

**Family Involvement and Organizational Ambidexterity in Later-generation  
Family Businesses: A Framework for Further Investigation**

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**Purpose:** How family businesses manage to survive in the long term is still not well understood in family business research. A promising concept to explain survivability that is currently heavily discussed in the management literature is organizational ambidexterity – the ability to balance exploring and exploiting activities at the same time. However, family business research has not yet taken sufficient advantage of the potential of organizational ambidexterity to contribute to explaining the ability of later-generation family businesses to survive.

**Design/methodology/approach:** Using central tenets of agency theory, this conceptual paper draws together findings from the family business literature and the organizational ambidexterity literature to create a framework for the relationship between family involvement and the ability to reach high levels of organizational ambidexterity.

**Findings:** Seven propositions are developed which suggest that the level of family involvement in ownership and management affect the ability of later-generation family businesses to reach high levels of organizational ambidexterity. They further suggest that the number of family shareholders, the existence of majority family shareholders, and generational involvement of the controlling family in management moderate these relationships.

**Originality/value:** This is the first paper to theoretically analyze organizational ambidexterity in later-generation family businesses. The seven propositions and avenues for further research presented in this paper are intended to motivate family business research to take a closer look at

organizational ambidexterity. This may be crucial to better explaining and predicting one of business-owning families' most important goals: the long-term survival of the family business.

**Keywords:** Family business, Family firm, Organizational ambidexterity, Business survival, Family involvement

**Paper type:** Conceptual paper

## 1. Introduction

Today, the importance of family businesses (FBs) for national economies worldwide is generally acknowledged. Along with the high number of FBs worldwide comes their high impact on economic stability and growth (La Porta *et al.*, 1999; Schulze and Gedajlovic, 2010). Acknowledging their importance, research on FBs may also be regarded as having left its infancy and having reached adolescence and spread out to major academic outlets (Gedajlovic *et al.*, 2012b). However, the important issue of FB survival is still not well understood, even though it is highly topical. Out of all FBs, approximately 30 percent survive into the second generation and only 10 to 15 percent reach the third or a higher generation (Beckhard and Dyer, 1983; Ward, 1987).<sup>\*</sup> So with growing FB age and generation (which often translates into growing size, see IFFERA, 2003; Klein, 2000), business survival appears to be a major concern for FBs. Given these low survival rates and the economic importance of FBs, it seems surprising that research on FB survival may still be regarded as scarce (Stamm and Lubinski, 2011).

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<sup>\*</sup> While these business survival rates may be similar for non-FBs, the issue of business survival is usually more important for FB owners because they often share the goal of family-internal business succession (Chua *et al.* (2003); Chung and Yuen (2003); Chrisman *et al.* (2012)).

A look at recent trends in strategic management literature might offer a valuable theory to explain and predict FB survival rates – organizational ambidexterity (OA). This concept refers to an organization’s ability to pursue and balance both explorative and exploitative activities (Tushman and O’Reilly, 1996; Simsek, 2009). In this regard, “explorative” refers to activities which are aimed at exploring new opportunities and competencies, while “exploitative” refers to an organization exploiting current capabilities and competencies (Raisch *et al.*, 2009). Put differently, ambidextrous organizations manage to transform current capabilities into short-term success (exploitation) while also taking care of their long-term future competitiveness (thanks to exploration). This is also why OA is purported to positively influence both business performance and business survival (Raisch and Birkinshaw, 2008).

In line with this notion, this paper assumes that, in order to secure long-term survival, FBs need to balance sufficient exploitative and explorative activities, thus achieving high levels of OA. It therefore investigates how family involvement in FB ownership and management is linked to the level of OA. To be clear at the outset, the present paper focuses on later-generation FBs that are privately held<sup>†</sup>. In accordance with existing FB research (Bammens *et al.*, 2008; Beck *et al.*, 2011; Cruz and Nordqvist, 2012), “later-generation FBs” refers to FBs in which family members of the second or later generations are involved in the management and/or ownership. Due to divorces, or inheritance of ownership stakes, concentrated ownership of founder-generation FBs is usually more widely dispersed in later-generation FBs, which translates into most later-generation FBs having more than one individual owner (Jaffe and Lane, 2004; Klein, 2000). As

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<sup>†</sup> This focus on privately held FBs is necessary because listed FBs are usually – just like non-FBs – confronted with considerable market pressures, which may overshadow family involvement (the narrower focus of this paper) and which may lead to loss of FB-specific characteristics such as long-term orientation (Morck and Yeung (2003); Lumpkin *et al.* (2010)).

is common in empirical studies (e.g., Distelberg and Blow, 2011; San Martin-Reyna and Duran-Encalada, 2012; Westhead and Howorth, 2006; Yilmazer and Schrank, 2006), this paper assumes that, in order to be regarded as an FB, a family related through blood ties must hold at least 50 percent of the voting shares in the FB. Empirical results unanimously show that later-generation FBs are larger in terms of firm size than first-generation FBs – for instance, measured by the number of employees and/or sales turnover (e.g., Beck *et al.*, 2011; Cruz and Nordqvist, 2012; Klein, 2000). Although the exact sizes of all later-generation FBs cannot be generalized, it can be assumed that they are, on average, not micro-businesses but somewhat larger.

The number of FBs (usually) decreases with generation and size (IFERA, 2003), which suggests that business survival and/or maintaining FB status is more challenging for later-generation than for founder-generation FBs. Hence, this paper focuses on later-generation FBs. Compared to non-FBs, later-generation FBs require distinct consideration concerning OA, as the involvement of a controlling family creates idiosyncratic governance, culture and organizational characteristics (Habbershon and Williams, 1999; Sirmon and Hitt, 2003; McGuire *et al.*, 2012) which may influence OA (Gibson and Birkinshaw, 2004; Simsek, 2009). Moreover, later-generation FBs may find it especially difficult to realize a sufficiently high degree of exploration, as they are generally risk-averse and therefore cautious when it comes to exploratory activities such as investments in research and development (R&D) (Anderson *et al.*, 2012; Chrisman and Patel, 2012; Hiebl, 2013). Put differently, the entrepreneurial spirit which helped to found and grow the FB in the first generation may be lost over the course of time in later-generation FBs. These considerations have been confirmed by recent research which showed that later-generation FBs produce fewer patent citations and innovations with lower economic and technological importance than founder-led firms (Block *et al.*, 2013). Thus, this conceptual paper develops

propositions on the relationship between family involvement and the level of OA in later-generation FBs. It does so by drawing on the central tenets of agency theory and combining these with insights from the FB and the OA literature.

Understanding FB-specific antecedents of OA should be important for both FB practice and research. Research has shown that, in addition to traditional economic goals, FB owners view non-economic goals such as firm survival and transgenerational succession as highly important (Chua *et al.*, 2003; Chung and Yuen, 2003; Chrisman *et al.*, 2012). FB owners could therefore benefit from a better understanding of the contextual factors they might need to tackle in order to achieve high levels of OA and thus to enable longer-term FB survival. Research would benefit from a better understanding of the antecedents of FB survival such as OA, as this enables closer analysis of the factors that contribute to the longevity and resilience of FB ventures. This paper contributes to these objectives by developing propositions for further research into the relationship between family involvement and the level of OA. Surprisingly, despite the growing popularity of OA in management literature (Raisch *et al.*, 2009; Chang *et al.*, 2011), the concept has not yet been broadly studied in connection with FB peculiarities (De Massis *et al.*, 2013a). To the best of the author's knowledge, only five studies so far have linked the concept with FBs (or owner-managed firms) (Lubatkin *et al.*, 2006; Frank *et al.*, 2010; Stubner *et al.*, 2012; Gedajlovic *et al.*, 2012a; Allison *et al.*, 2014). Extant findings generally agree that family involvement (or owner management in the case of Gedajlovic *et al.* (2012)) has a positive impact on OA. However, Allison *et al.* (2014) show that amongst FBs, there can be observed considerable variation regarding OA. This is why they call for more research to explore in more detail how a high level of OA can be achieved in FBs. This paper responds to this call by examining the impact of family involvement on the level of OA. Aside from following this call,

the present paper is also among the first (besides Gedajlovic *et al.*, 2012a) to highlight the potential of agency theory to explain the level of OA achieved in FBs. However, the present paper focuses on the specifics of later-generation FBs in terms of agency theory and therefore arrive at different conclusions from Gedajlovic *et al.* (2012), who found a positive link between owner involvement and both exploration and exploitation in the nascent SMEs they studied. Most importantly, the present paper's findings suggest that, in later generations, family involvement may limit rather than foster OA. This may point to principal-agent dynamics working out differently in small and first-generation FBs than in later-generation FBs in terms of their effect on the ability to reach sufficient OA.

The remainder of this paper proceeds as follows. The following section gives an overview of (i) the key tenets of OA and the concept's importance for firm survival and (ii) the central tenets of agency theory and their relevance to studying FBs. Subsequently, OA and agency-theoretic arguments are combined with current knowledge on FBs to develop seven propositions. Finally, underlying assumptions as well as implications for practice and research are discussed, including concrete suggestions on how future research may test the propositions presented in this paper.

## **2. Theoretical Background**

### **2.1 The Concept of Organizational Ambidexterity**

Creating innovation is usually a key concern of managerial work, as without innovation, current business performance may not be sustained and future business survival might be endangered (Chang *et al.*, 2011; Lafuente, Francisco Javier Maqueda *et al.*, 2013). Innovation involves

creating new knowledge as well as utilizing extant and newly gained knowledge and translating it into business success. Put in the words of OA research, in order to achieve OA and thus business survival, businesses need to exploit current knowledge as well as explore new knowledge (Tushman and O'Reilly, 1996; Filippini *et al.*, 2012). Whereas exploitation includes efficiency and making the most out of extant competencies, exploration comprises experimentation efforts and variation in order to create new capabilities and knowledge (March, 1991; Wadhwa and Kotha, 2006; Chang *et al.*, 2011). Thus, exploitation and exploration entail contradictory knowledge processes (Benner and Tushman, 2003; Lubatkin *et al.*, 2006). Both exploiting and exploring knowledge requires resources. Thus, in a world of scarce resources, it follows that organizations and managers need to spread their resources on both learning modes. This creates tensions between exploitation and exploration, which compete for the same scarce resources (Andriopoulos and Lewis, 2009; O'Reilly and Tushman, 2011).

Successfully managing these tensions and achieving a balance between exploitation and exploration is subsumed in research under the term OA (Raisch and Birkinshaw, 2008; Simsek, 2009). At this point it must, however, be noted that in any given organization, there may exist more than one configuration of exploitation and exploration that would lead to a balance and thus to OA. In fact, there may be different degrees of OA. In line with this notion, published quantitative studies operationalized OA as a continuum (e.g., Lubatkin *et al.*, 2006; Stubner *et al.*, 2012), indicating that firms may experience low or high levels of OA. However, as a limitation, both Simsek (2009) and Gedajlovic *et al.* (2012) argued that OA should refer to organizations with relatively high levels of exploration and exploitation, because only then may the above-described positive effects of OA materialize. Thus, organizations with low levels of both exploration and exploitation may strike a balance between these two learning modes, but in

Simsek's (2009) view they cannot be regarded as ambidextrous. Adopting this view, the present paper also assumes that there may be different degrees of OA, but that organizations with low levels of both exploration and exploitation should not be regarded as ambidextrous.

The two major ways of obtaining OA, as discussed in the literature, are structural and contextual ambidexterity (Gibson and Birkinshaw, 2004; Güttel and Konlechner, 2009). Structural OA means that organizations create structures, which enable organizational members to either focus on exploitation or exploration. So, organizational members in different business units (or groups within business units) can specialize in either exploitation or exploration (Duncan, 1976). However, this involves the downside that someone needs to re-integrate and coordinate the different approaches and actions, which separated exploration and exploitation units follow. This task is often accredited to the top management team, which then has to secure OA by balancing the two knowledge processes within the top management team (Smith and Tushman, 2005; Jansen *et al.*, 2008; Probst *et al.*, 2011).

In turn, contextual OA marks situations in which business units or single organizational members practice both exploration and exploitation (Güttel and Konlechner, 2009). According to Gibson and Birkinshaw (2004), this may be realized by building business unit contexts which enable the members of these business units to determine for themselves how to divide their working time between exploiting and exploring activities. Of course, this puts high demands on organizational members, as this requires them to be able to both create value in the present, while also securing the future. In turn, contextual OA would avoid coordination needs which arise from structural OA.

Regardless of whether OA is achieved through structural or contextual approaches, research has directly and indirectly shown that the top management team plays a pivotal role in enabling OA (Simsek, 2009; Probst *et al.*, 2011; Filippini *et al.*, 2012). When a structural approach is chosen, the top management team has to coordinate exploring and exploiting units and should spread resources to these units in order that OA is made possible. In turn, when following a contextual OA approach, the top management team has to empower subunit managers and their employees to act ambidextrously themselves. This is why OA research has increasingly focused on how top management team members work together to reach OA and how their characteristics may influence the ability to act ambidextrously (Raisch and Birkinshaw, 2008; Simsek, 2009). This is where the present paper aims to contribute to the literature. One major – if not the most important – difference between FBs and non-FBs is the integration of a controlling family into the firm’s leadership and control (Stewart and Hitt, 2012). In contrast to non-FBs, the owners of FBs are directly involved in steering the future course of the firm and do not leave this task to non-family managers.<sup>‡</sup> This is why this paper suggests that the level of family involvement will have important effects on the OA level in later-generation FBs.

Extant OA research has also aimed to document the benefits of ambidextrous organizations. While overall results of OA’s effect on performance are somewhat mixed, most studies find a direct or indirect positive impact on business performance (Raisch and Birkinshaw, 2008;

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<sup>‡</sup> Note that FB definitions used in empirical studies (e.g., Klein (2000); Anderson and Reeb (2003)) do not necessarily require that family members are involved in either the executive board or the board of directors. For these studies, firms are usually also regarded as FBs if the controlling family holds only a certain proportion of the share capital. However, following the approach that being an FB essentially entails that the controlling family (or a small number of families) also actively shapes the course of the FB, significant family influence – and thus an impact on OA – may only be given if the family is involved in managing or controlling the firm (Chua *et al.* (1999)); this is another reason why this paper regards firms only as FBs if the controlling family holds more than 50% of the shares and can thus exert control.

Simsek, 2009; Raisch *et al.*, 2009). In the only paper to date that investigates the OA performance relationship for the field of FBs, Stubner *et al.* (2012) report a positive relationship between OA and FB performance. Although high levels of OA may not only enhance short-term performance but also long-term business survival (March, 1991; Tushman and O'Reilly, 1996), empirical tests of this tenet are still scarce (Raisch and Birkinshaw, 2008; O'Reilly and Tushman, 2011). Nevertheless, it was shown, for example, that corporate venture units were more likely to survive the major corporate venture downturn in 2002/2003 if they followed the tenets of OA (Hill and Birkinshaw, 2014). Moreover, another study has reported that organizations promoting a balance between exploring and exploiting behaviors were less likely to fail (Probst and Raisch, 2005).

## **2.2 Agency Theory and Later-generation Family Businesses**

Agency theory is one of the most widely adopted theoretical frameworks for studying FBs (Chrisman *et al.*, 2010; Sharma, 2004; Siebels and Knyphausen-Aufseß, 2012). One of the main reasons for this is that, theoretically, FBs can be expected to experience lower levels of agency conflicts because, unlike in non-FBs, there is no separation between ownership and control (e.g., Eisenhardt, 1989; Fama and Jensen, 1983; Jensen and Meckling, 1976). Put differently, FBs – just like owner-managed firms more generally – exhibit a personal union of principals (FB owners) and agents (FB managers). Consequently, FBs are argued to be in less need of formalized agency-control practices that align principals' and the agents' interests (such as incentive compensation) or help the principal to monitor the agent's activities (such as reporting duties) (Ang *et al.*, 2000; Chrisman *et al.*, 2004; Jensen and Meckling, 1976).

However, this theoretic picture of FBs experiencing zero agency costs (Jensen and Meckling, 1976) has two major shortcomings. First, many FBs, and especially those in second and later generations, are no longer fully family-managed and -owned (Cruz and Nordqvist, 2012; Klein and Bell, 2007; Westhead *et al.*, 2002). They may have introduced non-family managers or non-family shareholders and thus gradually reduced family involvement and influence in the firm. Both developments lead to – at least partial – breakup of the personal union of principal and agent in FBs. Accordingly, the empirical literature reports that FBs employing non-family managers and/or having non-family investors do not feature zero agency costs, but have in many cases – similar to non-FBs – introduced some agency-control mechanisms such as incentive remuneration and monitoring mechanisms (e.g., Hiebl *et al.*, 2013; Schulze *et al.*, 2001; Songini and Gnan, 2013; Speckbacher and Wentges, 2012). The second shortcoming of this view is that FBs may have specific agency costs. Although FB owners may not be financially incentivized to put self-interest first (which is inherent in traditional agency theory, see e.g., Eisenhardt, 1989; Jensen and Meckling, 1976), they may pursue other interests than the well-being of the firm. For example, they may put their family's interests above the FB's interests. Such FB-specific agency conflicts may materialize, for instance, when senior family managers install more junior family members as succeeding CEOs although they are not better suited than non-family candidates (Jaskiewicz *et al.*, 2013; Schulze *et al.*, 2003b). Thus, while such CEO appointments may be beneficial to the controlling family (e.g., by keeping managerial control over the firm or securing jobs for family members), they may be detrimental to the FB because it may then experience suboptimal management. Similarly, family CEOs that show weak performance may, thanks to family ties, hold their positions longer than CEOs without family ties (Gómez-Mejía *et al.*, 2001).

Although the view that FBs experience zero agency costs has these two shortcomings, FBs may nevertheless be regarded as having distinct features and agency advantages compared to non-FBs. According to Miller and Le Breton-Miller (2006), family members may enjoy three types of agency-based advantages in FBs as compared to owners of non-FBs: (i) Family members may experience relatively high levels of managerial discretion, especially if their family holds a large number of shares and can thus exert decisive control. (ii) Due to being with the FB for extended periods of time, family members often have significant in-depth knowledge. This reduces potential information asymmetries between principals and agents and makes monitoring non-family agents easier, even without highly formalized practices. (iii) Despite potential FB-specific agency conflicts as described above, family members usually have not only financial but also personal incentives to act in the FB's interest.

Such dual (financial and personal) interest of family members may also have an effect on their attitude towards risk. In traditional agency theory, agents are regularly depicted as being risk-averse due to their inability to diversify their employment and the desire not to lose their jobs by pursuing risky ventures. Principals are regularly depicted as being risk-neutral because they can diversify their investments (Cai *et al.*, 2013; Eisenhardt, 1989; Jensen and Meckling, 1976). However, published empirical research (for an overview, see Hiebl, 2013) suggests that FBs can generally be considered as risk-averse. Thus, it may be the case that the owners of FBs (the principals) are generally very risk-averse – for instance, due to their usual desire to keep the FB up and running and in the hands of the family (Zellweger *et al.*, 2013). For FB managers (agents), the empirical literature suggests that family managers – for similar reasons as family owners, and often in personal union as managers and owners – are more risk-averse than non-family managers (Hiebl, 2013). FBs may therefore differ substantially from the common view

expressed in agency theory including in terms of the risk aversion of principals and agents. As risk aversion has important implications for reaching high levels of OA, we explore this issue in the following section.

### **3. Proposition Development**

#### **3.1 Family Involvement in Later-generation Family Businesses**

Unlike FBs controlled by the founding generation, later-generation FBs often show different patterns of family involvement. As the family expands, the number of family members owning shares of the FB usually also increases (Jaffe and Lane, 2004; Klein, 2000). At the same time, higher diversity in owners might lead to a higher diversity of personal goals (Ward, 1997). Whereas some FB owners might still be active in FB management and aim to secure a safe long-term development of the firm, other FB owners might choose not to work for the FB and might rather be interested in stable dividend payments to sustain their private lifestyles (Morck and Yeung, 2003; Le Breton-Miller and Miller, 2008). Obviously, funds paid out to FB shareholders in the form of dividends or other distributions are not available anymore for exploring activities in the sense of OA. This is why the present paper argues that the degree and composition of family involvement in the FB's ownership structure influences the FB's ability to reach high levels of OA. In general, due to their high risk aversion (Hiebl, 2013), later-generation FBs can be expected to explore less than founder-led FBs or non-FBs. To give an example, consider the fate of Anton Schlecker AG, a German family-owned drugstore chain led by the second family generation with roughly 7,000 stores before its demise. For many years, this firm did not (or only insufficiently) invest in exploratory actions such as developing new store formats or sales

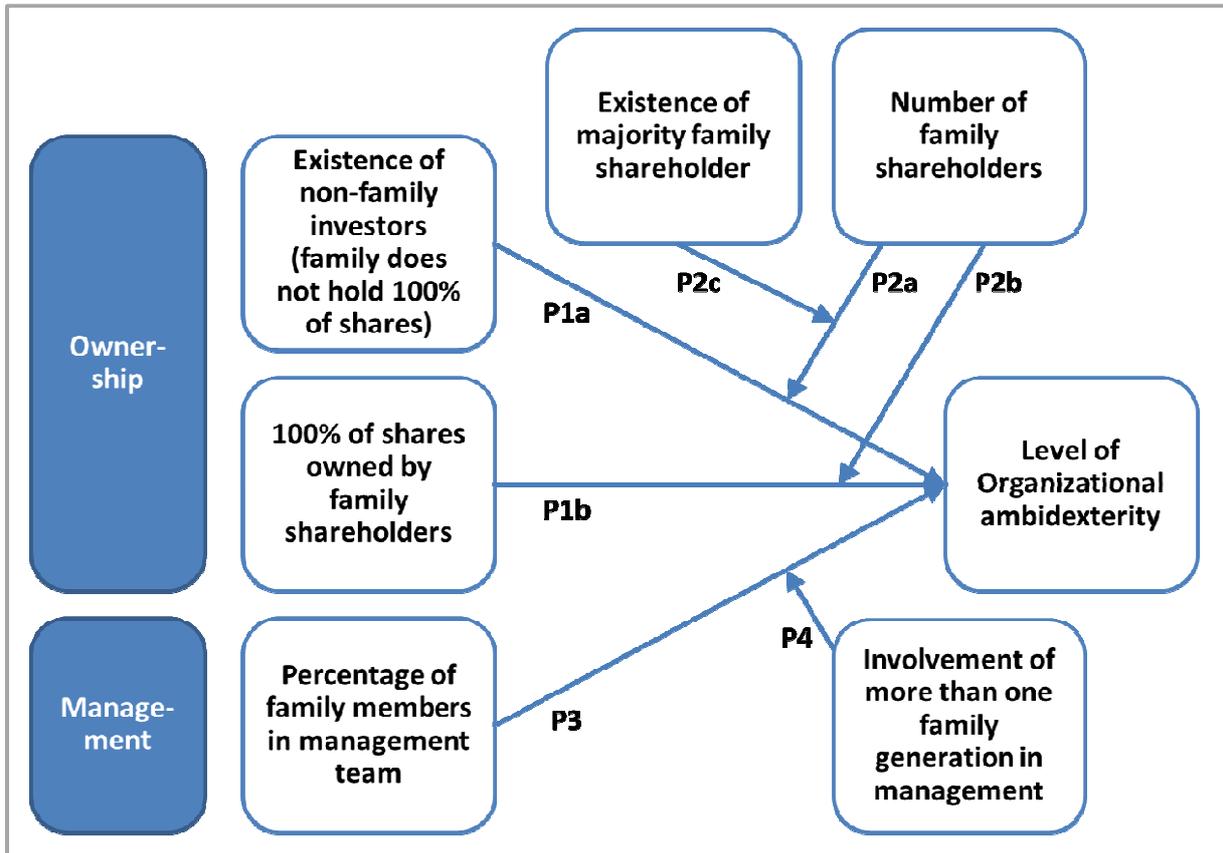
channels, but exploited its current capabilities. When the second generation eventually recognized the need to invest in new store formats in 2010, it was already too late. They could no longer make good their competitive disadvantages in relation to their peers, in part probably also due to risk-aversion in the refurbishment of their stores: only 350 of the 7,000 stores were modernized. In 2012, the firm went into insolvency (Jacobsen, 2012). As this example shows, the main obstacle for later-generation FBs in reaching high levels of OA is not too little exploitation, but too little exploration (Block *et al.*, 2013).

Another characteristic of later-generation FBs is that they usually rely more on non-family managers than first-generation FBs do (Klein and Bell, 2007). As the FB expands in size, the family may no longer be able to fill all management positions from its own ranks and must therefore hire non-family executives. Furthermore, some specific management tasks may require specialized knowledge which the family may not be able to supply (Lutz and Schraml, 2012; Gurd and Thomas, 2012). Whatever the reason for the integration of non-family management in later-generation FBs may be, non-family managers were found to bring with them different attitudes towards risk taking than family managers (Block *et al.*, 2013; Hiebl, 2013). This might also affect the balance between exploiting and exploring activities. Thus, the present paper also considers the effect of family and non-family involvement in the management team of later-generation FBs.

In summary, this paper studies the relationship between OA level and family involvement in the ownership base and management team of later-generation FBs. The suggested relationships are shown in Figure 1 and are – together with their agency-theory-based underpinnings – explained in the following sub-sections.

**Figure 1**

**Propositions on family involvement and OA in later-generation FBs**



### **3.2 Family Involvement in Ownership and Organizational Ambidexterity**

Empirical research has found that later-generation FBs exhibit significantly lower percentages of family ownership than first-generation FBs (e.g., Cruz and Nordqvist, 2012; Westhead and Howorth, 2006). Put differently, later-generation FBs often have some non-family investors. Typical non-family investors such as venture capital or private equity funds are known to be interested primarily in increasing the value of their ownership stake (Wright and Robbie, 1998)

and not in receiving regular distributions such as family owners not actively involved in FB management (Le Breton-Miller and Miller, 2008; Wessel *et al.*, 2014). Moreover, venture capital or private equity investors do not only deploy capital, but also actively influence management (Cumming and Johan, 2010; Schäfer and Schilder, 2009; Tan *et al.*, 2013). Such investors advise management not only on various topics such as accounting or marketing, but also on exploration-related issues such as patent or technical issues – which is why money supplied by such non-family investors is also termed “smart money” (Schäfer and Schilder, 2009; Sørensen, 2007; Tappeiner *et al.*, 2012). In line with this notion, non-family investors regularly give advice on new corporate ventures such as internationalization and major R&D projects (George *et al.*, 2005; De Massis *et al.*, 2013b).

From an agency-theory perspective, the literature on risk aversion in family firms (Hiebl, 2013) suggests that family-member principals are not risk-neutral, but risk-averse. This is rooted in their desire to avoid actions which may harm the survival of the FB, and thus – unlike other principals – they are more emotionally tied to “their” FB and less able to diversify their portfolio holdings. Empirical findings show that the desire to keep the FB alive is even stronger in later-generation than in first-generation FBs (Westhead and Howorth, 2006). However, it can be expected that non-family investors behave more in line with the picture of risk-neutral principals inherent in agency theory because they are not bound to one FB, but may diversify their portfolio holdings among many firms (Amit *et al.*, 1990; Chan *et al.*, 1990). Inclusion of non-family investors serving as principals would therefore reduce the overall risk-averse attitude of an FB’s group of principals. Put differently, non-family investors may actively influence the FB’s management team to pursue riskier explorative activities and not only focus on exploiting activities to satisfy family shareholders. This should also counter the family shareholders’ usual

focus on risk-averse projects such as investing in tangible goods and incremental innovation (Anderson *et al.*, 2012; Cucculelli and Marchionne, 2012; De Massis *et al.*, 2013b). The existence of non-family investors should therefore help later-generation FBs to reach a high-level balance between exploration and exploitation, i.e., high levels of OA. Thus:

***P1a:** The existence of non-family shareholders such as venture capitalists and private equity firms in later-generation FBs facilitates exploration and thus positively affects the firm's ability to reach high levels of OA.*

However, if a later-generation FB is entirely owned by family members, it is likely to follow the family principals' risk-averse attitude. Hence, it can be expected that such later-generation FBs lack sufficient exploration and are therefore hindered in reaching comparably high levels of OA as FBs with non-family investors. Thus:

***P1b:** Later-generation FBs that are entirely family-owned reach lower levels of exploration and thus lower levels of OA than FBs with non-family investors.*

### **3.3 The Moderating Role of the Number of Shareholders and the Existence of a Majority Family Shareholder**

Propositions P1a and P1b are likely to be moderated by two factors: the number of family shareholders (which affects both P1a and P1b) and the existence of a majority family shareholder (which affects only P1a). When FBs are passed on to the next family generation, ownership stakes in the firm are often divided amongst the senior generation's children. Therefore, the number of family shareholders in the FB may increase and, consequently, individual ownership

stakes and control rights of the succeeding generation decline (Jaffe and Lane, 2004). With every succession or inheritance of ownership stakes, this procedure may be repeated. Thus, later-generation FBs may be owned by a large number of shareholders, which leads to “ownership dispersion” (De Massis *et al.*, 2013c; Schulze *et al.*, 2003a). For example, the German Haniel Group, founded in the middle of the 18<sup>th</sup> century, is still fully family-owned and has now got more than 600 family shareholders. Another example is the Austrian firm Swarovski, manufacturer of cut crystals and gemstones. The firm was founded in 1895 and now counts more than 60 family shareholders.

These huge numbers of shareholders already indicate that not all shareholders of later-generation FBs can also be part of the FB’s management board and thus be responsible for its operational management. Some may also deliberately choose not to work in the FB. Thus, some or even most of the family shareholders of later-generation FBs will act only as owners and not as managers. Consequently, these only-shareholder FB owners may, to a certain extent, lose the emotional binding to the FB, which is argued to be strongly related to non-involvement in the FB’s management team (Zellweger and Astrachan, 2008). Their main interest may therefore lie in receiving regular cash dividends or other distributions, which may also be their major source of personal income (Le Breton-Miller and Miller, 2008; Wessel *et al.*, 2014). Put differently, while such shareholder-only FB owners could be viewed as behaving more like principals of non-FBs and could thus be expected to act more in line with the picture of risk-neutral principals, their portfolios are usually not well diversified and their stake in the FB represents their major source of income (Gray, 2005; Heaney and Holmen, 2008). Hence they may, again, be regarded as risk-averse principals – not because they seek to keep the FB legacy in place (like FB

members managing the firm, see section 3.2), but because they have undiversified portfolios and secure their personal incomes through regular distributions.

In order to secure regular distributions, these FB shareholders are likely to urge FB management to follow a risk-averse strategy that is focused on steady cash flow. Put in OA terminology, such non-management FB owners may make FB management concentrate on exploiting current capabilities in order to safeguard regular cash payments. Thus, riskier exploratory activities which do not immediately lead to cash flow increase – for instance, R&D and internationalization – will be rejected. Empirical research results also support this notion, as it was found that FBs with a high number of family shareholders (i.e., a high level of ownership dispersion) invest less in R&D than FBs with concentrated ownership (Le Breton-Miller *et al.*, 2011). Thus, a consequence of high numbers of family shareholders might be an excessive focus on exploitation and neglect of exploration. This may interfere with the positive effect of the existence of non-family investors on the level of OA as expressed in P1a and may even exacerbate the effect of 100 percent family ownership on OA as expressed in P1b. It is thus proposed:

**P2a:** *FBs with non-family investors and a high number of family shareholders will achieve lower levels of OA compared to FBs with non-family investors and a low number of family shareholders.*

**P2b:** *All-family-owned FBs with a high number of family shareholders will achieve lower levels of OA than those with a low number of family shareholders.*

However, it can be expected that the moderating effect of the number of family shareholders as expressed in P2a will be reduced by the existence of a majority family shareholder. For the purpose of this paper, such a majority family shareholder is defined as (i) a single family member who owns more than 50 percent of the shares in the FB or (ii) a group of first-degree family relatives (i.e., parent, offspring, sibling) who act as a syndicate and together hold more than 50 percent of the shares in the FB. Unlike minority family shareholders, who are mostly interested in steady distributions, such a majority family shareholder is likely to have a close emotional relationship with the FB because the autonomy and power he enjoys make him more emotionally attached (Zellweger and Astrachan, 2008). Hence, the majority family shareholder is particularly interested in the long-term existence of the FB (Astrachan and Jaskiewicz, 2008), which would be endangered by an excessively strong focus on exploitation strategies and high distributions. Since the majority family shareholder controls the majority of shares, s/he will have substantial managerial discretion (Miller and Le Breton-Miller, 2006), which s/he will use to deny minority family shareholders inappropriately high distributions. Nevertheless, the relationships expressed in P1a and P1b are expected to hold because, due to his/her desire to maintain the FB, the majority family shareholder will also act more risk-averse than non-family principals, as described in section 3.2. Thus, the majority family shareholder is expected to only work towards preventing the outcomes of high ownership dispersion as explained above, but will not act in a more risk-taking way than other family shareholders. Thus:

***P2c:** The simultaneous existence of a high number of family shareholders and one majority family shareholder will reduce the negative influence of a high number of family shareholders on the level of OA as expressed in P2a.*

### **3.4 Family Involvement in Management and Organizational Ambidexterity**

Family managers of later-generation FBs face a difficult situation. On the one hand, they often have to deal with other family members' expectations of regular cash payments from the firm and preserving the long-standing FB tradition without risking short-term failure (Ward, 1997). Following such expectations would lead to more cash-generating, low-risk and thus exploitative actions. On the other hand, they have to take care of the FB's future stability and competitiveness (Le Breton-Miller *et al.*, 2011). Stressing this notion would lead the family manager to pursue explorative actions, which should lead to new capabilities to ensure the FB's future. Successfully managing these tensions would mean reaching high levels of OA.

While family managers might be aware of the need to both secure the present and future survivability of the FB and thus reach OA, they are usually closely emotionally tied to the FB (Zellweger and Astrachan, 2008), which might prevent them from introducing more radical innovations (Block *et al.*, 2013). Furthermore, they might feel that their socioemotional status is strongly connected to their status as family manager (Gómez-Mejía *et al.*, 2007; Berrone *et al.*, 2012). When pursuing risky explorative ventures, they might feel that the short-term survival and thus the basis for their socioemotional status may be endangered. Thus, although acknowledging the need to invest in the future, their (socio-)emotional engagement with the FB prevents them from really balancing exploitation and exploration and makes them focus instead on low-risk exploitative actions. This notion is supported by empirical findings which show that higher family involvement in the management teams of later-generation FBs is negatively correlated with R&D activities and debt levels (McConaughy *et al.*, 2001; Le Breton-Miller *et al.*, 2011;

Anderson *et al.*, 2012; De Massis *et al.*, 2013a). It can therefore be followed that a higher share of family members in a later-generation FB's management board will lead to more exploitative actions and to fewer explorative actions, thus preventing the FB from reaching high levels of OA.

Following this argument, the existence of non-family managers should be beneficial to reaching high levels OA. This notion also receives support when analysing pressure on non-family managers to signal managerial impact. FBs are often reluctant to hire non-family managers in the first place, and only do so when no adequate family member is available for the job (Klein and Bell, 2007; Lutz and Schraml, 2012). Non-family managers may notice this initial reluctance and thus seek to show that their employment is justified. They might do so by creating ostensible managerial impact, for instance, by pursuing new, risky ventures (Casillas *et al.*, 2011), and therefore they may be more likely to follow explorative traits than family members. Further, since non-family managers are also less emotionally engaged with the FB than family managers, they can primarily focus on business economics. This might lead to a more thoughtful, informed and forward-looking attitude towards risky and explorative ventures (Stanley, 2010).

These considerations suggest that, in terms of risk aversion, the status of managerial agents in an FB is decisive for reaching high levels of OA. While it may well be the case that both family and non-family managers in FBs act in line with the generally risk-averse picture as drawn by agency theory (Block, 2011; Eisenhardt, 1989), it can be theorized that family managers will be even more risk-averse than non-family managers in FBs. Family managers in positions received mostly due to their family membership (i.e., nepotism, see Jaskiewicz *et al.*, 2013) are emotionally incentivized to avoid FB failure by all means and are unlikely to gain similarly high-

ranking managerial positions outside the FB. The presence of non-family managers, which dilutes the concentration of family managers, in later-generation FB management teams will therefore help to balance exploitative and explorative intentions. Thus:

*P3: The higher the percentage of family members in the management team of a later-generation FB, the lower the level of OA.*

This relationship should even be stronger if not one but several family generations are part of the management team. In such situations, it is clear that the younger generation is actually aiming at succeeding the senior generation in FB management and that FB management remains in the hands of the family (at least partially) (Le Breton-Miller *et al.*, 2011). Thus, in order to not risk this succession, the family members in charge will focus more on preserving the FB in the short-term by pursuing exploitative actions rather than pursuing explorative ventures. Thus:

*P4: The negative relationship between percentage of family members in the management team of a later-generation FB and level of OA as expressed in P3 will be more pronounced if more than one family generation is involved in the FB management team.*

#### **4. Discussion**

This paper was motivated by a key question in FB research: How can later-generation FBs secure their long-term survival? This question has gained insufficient attention in FB literature (Stamm and Lubinski, 2011), despite the well-known statistic that approximately 30 percent of all FBs make it to the second generation and only 10-15 percent reach the third generation

(Beckhard and Dyer, 1983; Ward, 1987). Starting from the positive relationship between OA and firm survival, which is well-established in the literature (e.g., (Raisch and Birkinshaw, 2008; O'Reilly and Tushman, 2011), the framework developed in this paper suggests that family involvement in FB ownership and management is an important antecedent of a high level of OA in later-generation FBs.

While the propositions developed in this paper may generally hold, they are, of course, contingent on some assumptions in the current literature. One of them is the notion that FBs – and especially later-generation FBs – are very risk-averse. This assumption has mostly been evidenced by the lower debt and R&D levels of FBs (De Massis *et al.*, 2013a; Hiebl, 2013). However, the question remains whether lower R&D levels also lead to lower innovativeness in FBs, or whether FBs generate a comparable level of innovativeness with less R&D spending, thus showing higher R&D efficiency than non-FBs (Anderson *et al.*, 2012). In the terms of OA literature, FBs may therefore show higher exploration efficiency than non-FBs. The reasoning for this notion lies in the involvement of family members in FB management. Since family managers put their own capital into R&D projects, they are likely to invest in projects which have the highest chance of leading to marketable products or services. Thus, for the same R&D dollar, family-managed FBs may get more R&D outcomes than comparable non-FBs (Anderson *et al.*, 2012). Consequently, higher levels of family involvement in FBs may lead to higher exploration efficiency, and OA could therefore be reached with less exploration activity than in non-FBs. Exploration efficiency could thus moderate the generally negative impact of excessive family involvement in later-generation FBs on the OA level. Future research into this relationship would most likely benefit from also examining exploration efficiency. In this context, it might be valuable to take a closer look at the innovation literature, which has already

introduced concepts for measuring the complex construct of R&D efficiency (e.g., Chiesa and Masella, 1996; Kerssens-van Drongelen and Bilderbeek, 1999; Hashimoto and Haneda, 2008).

Another underlying assumption relates to the risk-aversion of family members in later-generation FBs. While the majority of the empirical literature cited above suggests that FBs in general and their controlling family members tend to behave in a risk-averse way, there may, of course, be exceptions to this general claim. In addition to exploration efficiency, empirical studies on the relationship between the levels of family involvement and OA might therefore also benefit from trying to directly measure risk-taking propensities of the family members owning and/or managing a later-generation FB. Such research may build on experimental studies on family members' risk aversion (e.g., Welsh and Zellweger, 2010) and operationalizations of risk-taking behaviour inherent in entrepreneurial orientation constructs (e.g., Kreiser *et al.*, 2002; Lumpkin and Dess, 1996).

Further, industry and peer effects may influence the relationship between family involvement and OA level. In some industries (e.g., construction), exploratory activities such as R&D and product innovations are usually not as common as in others (e.g., manufacturing) (e.g., Jong and Vermeulen, 2006). Testing the propositions developed in this paper would thus require either controlling for industry effects or confining the analysis to firms from one industry sector. Similarly, peer effects may determine the business objectives and focus of later-generation FBs (e.g., Vago, 2004) and consequently also their exploratory or exploitative actions and OA. Research into the link between family involvement and OA may therefore also benefit from controlling for such peer effects, for instance, by incorporating the examined FBs' motivation for exploratory and/or exploitative actions.

## 5. Contributions and Implications

The present paper is among the first to take the OA concept to FB literature and the first to apply it to later-generation FBs. While extant FB-related research on OA has focused on SMEs and also investigated and confirmed the influence of family involvement on OA in general (Lubatkin *et al.*, 2006; Stubner *et al.*, 2012; Gedajlovic *et al.*, 2012a), the present paper has taken a closer look at the foundations of OA in family involvement and applied them to later-generation FBs, which are often larger in size (Beck *et al.*, 2011; Cruz and Nordqvist, 2012; Klein, 2000). Further, unlike founder-generation FBs, such FBs also exhibit distinct agency-theory-related dynamics, which are important for their ability to reach sufficiently high levels of OA. These large and older FBs were found to experience distinct problems when it comes to devoting sufficient capital to exploring activities such as R&D (Le Breton-Miller *et al.*, 2011; Anderson *et al.*, 2012). This can be attributed to highly risk-averse family principals and agents, who put too much emphasis on exploitation and thus suffer from an imbalance of exploitation and exploration. In this regard, this paper extends extant FB literature by shedding more light on the relationship between family involvement in ownership and management on later generation FB's ability to reach high levels of OA – a request recently voiced in the FB literature (Allison *et al.*, 2014). The present paper also contributes to the literature by showing that, in terms of developing high levels of OA, traditional tenets of agency theory (e.g., risk-averse agents and risk-neutral principals) are not directly applicable to later-generation FBs. Thus, future research linking agency-theoretic arguments with OA should benefit from distinguishing between FBs and non-FBs on one hand and founder- and later-generation FBs on the other.

The implications of the framework developed in this paper should be extended to help to investigate why some later-generation FBs fail while others prosper over many generations. One logical next step would be to empirically test the propositions drawn in this paper, for example in a quantitative setting. While the operationalization of family involvement in ownership and management seems straightforward, taking the complex OA concept from the conceptual to the operational research level is more challenging. However, extant OA research offers some approaches to this challenge. For instance, Lubatkin *et al.* (2006) developed a 12-item measure using a 5-point Likert scale to capture OA. This operationalization has also been used by another study coupling FB research with OA (Stubner *et al.*, 2012). In turn, Lubatkin *et al.*'s (2006) OA measure was built upon the work by He and Wong, 2004, who introduced an 8-item measure to operationalize OA, which was used by the third extant study linking FB characteristics with OA (Gedajlovic *et al.*, 2012a). Combining such OA measures with family involvement would enable researchers to test this paper's propositions in a cross-sectional setting.

When it comes to linking the level of OA to FB survival, it might be valuable to study FB failures. The study by Probst and Raisch (2005) on large multinationals in crisis could serve as a model on how to study such business failures. In such a way, researchers might take a closer look at why later-generation FBs eventually fail and draw conclusions regarding the extent to which these failed FBs manage to keep a balance between exploitation and exploration and what could be learned to prevent other later-generation FBs falling into this trap.

Apart from directly addressing the propositions drawn in this paper, there remains a broad array of fruitful research avenues at the intersection of FB and OA research. This paper focused on one particular antecedent of OA in later-generation FBs, namely family involvement. It would be

valuable to study further contextual factors that influence the OA level of FBs. For instance, researchers might focus on family dynamics such as conflict, marriage and divorce. Such family affairs could substantially influence the way family members work together (or fight each other) in the FB (Kellermanns and Eddleston, 2004). It may be that such dynamics lead to situations in which family members block each other's innovation projects and thus hinder reaching a high level of OA. Another potential antecedent of OA in FBs is the ability to attract capable non-family employees and managers to carry out exploration and exploitation activities. For FBs, such undertakings may be especially challenging compared to non-FBs, as they were found to have substantial limitations in place when it comes to wealth transfer to salaried non-family management personnel (Sirmon and Hitt, 2003; Klein and Bell, 2007). Yet another fruitful area for future research may be studying how successful FBs (e.g., in terms of age, size or profitability) have managed to reach high levels of OA. For instance, a useful approach may be to study FB chronicles and build case studies covering extended periods of time (cf. Goldberg, 1997; Mintzberg and Waters, 1982). This could help FB research and FB practice to identify and better understand what levers to pull to successfully balance exploitation and exploration in both the short and the long term.

The findings of this paper have important implications not only for research, but also for practice. First and foremost, the paper identifies levers of which controlling families may avail themselves when they feel that their FB experiences an imbalance between exploring new opportunities and competencies and exploiting existing ones. According to the findings developed in this paper, the family may then want to consider involving non-family managers and investors and their knowledge to foster explorative activities in the firm. Further, the paper highlights that for senior family generations, it may be advisable to try to avoid overdispensing

ownership of the FB, because if too many family members hold shares, they may become emotionally detached from the firm, focus on regular distributions, and thus push for an unsustainable focus on exploitative actions. For society and policy makers, support for FBs in taking external advice and avoiding ownership dispersion may be necessary if they are to reach higher levels of OA and avoid FB failures. This seems desirable because – as pointed out at the beginning of this paper – FBs account for huge proportions of economies worldwide (IFERA, 2003). Many later-generation FBs go into insolvency, which results in a large number of layoffs and an increase in unemployment. In the case of Anton Schlecker AG (described above), the demise of this later-generation FB resulted in more than 20,000 layoffs. Thus, policy makers may want to consider creating incentives for FBs to avoid ownership dispersion and/or to recruit non-family professional managers or investors – for instance, by promoting selective infusions of “smart money” (Schäfer and Schilder, 2009; Sørensen, 2007; Tappeiner *et al.*, 2012) to later-generation FBs.

In conclusion, the framework and the propositions presented in this paper may enable both practitioners and researchers to gain a deeper understanding of the relationship between family involvement and the ability of later-generation FBs to reach a high level of OA. If later-generation FBs manage to reach such levels, they are more likely to secure a typical non-financial goal of business-owning families: the survival of the FB. This should serve them and the national economies they are situated in well, as they can continue to provide jobs, stability and innovation to the economy.

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