Research contextualizes ownership competence in private firms

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Credit: AI-generated image

Researchers can now point to two competencies that owner-managers must possess for their firms to experience growth: matching competence and governance competence. In a recent study published in the *Strategic Entrepreneurship Journal,* the team also found owner–managers from family firms often find it challenging to leverage their governance competence to achieve growth, but the researchers identified ways to overcome this challenge.

The study authors, Jannis von Nitzsch of the University of Munich, Miriam Bird of the Technical University of Munich, and Ed Saiedi of BI Norwegian Business School, sought to understand what constitutes sound judgment on the part of owner-managers of private firms who have full decision-making authority to allocate the firm's resources in accordance with their idiosyncratic beliefs to create value.

"In private firms, growth is the most important indicator of value creation," von Nitzsch says. "This led us to integrate the construct of owner competence with Penrosean growth theory (a concept suggesting that growth begets growth), which had remained rather vague about how owners competently allocate resources to achieve growth."

To study the role of entrepreneurial judgment in resource allocation decisions, the researchers chose a secondary research design to provide a large-scale empirical test and extension of the owner competence construct. They captured owner-managers competence related to both matching and governance reported on their LinkedIn profiles and integrated these measures into a longitudinal sample with information on their firm's growth and various firm characteristics.

Matching competence is defined as the ability to theorize about the potential value of specific resource combinations ("what to own"), while governance competence is the ability to create effective governance arrangements to align incentives within a firm ("how to own"). The researchers also collected survey data from German owner-managers to verify that the study approach adequately captured their matching and governance competence.

They found that owner–managers' competencies are particularly important in the early years of their firms when no standardized processes are in place. The team was surprised to see that owner-manager matching competence was not strengthened in family firms—counter to their hypothesis. For example, owners' family ties with other owners and managers in a firm may enable or constrain the exercise of owners' judgment as it relates to certain strategic actions.

"This points to intriguing family dynamics that may hinder the exploration of risk-taking novel strategies—despite the family's trust and support of the owner—and hinder the professionalization of firms when it means losing family control," von Nitzsch says.

Those family dynamics that hinder growth could potentially be resolved by instituting governance mechanisms that prevent nepotism, the team found. Other takeaways for firm owners include reflecting on their own competencies, their unique firm environment (e.g., whether or not family members influence their decision-making), and the combined influence on firm growth. Von Nitzsch suggests owners can also think about how to improve their competences in order to grow the firm further.

More information: Jannis von Nitzsch et al, The strategic role of owners in firm growth: Contextualizing ownership competence in private firms, *Strategic Entrepreneurship Journal* (2024). DOI: 10.1002/sej.1497

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