

The Absorptive Capacity of Family Firms: How Familiness Affects Potential and Realized Absorptive Capacity

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Organisational knowledge is the key to competitive advantage of firms. The firm's ability to absorb external knowledge is critical for acquisition of new knowledge and innovation. This is termed as the absorptive capacity (AC) of a firm. This article examines how the family firms 'familiness' (i.e., its unique social and human capital) influences its knowledge absorption capacity. This summary presents in brief the author's theorization and its implications for family business.

Absorptive Capacity and its Dimensions

Absorptive Capacity (AC) is a set of organisation's routines and processes to acquire, assimilate, transform and exploit knowledge. It is considered a dynamic capability of the firm and has four dimensions:

1. **Acquisition:** It is the process of enquiring knowledge from the external environment.
2. **Assimilation:** It is the process of assimilating (collecting, grouping and categorizing and analyzing) the acquired knowledge into meaningful packets of information.
3. **Transformation:** It is the process of transforming the new knowledge into a form that is adapted to the needs of the specific firm.

4. **Exploitation:** It is the firm's ability to harvest and incorporate the new knowledge into its operations.

Acquisition and assimilation are a firm's receptiveness to external knowledge and are known as 'potential AC.' Transformation and exploitation are the firm's capacity to leverage the acquired knowledge and are known as 'realized AC.'

Absorptive Capacity and Familiness

Familiness is the set of unique resources resulting from the interaction between individuals, family and business. It consists of structural, cognitive and relational dimensions of social capital. Efficient access and exchange of information is a firm capability integral to the familiness of firm. Each dimension of AC is distinctly influenced by the family firm in the following manner:

1. **Acquisition:** Family firms invest less in R&D than non-family firms. Limited exposure and close-ended environment make family firms inward-looking. Hence, family firms that are high on familiness are low on acquiring external knowledge.
2. **Assimilation:** Firms that are high on familiness are likely to be distinct and devoid of a shared interpretation system with the source of external knowledge.

Therefore, such family firms will score low on the assimilation dimension.

3. **Transformation:** Family firms with high level of familiness have higher combinative abilities to integrate the family's tacit knowledge with the new knowledge. Hence family firms that score high on familiness will have higher ability to transform external knowledge in the firm's context.
4. **Exploitation:** Stability and long-term orientation of familiness provides patient capital to the firm to help it exploit the acquired knowledge. Strong social capital is likely to have lower governance costs for family firms. Thus these firms are likely to be better at leveraging new knowledge. Hence, family firms with high familiness are likely to score high on exploitation of new knowledge.

Practical Implications

The study has key implication for family business. Absorption of external knowledge is essential for family firms to innovate and grow. Though at an aggregate level family firms that score high on familiness have high absorption capacity, family business need to be aware that this relationship varies across different dimensions of absorptive capacity.

Family firms with high familiness would do well if they undertake specific measures to enhance knowledge acquisition and assimilation. Family firms with low familiness need to work more on transforming and exploiting the acquired knowledge to more productive outcomes.

These measures will help the family firm strike the right balance between effective use of external knowledge and sustenance of its familiness.

Source: Journal of Family Business Management, (2015), Vol. 5, No. 1, pp. 73-89.