



Moving forward or running to standstill? Exploring the nature and the role of family firms' strategic orientation



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ABSTRACT

Significant deficiencies still persist in the literature regarding how family firms approach exploration and exploitation, and how the unique characteristics of such firms affect their ability to balance the two strategic orientations. This article aims to contribute to the debate by (1) providing a conceptualization of exploration and exploitation within long-lived family firms, (2) analyzing the role and the temporal dynamics of exploration and exploitation within long-lived family firms, and (3) identifying the characteristics of family businesses that facilitate the equilibrium between exploration and exploitation. We used a cross-case study, with an in-depth analysis of 24 firms belonging to an Italian association of historical family firms. Based on our findings, we argue that exploration and exploitation are independent and not opposing forces, which are balanced over time, and not at any point of time. This balance is almost naturally reached, thanks to specific features of family businesses that need to be evaluated considering the family level of analysis besides the organization one.

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1. Introduction

In recent years, a growing academic interest emerged toward the understanding of how strategic orientation may influence family firms' long-term survival, and how it is in turn affected by the specific characteristics of such category of firms (Astrachan, 2010). Most of the existing studies within this research stream, in fact, focus on the overlap between family and business systems and the possible tensions it may determine. Scholars emphasize the need for family firms, on the one hand, to ensure stability and continuity to family members with conservative decisions and, on the other hand, to innovate and take risks to foster the competitiveness of the business in a continuously changing environment (Miller & Le Breton-Miller, 2005).

In this regard, conflicting perspectives and evidence emerged in the literature, divided between studies describing the familiar nature of this category of firms as a limit to their growth and long-term success (Allio, 2004; Zahra, 2005), and other contributions drawing from the stewardship perspective to highlight the positive

effects produced by the identification of the family with the business (Miller & Le Breton-Miller, 2005; Miller, Le Breton-Miller, & Scholnick, 2008; Corbetta & Salvato, 2012; Welsh, Memili, Rosplock, Roure, & Segurado, 2013). Such a vibrant debate has led to a growing attention toward the investigation of exploration and exploitation within family business (Miller & Le Breton-Miller, 2006; Webb, Ketchen, & Ireland, 2010). It has been argued that long-lived family firms have a unique ability to meet both short- and long-term challenges (Le Breton-Miller & Miller, 2011), as the dual concern for the business and the family generally leads them to embrace a long-term orientation while simultaneously guaranteeing constancy and continuity through day-to-day operations (Lumpkin & Brigham, 2011). Following this line of thoughts, scholars recently argued that family firms are more likely to both explore new opportunities and exploit existing domains (Webb et al., 2010; Sharma & Salvato, 2011; Zellweger & Sieger, 2012; Stubner, Blaar, Brands, & Wulf, 2012; Moss, Payne, & Moore, 2014; Allison, McKenny, & Short, 2014), whereas the dominant theory in family business traditionally highlighted the risk aversion of family firms and their weak proclivity toward exploration (Zahra, 2005; Naldi, Nordqvist, Sjöberg, & Wiklund, 2007; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011).

Despite the conceptual and empirical work provided in recent years, research on how family firms approach exploration and exploitation remains underdeveloped (Moss et al., 2014). More

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importantly, significant deficiencies still persist in the literature regarding how the unique characteristics of such firms may affect their ability to balance the two strategic orientations (Allison et al., 2014). Furthermore, extant literature assessed the orientation toward exploration and exploitation by using several different conceptualizations and measures, mainly derived from the broader management literature (e.g., He & Wong, 2004; Lubatkin, Simsek, Ling, & Veiga, 2006; Uotila, Maula, Keil, & Zahra, 2009). In most cases, however, such measures have been developed to gauge the organizational behavior of large companies, and they are not likely to reflect the actions and behaviors of smaller, family-controlled firms. These firms, in fact, are normally engaged in more focused explorative and exploitative activities (Moss et al., 2014) whose assessment requires to concentrate the analysis at a family level rather than at an organization level (Zellweger, Nason, & Nordqvist, 2011), considering actions and behaviors of the individual family members involved in the management of the business.

Building on the earlier arguments, our study aims to provide a better understanding of the nature and the role of family firms' strategic orientation, shedding light on how exploration and exploitation are approached in this category of firms, and how such activities are balanced for achieving enduring success. Namely, we try to address the following research questions: (1) What family firms' leaders actually perceive as explorative and exploitative activities? (2) Do family firms give sequential or simultaneous emphasis to exploration and exploitation? (3) Which are the specific characteristics of family firms that may enable the coexistence and balance of exploration and exploitation?

With this goal in mind, we realized a multiple case study research based on the in-depth analysis of 24 long-lived family firms belonging to an Italian association of historical family firms, called "I Centenari." Specifically, we focused on the perceptions of family members directly involved in the strategy making and management of the firms to understand what they actually mean by exploration and exploitation, thus contributing to a specific conceptualization of these orientations in the context of family business. Furthermore, we used retrospective and real-time data in order to investigate the way exploration and exploitation are balanced over time, in search for elements able to explain the ability of family firms to bridge continuity and change for achieving long-term success. In this regard, we went far beyond the organization level of analysis to embrace the family unit as an autonomous and independent level of investigation, whose in-depth understanding allowed us to highlight the traits of family firms holding a central role for balancing exploration and exploitation.

In the following sections, theoretical background and methodology of the research are presented; then, the results and the implications are discussed; finally, limitations and future development of the study are highlighted.

2. Theoretical background

Within the broad field of management research, a growing attention has been paid to firms' ability to pursue both explorative and exploitative activities (March, 1991). The notion of ambidexterity (Duncan, 1976; Tushman & O'Reilly, 1996) refers precisely to the organizational capability to both explore into new spaces and exploit existing domains, managing these strategic contradictions. Empirical evidence, although still scarce, shows that firms need to balance paradoxical strategies to achieve superior performance (e.g., Gibson & Birkinshaw, 2004; Jansen, Van den Bosch, & Volberda, 2005; Han, 2007). However, a certain ambiguity still persists on the conceptualization of ambidexterity (Cao, Gedajlovic, & Zhang, 2009), as different measures and perspectives have been used in the literature.

For instance, there is disagreement among scholars on whether exploration and exploitation should occur serially or simultaneously (Tushman & O'Reilly, 1996). In this regard, Cao et al. (2009) emphasized the multidimensional nature of ambidexterity, splitting this construct into two dimensions: the balance dimension, referred to a firm's ability to maintain a close balance between exploratory and exploitative activities, and the combined dimension, referred to their combined magnitude. It is widely accepted that the contextual conditions affect the relevance of these dimensions. For instance, in slow-moving environments, ambidexterity may be more sequential than simultaneous, whereas in competitive environments with higher rates of change, explorative and exploitative strategies need to be addressed simultaneously (Raisch & Birkinshaw, 2008). Similarly, when firms are resource-constrained, it is more beneficial to focus on the balance dimension, managing trade-offs between exploration and exploitation over time; otherwise, the simultaneous pursuit of both exploration and exploitation is possible and desirable for firms that have sufficient resources (Cao et al., 2009).

As stated earlier, within the specific research on family business, the main focus is on understanding how the unique character of such firms affects their ability to balance the exploration of new business opportunities and the exploitation of current domains (Webb et al., 2010). However, the same problems of ambiguity are encountered also within the context of family firms, and further investigations are still required to better address this relevant issue (Allison et al., 2014).

Within the most recent literature, Le Breton-Miller and Miller (2011) used the notion of multitemporality to identify the advantage held by many family firms, which when compared with nonfamily ones are normally facilitated in meeting both short- and long-term challenges. In their view, indeed, family ownership and management may promote the simultaneous pursuit of both current needs, such as profits and secure employment for family members, and longer-term prospects for future generations, through the exploration of emerging opportunities. In a similar vein, a rich body of literature states that long-term orientation typical of family firms (Lumpkin & Brigham, 2011) not only contributes to better financial performances (Zahra, Hayton, & Salvato, 2004; Miller & Le Breton-Miller, 2005) but also helps in the achievement of noneconomic goals often emerging as a priority, due to the socio-emotional ties characterizing this category of firm (Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007). Therefore, in family firms embracing a long-term orientation, intertemporal choice is supposed to prioritize a long-range perspective in order to generate and maintain both financial and socio-emotional wealth. Nevertheless, as stated by Lumpkin and Brigham (2011), "although concern for the future is a key attribute of a long-term orientation, it is not its only feature," since in order to create a value for present and next generations, continuity and perseverance across time are also required. This perspective outlines that the present and the past concur in the construction of the future, thus emphasizing the need for balancing short-term and long-term goals as a key element of family business survival.

Based on these assumptions, the strategic orientation toward exploration and exploitation seems to hold a particular relevance in the realm of family firms, whose decisions concerning how the two kinds of activities must be approached and balanced are strongly affected by the dual concern for the intertwined family and business systems. On this point, Miller and Le Breton-Miller (2006) provided arguments from both stewardship and agency theories to maintain that family-controlled enterprises have a distinctive ability to exploit core competencies and to explore new ones. In their opinion, this edge is the key of exploitation and exploration advantages that allow many successful family firms to

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