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6th Rural Entrepreneurship Conference

Track 1.1

Innovation and Knowledge Transfer in Rural Entrepreneurship and Regional Development

Family Business, Knowledge Transfer and Regional Development

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Abstract
Family businesses provide a critical structure for economic activity and wealth-creation worldwide, existing and flourishing across geo-political frontiers, markets, areas and legal forms of business [Poutzioris et al, 2004]. Worldwide, family businesses are the most common type of business and despite much academic debate about the precise definition of a family business, estimates of the proportion of family businesses within the economies of developed countries remain remarkably constant at around two thirds of business operations [Poutzioris et al, 2004] and around half of GDP economic activity and private employment [Shanker and Astrachan, 2006].

One constant theme throughout the literature is the relatively private nature of family businesses, which in turn tends to mean that accurate information about them is not readily available [Astrachan and Shanker, 2006]. A second constant theme is the importance of the contribution that family businesses make to economic, social, cultural and community development, whether the be in the UK [Reid and Harris, 2004], the USA [Astrachan and Shanker 2006], in the Chinese economy [Chung and Yuen, 2003; Poutzioris et al, 2004] or amongst distinct and relatively discrete minority communities [Dhaliwal and Kangis, 2008]. The combination of a sector of clear and, to some extent, measurable, importance where robust data are nonetheless difficult to establish, illustrates both the dilemma of family business research and its importance.

Working with the Scottish Family Business Association and the Economic Development Unit at East Lothian Council, Queen Margaret University are currently researching the impact of family business in East Lothian on local communities, businesses and regional development. Family businesses frequently play a key role in Regional Economic Development, as they tend to be based within a community and prove relatively resistant to major geographic re-location. The methodology is currently being piloted, therefore, which is based around the use of semi-structured interviews with one or more members of a family business.

The impact of family business culture on knowledge transfer and the implications of the relatively informal working practices often identified within family-based SMEs will be considered, alongside effective strategies for engagement and examples from current projects. Links between current KT policy and the specific needs of family businesses will be explored as part of both local and National strategies for engagement.

Keywords: Family Business, Rural Business, Regional Economic Development Business Culture, Knowledge Transfer
**Introduction**

Rural business development in its broadest context, encompassing the role which the development of individual businesses play in economic growth, in regional development and in the development of businesses that are sustainable in social, environmental and economic terms is a key part of the current vision for Scotland [Scottish Executive, 2004]. The role of knowledge transfer in business learning and development – and the multiplicity of ways in which knowledge may be transferred - is a matter for some considerable debate. Few dispute that knowledge and business learning play a substantial role in development but the most effective approaches are, at best, partially understood. For example, the relative importance of knowledge transfer within an individual business, between different businesses and between businesses and external knowledge-base organisations varies widely and is likely to be influenced by sector and by the size and history of the individual business amongst many other factors.

The current vision for rural Scotland sits alongside an economic profile where family businesses provide a key part of the structure for economic activity but often operate in a distinct manner which impacts upon their interaction with formal businesses support networks. Whilst the impact of culture on knowledge transfer and business learning has been partially explored [Bou-Llusar and Segarra-Cipres, 2006; Ang and Massingham, 2007; Lucas and Oglvie, 2006] and indeed there is research which highlights the different manner in which family businesses tend to operate, factoring in both aspects to facilitate and support knowledge transfer is a matter of on-going discussion. Similarly, whilst the importance of family firms is increasingly recognised within business, political and academic circles, the development of robust research to support on-going development remains a key issue [Astrachan and Shanker, 2006].

**Family Business: A Worldwide Perspective**


In terms of economic growth and development Worldwide, there is currently considerable debate, the general consensus being that whilst family businesses provide an important contribution to economic and social development defining and quantifying that contribution poses substantial challenges [Allio, 2004]. Whilst a number of different methodologies have been proposed, the variety of different business models and the different manner in which business information is collected Worldwide make direct assessment of growth potential and comparison between different countries and cultures difficult [Astrachan and Shanker, 2006]. Part of this difficulty lies in the distinction between the assessment of potential growth within an individual business and the potential for the start-up and initial development of successful new family businesses. Predicting business start-up rates depends largely on past trends, whilst within the individual business, family businesses may or may not see growth as a key goal.

Research into family enterprises continues to evolve and gather momentum, but an underlying seminal conclusion that has been reached is that ‘family firms are more complicated in many respects compared with their non-family counterparts’, a factor
which may account for them having been ignored by mainstream researchers (Zahra et al 2006 p614). One result of the distinguishing features and characteristics which set these forms of businesses apart from others, is the proposition that, irrespective of their size, the ‘family business should be regarded as a special case’ (Reid and Adams 2001).

W warranting special case status or not, twenty years ago, Ward (1987) suggested that the toughest job on earth was keeping a family business alive. Debating the merits and demerits of such a profound statement are far beyond the scope of this paper. What can be asserted with confidence however is that the management challenges associated with the family business sector have not diminished over the past two decades [Seaman et al, 2007, 2008]. To the contrary, in today's environment of global change, family businesses are faced with immense pressure necessitating their adaptation if they are to seize the emerging opportunities at home and abroad. Failure to adapt could signal a decline in current competitiveness and their ultimate demise (Zahra et al 2006). Hence the importance of continued research within the sector to increase understanding and knowledge 'about what makes family firms unique and special' and the issues of importance to those owning and managing them, particularly in relation to their survival (Zahra et al 2006 p617).

As is the case in many areas of business related research, endeavouring to define a specific aspect of it, with clarity and universal agreement, is an unattainable goal [Seaman et al, 2007, 2008]. Such is the case in attempting to define ‘family business’. The majority of definitions focus their efforts upon distinguishing family firms from non-family firms in some interpretive manner. Whilst no single articulation has achieved outright acceptance or recognition, most centre upon the significant role of the family in the determination of vision, use of control mechanisms and the formation of unique resources and capabilities (Sharma 2006

Irrespective of their size, longevity, sector, economic contribution, geographic location, community origins, therefore, the ultimate, unique defining characteristic of this type of business is the ‘family’ element of their organisational composition and the strategic influence this exerts upon the firm’s destiny [Seaman et al 2007, 2008].

Set within the context of the global business environment, performance of the family business is influenced by: the actual family ‘members’ associated with the business and the resultant dominant culture; the level of family ‘ownership’ of the business and the corresponding degree of control over it; the extent to which members of the family are involved in the actual ‘management’ of the business reflecting their operational engagement within it; and, the family input to ‘strategy’ formulation in developing direction for the business. One constant theme throughout the literature is the relatively private nature of family businesses, which in turn tends to mean that accurate information about them is not readily available [Astrachan and Shanker, 2006]. A second constant theme is the importance of the contribution that family businesses make to economic, social, cultural and community development, whether the be in the UK [Reid and Harris, 2004], the USA [Astrachan and Shanker 2006], in the Chinese economy [Chung and Yuen, 2003; Poutzioris et al, 2002] or amongst distinct and relatively discrete minority communities [Dhaliwal and Kangis, 2008].

**Family Business in Scotland and the UK**

Within the United Kingdom economy, it is suggested that family firms are the predominate form of business (Reid and Adams 2001), representing in the region of 70-75% of all UK enterprises (Cappuyns et al *Undated*). The problem of accuracy with such quantification is the fact that, ‘there are as good as no statistics complete
enough to map the presence of family owned businesses in their respective countries' (Cappuyns et al Undated).

Evidence offering insight into the role and relative importance of family businesses within Scotland is somewhat sparse. The Scottish Executive Annual Survey of Small Businesses in Scotland contains some information on family businesses and indicates one or two key trends which appear to be emerging.

Two sets of survey results are currently available, published in 2003 and 2005. Within the results there is some consensus:

1. More than half the small businesses surveyed were family owned and run; these figures are estimated at 61% in 2003 and 68% in 2005.

2. The Scottish Executive collected substantially more information about family businesses in the 2005 survey, perhaps reflecting an increasing awareness of the importance of this form of business ownership.

3. Similar proportions of businesses were family owned in Highlands and Islands compared to other geographic areas – this has very important implications for regional economic development, but there is very little detail in the figures available.

4. Most family businesses were controlled by the first generation – 72% in 2003; 71% in 2005. The trends in terms of generational control and the factors that affect this seem very stable of the time period. Generally, the bigger and/or older the business, the less likely the first generation was to still be in direct control. Younger businesses, micro-businesses and businesses without formal employees are more likely to be in first generation control. Businesses controlled by the first generation were also slightly more likely to be proposing growth but the difference is small. The importance of definition of a family business and the distinction between a family business and a first-generation self-employment opportunity, however, remain critical.

5. In general terms, family businesses within minority ethnic groups were not substantially different from the general business population except in terms of generational control of the business. Amongst minority ethnic groups, 97% of businesses were under the control of the first generation, compared to 72% of the general population. There is no information here, however, on the reasons for this finding – it may be the result of family attitudes to succession planning or it may be related to family educational aspiration for the second and subsequent generations.

Available data indicate that this picture is similar across the UK; surveys conducted amongst small businesses across the UK are conducted by the DTi Small Business Service [2006], indicating that in 2006 around 67% of small businesses self-defined as a family business. Amongst these, 57% were controlled by the first generation whilst 20% were controlled by the second generation. Data remain sparse, however, and there remains little focus on family businesses which do not fall within the SME category. Similarly, there is at present little evidence regarding the relative importance of family businesses – whether SME or larger businesses – in different regions or their relative importance in rural and urban locations. The development of the next Scottish census provides a potentially vital opportunity for the nature, distribution and relative importance of family businesses to be explored further.
The nature, distribution and relative importance of family businesses in different geographic areas merits further exploration – and would allow more targeted approaches to business support – but the overarching importance of family business is clear. Similarly, whilst the importance of encouraging and supporting family business development is clear from the existing information, there is less clarity about the most appropriate approaches by which might usefully be undertaken.

Facilitating business development, however, is likely always to involve the transfer of knowledge in its most general sense. Supporting family businesses is a key part of rural economic development and the importance of knowledge transfer is broadly acknowledged. Understanding the impact of family upon a business – alongside the distinction between rural and urban communities – and the impact this is likely to have on knowledge transfer as a route to business development remains of key importance.

What Does Knowledge Transfer Mean?

Much of the debate surrounding the transfer of knowledge as a factor in business development occurs due to the sheer multiplicity of routes, mechanisms and possible channels involved. Certainly, knowledge transfer can include both internal and external learning. Learning within the business, learning within the broader family/community context and especial importance of community in a rural context may all be relevant. Alongside this sits the work of the external agencies and the role they play in the transfer of knowledge – be they business support networks, educational establishments, professions working with businesses or any of the myriad others who interact with the business community.

What remains clear, however, is the role of culture within knowledge management and transfer, whether that be National culture [Bou-Llusar and Segarra-Cipres, 2006; Ang and Massingham, 2007], organisational culture [Lucas and Ogilvie, 2006] or regional culture on a more localised scale [Bou-Llusar and Segarra-Cipres, 2006]. Whilst little research links family culture with knowledge transfer it seems unlikely that the two are not intertwined.

Similarly, the strategic importance of knowledge transfer in the creation of competitive advantage is evident from the literature [Bou-Llusar and Segarra-Cipres, 2006], and is acknowledged to be influenced by the multiple modes of knowledge transfer interaction [Yi Wang, 2007]. Linking these disparate elements, acknowledged within the literature to be important, but little considered in the context of family businesses offers a key area for future developmental work.

Formed in 2006, the Scottish Family Business Association [SFBA] aims to facilitate this process of knowledge transfer in its broadest sense, by facilitating the development of structures that allow relatively easy access to specialist support, skills and help for family businesses. Working with the Scottish Government and Scottish Enterprise – amongst many others – the facilitation of business learning and knowledge transfer in its broadest sense is a key goal.

The routes by which this may be achieved and the management of the process are a subject of much current discussion, both in terms of the most effective routes by which this goal may be achieved but also concerning the background knowledge of businesses required to facilitate a tailored approach in different geographic areas. Knowledge transfer is also a two-way process – for better or worse. Businesses may learn from others, but they also learn about others and the impact of getting it ‘wrong’ within a small and relatively ‘closed’ community may be a factor within the rural context. Understanding the profile both of business communities within a geographic
area – and the internal profiles of those individual businesses forms an important starting point for knowledge transfer and learning in its broadest sense.

Within East Lothian, research is currently being undertaken to consider the ways in which rural businesses engage with a variety of strategies for business development based around increasing business knowledge, learning and development. Interaction with both the formalised networks for business growth and development and those that surround knowledge transfer within the University sector play a key role in this process but often present a somewhat fragmented picture. This issue is compounded by the often informal management structures within family businesses and present difficulties in the development of appropriate quantitative methodologies. The methodology is currently being piloted, therefore, which is based around the use of semi-structured interviews with one or more members of a family business.

The impact of family business culture on knowledge transfer and the implications of the relatively informal working practices often identified within family-based SMEs represent an under researched area which may prove vital in the development of successful interactions between the business support sector, universities and businesses. If family businesses operate differently – and all the available research evidence suggests they do – their engagement with knowledge transfer activities is also likely to be different. Understanding the nature of these differences and the variety of patterns within family businesses forms a key early goal in the development of effective strategies for engagement.

Effective strategies for engagement remain a key long-term aim of the economic regeneration agenda and building links between family businesses and the key stakeholders in this diverse market will be vital for the successful strategic development of regional economies. Accommodating the ‘family-factor’ will remain key to the development of effective policy.
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