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The abiltiy and willingness of family-controlled firms to arrive at organizational ambidexterity

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ABSTRACT

The ability to exploit and explore within the context of innovation has become an important issue in the strategic management of firms. What has been missing from this discussion is a consideration of the ability and willingness of different family constituencies to arrive at organizational ambidexterity (OA). We propose that due to their idiosyncratic structure, family-controlled firms display specific advantages and disadvantages that shape organizational ambidexterity. Building on a combinatory consideration of the ability and willingness framework in the context of organizational ambidexterity, we argue that the ability of family-controlled firms to arrive at OA is contingent on their willingness to face family-related disadvantages via activities that allow for the reduction of flaws arising out of family-related particularistic constituencies. Furthermore, we show that heterogeneity among those family-controlled firms is best explained by idiosyncratic differences in divergent governance structures, resources and goals.

1. Introduction

A central concern of corporate strategy is the choice between investments in different types of activities, whereas organizational success is considered to be a function of multiple conditions, including the ability to both exploit and explore as regards innovation (Carnes & Ireland, 2013). Typically, exploitation is concerned with refinement, efficiency, production and selection, whereas searching, experimentation, risk taking and discovery are exploration-oriented activities (Cheng & Van de Ven, 1996; March, 1991). Scholars typically agree that the long-term success of organizations depends on their ability to exploit current capabilities and resources while simultaneously exploring and integrating new competencies (Levinthal & March, 1993). While some scholars suggest that exploration and exploitation (E/E) compete with each other for scarce resources (e.g., March, 1991), the more contemporary view presented in the E/E literature adopts a complementary perspective, suggesting that ambidexterity, the simultaneous pursuit of both dimensions, is a necessary prerequisite for prosperity and superior performance (Gupta, Smith, & Shalley, 2006; He & Wong, 2004). As a consequence, ambidexterity has been stated to be a complex capability, entailing an additional source of competitive advantage beyond those advantages that are provided by each dimension individually (Raisch & Birkinshaw, 2008).

For family firms, arriving at organizational ambidexterity (OA) is no less important than it is for non-family businesses. However, the nature of family businesses will cause innovators in family-influenced companies to encounter fundamentally different organizational advantages and disadvantages regarding innovation (König, Kammerlander, & Enders, 2013).

Whereas theoretical reasons lead to the belief that family firms differ in their innovation management from non-family firms, as well from other family firms (Chrisman, Chua, De Massis, Frattini, & Wright, 2015), research has shown conflicting evidence with respect to how the family structure influences innovation activities and outcomes (De Massis et al., 2013). More precisely, in the context of ambidexterity, a number of contributions confirm that not all family businesses will be equally proficient in simultaneously pursuing E/E to a high level (Kollmann & Stöckmann, 2014; Lubatkin, Simsek, Ling, & Veiga, 2006; Moss, Payne, & Moore, 2014). For example, family firms have been shown to be less willing to engage in risky endeavors (Bammens, Notelaers, & Van Gils, 2014; König et al., 2013), thereby diminishing the achievement of organizational ambidexterity in the form of low exploration activities. Some reasons cited for this unwillingness include a hesitancy to share control (Garcia & Calantone, 2002), a general risk-aversion tendency (Allison, McKenny, & Short, 2014; Cassia, De Massis, & Pizzurno, 2012) and a desire to minimize external

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financing (Chrisman et al., 2015). On the other hand, research suggests that the unique attributes of family firms also foster ambidexterity ability (Le Breton-Miller & Miller, 2006b) via traits such as long-term orientation of goals and investments (Cassia et al., 2012), personalized control, low levels of formalization (Sirmon & Hitt, 2003) and alignment of interests between owners and managers (Carney, 2005).

Combining the work of De Massis, Kotlar, Chua, & Chrisman (2014) and Chua, Chrisman, Steier, & Rau (2012), we argue that this paradox in research on innovation in family firms is due to the reliance on either the ability or the willingness perspective of family firms and that theoretical development should focus instead on the causes of heterogeneity in family firms. From an ability perspective, the tendency of family firms to engage in ambidexterity-enhancing action is dependent on the organizational structure, manifested in the amount of family ownership and involvement, which alters the aptitude of those actors to shape strategic pathways. However, arriving at organizational ambidexterity will also be a function of the sources of these actors' willingness to engage in E/E, since family firms have a variety of economic and non-pecuniary goals that can manifest in substantially different behaviors (Chrisman et al., 2015). We argue that this perspective is coextensive with the reasoning of Chua et al. (2012), and that the causes of heterogeneity among family firms can broadly be grouped around governance structures (Carney, 2005), resources (Habbershon, Williams, & MacMillan, 2003), and goals (Chrisman, Chua, Pearson, & Barnett, 2012). Whereas the first two dimensions of family firm heterogeneity in particular will be shaped by organizational structure, willingness is argued to be manifested in the goals and behaviors pursued by the firm, ultimately affecting organizational ambidexterity.

The work at hand focuses on family-controlled firms – an important type of family firms – to demonstrate their ability and willingness to shape organizational ambidexterity via the pursuit of both exploratory and exploitative innovation. Put differently, we argue that theorizing about the differential achievement of OA must take into account not only the effect of organizational structure and corresponding discretion to act upon OA, but also the willingness to provide for an ambidextrous organizational state.

In addressing these suggestions, this paper makes several contributions. While most studies within the context of OA look at the interplay with organizational performance (Simsek, 2009), we aim at extending knowledge on the potential determinants of organizational ambidexterity (OA), in particular with regard to the idiosyncratic ability and willingness of family-controlled firms to engage in such activities. By acknowledging that the impact of the family on the business is not unilateral, we build on the work of Chua et al. (2012) and take into account the heterogeneity among family-controlled firms according to differences in governance, goals, and resources that arise out of a family's involvement in the firm (Astrachan, Klein, & Smyrnios, 2002; Klein, Astrachan, & Smyrnios, 2005). In this context, we also show that a combinatory consideration of the ability and willingness framework, together with the acknowledgment of family firm heterogeneity, further sheds light on the varying outcomes of family impact on OA. Finally, drawing from both family business research and innovation literature, a discipline-bridging setup of theorizing is provided, explaining why family-controlled firms might not uniformly arrive at similar levels of organizational ambidexterity.

The remainder of the article is structured as follows: after a short description of the scope and definition of the underlying study and the introduction of the ability and willingness framework, Section 2 builds propositions on the ability of firms to engage in OA, the prerequisite for family-controlled firms to arrive at a willingness state that allows them to deal with disadvantages in the context of OA, and explains how these disadvantages might be faced. Finally, Section 3 discusses the propositions in light of previous research in this area and addresses the inherent limitations necessary for interpreting the propositions accordingly.

2. Theoretical background

The presence of a controlling family and the active involvement of family members in the ownership, management, and governance of a business are common features of the global economy (Anderson, Mansi, & Reeb, 2003; De Massis, Kotlar, Chua et al., 2014; La Porta, Lopez-de-Silanes, & Shleifer, 1999; null). Research acknowledges the ubiquity of family-controlled firms in European (Faccio & Lang, 2002; La Porta et al., 1999) as well as U.S. companies (Jones, Makri, Gomez-Mejia, 2008). In most such cases, the controlling families enjoy a dual connection to the firm by also participating in management (Morck, Wolfenzon, & Yeung, 2004) and the supervisory board (Jones et al., 2008).

As a consequence, our work extends previous research on family businesses by focusing on differences among these so-called family-controlled firms, which are defined as companies in which a family unilaterally controls the firm through a majority ownership and has both managerial and board presence (Arregle, Naldi, Nordqvist, & Hitt, 2012). These controlling families frequently effectuate control by placing family members on the top management team in order to exert direct decision-making power (Morck et al., 2004), and engage family members in board positions to provide for utility derived from placing trusted relatives in key positions (Jones et al., 2008). Whereas family-controlled firms are not only predominant among family firm constituencies (Faccio & Lang, 2002; La Porta et al., 1999), they also have the discretionary power to decide upon a firm's strategic development. As a consequence, those firms might suffer the most from family-related disadvantages in addition to enjoying the various advantages of family attributes (Miller, Le Breton-Miller, & Scholnick, 2008) that impact a firm's achievement of OA.

2.1. Ability and willingness: a framework

Ability and willingness are two key drivers of family-related distinctiveness that theoretically cause differences in innovation behavior between family and non-family firms, as well as among family firms (De Massis, Kotlar, Chua et al., 2014).

Ability is the "discretion of the family to direct, allocate, add to, or dispose of a firm's resources" (De Massis, Kotlar, Chua, et al., 2014, p. 346). This ability arises from a family's involvement in core governance dimensions (Chrisman et al., 2015) and is mostly reflected by a family's involvement in ownership as well as membership in the top management team and board of directors (e.g., Carney, 2005; Chrisman et al., 2012). This discretion provides latitude in choosing among the range of feasible strategic, tactical and structural options (Chrisman et al., 2015) and gives family-controlled firms an unusual ability to behave idiosyncratically when deciding upon E/E engagement.

We argue that the ability of family firms will be reflected in the idiosyncratic agency situation and resource endowments of the firm, ultimately shaping the firm's ability to arrive at organizational ambidexterity. Whereas differing agency constituencies will arise out of governance-related heterogeneity, the resource advantages and disadvantages of family-controlled firms serve to explain resource-related heterogeneity (Chua et al., 2012) among these firms. Moreover, these two theories are particularly well-suited for studying strategic questions (Chrisman, Chua, & Sharma, 2005) such as organizational ambidexterity, as (1) RBV and agency theory are helpful in explaining strategic management issues, (2) both theoretical perspectives have a performance

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