THE IMPACT ROLE OF DYNAMIC CAPABILITIES IN ENHANCING THE PERFORMANCE OF FAMILY BUSINESS: QUANTITATIVE EVIDENCE FROM THE JORDANIAN CONSTRUCTION INDUSTRY SECTOR

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ABSTRACT

The purpose of this paper is to investigate the impact role of dynamic capabilities throughout its dimensions, absorptive capability, adaptive capability, and innovative capability in enhancing the performance of family businesses in the Jordanian construction industry sector. The study used a quantitative approach by applying a survey data from a purposive sample totaled to 95 useful responses of family businesses selected from the Jordanian Constructions Contractors Association. Simple regression analyses were used to test hypotheses suggested in this paper. Results showed that absorptive capability and innovative capability have positive impact on family business performance, while adaptive capability does not have a significant impact on family business performance.

Key words: Dynamic Capabilities, Absorptive Capability, Adaptive Capability, Innovative Capability, Family Business, Familiness and Jordan.

INTRODUCTION

Family business is the main aspect of ownership and management of the majority of businesses in the world, for example, Chinese family enterprises consist 82% of the private enterprises sector, in United Kingdom family enterprises constitute 65% of the total non-public enterprises (Wang, 2016), more than 80% of the United States, Latin America, Asia and Europe enterprises are governed and/or possessed by family members (Poza, 2013), about 98% of businesses in the Gulf Cooperation Council are controlled by families (Sonfield et al., 2016). According to Jordanian official figures, around 90% of small and medium-sized enterprises are family-owned (The Jordan Times, 2016). Jordan is an Arab country in the Middle East with an area of 89,342 km² and a population numbering 10 million. Jordan's industrial sector includes mining, manufacturing, construction, and power, the most promising segment of these sector is construction. The Jordanian construction sector plays an important economic contribution role because it is considered a key driver for other sectors. Despite Arab spring regional turbulence, a decline in remittances, security costs, and increasing food and oil price, Jordan survives and tries to recuperate its economic situation and achieves a GDP growth between 2010 and 2016 around 2.5%. Jordanian government plans for the next ten years to make Jordan a regional center for architectural and engineering in the Middle East (The Economy Policy Council). Most of the construction companies in Jordan are family businesses, adopting a corporate governance to run business is not common in Jordan because of the fear of extra costs of applying corporate governance and family’s relations in Jordan are so solid that oblige founder of business to...
employ family businesses and pass leadership positions to them (Sonfield et al., 2016), for example, The Nuqul Group one of the largest Jordanian privately owned company stated that the secret of the family success lies on the values of cooperation between the first and second generation family members. This intergenerational transitional secure skills and experience retention and flourishing of innovation (Tharawat Magazine, 2009). Although, family in Arab countries plays an important role in their culture and history and reflects in their social and economic life, rare studies have been conducted on family enterprises in the Arab World, and in particular family business’ dynamic capabilities.

LITERATURE REVIEW

Family Business Performance

Reviewing family business literature found so difficult to offer a specific definition of family business because of its intrinsic diversity, each operational definition focuses on different forms of family’s involvement in the business; ownership, governance, management, and transgenerational succession, these different involvement forms lead to behaviors and outcomes that may differ from nonfamily business (Chrisman et al., 2005). The family involvement in the organization’s governance could play a key role in the exploitation of available resources and capabilities. The diversity of family businesses and their performance make them a subject area worthy of exploration. Familiness construct in this study is grounded in the Resource-Based View (RBV), and is established in the family literature that defined it as valuable resources possessed by a certain enterprise as a result of the interaction between family members and business activities (Habbershon & Williams, 1999). The RBV perspective stated that integration between business systems and family business leads to form capabilities very hard to duplicate because of institutionalization of the perceived value of the combined two businesses through family’s vision and intention for transgenerational sustainability (Chrisman et al., 2005). The debate is still open about family business issues combination related to performance. Some studies have sought to explain that high level of familiness can achieved various benefits (Habbershon & Williams, 1999) while other studies argued that familiness can have negative effects and high level of familiness can also be inversely related to the performance of firm (Pearson et al., 2008). Chrisman et al. (2005) concluded that performance of firms is affected by the founding family involvement and altruism and entrenchment can have positive or negative effects on family firm performance. Wang (2016) suggested that family businesses are shaped by the environment and they have to continuously renew, configure and recreate their capabilities to adapt market changes. This situation is intrinsically linked to the concept of dynamic capabilities. Pounder (2015) stated that family firm is one where members possess the largest portion of the firm’s equity that makes them in control of firm s strategy and top management involvement. The bundle of family’s ownership and firm’s strategy control may have positive or negative effects on performance.

Dynamic Capabilities

An organization’s capability is the leading edge of strategic development by stretching and exploiting the organization’s capability that creates new opportunities difficult for
competitors to match (Scholes et al., 2002). RBV reported that competitive advantage is achieved and sustained by internal resources more than external factors and organization performance will primarily be determined by internal resources (David, 2013). Capabilities that are considered as a “special type” of resource which allows the deployment, enhancement of “ordinary assets” and increases their productivity but it seemed that strategic literature distinguishes capabilities from dynamic capabilities defining them as the “firm ability to ability to build, integrate and reconfigure internal and external competencies to address rapidly changing environments” (Teece et al., 1997). Wang & Ahmed (2007) claimed that dynamic capabilities consisted of three elements namely absorptive capability, adaptive capability, and innovative capability.

**Absorptive Capability**

Today an organization’s absorptive capacity (AC) is mostly conceptualized as a dynamic capability and it is grounded in the macroeconomics that viewed it as the economy effectiveness in using capital resources. Cohen & Levinthal (1990) are considered who originated the AC’s concept and identify it as a business’ ability to apply assimilated value new information to achieve commercial goals. AC is the absorption capacity of external knowledge from the environment rounded the business, in other words is the firm’s capacity to obtain, absorb, convert and utilize external knowledge (Zahra & George, 2002). AC is considered the main element that constitutes firm’s capacity in business environment because its capability to explore new opportunities by building new skills and raising senior management flexibility (Zahra et al., 2009). There is a debate between researchers about the positive direct or indirect relationship between AC and organization performance (Wales et al., 2013) Some researchers justified the indirect effect of AC on organizational performance by their view that financial results cannot be achieved with simple acquisition and absorption of external knowledge and without effective conversion and commercialization through innovation outputs (da Costa et al., 2018). Some studies stated that high levels of familiness are positively related to transformation more than acquisition and assimilation, in other words family businesses have the ability to transform and use external knowledge but inferior in acquiring and assimilating external knowledge (Andersen, 2015). Hernandez-Perlinaes (2018) found that the effects of entrepreneurial orientation on the family businesses international performance are positively moderated by absorptive capacity. Kamal & Flanagan (2012) identified some key elements influencing the AC of small and medium sized companies. These elements involved: affordability cost, availability, supply and demand, infrastructure, policies and regulations, labor readiness, workforce attitude and motivation, communication and source of new knowledge and culture.

**Adaptive Capability**

Adaptive capability (AD) reflects the ability of a firm to discover and exploit on emerging market opportunities and the ability to adapt its resources and routines to the dynamic changing market (Alvarez & Merino, 2003). AD is an action of responding and reaction focuses on searching balancing between exploration and exploitation strategies through flexible resource modification, application and renewal (Wang & Ahmed, 2007). According to Eshima & Anderson (2017) transition of AD is related to the firm’s capacity to fulfill the changes in market
and product assumptions with firm’s resources. The core element of AD shapes the strategies development, as a mechanism for managers that search performance improvement (Wang & Ahmed, 2007). Firms that success in adapting to the development process will achieve business successful outcomes (Clarke et al., 2015). Although the argument around the high cost of implementing adaptive capability (Mckee et al., 1989), it is justified by the improvement in performance (Bourgeois, 1980). Enablers of dynamic organizational adaption play an essential role in family firms who suffer specific threats to survive or to succeed in transgenerational process (Chirico & Salvato 2008). They proposed that knowledge integration among family members will be positively associated with dynamic adaptation of capabilities in family business and those family firms who own high levels of internal social capital and affective commitment to change, and low levels of relationship conflict will be successfully adapt to dynamic markets.

Innovative Capability

Innovative capability is the firm’s talent in engaging in new ideas, creative designs, unfamiliar technologies, and creative processes (Lumpkin and Dess, 1996). “Innovation-oriented familiness” is the influence of the business family on the innovativeness of the family firm and its role expanded from innovation strategic framework formulation to being directly involved in innovation operations (Weismeier-Sammer 2014). It is known that highly innovative firms have more possibility to gain market share, produce better products and long returns on investment, unlike less innovative firms (Alloca & Kessler, 2006). Innovative capability moderates the relationship between strategic goals and financial performance (Donkor et al. 2018), in other words, increasing innovative capacity with high levels of strategic goals, the result is high financial performance. Frank et al. (2019) paper showed that family firms can be characterized as prosperous innovators over generations who own variety of common values and approaches in their innovation behavior. Steeger & Hoffmann (2015) stated that most of the literature found family firms to be less innovative because of their risk fear and attitude to conserve socioemotional wealth and they can become more innovative if they persuade that self-assessment or ownership criteria alone do not necessarily identify innovative behavior in family firms. Although many studies showed that innovation positively affects the success of family firms (Casillas & Moreno, 2010; Craig et al., 2014) the level of innovation variates from older to younger generation of family firms, it is appeared that first generation is more innovative (Block, 2012) and the following generation tends to avoid risk in innovation projects but high-risk tolerance for radical innovation can negatively impact the family firm’s success (Naldi et al., 2007). Innovation is surrounded market conditions, technology and regulation that are considered as drivers for innovation and have positive effects on family firm performance (Park et al., 2019). It is clear that the effect of innovation management on family performance depends on different practices and principles (Frank et al., 2019).

Research Model

The study adopted the operational definition for the family business as is one in which family members dominate the ownership and management of the company, the researcher developed the research model (Figure 1) based on Wang & Ahmed’s definition (2007) stated that claimed that dynamic capabilities consisted of three elements namely (absorptive capability,
adaptive capability, and innovative capability) because of the clearly decomposed components and the distinctive nature of these elements. Family business performance is measured by the capability of the business to grow in a dynamic environment. So, three hypotheses were developed.

![Diagram of research model](image)

**FIGURE 1**  
THE RESEARCH MODEL

**Hypotheses**

\[ H_1 \quad \text{Absorptive capability positively affects family business performance} \]

\[ H_2 \quad \text{Adaptive capability positively affects family business performance} \]

\[ H_3 \quad \text{Innovative capability positively affects family business performance} \]

**RESEARCH METHODOLOGY**

**Sample**

A total of 95 family businesses were selected from the Jordanian Constructions Contractors Association because most of the construction companies in the association are family businesses. The study used a purposive sampling technique and distributed survey questionnaires face-face to the executive’s presidents of the companies.

Table 1 presents some of the characteristics of the constructing family businesses in terms of age of business, ownership form, generation control, managerial and partnership structure. In total, 73.7 percent of family businesses indicated that they are in the industry for more than 20 years. Most of the ownership form is partnership 63.1 percent. 68.4 percent of family businesses are controlled by the 1st and 2nd generations. Only 26.3 percent of the businesses are directed by the founder generation. In respect to managerial and ownership structure, it is noticed that the general manager is one of the family members in all the companies and 89.5 percent of the family businesses do not have partners from outside the family.
Table 1
FAMILY BUSINESS CHARACTERISTICS

<table>
<thead>
<tr>
<th>Demographic characteristics</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of business (years)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6-10 years</td>
<td>10</td>
<td>10.5</td>
</tr>
<tr>
<td>11 – 20 years</td>
<td>15</td>
<td>15.8</td>
</tr>
<tr>
<td>More than 20 years</td>
<td>70</td>
<td>73.7</td>
</tr>
<tr>
<td>Ownership form</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partnership</td>
<td>60</td>
<td>63.1</td>
</tr>
<tr>
<td>Limited Liability Company</td>
<td>30</td>
<td>31.6</td>
</tr>
<tr>
<td>Limited Partnership</td>
<td>5</td>
<td>5.3</td>
</tr>
<tr>
<td>Generation in control</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st generation</td>
<td>25</td>
<td>26.3</td>
</tr>
<tr>
<td>1st + 2nd generation</td>
<td>65</td>
<td>68.4</td>
</tr>
<tr>
<td>2nd generation</td>
<td>5</td>
<td>5.3</td>
</tr>
<tr>
<td>Is the general manager one of the family’s member?</td>
<td>95</td>
<td>100</td>
</tr>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Does the business have partners from outside the family?</td>
<td>10</td>
<td>10.5</td>
</tr>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>85</td>
<td>89.5</td>
</tr>
</tbody>
</table>

Measures

A questionnaire is used as a tool of primary data collection. This questionnaire has two parts, the first part collected data on the characteristics of companies. The second part consisted of 20 questions directly measure study variables, the construct of “family business” based on (Chrisman et al., 2005) in its simple form in which family business refers to a business that is owned and or managed by a family. All constructs were measured with a multiple item 5-point Likert scales (1 equal strongly disagree; 5 equal strongly agree). Absorptive capability, adaptive capability and innovate capability represent the independent variable (Table 2).

Table 2
CRONBACH’S RELIABILITY TESTS

<table>
<thead>
<tr>
<th>Variables</th>
<th>Means</th>
<th>Std. deviation</th>
<th>Alpha</th>
<th>No. of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absorptive capability</td>
<td>4.042</td>
<td>0.676</td>
<td>0.791</td>
<td>5</td>
</tr>
<tr>
<td>Adaptive capability</td>
<td>4.136</td>
<td>0.782</td>
<td>0.862</td>
<td>5</td>
</tr>
<tr>
<td>Innovative capability</td>
<td>3.694</td>
<td>0.826</td>
<td>0.897</td>
<td>5</td>
</tr>
<tr>
<td>Performance</td>
<td>3.881</td>
<td>0.694</td>
<td>0.793</td>
<td>7</td>
</tr>
</tbody>
</table>

The establishment of the dynamic capabilities dimensions was based on Wang and Ahmed’s definition (2007). The absorptive capability variable is measured by items examine the family business regularly desire to make meetings with their partners and institutions to acquire new technology and knowledge. Adaptive capability variable was measured by assessing the capability of the business to respond to market changes through internal processes modifications. Innovative capability items measured the family role in introducing new products or services better than their competitors. The dependent variable (performance) consisted of items indicated the ability of the family business to grow and achieve family objectives. Cronbach alpha was used to measure the internal consistency reliability of each construct. The reliabilities of this
study are acceptable, Cronbach alphas are over 0.80 are good as recommended by Sekaran & Bougie (2016).

**RESULTS**

Simple Regression analyses were used to test hypotheses suggested in this paper (H1, H2, and H3). For absorptive capability, the results showed (Table 3) that absorptive capability has significant and positive impact on the dependent variable, (t= 2.639, P<0.05). Hence the H1 was supported.

| Table 3 | SIMPLE REGRESSION ANALYSIS: THE EFFECT OF ABSORPTIVE CAPABILITY ON PERFORMANCE |
|-----------------|---------------------------------|---------------------------------|---------------------------------|
| **R**           | **R^2**                         | **Adjusted R^2**                | **F**                          | **DF**                         | **Sig**                         | **B**                          | **T**                          | **Sig**                         |
| Performance     | 0.264                           | 0.070                          | 0.060                           | 6.966                          | 193                           | 94                             | 0.010                          | 0.271                          | 2.639                          | 0.010                          |

For adaptive capability, the simple regression analysis results indicated (Table 4) that adaptive capability was not significantly related to the dependent variable, (t=1.020, P>0.05). So H2 was rejected.

| Table 4 | SIMPLE REGRESSION ANALYSIS: THE EFFECT OF ADAPTIVE CAPABILITY ON PERFORMANCE |
|-----------------|---------------------------------|---------------------------------|---------------------------------|
| **R**           | **R^2**                         | **Adjusted R^2**                | **F**                          | **DF**                         | **Sig**                         | **B**                          | **T**                          | **Sig**                         |
| Performance     | 0.105                           | 0.011                          | 0.000                           | 1.041                          | 193                           | 94                             | 0.310                          | 0.093                          | 1.020                          | 0.310                          |

Finally, for innovative capability, the simple regression analysis results in (Table 5) indicated that innovative capability significantly influenced the dependent variable (t=4.234, P<0.05). Therefore, H3 was accepted.

| Table 5 | SIMPLE REGRESSION ANALYSIS: THE EFFECT OF INNOVATIVE CAPABILITY ON PERFORMANCE |
|-----------------|---------------------------------|---------------------------------|---------------------------------|
| **R**           | **R^2**                         | **Adjusted R^2**                | **F**                          | **DF**                         | **Sig**                         | **B**                          | **T**                          | **Sig**                         |
| Performance     | 0.402                           | 0.162                          | 0.153                           | 17.923                         | 193                           | 94                             | 0.00                           | 0.338                          | 4.234                          | 0.00                           |

**CONCLUSION**

This paper has shed some light on the effects of dynamic capabilities on the family business performance because the construct of dynamic capabilities has received considerable
attention in the strategic management research but little research has been devoted to studying dynamic capabilities in family firms especially in Arab world. The importance of the paper stems from the fact that it brings new empirical research in the Arab family businesses to dynamic capabilities issues related with performance utilizing statistical analyses that have been rarely been performed. The findings of the current paper support H1 (Absorptive capability positively influences family business performance), in accordance with some authors who argue that absorptive capacity positively moderates the effect of entrepreneurial orientation on the international performance of family businesses. On the other hand, the effect of the adaptive capability on the family business performance (H2) was not supported. According to Alvarez & Merino (2003) adaptive capability reflects the ability of a firm to utilize its resources and routines to adapt dynamic external market conditions, this view is found not applicable in the Jordanian context of construction sector, this can be explained from family-owned business perspective that views conserved family traditions and their legacy are kept intact and become a habit that directs decision making impeding change. It seemed that family businesses in Jordan do not prefer frequently adjustments in their internal processes and organizational structures to respond to market changes. Finally, H3 (Innovative capability positively influences family business performance), was supported. In accordance with Fuetsch et al. (2019) findings family firms can be characterized as prosperous innovators over generations who own variety of common values and approaches in their innovation behavior. Weismeier-Sammer (2014) found that highly innovative firms have definite increased market share, high product success, greater returns on investment and long-term returns, unlike less innovative firms. This view is applicable in the Jordanian construction environment which is characterized by high level of competition and family businesses in this sector are very interested in introducing novelty in the way they executed their projects.

LIMITATIONS AND FUTURE STUDIES

This paper tries to offer some contributions to the Arab family business literature, although it faced some limitations related to the purposive sample because of its small size and restricted application on Jordanian construction. The findings cannot be generalized to all family businesses in the Arab world because Jordan represents only one of the Arab countries among 22 countries in the Middle East. So the researcher recommends more comprehensive studies on dynamic capabilities elements related to family business performance to be conducted in other Arab countries and to treat each element independently of the other elements due to the element’ specificity.

REFERENCES


