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THE IMPACT OF GOVERNANCE STRUCTURES ON THE CHOICE BETWEEN EXPLORATION AND EXPLOITATION IN FAMILY ENTERPRISES

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Abstract

Ambidexterity, the ability of firm to balance the need to explore for new and novel and exploit its existing knowledge, skills and capabilities has become an important issue for firms in these volatile times. What's been missing from this discussion is consideration of how the unique character of family enterprises influences their investments in exploration or exploitation? In this paper we develop a theoretical model to explain how the governance and ownership characteristics of a family enterprise impact the family enterprise's investments in exploration and exploitation activities. We contribute to the literature on family enterprises by proposing that certain governance characteristics such as the tenure of the generation in control, the proportion of senior management positions controlled by the family, the dispersion of family ownership and the transfer of control to the younger generation will all have certain effects on the investments in exploratory activities. Building on the relational view of family enterprises, we suggest that the characteristics of their relations with their employees and outside partners will influence the level of investments in exploratory and exploitative activities. Our theoretical standpoint within the context of organizational adaptation also shows that the two seemingly contradictory theories of stewardship and agency can be reconciled.

Keywords: Family enterprises, organizational adaptation, exploration and exploitation, ambidexterity

Introduction

In a changing environment firms are constantly challenged to achieve the proper balance between the two concurrent and potentially competing tasks of alignment and adaptation (Gibson & Birkinshaw, 2004). The organizational learning literature and the recent literature on ambidexterity argues that in a dynamic environment, successful firms are required to enhance the value of their existing capabilities and technologies through exploitation, while at the same time developing valuable new capabilities through exploration (Levinthal & March 1993; March, 1991). That is, an ambidextrous firm is the one which, is capable of both exploiting existing competencies as well as exploring new opportunities (Cao, Gedajlovic, & Zhang, 2009; pp.1). Nokia Corporation for example, in the 1990s turned its losses into profits by constantly exploring for new capabilities while simultaneously exploiting its traditional capabilities in wood, paper, materials and consumer products (Masalin, 2003).

The need for an organization to pursue these two very different processes simultaneously has led to the rapid expansion of the literature on exploration/exploitation, more recently renamed ambidexterity and the acknowledgement by many organizational scholars of the centrality of this issue to the modern organization. What is currently missing from the discussion of exploration/exploitation is consideration of how family ownership and control and the characteristics of that ownership, or "familiness", influences family firms' investments in exploration or exploitation.

Organizational adaptation was conceptualized in terms of exploration and exploitation in March's seminal work (1991). Exploration is associated with search, experimentation, risk taking, innovation and novelty, while exploitation is associated with refinement, selection, production, and recombination of existing knowledge and

capabilities (March, 1991; Dittrich & Duysters, 2007). In other words, exploration creates variety in experience through search and discovery, while exploitation improves the value derived from existing knowledge through routinization, refinement, production, implementation and recombination (Holmqvist, 2004). Organizations innovate, in general, by combining existing and new knowledge to create novel offerings (Kogut and Zander, 1992). Therefore innovation depends on the flow of new knowledge into the firm. Firms hoping to innovate must frequently turn to external sources to gain new ideas, insights and expertise. This ability to acquire this knowledge from external entities is however limited by an organization's own experience and expertise which bounds a firm's search (Nelson & Winter, 1982). This leads to bounded or patterned search, the reliance on established routines and in turn decreasing novelty in the knowledge base of the firm and increasing bias in its investments towards exploitation of its existing knowledge base.

Exploration and exploitation emerge from firms' contradictory knowledge processing capabilities (Floyd & Lane, 2000) and compete for the scarce resources of the firm. Engaging exploration requires different sets of capabilities than those necessary for exploitation and firms' ability to identify and build these capabilities within its boundaries is a source of competitive advantage. However, research has shown that exploration and exploitation can be independent and firms can indeed pursue high levels of the two concurrently (Beckman, 2006; Lavie & Rosenkopf, 2006; Lubatkin, Simsek, Ling, & Veiga, 2006). Therefore, in conceptual discussions of ambidexterity, we follow Cao et al. (2009) and focus on the balanced dimension of ambidexterity. In doing so we concur that a closer match in the relative magnitude of exploratory and exploitative activities contributes more to firm performance.

In exploring these capabilities as a source of competitive advantages however, a large body of the management literature has focused almost solely on large publicly-owned businesses or technology ventures. While a growing number of research articles have begun to recognize the importance of studies on family firms (Chrisman, Chua, & Sharma, 2005), to the authors' knowledge, the issue of organizational adaptation, specifically exploration and exploitation, has not been addressed within the context of family firms.

Research on family firms has gained momentum in the last several years (e.g. *Entrepreneurship Theory and Practice* (May 2005, special issue, vol. 29, no. 3); *Journal of Business Venturing* (September 2003, special issue, vol. 18, no. 5). This is especially understandable, because the research has shown that the family firms represent a substantial portion of the U.S. economy (Shanker & Astrachan, 1996) and are the most common form of corporate ownership in the U.S. (La Porta, Lopez-de-Salanes, & Shleifer, 1999). Building on prior work, in this paper we define family firms as firms where there is both significant family ownership and family presence in management (Chua, Chrisman, & Sharma, 1999; Kelly, Athanassiou, & Crittenden, 2000). This type of ownership and management make the firms unique in the sense that it gives us a context where family and business lives intertwine (Chrisman et al., 2005). In the family firms literature, the involvement of family in the ownership and management and the resulting bundle of resources is referred as "familiness" (Habbershon & Williams, 1999) and has been shown to motivate several salient and unique strategic behaviors (Habbershon & Williams, 1999; Sirmon & Hitt, 2003).

Like other forms of firms, family firms are also impacted by changes in their business environment. In times of environmental change enhancing firms' existing

capabilities and technologies through exploitation ensures their current viability, while experimentation and flexibility through exploration insure their future viability (Levinthal & March 1993). Since "familiness" motivates the family firms to engage in unique strategic behaviors (Habbershon & Williams, 1999; Sirmon & Hitt, 2003), we argue that the opportunities and constraints brought about by family firms' unique context can affect their strategic choices regarding investments in exploration and exploitation. Specifically, we ask how family ownership and family involvement in management (or familiness), specifically the characteristics of the familiness, affect the family firms' investments in explorative and exploitative activities?

In addressing this question we explore the conditions that are unique to family firms and develop a theoretical model of how these characteristics will impact the firm's investment in exploration and exploitation activities. Le Breton-Miller and Miller (2006) suggest that, family firms invest for the long-term (pp.732). In other words, familiness focuses resources investment decisions in the firm on optimizing, long-term value. Such a long-term approach to management (also see Anderson & Reeb, 2003; Sirmon & Hitt, 2003), should correlate with more investments in explorative activities such as investments in research and development, new ideas, markets or relations since they have less immediate and certain outcomes and require longer time horizons (March, 1991). Similarly Sirmon, Arregle, Hitt and Webb (2008) show that in the presence of a threat of imitation family firms respond more positively by investing in research and development activities demonstrating family firms' preference for long-term initiatives. However, when we take into account the very nature of such long-term oriented investments, Le Breton-Miller and Miller (2006) argue that these investments take the form of activities that are directed towards capability creation and the refinement of central competencies.

From this standpoint, family firms should devote more resources and investments to exploitation since improvements in competence at existing procedures make experimentation with others (i.e. exploration) less attractive (Levitt & March, 1988). Moreover, due to the concentration of the family's wealth in a single firm and their limited ability to diversify their wealth without diluting their control of their firm, there is greater risk-aversion in family firms (La Porta et al., 1999) which will result in investments that are more certain, less ambiguous, more predictable with a shorter time to payback. In other words, family control may bias firm towards investment in the exploitation of existing resources rather then exploration for new resources and capabilities.

What the preceding arguments make clear is that family firms are unlikely to be uniquely biased for or against one form of organizational adaptation, but rather that a family firm's bias for or against exploration or exploitation is likely to be determined by the characteristics of the family ownership, but which characteristics? While there may be many characteristics of a particular firm that influence the decisions surrounding exploration and exploitation, it is governance which provides family firms their distinct character. Governance has been shown to have a significant impact on the way managers develop internal routines, processes and systems (Lazonick & O'Sullivan, 2002) which are very likely to influence the choice between exploration and exploitation. Also, governance impacts the way firms deal with external entities such as their suppliers and customers (Williamson, 1985). Accordingly, we believe that it is mainly the characteristics of these businesses governance structure that will influence their biases in regards to exploration and exploitation activities. Therefore, the focus of this article will be the governance characteristics of family firms that foster the firms' investment in

exploration.

Theory Development and Propositions

It is established in the family enterprises' literature that family enterprises have unique governance characteristics that distinguish them from non-family firms. However, some of these characteristics may bias them to disproportionately invest in either exploratory or exploitative activities. This might lead to deteriorating firm performance since, organizations need to be aligned to both exploration and exploitation to achieve superior performance (March, 1991; Tushman & O'Reilly, 1996; Katila & Ahuja, 2002). In the following pages we will develop a model, including propositions, regarding specific characteristics of the governance structures of family firm (e.g. tenure of the lead family member) that will influence the family firms' investments in exploratory or exploitative activities.

The Role of Family Control

CEO tenure:

It is well documented that family business CEOs tend to have a substantially longer tenure than CEO's of public companies (Lansberg, 1999; Ward, 2004). Le Breton- Miller and Miller (2006) suggest that long CEO tenure in family businesses is very much linked to sustained pursuit of a particular strategy. While sustained strategic direction is generally a desirable characteristic, it biases the firm towards investments directly in maintaining the status quo or closely related to the status quo. The anticipation of lengthy tenures also drives some leaders to take a farsighted, steward like perspective of the business. It is also acknowledge that long tenures of family member CEOs may give them more discretion over the choice between investing in exploration or exploitation activities. It has also been shown that long tenure makes CEO's reluctant to engage in

risky expedients such as unrelated diversifications, hazardous acquisitions, or shortsighted downsizing, which drain resources and may haunt them later in their tenures (Amihud & Lev, 1999; Morck, Shleifer, & Vishny, 1990). Musteen, Barker and Baeten (2006) also show that there is a central tendency of CEOs to become more conservative as their tenure increases. Other habits that may be born of protracted tenures are conservative financial leverage, careful cash management, and assiduous preservation of resources (Dreux, 1990). Research indicates that over time family firms have a tendency to become more conservative and less willing to take the risks associated with entrepreneurial activities. Zahra (2005) for example, found that one of the main indicators of decreasing entrepreneurial activities is the long tenure of CEO founders. Similarly, Richard, Wu and Chadwick (2009) in their recent study, found that CEO tenure negatively moderates the entrepreneurial orientation and performance relationship. Prior work has argued that bias towards conservatism and risk aversion over CEO tenure occurs because of the high risk of failure among entrepreneurial ventures (Morris, 1998), as well as the risk of destruction of family wealth (Sharma, Chrisman, & Chua, 1997). We concur with this reasoning. All of these findings argue for a bias towards investment in exploitative projects which are 'are positive, proximate, and predictable' and away from investment in exploratory projects which are characterized by high variance and having returns that 'are uncertain, distant and often negative' (March, 1991). Hence we propose that lengthy tenures of the generation in control of the family enterprise will make investments in explorative activities less attractive.

> *Proposition 1: As The tenure of the family CEO in control of the family firm lengthens the firm will decrease its investment in explorative activities.*

The role of senior management:

In terms of governance, family firms are also characterized by managerial positions occupied by close kinship ties and familial management transfers (Cabrera-Suarez, De Saa-Perez, & Garcia-Almeida, 2001; Miller, Steier, & Le Breton-Miller, 2003). Gomez-Mejia, Nunez-Nickel, and Gutierrez (2001) show that family firms have higher levels of managerial entrenchment due to the reduced effectiveness of monitoring managers. Consequently, they are more likely to preserve their wealth through political lobbying (Morck, Strangeland, & Yeung, 1998) rather than funding innovative ventures. Research on family enterprises based on agency literature suggests that such a family control when combined with altruism and managerial entrenchment (Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholtz, 2001) can prevent investment in the development of new capabilities (Chrisman et al., 2005). Research suggests that increased levels of management entrenchment lead them to make decisions that are bias towards enhancing personal wealth rather then re-investing to the firm (Shleifer & Vishny, 1997; Morck et al., 1998). Chandler (1990) also views family firms as being overly concerned with wealth preservation and ill-equipped to develop organizational capabilities that are suitable for technologically advanced industries.

The entrenchment of family members in senior leadership positions also deters exploration because it limits the variation in information access and the potential for novel combinations. The advantages of family leadership, shared norms, values, and common experiences, also inherently limit the potential for novel combinations of information available to the management team, since much of the knowledge, viewpoint, thought processes and norms are shared by the family members of the leadership team. The lack of novelty limits the investment opportunities in exploration and the potential returns to innovation, which will in turn bias investment towards exploitation and away

from exploration.

Over time the entrenchment of family members in the senior management positions may lead to groupthink (Nordqvist, 2005). *Groupthink* refers to "a mode of thinking that people engage in when they are deeply involved in a cohesive in-group, when the members' striving for unanimity overrides their motivation to realistically appraise alternative courses of action" (Janis, 1982, p. 9).Groupthink by its vey nature leads to the rejection of novel ideas and the failure of the family enterprise to incorporate outside perspectives. So as the entrenchment of the family in the senior leadership persists over time the impact of this entrenchment on the investment decisions of the family business will increase, which will lead to greater bias towards investment in exploitation and away from investment in exploration. This pattern can be mitigated with a change in the senior management. As new blood enters the team the patterns that lead to groupthink will be disrupted, decreasing managerial entrenchment, increasing the potential novelty of information available to the family enterprise, which in turn opens up new opportunities for investment in exploratory activities. A classic example is the entry of the Maytag family in to the blue cheese business within a year of a new generation coming to the helm of the family enterprise (Maytag Diary Farms, 2009). This leads to the following propositions:

> *Proposition 1a: As the proportion of senior management positions controlled by the family increases the firm will decrease investments in explorative activities.*
>
> *Proposition 1b: There will be an interaction between the proportion of senior management positions controlled by the family and the tenure of the family members in control of the enterprise such that the negative impact on exploratory activities will increase as both the average tenure of the family members increase and the proportion of senior management positions controlled by the family increases.*

The role of younger generation:

Family firms by definition are concerned with the sustainability of the business across generations with the older generation of leadership seeing themselves as stewards of the family enterprise (Chua et al., 1999). The literature also suggests that for family firms to perform well members of younger generation must be integrated into the family business (Stavrou, 1999). While existing generations who lead the family enterprise are often reluctant to let younger generations join in the decision making of the business they do look for opportunities for the younger generation to prove themselves (Stavrou, 1999) and investment in new products, services and markets, exploratory activities, present just such an opportunity. The entry of a younger generation also brings new knowledge, information, values, ways of thinking and ideas into the family enterprise which increases the potential for valuable and novel new combinations of the information and skills available to the family enterprise. Enhancing the potential return to investment in exploratory activity as the younger generation enters the family enterprise. In addition, given the potential indulgence of the younger generation due to altruism (Schulze, Lubatkin, & Dino, 2003) the older generation of leaders will be biased towards investing in these new ideas in hopes that the younger generation will succeed and to placate the younger generation in hopes of avoiding intergenerational conflict. Prior research supports this contention, showing that the involvement of the younger generations of the family firm enhances entrepreneurial activities such as innovation and new venture creation (Salvato, 2004). Accordingly we suggest that:

> *Proposition 1c: The entry of the younger generation into the management of the family firm will lead to higher levels of investment in explorative activities.*

Dispersion of family ownership:

The structure of the ownership of the family's ownership of the enterprise also creates unique incentives that may bias the enterprise towards or away form investments in exploration or exploitation. Two characteristics of the family's ownership are of particular interest the dispersion of the ownership among family members and the proportion of the family owners directly employed by the enterprise. Recent research has established that the declining performance of some family-run groups over time is in part due to infighting among rival family members for group resources as control becomes more diluted. Powerful insiders compete against each other in a race to the bottom to extract resources out of the firm before other family members (Bertrand, et. al., 2008). Schulze, et. al. (2003) find that "dispersion of ownership can give outside shareholders at private family firms the incentive to favor consumption". These two findings make a powerful case that as family ownership is dispersed the time horizon for investment will shorten, demands for the extraction of resources will increase and the family enterprise's investment in the projects that can be characterized as high variance and having returns that 'are uncertain, distant and often negative', exploratory projects, will decrease. Moreover, it is suggested that dispersion of ownership, which generally comes with passing control to later generations, may weaken the entrepreneurial spirit and increase the willingness to divest resources rather than investing in projects that are exploratory in nature. With the dispersion of ownership of the family firm, it becomes harder to maintain control over the family business. This might intensify the potential endowment effects and the willingness to undertake riskier investments might decrease (Shepherd & Zacharakis, 2000).

Proposition 1d: The dispersion of the ownership of the family firm will lead to lower levels of investment in explorative activities.

Dispersion often comes in later generations. Over time, the family firm moves away from the first generation and the ownership gets more dispersed (Gersick, Davis, Hampton, & Lansberg, 1997). Therefore, we suggest that the negative relationship between the dispersion of the ownership of the family firm and investments in exploratory activities will be moderated by the age of the family firm. As such:

Proposition 1e: There will be an interaction between the dispersion of the ownership of the family firm and the age of the family firm, such that the negative impact on exploratory activities will increase as both the dispersion of the ownership of the family firm increase and the firm age increases.

Percentage of family members employed:

We argue that investments toward organizational adaptation (or exploration and exploitation) within the context of family firms are important, since the long-term survival of organizations may rely on both exploration and exploitation (March 1991). Exploration without exploitation can lead to too many underdeveloped ideas and loss of distinctive advantages, while exploitation without exploration runs the risk of being selected out by environmental changes. Investments in explorative activities show a desire by the firm to discover new opportunities and to build new competencies in order to adapt to the environment (Koza & Lewin, 1998). Investments in exploitative activities, on the other hand, are built on firms' aim to leverage existing capabilities; the goal is to reap economic return from prior exploration activities (Rothaermel & Deeds, 2004).

Further, as investments in explorative and exploitative activities are competing for limited resources in a firm, they are more likely to be at two ends of a continuum (March, 1991; Gupta, Smith, & Shalley, 2006). Some firms, in that regard, are more positioned towards investing in exploitative activities, while others tend towards explorative.

Slack resources, defined as the resource difference between those under a firm's

control and the minimum amount required for its survival (Cyert & March, 1963; Nohria & Gulati, 1996), can be regarded as a sort of resource endowment because slack, or its absence, is the cumulative legacy of past performance and reflects the resource stock that a firm has accumulated over time (Amason & Mooney, 2002).

As one of the important characteristics of family firms, we concur with the previous literature that they are characterized with less agency costs (Fama & Jensen, 1983; Jensen & Meckling, 1976). Family involvement increases the alignment, or unification (Carney, 2005), between firm ownership and control, thereby reducing traditional agency costs and increasing stewardship behavior (Davis et al., 1997). Within the context of family firms, we argue that less agency costs might transfer into more slack resources available to the family firms, which in turn will induce them to invest more in explorative activities for several reasons. First, slack resources act as a facilitator of new strategic behavior, since it is the resource that is in excess of the amount required for that firm's survival. Family firms with slack resource have the *ability* to look for alternatives and experiment with new strategies (Nohria & Gulati, 1996). Second, family firms with a high level of slack resource also have the *motivation* to invest in explorative activities. Slack resource provides insurance to a firm's current viability, allowing it to devote more attention to the concerns of future viability. Explorative activities, rather than exploitative, addresses this concern as they complement firms' need for adaptation. In with an increase in slack resources managers become less concerned about the risks of failure, since slack resources give them extra resources to buffer the organization from losses due to such failures.

Moreover, contrary to the negative arguments of the effects of altruism on family firms (Schulze, Lubatkin, Dino, & Buchholtz, 2001; Schulze, Lubatkin, & Dino, 2003),

that is the view of altruism which causes free riding, biased perception and indulgence of the younger generation, from a stewardship perspective (Davis et al., 1997) we argue that this indulgence will lead family firms to allow the younger generation wider latitude to pursue and invest in more exploratory activities.

Therefore from both agency and stewardship perspectives we suggest that:

Proposition 1f: The proportion of family owners employed in the firm will lead to higher levels of investments in explorative activities.

While slack resources offer organizations resources to invest in exploratory activities, they might also include the socioemotional wealth. Family firms are generally loss averse when it comes to threats to their socioemotional wealth (relinquishing family control) even if this means accepting a greater performance hazard (Gomez-Mejia et al., 2007). Gomez-Mejia et al. (2007) also suggest that for family-owned firms, preserving the family's socioemotional wealth represents a major issue. Moreover, family firms literature suggests that as the family ownership and management increase, family's attachment to the organization also increases (Chua, Chrisman, & Sharma, 1999, 2003; Schulze, Lubatkin, & Dino, 2003). Therefore, after a certain threshold, as the proportion of family owners employed in the firm increase, it might become more difficult to engage in risky expedients such as explorative investments. Thus,

Proposition 1g: The proportion of family owners employed in the firm will have an inverted-U shaped relationship with the levels of investments in explorative activities.

The Role of Relationships with Outside Partners

Sustainability:

In addition to having a unique governance structure, family firms also differ from

non-family firms in terms of their relationships with their outside partners. For example Lyman (1991) shows that managers of family firms use a more personal approach and trust their employees more. This in turn contributes to long-term orientation towards their employees, clients and outside partners. However, literature has found that, in relationships with outside partners, partner turnover will be higher in projects related to exploration rather than exploitation (Dittrich & Duysters, 2007). Such changing most of the time offer firms the flexibility, innovation and ability to smoothly adjust to changing environmental conditions. While long-term orientation in relationships can bring success in certain aspects of the business, we suggest that this nature of family firms may retard their investments related to organizational exploration.

> *Proposition 2: The length of the family's sustained relationships with employees, clients and outside partners will lead to lower levels of investments in explorative activities.*

Tenure of employees:

Miller and Le Breton-Miller's (2005) work suggests that family firms particularly recognize that employees are important assets for the knowledge base of the company and thus should be treated with more consideration. Davis et al. (1997) also argue that family owner managers feel more emotional attachment and responsibility for those who work for them. While these behaviors benefit the family firms through fewer layoffs and lower levels of turnover (Miller & Le-Breton-Miller, 2003; 2005), it also has a price. Almeida and Rosenkopf (2003) highlight the importance of employee mobility in overcoming search biases and spurring exploration. Longer tenure by employees and lower turnover equates to lower levels of new information and knowledge being incorporated in to the family enterprise. As noted earlier, the flow of new knowledge and information into the firms is an important precursor for the creation of novel

recombination requiring exploration. Therefore as the tenure of the family enterprises employees increases the firm will surface fewer opportunities for exploration and will decrease their investment in exploratory activities.

Proposition 2a: The average tenure of the employees will lead to lower levels of investments in explorative activities.

Long-time clients:

Similarly, family firms tend to have long-term associations and enduring relationships with their outside stakeholders such as their clients, alliance partners and suppliers. Family firms particularly benefit from such long-term relationships by sustaining the business in times of trouble and by having superior customer loyalty (Le Breton-Miller & Miller, 2006). Strategic management literature points out that firms benefit from relationships from outside stakeholders through knowledge transfer that is novel to the firm (Mowery, Oxley, & Silverman, 1996; Dyer & Singh, 1998). However, intimate, recurrent and trustful relationships, as in the case of enduring relationships of family firms, are generally considered to be useful when firms aim at exploitation rather than exploration (Krackhardt, 1992). This is because firms need to make the most of established technologies and products, and the intense, trustworthy relationships with partners in order to exploit knowledge. Exploitation is characterized by routine learning, which only adds to the existing knowledge and competencies of a firm without changing the nature of its activities (Hagedoorn & Duysters, 2002). Exploration, on the other hand is a non-routinized learning that involves frequent changes and experimentation with new alternatives.

Proposition 2b: The proportion of a family business's revenues generated from long time clients will lead to lower levels of investments in explorative activities.

******************* Insert Figure 1 about here *******************

Summary and Conclusions

The competitive nature of today's business environment requires that firms adapt to changes in the environment. In essence, successful firms are the ones which are not only efficient in their management of today's business demands but also adaptive to changes in the environment (Gibson & Birkinshaw, 2004). Therefore, similar to non-family firms, family firms should develop the mindset and the organizational mechanisms that will allow them to successfully respond to the uncertainty and changes in this competitive landscape. However what characteristics of the family enterprise will impact its ability to respond? In this paper we have put forth a model that develops the relationship between the governance characteristics of a family enterprise and its investment in exploratory and exploitative activities.

In this article, we focus on two areas of family enterprises that will affect their investments in capability creating, exploratory activities. First, both from stewardship and agency perspectives, we argue that the governance and ownership characteristics of family enterprises will effect their investment in exploratory and exploitative activities. Specifically we propose that the tenure of the generation in control, the proportion of senior management positions controlled by the family and the dispersion of family ownership bias them against investments in exploratory activities. However, our model also suggests that bringing the younger generation in to the firm will increase the firm's investment in exploratory activities and that the transfer of control to the younger generation will increase the firm's investment in exploration. We also propose that as the proportion of family owners employed by the enterprise increases the firm will increase its investment in exploratory activities.

Second, we look at the inherent relationship structure of family firms with its

employees and outside partners. The outcome of the relation-specific structure gives us a unique pattern of family firms with sustainable relationships. While this might seem plausible especially when we take into account the long term perspective of most family firms (Le Breton Miller & Miller, 2006), it might have detrimental effects to firm performance especially when environmental changes require the development of new technological capabilities. The lack of turnover and the lengthy tenure of a family enterprises employment base decrease the inflow of new knowledge and information into the firm, which leads them to discover fewer exploratory opportunities and in turn leads to lower investment in exploratory activities. Similarly stability in the family enterprises external relations decreases the flow of new information and knowledge into the firm and leads to decreased investment in exploratory activities.

From a theoretical standpoint and within the context of organizational adaptation, our article also shows that when examining investments in exploration and exploitation, the two seemingly contradictory theories or stewardship and agency can be reconciled. In fact the predictions of both theories regarding the impact of the entry of the younger generation into the firm are quite similar – greater investment in exploration. However, at the margin the agency argument based on altruism, seems to lead to an expectation that this investment would be less beneficial to the firm, since it is based not on reason but rather emotion. In contrast stewardship theory seems to argue that this is a rational, maximizing behavior that will enhance the performance and survival of the family enterprise. This is really an empirical question, which needs to be addressed in future research.

Future research in this area could begin by testing the propositions put forth in this paper, as well as examining the relationship between the levels of investment in

exploration and exploitation and family enterprise performance and survival over time. The ambidexterity hypothesis and research on exploration and exploitation have become an influential research stream in management an important. However to date the research has a blind spot – family enterprise, and research on family enterprise also has a clear blind spot – research on exploration and exploitation. The importance of this area of research is well established, but it is the intersection of those two that we believe demands the attention of future research.

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Figure 1
Summary of Suggested Propositions