Influence of Long-Term Orientation on Family Firm Performance

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Family businesses are known to have a tendency to make decisions based on their long-term implications. This is so because family business managements consider long-term outcomes as more significant for family firm survival and growth compared to short-term gains. In this article, the authors probe the effect of the long-term orientation on firm performance. More specifically, they study five dimensions of entrepreneurship behaviour and present propositions on how those are influenced by the long-term orientation of the family firm, thereby affecting firm performance and long-term survival.

Innovativeness

Firm's innovativeness is defined by its ability and efforts to develop new products and/or services or improve existing ones. Innovativeness is considered crucial for firm survival as it propels the firm to seek novel solutions by experimentation and creative problem solving. Innovative offerings provide the firm, an edge in the market.

Radical or industry-changing innovations require longer time horizons to fructify. Family businesses can be more patient while investing in innovations and experimentations that may take years to develop and deliver profits, which may be substantial if those innovations become successful. Thus, long-term orientation of family business is likely to positively contribute towards the firm's innovativeness providing it the ability to outperform competition and last longer.

Proactiveness

Tracking and monitoring changes in consumer preferences, technology and overall business environment to seize emerging opportunities can be termed as a firm's proactiveness. Businesses with short-term perspective react to the emerging trends to earn a fast buck. However, proactiveness of the family business having long-term orientation reflects its vision and long-term strategy. They conduct environmental scanning, anticipate long-term trends and prepare themselves to take quick actions when opportunities emerge. Their preparedness helps them to pursue opportunities ahead of competition. This positively influences their performance and long-term survival.

Risk taking

Willingness to venture into the unknown and face uncertain outcomes is the firm's risk-taking ability. Investments in unproven technology, entering in untested markets or borrowing heavily, are some instances of risk-taking behaviour. The authors suggest that family businesses have longer planning horizon that permits them to take up less risky projects that generate similar shareholder value as short-term oriented firms do, while taking higher risks. As family managements put more importance on long-term survival of business, they refrain from any action that might make them financially vulnerable. Desire to preserve reputation and avoid changes to retain traditional ways of doing business, also makes family businesses risk-averse. Though risk-aversion limits their ability to make exceptionally large profits, it also keeps family business performance more steady, thus helping them survive across generations.

Competitive aggressiveness

It is the firm's ability to outperform competition. It manifests in the form of aggressive response to competitors' actions. Firms with short-term perspective usually take combative postures against competitive threats to gain temporary advantage. Price cuts or aggressive promotions are some of the short-term measures that are often used to thwart competition. Family businesses with long-term orientation avoid taking aggressive competitive stance as that may only provide limited short-term benefit.

In the long run, a sustained image of being an aggressive player may adversely affect the family firm's reputation and ability to forge beneficial strategic alliances or collaborative efforts. Instead of aggressively taking on their competitors, family firms with long-term orientation prefer to build superior capabilities to deal with competition.

Autonomy

Ability to make decisions and take actions unhindered by organisational constraints is termed as autonomy. It empowers and motivates individuals to take initiatives for organisation's growth and development. Firms with short-term perspective keep everyone strictly focused on established goals, targets and quotas as they consider it more effective way of achieving their objectives. However, for family firms with long-term objectives, autonomous individuals become an important source of creativity and entrepreneurial development. Self-reliance of family firms with long-term orientation adds another dimension to their autonomy as there are lesser external constraints forced upon them. Their longer time horizons and freedom at work provide opportunities to family and non-family members to develop and promote innovative ideas, which contribute to firm performance and survival.

Practical Implications

Long-term orientation of family firms influences several aspects of entrepreneurial behaviour, which has significant bearing on firm performance and survival. Family firms can make their businesses long lasting by - being innovative in product/service development, being proactive in seizing emerging opportunities, and by promoting autonomy in decision-making. On the other hand, a calibrated approach needs to be adopted in taking measured risks and efforts to improve competitiveness. This will ensure that they neither miss on promising business opportunities nor jeopardize their future in going after unrealistic targets. This would ensure that the long-term orientation of family businesses contributes to their performance and helps them survive across generations.

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