A case study of spontaneous diversification: evidence from a small Thai family firm

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Abstract: Among the wealth of research in family firm diversification, whether family firm diversification can be spontaneous continues to be an under-analysed topic. We fill this gap by conducting a single-case study illustrating how spontaneous diversification occurs and its consequences using Chug Yont Engineering Co., Ltd., a small-sized Thai family firm. Our findings suggest four important implications. First, Buddhism has a strong implication on the mindset of corporate social responsibility (CSR). Second, through CSR engagement, family firms can develop new and unsought internal capabilities allowing them to diversify products and/or services spontaneously. Third, spontaneous diversification triggered by CSR engagement may allow family firms to exercise greater discretion in projects that they undertake and, consequently, the firms become conscientious of available resources with little regard for competition. Finally, using CSR-driven spontaneous diversification, family firms may rely little on formal marketing campaigns because spontaneous diversification helps establish social connections crucial to new ventures.

Keywords: family firm; corporate social responsibility; CSR; diversification; Thailand; Buddhism.


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1 Introduction

When competition intensifies, one of the viable strategies allowing family firms to obtain competitive advantage is diversification (Chung, 2013). Bearing this assertion in mind, a considerable amount of scholarly attention has been paid to exploring family firm diversification. Consequently, whether and how family firms diversify warrants extensive investigation. In particular, when explaining whether and how family firms diversify, scholars have utilised three main theoretical perspectives: the resource-based view (RBV), the socio-emotional wealth (SEW), and the agency theory perspectives. First, drawing on the RBV perspective, scholars have argued that diversification in a family firm is affected much by the family firm’s tangible and intangible resources such as ownership structure (Sánchez-Bueno and Usero, 2014), family ownership (Hautz et al., 2013), and family involvement (Muñoz-Bullón and Sánchez-Bueno, 2012). In other words, under the RBV perspective, the type and amount of a particular resource that a family firm possesses determine how and what diversification decisions the firm makes.

Second, the SEW perspective is critical to the understanding of family firm diversification (Wiseman and Gomez-Mejia, 1998). In line with the notion of preserving SEW of the firm, scholars (e.g., Gomez-Mejia et al., 2007, 2010; Makri and Gomez-Mejia, 2008) have noted that family firms are less willing to diversify. Specifically, it is suggested that family firms are less willing to diversify because diversification is likely to disrupt the concentration of family wealth and dilute family control, which can result in the loss of SEW. Finally, scholars have investigated diversification in family firms using the agency theory perspective. In particular, agency theory posits that managers, as firm agents, pursue their personal interests (e.g., capturing benefits through diversification) rather than the owners’ interests (Fama and Jensen, 1983; Jensen and Meckling, 1976). As such, some scholars (e.g., Chen and Ho, 2000; Chung, 2013; Denis et al., 1997) have suggested that concentrated family ownership serves as an effective control mechanism of the agents who are in charge of diversification decisions.

Even though there has been a considerable amount of attention paid to exploring family firm diversification, there are several research gaps in the literature that need to be filled. First, because diversification is often associated with risks (Makri and Gomez-Mejia, 2008), there is an implicit assumption about family firm diversification decisions, which is that family firm diversification is a systematically planned and calculated firm decision stemming from a desire to enhance firm financial performance. Consequently, our understanding of why family firms diversify has been limited to the rational decision-making method of family firm diversification. This assumption, therefore, raises an important yet unanswered question. That is, whether diversification in family firms can be spontaneously achieved?

Second, when attempting to understand the relationship between diversification and corporate social responsibility (CSR), scholars (e.g., Hull and Rothenberg, 2008; Strike et al., 2006) have demonstrated that a firm’s CSR initiatives aimed at improving social well-being can result in planned firm diversification, which leads to improved financial performance. While the impact of CSR initiatives on firm diversification and financial performance has been examined extensively, little is known about whether CSR efforts made by family firms can provoke diversification decisions spontaneously that can be used to continuously support CSR initiatives. Said differently, even though our
understanding of how CSR affects firm diversification has broadened, we still have little knowledge on whether CSR initiatives can trigger spontaneous diversification used to support the continuous engagement in CSR in the family firm setting.

Third, given that diversification, as a strategic tool, offers firms a means to obtain scale and scope advantages (Khanna and Rivkin, 2001). It is well documented that planned diversification enhances a family firm’s financial and non-financial outcomes such as the ability to mitigate moral hazard conflicts (Anderson and Reeb, 2003), reduced earnings uncertainty (Kim et al., 1993), and reduced dependence on particular suppliers, distributors, and customers (Kogut, 1985; Rugman, 1981). However, it remains ambiguous concerning family firms’ financial and non-financial outcomes resulting from spontaneous diversification that might not be implemented based on the need for improving financial performance, but the desire for promoting social well-being.

Given the aforementioned research gaps, the authors seek to enrich the literature by examining antecedences and consequences of spontaneous diversification in the family firm setting using a single-case study approach. Specifically, since decisions concerning family firm diversification typically stem from a desire to enhance financial performance, these decisions arise from the rational-decision making process. Meanwhile, because CSR initiatives typically aim at improving social well-being, these initiatives might spontaneously trigger a firm’s attempts to expand its existing products and/or services that help support the firm’s CSR initiatives. As a result, CSR-triggered diversification might not necessarily be decided via the rational decision-making process. Instead, it is plausible that diversification used for supporting CSR initiatives may arise from personal beliefs and values stemming from a broader religious system. As such, the first principal goal of this case study is to examine how religious values affects a family firm’s CSR initiatives, which, in turn, motivate the firm’s spontaneous diversification that is made to support the CSR initiatives rather than enhance firm performance. As mentioned previously, diversification typically enhances family firms’ financial and non-financial outcomes. This finding draws on the notion that diversification decisions persist from a desire to enhance firm wealth. However, there exists little knowledge about family firm financial and non-financial outcomes affected by spontaneous diversification. Consequently, the second principal goal of this case study is to explore consequences of spontaneous diversification in the family firm setting. To accomplish the goals of this case study, the authors focus on examining a small-sized family firm in Thailand because family businesses are a dominant force of local economy in emerging markets such as Thailand (Suehiro and Wailerdsak, 2004), and the owner has been practising Buddhism, which is the most influential religions in Southeast Asia (El-Kalah, 2001; Selvarajah et al., 2012), for more than 60 years.

The remainder of this case study unfolds as follows. In Section 2, the authors provide a brief review of the family firm diversification literature. Next, the authors present the research framework and methodology. In Section 4, the authors discuss the qualitative findings of this case study and implications. This is followed by the discussion on the limitation and future research suggestions. The final section concludes this case study with a summary.
2 Literature review

2.1 Family firm diversification

Although there is no a particular way to define family firm, most research in the literature has indicated that family involvement as ownership and management determines if a business is family owned, managed, and operated (Anderson et al., 2005). Indeed, as noted by Miller and Rice (1967), the involvement of family in the business distinguishes family firms from non-family firms. Therefore, family involvement signifies the control of the firm by the founder and/or descendants in the firm’s strategic and operational decisions. Although strategic and operational activities of family firms may be different from those of non-family firms, there is an increasing amount of scholarly attention paid to exploring strategic and operational activities of family firms because family firms are the drivers of economic development and entrepreneurship in many economies (Rogoff et al., 2003). One major focus in the literature has been family firm diversification because diversification may allow family firms to obtain financial security and long-term survival (Casson, 1999; Faccio et al., 2001). Moreover, researchers (e.g., Ratten et al., 2007; Zahra et al., 2005) have indicated that value-creating activities occur in spheres in which activities are shaped by unique domestic and international factors and thus noted that theoretical perspectives should be used to understand factors that influence firm activities and firm decision making processes. In particular, three major theoretical perspectives have emerged in explaining family firm diversification decisions.

First, research utilising the RBV perspective of family firm diversification claims that the type and/or the amount of a certain resource that a family firm possesses determine the extent of diversification in the firm (Sánchez-Bueno and Usero, 2014). In particular, in line with the observation made by the RBV of the firm, scholars have found that a family firm’s resources, such as family ownership (Hautz et al., 2013), social capital (Sirmon and Hitt, 2003), family involvement (Muñoz-Bullón and Sánchez-Bueno, 2012), machinery and capital (Wernerfelt, 1984), provide the firm unique capabilities to diversify. In addition, scholars (e.g., Han, 2005; Ratten et al., 2007) have suggested that small firms are identified as lacking financial, managerial, and social capital resources, and that firms’ resources in conjunction with their capabilities influences their aptitude for internationalisation and future success. More importantly, the intangible nature of firm resources implies that there is theoretically no limitation concerning the type of diversification advantage that can be obtained or developed (Tokarczyk et al., 2007).

Alongside using the RBV perspective, scholars have explored family firm diversification using the SEW perspective. The central emphasis of the SEW perspective of family firm is that family firms attempt to maintain control over their operations as well as how they are perceived by their stakeholders in order to preserve the firm’s SEW (Gomez-Mejia et al., 2010). Because most family firms seek to maintain strong family control and a sense of belonging (Wiseman and Gomez-Mejia, 1998), the SEW perspective is pivotal in deciphering family firm diversification. In particular, prior studies of family firm diversification using the SEW perspective have suggested that
family firms prefer to have low levels of diversification because diversification may negatively influence their ability to exercise control (Gomez-Mejia et al., 2007, 2010; Makri and Gomez-Mejia, 2008). The lack of ability to exercise control resulting from diversification may then disrupt the concentration of firm SEW (Gomez-Mejia et al., 2007, 2010; Makri and Gomez-Mejia, 2008).

Another commonly used theoretical perspective of family firm diversification is the agency theory perspective. As alluded to by Fama and Jensen (1983) and Jensen and Meckling (1976), agency theory takes into account the concern that some managers seek their personal endeavours (e.g., benefits through diversification) rather than those of the firms that they serve. That is, agency theory addresses the struggle of interests that arises between shareholders and firm management (i.e., the principal-agent problem) (Amihud and Lev, 1999). Given the costs of agency issues, some scholars (e.g., Chen and Ho, 2000; Chung, 2013; Denis et al., 1997) have argued that concentrated ownership is an effective remedy for eliminating agency cost in the family firm setting. As such, it is inferable that the participation of family members in family ownership and management helps diminish the principal-agent problem, which, in turn, can reduce the extent of diversification in family firms. However, Tsai et al. (2009) noted that agency costs might not be the sole reason for the implementation or adaptation of diversification strategies in family firms. Although findings of the impact of agency costs on family firm diversification are inconclusive, agency theory is still a viable theoretical perspective used to understand family firm diversification (Anderson and Reeb, 2003).

In sum, our review of the literature has suggested that family firm diversification is a product of a firm’s systematic, rational planning process implemented to maximise firm performance and minimise firm risks. In other words, many scholars have implicitly drawn on the assumption that family firm diversification is an intended and planned firm decision. This assumption leads to two critical yet unanswered questions. First, can family firm diversification to be achieved spontaneously? Second, if family firm diversification can be achieved spontaneously, what are the antecedents and consequences of spontaneous diversification in the family business setting? To answer the questions, the authors present the research framework and methodology as well as the qualitative findings using a single-case study in the next section.

3 Research framework and methodology

Accordingly to Ramadani and Dana (2013, p.245), ”in order to gain an understanding of the behaviour of entrepreneurs and of the nature of their enterprises, one must first become familiar with a variety of explanatory variables, including culture, historical experience, and government policy”. Thus, for the purposes of conducting this exploratory single-case study, the authors have chosen to employ a qualitative methodology with a non-quantitative research strategy utilising a holistic approach. In doing so, the authors are able to provide a more in-depth analysis of the condition and environment in which the Chug Yont Engineering Co., Ltd. operates. Indeed, as highlighted by Dana and Dana (2005), using a qualitative approach gives the research many advantages such as reducing the likelihood of the occurrence of Type III error (i.e., asking the wrong question) and Type IV error (i.e., solving the wrong problem), aiding in development of a naturalistic form of inquiry leading to a better understanding of the subject being observed, and having a flexible design allowing for the constant adaptation
A case study of spontaneous diversification

of research to account for explanatory variables (e.g., culture). As such, the authors of this single-case study find these advantages highly desirable when applied to the authors’ research context. More importantly, the flexible research design of this single-case study better lends itself to further future research based on the findings postulated herein.

As stated previously, the primary goals of this case study are to first, examine how Buddhist values affect a family firm’s CSR initiatives, which, in turn, motivate the firm’s spontaneous diversification that is made to support the CSR initiatives rather than to enhance firm performance. Second, this case study seeks to explore consequences of the family firm’s spontaneous diversification. In particular, Figure 1 summarises the research framework of this case study.

**Figure 1** Research framework

As depicted in Figure 1, the authors seek to explore the impact of Buddhist values on a family firm’s business values and philosophy, including the firm’s CSR mentality. Additionally, the authors investigate the process in which the firm’s CSR engagement results in the firm’s spontaneous diversification and diversification consequences. To demonstrate the relationships designated in the research framework, the authors selected Chug Yont Engineering Co., Ltd. (CYE), which is a small-sized family business located in the city of Samutsakhon in Thailand. Through using thorough comprehensive interviews with the owner and reviewing the company’s records with the assistance of an interpreter, the authors were able to obtain information and data about CYE. CYE was specifically chosen for various reasons. First, the owner has been practising Buddhism for more than 60 years, and much of the owner’s Buddhist values have been implicitly and explicitly incorporated into the business operations as well as CSR initiatives. Second, although CYE is a for-profit family firm, the firm has been engaged in high levels of CSR and thus is greatly esteemed by local Buddhist temples, communities, learning establishments, government agencies, benevolent societies, and
other for-profit groups. Finally, the authors had the permission to access CYE’s records, data and archives.

3.1 A brief description of Thailand

With a population of over 65 million people (Institute for Population and Social Research, 2016), Thailand is one of the emerging markets in the region of Southeast Asia. From the perspective of religion, Buddhism has had a significant impact on Thai people’s religious beliefs as well as social and business practices. It is estimated that about 94% of Thais are Buddhists (Tuicomepee et al., 2012). Additionally, due to its abundance of natural resources (e.g., tin, rubber, and natural gas), competitive labour market, and minimal governmental interference, Thailand is considered one of the most appealing markets of Southeast Asia (Pornpitakpan, 2000). Although large firms play a crucial part in prompting Thailand’s growth, small-sized firms are still the dominant driver of the local economy in Thailand (Suehiro and Wailerdsak, 2004). Meanwhile, it is worth mentioning that small-sized firms are identified as possessing 50 or less employees with assets valued at or below 50 million Thai Baht (Office of Small and Medium Enterprises Promotion, 2011).

3.2 Company description

Established in 1962, CYE is a small-sized machinery and industrialised construction family firm with two factories. Examples of CYE’s products include fish deboners, conveyors, and cookers, can washers, and rotary fish washers. Additionally, CYE offers services in consultation, product design, installation, and after-sales service. Notwithstanding its initial economic hardship, CYE has been performing satisfactorily with average annual revenue of $500,000. In 2014, CYE employed 22 employees including one family member. CYE’s structure layout is organised as follows. The owner, Mr. Kriengsak Lertpittayapoom, and his wife, Mrs. Lamead Lertpittayapoom, represent the business and final decision makers. There is one factory manager in each of the two factories. The core responsibilities of these two managers are to manage personnel, allocate resources, and handle sales. Finally, there are 20 frontline employees who execute mechanical tasks in both factories (e.g., drilling, welding, assembling, and lathing). The core mission of CYE is to provide premium products and services with reasonable prices.

3.3 The owner’s business values and philosophy

At age ten, the owner, who is currently 73 years old, visited a Buddhist temple with his older sister. This trip resulted in his faith in Buddhism. At age 21, the owner established CYE, and at age 45, the owner decided to become a monk for a week. During this week, the owner studied and practised Buddhism. Ever since his first visit to the temple, the owner has been a sincere Buddhist, who cultivates his Buddhist values by practising Dhamma (i.e., Buddha’s teachings) and respecting Thai monks. Moreover, the owner not only embraces the philosophy of being socially responsible as an individual that is mainly affected by Buddhism, but also actively engages in various CSR initiatives at the firm level. Furthermore, influenced by the Buddhist values of being humble and appreciative, the owner believes that his business would not be sustainable without internal and
A case study of spontaneous diversification

external stakeholders. Consequently, the owner stated his main philosophy of business practise is as follows:

“I care about local people’s health, education, and practise of Buddhism. That is why I try to make financial and non-financial contributions to local hospitals, Buddhist temples, schools, and local government agencies. As for my customers, I sometimes allow customers who struggle financially to use our products first and pay us back when they have enough money. Additionally, I care about my employees, particularly their quality of life. Treating employees like my own family is an important part of my business. In reality, my employees are those who bring wealth to the company and me. Without these employees, it is impossible for me to take care of my family. Thus, I treat my employees the way that I treat my family.”

In examining CYE, the authors find that the owner not only exhibits Buddhist values at the individual level, but also incorporates these values into the business. In particular, the owner’s desire to assist customers with financial struggles are indicative of the Buddhist value of Karuna (i.e., compassion), which is associated with the yearning to aid others escape from anguish. Similarly, the owner displays his concern for his employee’s well-being because of his Buddhist values. Clearly, CYE engages in initiatives that help enhance the well-being of the internal and external stakeholders.

As noted previously, a main perspective used to evaluate family firm diversification is the SEW perspective, which suggests that family firms employ decisions geared toward preserving both internal and external SEW. According to Vardaman and Gondo (2014), the internal SEW is concerned with maintaining familial influence over how the firm is run and operated, whereas the external SEW deals with how the firm is seen by its stakeholders, and the culture and values the firm promotes to those affected by the firm. Even though conflicts may occur when attempting to sustain both external and internal SEW (Vardaman and Gondo, 2014), a family firm’s attempt to maintain its SEW may be found in the types of products and services that it offers. When asked about how his social and emotional values affect the products and services offered by CYE, the owner responded:

We are Buddhists. We live our life by having Buddhism as a way of life. Therefore, when we do business, we emphasise Dhamma, which is Buddha’s teaching of morality. Thus, we develop products that are useful for most people, and we do not produce things that will harm people. We charge customers with reasonable prices, service them with loving kindness, and undertake projects that are meaningful for both customers and employees. We are honest and do not take advantage on other people.

Evidently, CYE focuses on engaging in business practises that are based on Buddhist morality. This leads the authors to suggest that CYE aims to conduct its business in a way that is consistent with their Buddhist values and lifestyle, which helps CYE maintain its internal SEW. It is also inferred that CYE emphasises the maintenance of external SEW as they prefer to offer products and services that help people by addressing their needs.

3.4 The mindset of the CYE’s CSR engagement

In general, one of main goals for most business organisations is the attainment of profit. Additionally, some businesses seek to help others via CSR initiatives. Nonetheless, engaging in CSR may outweigh making profit because the value that CSR engagement
brings to the firm. When asked about whether the value of helping the community outweigh the impacts on business that doing so may bring, the owner responded:

If you are viewing value as money or profit, the benefits absolutely do not outweigh the impacts. However, I, as the owner, do not care much about making profits. To me, being able to break even is enough. I feel happier to help others than to make money. My ultimate goal is not money anymore. Instead, it is experiencing the happiness resulting from being able to help others.

Based on the above response, the authors conclude that the owner of CYE does not even consider himself to be performing CSR because the owner’s desire to help others goes beyond his business. This supports the view of the owner that CYE is a firm that primarily focuses on helping others with little intention of making profits. More importantly, it appears that CYE places high value on helping others, which is consistent with the Buddhist value of Karuna.

3.5 Spontaneous diversification in CYE

Given that firms often allocate their resources in order to achieve their goals, investigating how a firm utilises its resources allows us to understand better the firm’s strategic choices, including diversification. When attempting to explore why firms diversify, scholars (e.g., Hull and Rothenberg, 2008; Strike et al., 2006) have revealed that a firm’s CSR initiatives aimed at improving social well-being can result in planned firm diversification, which leads to improved financial performance. This, therefore, implies that CSR serves as a strategic means to enhance firm performance. Meanwhile, because CSR engagement often represents a firm’s intention to resolve social, environmental, and ecological issues, engaging in CSR may allow the firm to utilise its unsought resources and capabilities, which can lead to the firm’s spontaneous development of new products and/or services that help support the firm’s continuous engagement in CSR. When asked about specific products or services developed that are not offered prior to engaging in CSR initiatives. The owner responded:

Initially, we mainly focused on manufacturing products related to food packaging machinery. After we established our industry presence, people in community approached us and requested help. This is when we began engaging in CSR. When engaging in CSR initiatives, we tried to use our existing resources to resolve issues presented by people in the community. For instance, we replaced the leaky roof of the school with a metal roof. Additionally, we constructed new playground equipment for a local elementary school.

On observing the outcomes of engaging in CSR, the authors noticed that CYE has been able to offer new products and services to customers that are not necessarily congruent with their existing product lines because of the evolving needs of the community. Consequently, the authors assert that CYE’s diversification is not systematic and planned with the focus of enhancing firm performance. Instead, CYE’s diversification appears as a spontaneous firm act triggered by the owner’s desire to improve the well-being of the community. That is, given that CYE did not previously have the experience in building roofs and playground equipment, the authors contend that spontaneous diversification may occur as an unforeseen by-product of a firm’s attempt to provide for the community rather than as a business interest sought by the firm intentionally.
3.6 Consequences of spontaneous diversification: operational conflicts

Even though CSR is generally viewed as a voluntary business act, it is also noted that CSR is an obligation of business to act accordingly to the overarching goals of the community (Martinuzzi and Krumay, 2013). Consequently, the engagement of CSR may signify a firm’s attempt to balance the needs of multiple internal and external stakeholders. This implies that firms may experience operational-related conflicts when undertaking CSR initiatives. When asked about the effect of helping the community has had on CYE’s operational outcomes, the owner responded:

Sometimes when we help people in the community, they do not understand that we also have to work on our own customer orders. They often want us to perform their jobs immediately. However, if we do not have enough workers to work on CSR projects, we have to tell them to wait. Usually, we perform CSR-related projects when we have enough workers and completely fulfilled our customers’ orders.

From the owner’s response, the authors infer that CYE attempts to help as many people as they can by using its limited resources and labour. This leads the authors to suggest that although CYE can diversify spontaneously through CSR engagement, CYE’s overall operations may be constrained by conflicts created by the firm’s obligations to fulfil customer orders and the firm’s desire to help the community. In addition, from the owner’s response, the authors conclude that the owner seems to be aware of what obligations and to whom CYE owes these obligations.

3.7 Consequences of spontaneous diversification: financial resource preservation

Generally speaking, measurements capturing the financial performance of a firm provide a key indicator of firm survival and firm performance. When asked about how spontaneous diversification resulting from helping the community has affected CYE’s financial performance, the owner responded:

We help the community as much as we can, and we charge the community just enough to pay for the costs. Since we have to pay wages to our employees everyday even when we do not have any projects from our main customers, helping the community during the time when the business is slow is an indirect way of preserving the company’s financial resources.

Based on this response, the authors pose that CYE aims to assist the community even though they do not profit from it financially. However, due to its consistent use of personnel through CSR initiatives, CYE’s financial performance remains in a state of homeostasis because they have a steady workflow at all times. Given CYE’s steady workflow, the owner is thus able to prevent the waste of firm resources as they have to pay daily wages to their employees.

3.8 Consequences of spontaneous diversification: profitability

Even though diversification often serves as a means to reduce firm risk (Tsai et al., 2009), it has been suggested that no strategic choices made by firms are without risk and some have or come with more risk than others (Makri and Gomez-Mejia, 2008). When asked about the risks posed by the company’s engagement in CSR initiatives that help the community, the owner responded:
In terms of the financial aspect, we only charge enough to cover all the costs. This means that we do not make any profit when performing CSR initiatives. This could be risky if a project had some unexpected problems. Sometimes, people do not even have enough money to pay and ask if we can help them cover all the expenses. In addition, some of my employees think that what we do for the community is not necessary, or we help the community more than we should. This sometimes leads to their resignations. In these cases, we have to recruit new employees and provide training to them. In addition, we sometimes get urgent requests from the community while performing customers’ orders. This kind of request often causes us to stop fulfilling our customers’ orders in order to satisfy the community’s needs.

This response from the owner leads the authors to believe that CYE seems more focused on the needs of its community than on the orders from customers. Consequently, CYE’s profitability is impacted along with the emergence of personnel issues. As stated by the owner when asked about employees’ concerns, there have been employees who disagree with CYE’s engagement in helping the community. The practise of helping the community leads to the over exertion of CYE’s limited resources, which in part fosters employee disagreement. Specifically, employee disagreement arises from the disconnection between how employees and the owner believe CYE’s human resources should be allocated. To combat employees’ concerns, the owner of CYE has been providing exceptional employee benefits such as free housing and free meals. Therefore, CYE has experienced relatively low employee turnover over the years.

3.9 Consequences of spontaneous diversification: firm reputation

When assessing firm performance, financial measures are not the only indicators. Non-financial measures such as customer satisfaction, employee retention, and firm reputation are often used to assess firm performance. When asked about CYE’s non-financial performance associated with spontaneous diversification resulting from helping the community, the owner responded:

“The only non-financial challenge that we face is that when the community request something that we cannot do, have no ability to do, or do not have enough employees or resources to perform.”

As discussed previously, CYE has the foremost mission of helping others. Based on the owner’s response, the authors assert that CYE’s ability to help appears to be limited by its lack of capabilities and resources, which can be viewed as a challenge to CYE’s achievement of its mission. However, CYE continues to increase its reputation in the community through their CSR initiatives. More importantly, CYE also attempts to promote employee retention by providing benefits that cannot be found in other competitors to its employees.

3.10 Consequences of spontaneous diversification: employee responses

With the occurrence of spontaneous diversification in CYE, the owner has made some adjustments in order to support his continuous efforts to help others. Extending work hours and adding workloads to accommodate additional CSR-related projects serve as examples of CYE’s adjustments. Unfortunately, for employees, it often means no increase in compensation due to the nature of these projects. This, therefore, causes a rift
between CYE’s aspirations and employee willingness to exert effort. When asked about the approaches used to address employees’ concerns about helping the community without getting additional compensation, the owner responded:

Of course, not all of the employees agree with helping the community when there is no increase in their compensation. However, what I can do is to explain to them my philosophy. I also try to provide good employee benefits, such as free housing, free food, and free transportation, to my employees just like what I give to my family. In most cases, my employees stay with CYE.

By extending the owner’s response, the authors assert that CYE attempts to create a healthy and productive internal work environment in which the employees are part of the family and deeply immersed in the owner’s business values and philosophy. Accordingly, the authors assert that while the owner’s primary focus centres on helping the community, the owner also exerts high levels of efforts to provide for his employees.

3.11 Consequences of spontaneous diversification: changes in strategic intent

When investigating planned diversification, scholars such as Hitt et al. (1994) have found that planned diversification often results in shifts in firm strategic intent. However, whether spontaneous diversification could result in the occurrence of shifts in firm strategic intent in the context of family business remains ambiguous. Consequently, the authors inquire the owner about CYE’s strategic intent in relation to the company’s newly developed products and services that help support CYE’s continuous engagement in CSR, and the owner responded:

“The new products and services that we have developed in order to help the community has only shifted our strategic intent minimally. Overall, we are not too aggressive in finding new customers.”

It is evident to the authors that CYE is passionate about the work that they do. While spontaneous diversification has led to the expansion of CYE’s utilisation of resources, CYE has made necessary changes to adapt to the need of the community (i.e., increasing their product offerings, and innovation). Even with the heavy emphasis placed on helping the community, CYE’s customer flow is steady enough that the acquiring of new clientele is not a top priority.

3.12 Consequences of spontaneous diversification: competitiveness

A key component to the survival of any business is the ability to compete. Meanwhile, diversification is a much sought-after strategy for businesses to obtain competitive advantage (Chung, 2013). However, when diversification is a spontaneous act, what effect does it have on the competitiveness of the firm? When asked about how spontaneous diversification resulting from CSR engagement has affected CYE’s competitiveness, the owner responded:

“We actually do not care much about competing in the industry. We are probably the pioneer of doing this type of business in this city. We never advertise and do not have a big company sign on the street. However, people still come to us because we have been in the business for decades. Personally, I think engaging in CSR initiatives help indirectly create social connections for us. These social connections then help us obtain new customers without the use of formal marketing campaigns. Additionally, because some other businesses
owners also participate in community CSR initiatives, most of our competitors know about our lack of desire to compete. One thing that may be relevant to competition is that we do not have enough resources and employees like other big companies have. Therefore, we often have to distribute our available resources to only our main customers and crucial community projects. This means, we have to be selective regarding whom we serve.”

As CYE is highly selective when it comes to addressing the needs of their main customers, the authors infer that CYE, through spontaneous diversification, can maintain a greater control over what work they take on even though resources are scarce making the idea of firm competitiveness one of very little importance. Furthermore, the authors find the owner’s response to be consistent with the notion posed by Ratten (2014), which states that the collective ability of citizens and companies is important in developing countries because it enables the use of the community as a way to focus on business opportunities.

3.13 CYE’s future endeavours

As with any business, having a foreseeable future is paramount. It is essential to maintain healthy operations because it motivates all stakeholders and ensures a return on financial and non-financial investments. When asked about whether helping the community will continue to result in changes in CYE’s products, strategy, financial position, or community presence, the owner responded:

It is possible that if we continue helping the community, we will need to make changes in some aspects of the business continuously. However, this is somehow dependent on my employees because they are those who make all this possible.

Based on the response provided, the authors assert that the firm is optimistic about its future. More importantly, CYE, for the most part, will maintain its business philosophy of helping others at the forefront.

4 Limitations and future research suggestions

While the qualitative findings of this single-case study suggest that spontaneous diversification driven by CSR may help enhance performance of CYE as a family firm, this single-case study contains the following limitations. First and foremost, because single-case studies are subject to limits in generalisability and potential biases such as misjudging the representativeness of a single event (Tversky and Kahneman, 1986; Yin, 1994), this single-case study suffers from the absence of external validity. Accordingly, the authors caution the reader that the qualitative findings of this single-case study should not be considered as generalisation from a sample case to general population. Given this limitation, the authors recommend that future researchers use a multiple-case study approach to validate the findings (i.e., spontaneous diversification) of this single-case study.

Second, as indicated by scholars (e.g., Chu, 2011), small and medium-sized family firms outperform large family firms because of concentrated family ownership and control. Extending this, it is plausible that the findings of this single-case study may be different when the research framework is applied to large family firms. As such, it would be particularly interesting for future research to examine whether financial and
non-financial consequences experienced by CYE can be found in large family firms practising Buddhist business philosophy.

Finally, because this single-case study examines CYE, which is a private family firm, it does not consider the impact of shareholders on the operations of a family firm. Meanwhile, evidence from existing research has shown that shareholders’ interests of a publicly traded family firm can influence the strategic decisions of the firm (e.g., Jara-Bertin et al., 2008). Thus, it can be expected that there is a distinction between how private and publicly traded family firm may view CSR engagement. That is, given the strong presence of shareholders’ engagement in corporate governance, the authors strongly urge future researchers to validate the qualitative findings of this single-case study using publicly traded family firms (e.g., Haverty Furniture Companies, Inc., Lithia Motors, Inc., or Tyson Foods, Inc.).

5 Conclusions

In conclusion, this single-case study is essential in filling in the gaps in the literature concerning family firm diversification. Findings of this single-case study postulate that it is possible for a family firm to engage in CSR initiatives that, in turn, trigger spontaneous diversification. More importantly, this single-case study poses four crucial implications derived from investigating CYE’s CSR engagement and spontaneous diversification. First, Buddhism has a strong and consistent implication on the mind-set of CSR. Second, through CSR engagement, family firms can develop new and unsought internal capabilities, which allow them to diversify their products and/or services (i.e., spontaneous diversification). Third, spontaneous diversification triggered by CSR engagement may allow family firms to exercise greater discretion in the projects that they undertake and consequently, the firms are more conscientious of available resources with little regard for competition. Finally, when using CSR-driven spontaneous diversification, family firms may rely little on formal marketing campaigns because this type of diversification allows the firms to establish social connections that are crucial to new business opportunities.

Overall, this single-case study demonstrates the process in which spontaneous diversification may occur in the family business setting. By doing so, this single-case study provides important contributions to the literature. Additionally, findings of this single-case study may help guide future research concerning spontaneous diversification.

References


A case study of spontaneous diversification


