Journal of
Social and Administrative Sciences
www.kspjournals.org
Volume 4 December 2017 Issue 4

Diversity, emotion, and decision to implement innovation in family business

By Chi-Fang LIU [†]

Abstract. Family firms are generally small and medium-sized, characterized by 'flat' organizational structures and internal succession patterns and relying upon self-financing. One way to overcome inherent liability of family business is to innovate in critical management aspects and jump out to a new operational model. The capability of a firm to continuously innovate is critical for competitive advantage. It can also contribute to the development for the so-called dynamic capability. A firm's dynamic capability describes to continuously innovate.
Keywords. Household behavior, Family economics, Family business.
JEL. D10, D13, D14.

1. Introduction

Family firms are generally small and medium-sized, characterized by 'flat' organizational structures and internal succession patterns and relying upon self-financing. One way to overcome inherent liability of family business is to innovate in critical management aspects and jump out to a new operational model. The capability of a firm to continuously innovate is critical for competitive advantage (D'Aveni & Gunther, 1994). It can also contribute to the development for the so-called dynamic capability. A firm's dynamic capability describes to continuously innovate (Teece *et al.,* 1997). So a firms can continuously enrich its dynamic capability it requires continuous flows of information or knowledge inputs. These inputs ensure correct, on-time sensing of, and the ability to respond to, the technological or managerial progress.

Largely reported however, family business often fails to implement innovation due to many organizational and human specific reasons, such as communicative failure, organizational culture, lack of commitment in strategic changes, etc. For example, research has revealed that higher performance of family business often come from the strengths in commitment, knowledge continuity, reliability and pride (IFC Family Governance Handbook, 2008). With commitment, a family includes founders, successor(s), and every family member included with dedication in seeing its business prosper.

2. Decision to implement innovation

For organizations to succeed and grow, they have to maintain a technological edge in this competitive global market place. This can be accomplished through either internal innovation, or through external acquisition and adaptation (Atuahene-Gima, 2003). Innovation is influenced by many factors that could be

[†] Department of Business Administration, Cheng Shiu University, No.840, Chengcing Rd., Niaosong Dist., Kaohsiung City 833, Taiwan (R.O.C.)..
. +886-7-7310606
. fusheng_tsai@hotmail.com

categorized into many dimensions of organizational life. These influencing factors for innovation commonly are: 1) contextual antecedents like vision, leadership, culture, norms (Chatman & Flynn, 2001); 2) structural variables including organizational design such as formalization or standardization (Damanpour, 1991); and among others 3) innovation strategies (Kim & Mauborgne, 1997). Knowledge is recently emerging as one of the critical antecedent factors for innovation across levels of analysis (Argote, McEvily, & Reagans, 2003). Lee *et al.,* (2003) found that in computer markets (personal versus workstation), exploration for new and incompatible technology benefits firm growth more in market where there are power users.

Decision to innovation requires a lot of information and courage for members in family business, as the "business" is often treated as an own property shared by all family members. However, because managers almost never have all information they needed, most of decision involve an undeniably amount of risks. There are different models of decision-making, including the classical rational model, administrative model, intuition model, the incremental model, mixed Scanning, garbage can model, heuristics model, and group decision-making. A lot of factors can affect decision making. These factors can be past experiences (Juliusson, Karlsson & Garling, 2005), cognitive biases (Stanovich & West, 2008), age and individual differences (Bruin, Parker, & Fischoff, 2007), belief in personal relevance (Acevedo, & Krueger, 2004), and an escalation of commitment, influence what choices people make.

Decision-making processes influence decisions effectiveness--that is, the extent to which they result in desired outcomes (Eisenhardt & Zbaracki, 1992). Decision-making effectiveness depends not only on which information is presented to the decision makers, but also on the interpretation of that information in relation to the proposal, the calculated risk decision makers are prepared to take, and their understanding of the organization (Van Riel, Lemmink, &Ouwersloot, 2004). In an organizational setting, the way decision makers perceive, organize, and process information, and how these interpretations are used for guiding actions, affect the quality of collective decision-making (Hayes & Allison, 1988). The skill with which decision makers select relevant cues from available information and their success in processing them affect screening decision-making effectiveness.

3. Emotion and Decision for Innovation

Less has been discussed, is the emotional factors, or human affect. Affect and affective states have the ability to influence the decision-making process. Most would associate affect with a more intuitive, non-analytic processing style, one characterized by faster, less effortful evaluation of information and greater reliance on stereotypes, schemas and heuristics. West & Farr (1990) offer a definition of innovation that covers a general substance and constituent elements as an 'intentional introduction and application within a role, group or organization of ideas, processes, product, or procedures, new to relevant units of adoption, designed to significantly benefit the individual, the group, the organization or wider society (p. 9).' A good and rationale definition, though, such definition less concerns about the emotional part of the whole innovation systems in the workplace setting.

Also, past research has only reached the margin of the relationships between heterogeneity of groups and innovative activities within organizations. The focus of research of heterogeneity on group composition is mostly on the relationship between the diversified knowledge inputs for knowledge creation and decision-making. Basically, decisions can be grouped into two perspectives: programmed and non-programmed decisions. Programmed decision is taken for repetitive and routine task. Non-programmed decision is taken for complex, non-routine, and non-repetitive task. Another categorization of decision making is normative and descriptive. The normative perspective explains an "unlimited" processing of capacity while collecting all of the possible information and alternatives. The

descriptive perspective explains "limited" processing time and capacity for decision makers to collect all of the possible data.

From Chrisman *et al.*, (1998), integrity and commitment are two considered most important by the senior generation of leaders of family firms, followed by the ability of those in junior generation in the third position, decision-making in fourth position and interpersonal skills in fifth position. As complex as it is, decision-making in family business context can still be examined by two important criteria: efficacy and effectiveness.

Another example of cognitive and emotional factor is the sense of self-efficacy. From the social cognitive theory, Bandura (1977) introduced self-efficacy as personal judgments to their competence and ability to overcome adverse conditions and obstacles and the belief that future actions will be successful. Furthermore, self-efficacy concerns the extent to which an individual believes in his or her capabilities to mobilize the motivation, cognitive resources, and causes of action needed to meet given situation demand (Bandura, 1986). Hence, an individual's self-efficacy reflects the impact of past experiences on their assessment of capacity for performance attainment.

4. Diversity, emotion, and decision for innovation

Collective emotion is often influenced by collective attributes. Among fundamental attributes, diversity is one of the most critical. Organizations are shared spaces of complex systems within which varieties of knowledge repositories and processes exist. Diversity can stimulate "chemical reactions" among organizational members through co-located knowledge activities that leads to renewed knowledge, which may also be emergent or purposeful. Tension exists in the relationship between collective diversity and innovation. On the one hand, the nature of most innovative problems cannot be solved and implemented by single or few sorts of knowledge and therefore demands a variety of people working together (Dougherty, 1992). On the other hand, the increasingly differentiated knowledge and the people as various embodied schematic approaches in the context of innovation raise extra needs to be integrated, coordinated and mutually learned (Grant, 1996). As Nonaka & Takeuchi (1995) noted, organizational knowledge influences on innovation systems, have a redundancy and complexity that should be of a balanced situation.

Murray (1989) claimed that "the higher level of conflict associated with heterogeneous groups can enable them to better discern when adaptation is appropriate," such as the less possibility of raising more serious debates (Simmons *et al.,* 1999), less emotional conflicts (Pelled *et al.,* 1999), and so forth. The differences resulted by diversity mostly happen in value dimensions of works, which can be coordinated by family norms and identification. Furthermore, diversity may negatively be associated with shared vision and value. Thus, it is believed that when decision makers in family business have larger generational diversity, they need to resolve many "distance" problems mentioned above, and thus lead to inefficient collective decision processes.

Nonetheless, the reverse impact of emotion on remedying the negative effects brought by diversity cannot be overlooked. Positive collective emotion can bring strong bond that facilitate interactions and family history memory that may offer "glues" for family decision members. With explicit social control or implicit collective atmosphere, as well as experience and thoughts communication, which all integrate different member opinion and behaviors well. Potential conflicts are prevented and uncertainties are controlled. Like Mustakallio *et al.,* (2002) argued, that the strength of a shared vision among family members was positively associated with social interaction, and in turn positively associated with strategic decision quality and commitment.

On the contrary, when emotion goes into a state of disorder, many important aspects abovementioned would be biased. The highest problem is that many of the family business fail to be sustainable in long term. This may be because of some

weaknesses such as complexity, informality and lack of discipline. Knowledge continuity also can be one of the strength of the family business, while their knowledge, experience, and skills can be accumulated and pass it to the next generations. Some of family members get immersed into their family business from a very young age, this also can increase their level of commitment and provides them with the necessary tools to run their family business. However, complexity occurs while family emotion is mixed with business issues. Many Family businesses do not pay attention to the key management positions, succession planning, and employment of skilled workers. These cases showed about informality and lack of discipline in the family business.

5. Conclusion and implications

The sub-systems of a knowledge organization are often playing a foundational role in compilation of the higher-level innovative dynamics (Christensen, 1997). On the other hand, innovation embodies the conceptual and knowledge elements of real-life business conduct by specifying the reformulation of existing products, remerchandising, market expansions, and product and service improvement.

Theoretically, further empirical studies should be conducted to examined what have been argued in this article. More knowledge-specific and emotional-based, even social-emotional variables, such as affective trust, may be added into research models.

Practically, knowledge governance mechanism is becoming critical for firms pursuing knowledge-based competitive advantages. Although Tushman & Anderson (2004) offer that, generally the continuous investment and enlargement of knowledge bases is beneficial for innovation in organizations, the management and maintenance needs for such enlargement of knowledge bases is less addressed. Composition of human resources generally become more diverse over time, and there are often tensions between global and local knowledge requirements. Specific interventions, which better echo such differentiation and tensions, enhance managerial capability and culture building.

References

Argote, L., McEvily, B., Reagans, R. (2003). Managing knowledge in organizations: An integrative framework and review of emerging themes, Management Science, 49(4), 571-582. doi. 10.1287/mnsc.49.4.571.14424

Atuahene-Gima, K. (2003). The effects of centrifugal and centripetal forces on product development speed and quality: How does problem solving matter? *Academy of Management Journal*, 46(3), 359-373. doi. 10.2307/30040629

Badura, A. (1977). Self-efficacy: toward a unifying theory of behavioral change, *Psychological Review*, 84(2), 191-215. doi. 10.1037/0033-295X.84.2.191

Bandura, A. (1986). *Social Foundations of Thought and Action: A Social Cognitive Theory*. Englewood Cliffs, NJ: Prentice-Hall.

Bruine de Bruin, W., Parker, A.M., & Fischhoff, B. (2007). Individual differences in adult decision-making competence. *Journal of Personality and Social Psychology*, 92(5), 938-956. doi. 10.1037/0022-3514.92.5.938

Chatman, J.A., & Flynn, F.J. (2001). The influence of demographic heterogeneity on the emergence and consequences of cooperative norms in work teams, *Academy Management Journal*, 44(5), 965-974. doi. 10.2307/3069440

Chrisman, J.J., Bauerschmidt, A., & Hofer, C.W. (1998). The determinants of new venture performance: An extended model, *Entrepreneurship Theory and Practice*, 23(1), 5-29. doi. 10.1177/104225879802300101

Christensen, C. (1997). *The Innovator's Dilemma*, Harvard Business School Press, Cambridge, MA.

Damanpour, F. (1991). Organizational innovation: A meta-analysis of effects of determinants and moderators, *Academy of Management Journal*, 34(3), 555-590. doi. 10.2307/256406

D'Aveni, R., & Gunther, R. (2010). *Hypercompetition*, New York, Division of Simon & Schuster Inc.

Dougherty, D. (1992). A practice-centered model of organizational renewal through product innovation, *Strategic Management Journal*, 13(S1), 77-92. doi. 10.1002/smj.4250131007

Eisenhardt, K.M., & Zbaracki, M.J. (1992). Strategic decision making, *Strategic Management*, 13(S2), 17-37. doi. 10.1002/smj.4250130904

Grant, R.M. (1996). Toward a knowledge-based theory of the firm, *Strategic Management Journal*, 17(S2), 109-122. doi. 10.1002/smj.4250171110

Juliusson, E., Karlsson, N., & Garling, T. (2005). Weighing the past and the future in decision making, *European Journal of Cognitive Psychology*, 17(4), 561-575. doi. 10.1080/09541440440000159

Mustakallio, M., Autio, E., & Zahra, S.A. (2002). Relational and contractual governance in family firms: effects on strategic decision making. *Family Business Review*, 15, 205–222. doi. 10.1111/j.1741-6248.2002.00205.x

Nonaka, I. (1995). *The Knowledge-Creating Company*, Oxford University Press.

Van Riel, A.C.R., Lemmink, J., & Ouwersloot, H. (2004). High-technology service innovation success: a decision-making perspective. *Journal of Product Innovation Management*, 21(5), 348-359. doi. 10.1111/j.0737-6782.2004.00087.x

Stanovich, K.E., & West, R.F. (2008). On the relative independence of thinking biases and cognitive ability. *Journal of Personality and Social Psychology*, 94(4), 672-695. doi. 10.1037/0022-3514.94.4.672

Teece, D.J., Pisano, G., & Shuen, A. (1997). Dynamic capability and strategic management, *Strategic Management Journal*, 18(7), 509-533. doi. 10.1002/(SICI)1097-0266(199708)18:7<509::AID-SMJ882>3.0.CO;2-Z

Tushman, M., & Anderson, P. (2004). *Managing Strategic Innovation and Change: A Collection of Readings*, Oxford University Press, USA.

West, M.A., & Farr, J. (1990). *Innovation and Creativity at Work: Psychological and Organizational Strategies*, NY: John Wiley & Sons.