Faillo, & Marengo, 2003). Competencies, on the other hand, are defined by Vincent as the state or quality of functionally being described as having sufficient, skill, strength and knowledge. Capacity is the power to hold, receive or accommodate (Vincent, 2008).

Criticism of the Resource-Based Theory

Akio (2009) unveiled critical aspects related to the criticism of the RBT. According to the writer, Barney’s idea of valuable possesses uncertainty in measuring the competitive advantage of a firm. The researcher also argued that the value of a resource should be evaluated by its profitable benefits and hence needs to be considered as an economic asset regardless of its nature. Similarly resources’ value should be accounted for by the discounted value of the expected future earnings that can be assigned to the given resource (Akio, 2009).

Kozlenkova, Samaha, and Palmatier (2014) identified the theory’s static and tautological limitations as the most prevalent and prompt criticism. Some opponents of the RBV theory complain that the theory is static and does not address the effects of organizational activities on resource effectiveness over time or elaborate how static resources affect Sustainable Competitive Advantage (SCA) in dynamic markets. However, supporters of RBT have responded by introducing the VRIO versus VRIN framework, structures that acknowledge that resources need to be leveraged effectively and efficiently by an organization, instead of only being acquired (Kozlenkova et al., 2014).

As discussed by Barney (1991), a firm can have a competitive advantage only when there is a certain relative edge over another firm, but only if it is being implemented by the company itself. When analyzing sources for competitive advantage, the resource based view makes two very important assumptions. The first is that the firm will always be heterogeneous concerning the resources that they control. Furthermore, the resource based view model also assumes that this resource might not be available to the entire firm, which means that heterogeneity will last forever.

The result of the two assumptions previously mentioned, could be that the model could be slightly flawed, as the firm will not have the resources under their control, they will always stay heterogeneous concerning their resources make them more stable and give them the ability to adapt to the external environment. The resource based view further states that all strategies of the firm have to be based on their resources. Furthermore, resources are only important when they allow the company to remain efficient and effective. However, the company has to make sure that there is no resource that is stagnant and does not contribute to the organization’s performance and to achieve competitive advantage over other firms. Imitable resources cannot create a competitive advantage for the company (Barney, 1991). Furthermore, Priem and Butler (2001) discussed that the resource based theory misses some very important managerial implications related the validity of the firms operations. The resource based view only explains the problem, stating that managers must develop strategic resources. However, there is no explanation as to how managers can achieve this particular goal (Souto, 2015).

Innovation

Innovation in new process and product development is progressively being conceived as the core phenomenon and idea behind economic development (Aghion, Akcigit, & Howitt, 2014). Innovation has been found to stimulate organizational growth and most importantly, such growth occurs and exists irrespective of the situation of a large economy (Aghion et al., 2014; Craig & Moores, 2006). An organization’s ability to innovate is considered an elemental capability to be competitive in the 21st century (Souto, 2015).

Aghion et al., (2014) also stated that innovation is a well-liked theme in the business and the academic world. Literature has elaborated that innovation has been utilized in the description of the process of new product generation as well as in the improvement of existing products. Classical literatures such as Schumpeterian 1934 define and distinguish five different types of innovation: new methods, ways of production, new products, new supply sources, new markets and new forms of organizations (Aghion et al., 2014).

Innovation has been defined as the acceptance of a behavior, demeanor or idea, being a program, a system, a device, a policy, a product, or a service; that is entirely novel to the adopting firm or organization. Hult, Hurley, and Knight (2004) stated that innovation capacity or the innovativeness of a firm relates to a firm’s capacity in their involvement in innovation and can be elaborated as the capacity, the willpower and the ability to add power to the firm to introduce novel ideas, products or processes in the firm successfully (Hult, Hurley, & Knight, 2004).

The factors involving successful innovations and strategic changes have been an important topic in the research literature. There are encouraging commonalities regarding the importance of several success factors. Success factors relating to the dedication at the top and work floor, cross-functional cooperation, efficient processes, down-the-line leadership, expertise and skills, networking, customer involvement and organizational culture, are seen as the primary factors of innovation. Significant pre-factors of strategy and innovation capacity are all co-joined and create a never-ending process (Beck, Janssens, Lommelen, & Sluismans, 2011).

Additionally, organizations have resources that act as critical inputs that define an organization irrespective of what type of work the organization performs. Miller, Wright, Le Breton, and Scholes (2015) identified resource allocation and utilization as a primary element used in classifying family-owned business. The authors further argued that while some family businesses are separated by their socio-emotional preferences such as non-economic goals, and objectives that address familial issues like provision of occupations for kin or developing some reputation or proper image concerns in the community; other family businesses have their preferences focused on resource development. The researchers further revealed that family businesses that intend to create an organization that they could hadnover to their offsprings have remarkably very long investment time periods, and are always willing to forfeit benefits to grow human resources, financial reserves, and relationships with stakeholders. These resources and motivation efficiently promote and facilitate innovation (Miller, Wright, Le Breton, & Scholes, 2015).

De Massis, Frattini, Pizzurno, and Cassia (2015) and Holt and Daspit (2015) stated that there are robust and valid factors to posit that family engagement in management, governance, and ownership affect the administration and deployment of organizational resources. Besides, determining distinctive incentives, structural hierarchies and norms and practices of accountability effectively result in unique advantages and disadvantages that may importantly influence the technological innovation processes in family firms (De Massis, Frattini, Pizzurno, & Cassia, 2015; Holt & Daspit, 2015).

1. The Relationship between Resources, Capabilities, and Innovation

Kostopoulus, Spanos, and Prastacos (2009) revealed that research on the resource-based theory of innovation processes is established on the foundational idea that organizational resources and capabilities directly or indirectly determine an organization’s capacity to innovate. Organizational resources which can either be tangible or intangible, act as organizational inputs, which are later integrated together and transformed through capabilities to come up with innovative forms and kinds of firm’s competitive advantage (Kostopoulos, Spanos, & Prastacos, 2009).

The direct link existing between resource distribution methods and innovative outcomes, regardless of whether the resources are sufficient or ‘slack’ that is, more than needed is well established. A common ideology utilized in many research surveys suggests that financial resources are primary elements in supporting critical activities such as experimenting, idea generation (innovation), customer surveys and commercialization. Put differently; financial resources are determinants or influential factors that define innovative organizational performances (Gibbert, Hoegl, & Valikangas, 2014).

 The availability, as well as the scarcity of financial resources, determines the expansion and limitations of a firm’s capacity to support its innovative activities (Gluszczuk, 2013). Additionally, the amount of funds utilized by a firm for innovative activities determines how competitive businesses can be. Additional analysis conducted by the researcher showed that expenditure on innovative enterprise activities and their related financing sources clearly indicated that the size of expenditure on innovation activities, lead to the implementation of innovation depends on the financial wealth of firms and companies or more precisely on their funds (Gluszczuk, 2013).

Technical resources such as production and engineering machines, IT systems and manufacturing assets have been recognized as facilitators of innovation activities and progress. Kostopoulos, Spanos, and Prastacos (2009) stated that the implementation of innovation tasks, in many cases, need minimal investments in equipment that facilitate the production of innovative output, a reflection of increased value to a firm (unique, diversified products) and for its customers (increased quality): (Kostopoulos, Spanos, & Prastacos, 2009).

Carnabuci and Operti (2013) explained that firms’ recombinant capabilities, defined as a firm’s power of integrating existing capabilities so as to provide innovative technological outputs or innovations are a key driver of firm’s innovative performance. Offering examples such as Henderson and Clark (1990), and Carnabuci and Operti (2013) established many prominent firms will occasionally lose their technological prominence as a result of their inability to link well-versed technologies in new and more beneficial methods. Earlier reports by Ahuja (2000) showed that semiconductor firms come up with more relevant ideas when they recombine technological elements from otherwise separated knowledge avenues (Ahuja, 2000).

Drastic and impactful changes have been seen in the research of intangible resources as key innovative inputs of innovative progress. Kostopoulos et al., (2009) identified that intangible assets might be significantly essential from a strategical perspective since they occasionally aggregate the requirements needed in producing SCA. Rasmussen (2014) identified creative and learning environments as two crucial intangible resources that are essential elements of any innovative company. A creative environment develops motivated employees and has positive effects on innovativeness while learning makes room for an organization to gain knowledge and subsequently use this knowledge to exploit opportunities (Rasmussen, 2014).

 Increased research studies on intangible assets have consequently led to an emerging theory, the knowledge-based view, an extension of the resource-based theory. Analyzing an organization from a knowledge-based perspective, one cannot help but notice the emphasis placed on a firm’s build-up on knowledge which can be classified into two: tacit or explicit as a prudent resource and as a fundamental factor that determines an organization’s competitive success. Kostopoulos et al., (2009) provided that the resource-based theory does not only hypothesize that firms ought to have the capability of creating new knowledge from within, but they do also need to expose themselves to a collision of new innovative ideas existing in their external environment to encourage innovative behavior, prevent rigidity and check on their technological developments against their peers (Kostopoulos et al., 2009).

 Organizational resources can also be hurdles to innovation if viewed from a different angle or perspective. A study by Renzi and Simone (2011) showed that ‘slack’ intangible resources could either benefit or be a limitation to an organization innovation progress. Identifying slack resources as resources deliberately kept as buffer by a firm or organization in excess of those required by an organization to meet its known daily processes, the authors argued that despite slack resources acting as mitigating factors for risk unpredictability and as drivers for potential flexibility and therefore are adaptive and innovative capacities of a firm, intangible slack resources should be contained as observing the principle of economic efficiencies. Radical kind of innovations results to misalignments due to despondencies over the likely results of feasibility differences or gaps of operative slack. The authors claimed that excess operative resources lose the financial aspect or economic importance with the transformation of knowledge slack in a radical innovation, with a destructive effect on organizational practices and routines, technological assets and market references.

Katila and Shane (2005) hypothesized about how four environmental perspectives influence or affect the relationship between innovation and firm newness. They additionally stated that a lack of resources in new firms may either make them better at innovating in certain environments and worse at innovating in others. Understanding that new firms have limited resources compared to long-existed firms, The writers also proposed that new firms have a greater degree of innovation in more competitive markets, in markets in which financial resources are more plentiful and in smaller markets (Katila & Shane, 2005).

Altogether, a firm’s resources and capabilities are significant in generating outstanding innovations and also play a major part in leveraging portfolio resources. Studies by Srivastava and Gnyawali (2011) provided that internal resources, mainly technological in nature, are seen in a firm’s class of different activities of robust and diverse technical resources. Evidently, mergers with partners with abundant resources give firms the access to valuable knowledge that they can utilize with their inner awareness in the implementation of significantly important innovation. Additionally, firms with better internal capabilities have the advantage of benefiting more from external resources. However, organizational skills may become core rigidities, contribute to the not-invented-here attitude and lead to the persistent use of inferior resources and procedures (Srivastava & Gnyawali, 2011).

1. Resources, Capabilities, and Innovation in Both Non-Family and Family Firms

Family-owned firms are a part of the global economic community and significantly contribute to overall economic progress (Srivastava & Gnyawali, 2011). Like any other competitive organizations, family-owned businesses ought to be innovatively strategized to achieve a competitive edge over their peers. De Massis, Di Minin, and Frattini (2015) and De Massis, Frattini, Kotlar, Petruzzelli, and Wright (2016) revealed that family-owned firms have their innovation strategies often characterized as a two-way system. On one hand, family firms are occasionally seen as conservatives, path-dependent hence less innovative than other kinds of organization. On the contrary, a study by De Massis et al., (2016) uncovered with statistical evidence that family owned businesses controlled more than half of Europe’s most innovative firms.

Among the most perplexing paradoxes concerning family firms centers on their innovative behavior. Analyses conducted by Nieto, Santamaria, and Fernandez (2015) provided that family firms are conceived as conservative, risk averse and change resistors. From this view, one anticipates the negative relationship between family firms and innovation. From their studies, the authors hypothesized that: 1) family firms conduct lesser innovation efforts than their counter partners, non-family firms, 2) family firms are less likely to engage in and utilize extraneous sources of innovation than are their counterparts, nonfamily firms, 3) family organizations are less willing to develop technological collaborative agreements unlike nonfamily firms and 4) family firms appreciate and use incremental types of innovations than radical innovations (Nieto, Santamaria, & Fernandez, 2015).

Family firms’ behaviors affect their decisions in innovative processes and progress. Many family stakeholders have the strong incentive of acting for the long-term benefit of their firms. Such strong incentives float the ideology that family-firm managers or the owners are highly inclined in supporting innovation processes as sources or originators of wealth and growth and as a survival attributes in protecting their competitiveness over time.

However, this is never the case for family firms. Pittino, Visintin, Bau, and Mazzurana (2013) proposed that many of the strategic decisions enacted by family firms lead to consequences related to family’s wealth, both social-emotional and financial hence make family firms to be more conservative. Conservatism leads family firms in shying away or neglecting decisions that improve performance changes and bring related risk, such as decisions on innovation strategies (Pittino, Visintin, Bau, & Mazzurana, 2013).

Paradoxes negatively impact problem-solving as they bring out different but interconnected elements; components that are logical while separated but irrational and absurd when appearing at the same time (Lewis, 2000).

Ingram, Lewis, Barton, and Gartner (2014) contended that the paradoxical features exhibited by family businesses stem from the collocation of competing yet complementary processes, procedures, and systems of family and business. The authors pointed out that these three particular paradoxical tensions of family firms (business growth against family liquidity, tradition versus change, and successor autonomy against founder control) mainly inhibit the innovative behavior of family firms. Furthermore, the scholars argued that paradoxical tensions likely contribute to a growing potential decision-making paralysis and anxiety; hence inhibits innovative behavior among family businesses.

Classen, Carree, Gils, and Peters (2014) indicated an innovative investment system is highly complicated, complex and comprises of many facets in family related SMEs than in large family business. Nevertheless, family SMEs will highly put efforts in innovation-related practices than non-family SMEs. Despite the above fact, family SMEs practically invest less innovatively. Additionally, the willingness in investing actively in unproven and up-coming technologies is lower in family SMEs compared to non-family SMEs. The authors further argued that this low desire of family SMEs to invest intensively in unproven and emerging technologies probably arise from the ruling families that are reluctant to jeopardize their discretion and their wealth by excessive risk taking during the innovation process.

Family firms are known to gain more from proactivity and achieve less from risk-taking initiatives than non-family firms concerning innovation output. Proactiveness is positively associated with the generation of innovative products but not the adoption of innovation. Innovation generation needs an element of tacit knowledge; a character usually depicted more with family firms than with non-family firms. A possible account of such behavior is that knowledge in family firms is typically trans-passed down through social interaction between family members. Moreover, trust levels in family firms are potentially higher compared to non-family firms, while trustworthiness plays a significant role in the transfer of knowledge; hence, tacit knowledge is potentially easier to share in family firms. On the other hand, risk-taking hardly affects innovation output in family firms while in non-family, innovation output is enhanced through risk-taking (Craig, Pohjola, Kraus, & Jensen, 2014).

Despite the criticism, literature stills exist which supports family firms as being innovative. For example, an analysis conducted by Hsu, Huang, Massa, and Zhang (2014) provided that the characteristics and behaviors of family firms be positively related to innovation. Family firms are defined by a long-term perspective that averts the opportunistic and myopic physiognomies that are typical features of short-term investors. The longer-horizon perspective taken by family firms gives room for the development and maintenance of long-term relationships with employees. This consequently leads to a stable environment further improving longer-term planning, while managers innovate more and better and behave less myopically with greater job security (Hsu, Huang, Massa, & Zhang, 2014).

Family firms have different financial systems compared to other firms. Financial helpers are always reluctant in lending funds to risk, innovation, and intangible investment. Nonetheless, family firms are better appreciated by lenders hence command lower borrowing costs which successfully shows that family firms alleviate the adverse effects of financing barriers for innovation and as well allow family firms to plan better and execute long-term projects (Anderson & Reeb, 2003). Summing up, both journal articles posit that family ownership promotes more efficient technological innovation.

Beck, Janssens, Lommelen, and Sluismans (2011) reiterated the innovative capability of family firms by stating that family firms are uniquely positioned compared to non-family firms in regards to their resources and capabilities. Family firm’s unique collection of characteristics is developed through an integration of the family firm owners and the firm itself, referred to by Habbershon and Williams (1999) as the ‘familiness’ of the organization. Nonetheless, these unique features may also present disadvantages, and for this reason, it is reasonable that the firm family factor shapes the human-related antecedents of innovation (Beck et al., 2011).

Summary

 The literature above summarizes and elaborates the fact that average family owned businesses can be characterized by a lower dynamism of innovation as compared to non-family owned firms who offer a greater attention to risk and higher return on invested capital. The literature has shown that the logic behind the functioning of many family businesses is that these businesses are created to survive for longer periods of time. Nonetheless, the literature has shown that family businesses have a better ability to use their resources and capabilities for innovation. The chapter briefly reviews RBV through two primary lenses resources and capabilities then introduces the VRIO framework as a mean of competitive advantage that originates from the acquisition and full control of rare, valuable, inimitable and organizational resources. Additionally, the chapter highlights organizational capabilities viewed as crucial success elements in organizational performance. and later critiques the theory explicitly to show the researcher's contributions to RBT theory. Innovation is an important theme especially in family owned businesses. Previous research has shown that innovation is just as important for family owned businesses as others. This is why family owned businesses allocate their resources in a more efficient manner and preserves them within the business for longer periods of time hence more innovative than other kinds of organization.

# Chapter 3: Research Methodology

The purpose of this research study is to provide information relating to the inability of family-owned enterprises to properly use available internal resources to become competitive in the markets they serve. Hence, they end up losing market share to larger, non-family owned firms (Wang, Zhong, Xue, and Xiao, 2012). The innovation process of family firms will be studied to understand barriers that exist preventing family owned firms from understanding and implementing the internal resources they have towards innovation, using a case study design. Data will be collected from the owners, middle and top-level management employees of 10 carefully selected companies located in the state of Florida and should have embraced innovation recently, whether the innovation relates to a change in process to increase productivity, or have launched new products or services or enhanced current ones. The following states the research questions for this study:

RQ1. What are the operational barriers that exist preventing family owned firms from understanding and implementing the internal resources they have towards innovation?

RQ2. What risks exist to the family-owned firms if they do not utilize the internal resources they have towards innovation?

## Research Methods and Design

Qualitative research methods are necessary when seeking the life experiences of people (Al-Busaidi, 2008). According to Maxwell (2008), qualitative methods are based on the paradigm that information is sought most where it can be found rather than just looking anywhere. Also, Maxwell (2008) argued qualitative studies help search for and express issues that are hard to quantify. Yin (2015) stated qualitative research involves studying experiences under real world condition, were people perform their everyday roles. Yin (2015) further argued that qualitative research differs from other methods because of its priority devoted to represent the views and perspectives of the study’s participants, being a major purpose of a qualitative study (Yin, 2015). Thus, the nature of the information sought by this study suggests the use of a case study design.

Gaya and Smith (2016) reinforced studies by Bradt, Burns, Debra, and Creswell, (2013) promoting the idea that qualitative research approach as the most appropriate in-depth design for studying particular firms with unique resources while also keying out and analyzing the impacts of resources on sustained competitive advantage (Gaya & Smith, 2016). Qualitative approaches are also recommended by Armstrong and Shimizu (2007) in the application of resource-based view in working environments (environments that directly involve the researcher with the subject matter), challenging and new areas of study. Qualitative method is better for this study because the data gathered are not numerical in nature, which quantitative studies cannot provide because they are better suited for studies that seek to measure or quantify data.

 The responses sought for this study are open-ended, while quantitative studies use Likert-type or rating scales. Another difference between qualitative and quantitative is that qualitative seeks the opinions, perspectives, and observations of participants, which is the very nature of this study. Abusabha and Woelfel, (2003) suggested qualitative research helps to capture life as it is lived, while quantitative research is limited in nature; studying people in artificial settings and looking at a small section of reality. Furthermore, quantitative research cannot describe the human experiences using numbers by manipulating, measuring, or controlling variables (Abusabha, and Woelfel, 2003). This study is an exploration of the existence of operational barriers, which prevent family owned firms from implementing the internal resources they have towards innovation. The participants will be required to answer questions about their experiences such as the operational barriers and limitations encountered while going thru the innovation process, which entails the implementation of new ideas to change, enhance, or launch new products or services. Respondents will be asked to express how they were able to overcome those limitations if any, making a qualitative research more appropriate for this study as respondents will not be able to quantify or express their experiences in the form of numbers.

## Population

The population for the study will be management members of 10 carefully selected companies located within the state of Florida and should have embraced innovation recently, whether the innovation relates to a change in process to increase productivity, or have launched new products or services or enhanced current ones. The participants will be initially approached through a telephone interview that will serve as a preselection tool. The total number of participants of both the middle and top-level managers is not yet ascertained since any management team member of the selected firms’ falls into the category of possible respondents. The family owned firms will be required to provide the contact information of at least one and no more than three members of management who will then be assessed. Top managers include members of staff who operate directly below the CEO of MD of the companies selected while middle-level managers are those that report to top-level managers and link with supervisors or the subordinates and other technical staff. This population is valid for the study because they have direct interaction with top management of family owned and non-family owned firms. Also, these individuals are trusted representatives of the companies they manage, making them responsible for the firm’s strategy in terms of using available internal resources for sustainability and profitability purposes.

## Sampling

Purposive sampling is useful in qualitative studies since it allows for an extensive pool of respondents to be availed while selecting only those that seem favorable for the study (Bayley, Kong, Helmer, Schneiderman, Roselli, Rosse, and Blackman, 2014). Creswell (2013) argued the idea behind purposive sampling is to purposefully select participants or sites that will best help the researcher understand the problem and the research question. The purposive sample does not necessarily suggest random sampling or selection of a vast number of participants and sites, as typically found in quantitative research (Creswell, 2013). Therefore, due to the nature of the information that this study is seeking, purposive sampling is preferred. Purposive samples allow the researcher to obtain a list of respondents that are likely to provide the most suitable and reliable data for concluding the study.

Telephone interviews will be conducted as a pre-selection plan to ensure that only individuals involved in the innovation process of the organization they work for, participate in the study. To ensure that the respondents are related to the innovation, they will be asked questions if they participate in implementing new ideas in the firm whether the ideas are related to the development of new processes, products, or services; or an improvement to existing ones. Thus, this will ensure that the data gathered is reliable and relevant to the scope of the study. In qualitative research, there is no predetermined number of respondents, and the strategy of maximum variation sample is used. It is the selection of key demographic variables that have an impact on the participant’s view of the topic (Patton and Cochran, 2002). In the current case, the number of firms included as part of the sample is appropriate as the size falls within the recommendations of various scholars. For instance, Creswell’s (1998) recommendations range from samples between 5 to 25. Morse (1994) suggested samples of at least six, while Atran, Medin and Ross (2005, p.753) suggested that in some of their studies "as few as 10 informants were needed to reliably establish a consensus". Mason (2010) argued that a principle described as data saturation directly impacts the selection of the right sample size. Furthermore, Yin (2009), Mason (2010), and Glaser and Strauss, (1967) summarized data saturation as the process when the collection of new data does not shed any further light on the issue under investigation.

## Materials/Instrumentation

The primary research instrument to be used in this study will be an open-ended questionnaire that is well designed to capture the most relevant information such as how the respondents feel about internal resources utilization of their respective organizations. The researcher will design the questionnaire which will consists of open-ended questions to ensure the collection of relevant information. The reliability of the questionnaire will be determined by conducting a pilot study on SMEs (Small and Medium-sized Enterprises) in the outskirts of Miami, FL. The managers of the SMEs will have to read the questionnaires and evaluate if they are properly designed to capture relevant information. Additionally, the Chair or Head of the Business Department of a local College/University, (Miami Dade College, (MDC), Florida National University, (FNU), will be consulted to help conclude the results of the pilot study, sent to the researcher via secured email. The Chairs and Division Heads of the schools before mentioned are experts in the subject being studied and hold PhDs degree from U.S. regionally accredited universities or from other international universities.

The other research instrument to be used is telephone interviews. Here, the respondents will be called randomly and asked to join the study. The telephone interviews will act as a pre-sampling tool to determine who is suitable for the study. The selection of the participants will be at the discretion of the researcher basing the decision on other factors such as if the member is a top or middle-level manager and have participated in the firm’s implementation of innovative ideas, whether the ideas are related to the development of new processes, products, or services; or an improvement to existing ones. While telephone interviews may be difficult to schedule in a fast-paced business environment are cost effective, Hallal (2010) found that the validity and reliability of telephone interview are as high as that of face-to-face interviews. In contrast, it may be physically impossible for the researcher to meet in person with all the participants due to schedule conflicts between the researcher and the interviewees.

## Data Collection Processing and Analysis

The companies will be accessed through an audit of The Division of Corporations registered in the State of Florida. To identify all the firms that fall as innovative, the company should have embraced one of the following; First, have enhanced processes to streamline productivity in the past, or it is currently in the process of implementing new processes. Second, have launched new products or services or is currently in the process of improving existing ones, e.g. UBER, Netflix, Amazon among many others. Based on the sample entries, and to effectively capture the information required for the conclusion of this study, the researcher will approach the management teams of the selected firms via informal telephone interviews to select the candidates based on the criteria before mentioned. During the interview process, the researcher will explain the importance and benefit of the study, and will also ask the candidates if they are willing to participate. After having identified all the participants, the researcher will send a formal invitation via email along with instructions on how to login using a Survey Monkey link to access the portal designed for the study. The formal invitation will serve as the participant's consent to participate in the study. Hence, the invitation should be signed and returned to the researcher for record keeping purposes. The questionnaire will consist of open-ended questions which the participants are expected to fill. Furthermore, the questionnaires will be available online, at surveymonkey.com. The participants will be expected to log in following the initial instructions and provide their responses.

Data collection, processing, and analysis will be done using Survey Planet tools. Given that this is a qualitative study, data will be sorted and presented in the form of themes from the responses. Since the study involves comparison of practices between family owned and non-family owned enterprises, the constant comparative method is utilized. The constant comparative method is done by comparing incidents, integrating categories and their properties, delimiting the theory and writing the theory (Hoyos & Barnes, 2012). This is achieved through coding, which answers questions like What is the incident? What category does this incident imply? What is the primary concern of the participants? memo-writing – note ideas as they occur, raise questions and store ideas for further comparison and refinement; and theoretical sampling – look for more data to compare, which could arise within the available data, needs further data collection and beyond the primary unit of analysis (De Hoyos & Barnes, 2012). This method requires comprehensive analysis procedures because the data set is often of large sets and comes from multiple sources of evidence (Houghton, Murphy, Shaw and Casey, 2015). This makes the research reporting rigorous.

## Assumptions

The researcher of this study has identified the following assumptions. The data collected by way of qualitative methods is valid and reliable. It is also assumed the participants will answer the questions truthfully and honestly. Another assumption is that the participants selected for this study are active management members from the selected companies, and that they have a direct involvement in the companies’ innovation strategies.

## **Limitations**

The most anticipated limitation is the inability to prejudge what kind of information the respondents could willingly provide. Ward (2016) noted that one of the biggest strategies that successful family businesses use is secrecy, and as such, there is the inherent danger of not getting the accurate information required. The researcher will explain the significance of the study to the management members and further explained the responses provided would remain confidential to hearten them to participate in the study.

## Delimitations

The study is limited to organizations located in the state of Florida. Additionally, the study will work with management employees of the 20 chosen companies, and their abilities to express themselves extensively. If the responses are deemed insufficient, the researcher will select other respondents who qualify under the criteria set in purposive sampling.

## Ethical Assurances

This study involves interviewing individuals who are top or middle-level managers of the companies they represent. Therefore, the approval of the Institutional Review Board (IRB) will sought before proceeding with the actions relating to this study. For that reason, none of them will be required to provide personal information on the questionnaires, as they will be questioned on pseudonyms they prefer to conceal their identity. The participants willing to assess the online portal will use their pseudonyms to log in, answer the questions and log out. Once the participants have completed the questionnaires, the results will be downloaded and saved in the form of electronic files to an encrypted external hard drive for data analysis, and record retention purposes for at least 7 years. After this period, all accounts will be deactivated from the online portal, and electronic files will be erased from the researcher’s external hard drive to enhance the privacy of the collected information. Secondary data, will be cited properly to avoid plagiarism.

## Summary

This study will seek to collect qualitative data about the resources and capabilities needed by family firms to innovate and be competitive. The chapter outlined target population to be management members of a sample of 10 purposively selected enterprises. The samples will be purposively selected to ensure that respondents are management members of family-owned firms. The chapter also highlighted how the sample size was determined and briefly explained why the sample size is appropriate for this study. Informal telephone interviews will be used as a preselection tool to identify the contestants. The selected members that agreed to participate will receive a Survey Monkey link with instructions via email on how to log into the online portal and create their profiles using pseudo names to access the questionnaires. Once the selected participants complete the questionnaires, the data will be collected, processed, and analyzed using Survey Planet tools. The results will be retrieved and secured in an encrypted external hard drive to ensure the confidentiality of the participants.

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