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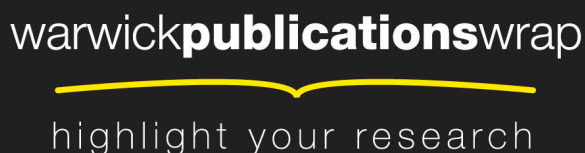
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Socioemotional wealth: An obstacle or a springboard to creativity, innovation, and entrepreneurship in family firms?

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ABSTRACT

This chapter takes a socioemotional wealth (SEW) perspective to explain how families influence the sensing and seizing of entrepreneurial opportunities in family firms. Specifically, our model proposes that some aspects of the family's socioemotional wealth conduce to opportunity recognition while others impair it. Moreover, we argue that the presence of SEW goals would lead family owners to favor certain entrepreneurial outcomes because there is a socioemotional reward for the family, even when there are no clear economic advantages. Finally, we suggest that family ownership negatively affects firms' transforming capacity in innovation. Our end goal is to enhance our understanding of the positive and negative aspects of the family dimension on entrepreneurship and guide future research in this area.

Key words: Family firms, Socioemotional Wealth, opportunity recognition, entrepreneurship, innovation

INTRODUCTION

Studies agree that with the competitive landscape of the twenty-first century becoming increasingly dynamic and uncertain, all firms must engage in continuous entrepreneurial activities in order to revitalize their business (Zahra, 1996; Zahra, Hayton and Salvato, 2004). Thus, key factors in firm success are sensing, seizing, and transforming capabilities (Teece, 2007; Lichtenthaler and Muethel, 2012), where sensing refers to opportunity identification, seizing to exploitation of these opportunities, and transforming to the firm's ability to explore new areas of scientific and technological knowledge in order to remain competitive (Makri and Lane, 2007; Makri, Hitt and Lane, 2010). The need to develop these "dynamic innovation capabilities" (Teece, 2007) may be even greater for family firms that desire to succeed across generations (Chirico and Norqvist, 2010; Lichtenthaler and Muethel, 2012). Simply put, family firms with strong intentions of transgenerational control need to develop an entrepreneurial mindset (Zellweger, Nason and Norqvist, 2012) as well as the ability to shed or redeploy assets before they start to decline (Habbershon and Pistrui, 2002).

However, while research on entrepreneurship in family firms is increasing (i.e. Kellermanns, Eddleston, Barnett and Pearson, 2008; Short, Payne, Brighman, Lumpkin and Broberg, 2009, Zellweger and Sieger, 2012; Carnes and Ireland, 2013) additional research is needed on this topic in general (Nordqvist and Melin, 2010), and on the development of dynamic innovation capabilities in particular (Kellermanns and Eddleston, 2006). Extant literature expresses two contradictory views. While some scholars depict family firms as a context where entrepreneurship flourishes because of kinship ties and a long-term orientation (Ward, 1987; Zahra et al., 2004), others view family firms as too conservative and inflexible to take the necessary risks associated with entrepreneurship and innovation (Autio and Mustakallio, 2003; Morris, 1998; Zahra, 2005).

This controversy is due partly to the fact that existing studies have adopted a limited view of entrepreneurship when studying family firms, focusing only on seizing opportunities (i.e., creating new products or markets). Sensing remains relatively unexplored; family considerations rarely appear in research on why, when, and how entrepreneurial opportunities are identified by some individuals but not others (Aldrich and Cliff, 2003). This oversight is particularly important in the case of family firms, because opportunity identification is regarded as a key factor for entrepreneurship in established organizations (Covin and Miles, 1999; Venkataraman, 1997). Also absent from the literature is a consideration of family owners' influence on the firm's transforming capacity (that is, a firm's ability to explore new areas of scientific and technological knowledge that could lead to incremental or radical innovations). Moreover, when discussing the entrepreneurial outcomes of family firms, authors typically do not distinguish between different corporate entrepreneurial activities. In light of recent research that demonstrates the distinct behavior of family firms regarding product innovation and new venture creation (Chrisman and Patel, 2012; Gomez-Mejia et al., in press, (a)), we believe this distinction is key to understanding families' influence on their firms' entrepreneurial activities.

This chapter aims to fill these gaps by adopting a dynamic and multifaceted approach to entrepreneurship within established companies. This approach implies analyzing not only how the family affects entrepreneurial outcomes (seizing opportunities), but also how it influences the ability to recognize entrepreneurial opportunities (sensing opportunities) as well as to explore new areas of knowledge (transforming capacity).

To do so, we employ the socioemotional wealth framework (SEW) developed by Gomez-Mejia and colleagues (2007, 2010, 2011, in press a, b) that stresses the role of noneconomic factors in the management of the firm as the key feature that distinguishes family firms from other organizational forms (Gomez-Mejia, Cruz, Berrone and De Castro,

2011). SEW affects the sensing of new opportunities through its influence on creativity, prior knowledge, and social networks. Our analysis of opportunity seizing distinguishes “new entry,” or the creation of new markets (Block and MacMillan, 1993), from product and technological innovation within the existing organization (Habbershon, 2006; Zahra, 1996). Additionally, we examine the factors that contribute to a family firm’s ability to explore new areas of knowledge (more specifically, scientific knowledge) thus transforming its technology platforms. Thus, we espouse a dynamic capabilities perspective (Teece, 2007) to provide an integrated framework for the study of entrepreneurship in family-owned companies.¹

The SEW framework explains why some of the unique characteristics of family owners favor opportunity recognition while others hinder it. Specifically, our model suggests that long-term orientation conduces to opportunity recognition while a strong emotional attachment impairs it. This contradiction partly explains the “entrepreneurial puzzle” in family firms. As Carnes and Ireland (2013) recently suggested: “additional work is necessary for us to enhance our understanding of conditions and factors that have positive or negative effects on actions taken in family firms to reach outcomes that are associated with competitive success” (p. 1400). In doing this work, we reinforce proposals that SEW, as a multidimensional construct, can explain the existence of different reference points among family principals (Berrone, Cruz and Gomez-Mejia, 2012; Gomez-Mejia, Cruz and Imperatore, in press) associated with positive or negative valence (Kellermans, Eddleston, Barnett and Pearson, 2008).

Our distinction among different ways of seizing opportunities also contributes to explain previous contradictory findings in studies of entrepreneurship in family firms. We

¹ Throughout the chapter, we use the terms “family-controlled” and “family-owned” firms interchangeably, given that there is no consensus in the literature as to what the precise definition of a “family firm” is or should be.

argue that preservation of socioemotional wealth takes priority; hence the firm is more likely to favor certain entrepreneurial outcomes because there is a socioemotional reward for the family, even if there is no clear evidence of economic advantages. Therefore, the decision to innovate or enter new markets is not driven solely by economic motives.

The chapter uses an “interactionist approach” (Dimov, 2007) that takes into account personal as well as contextual factors that enhance or inhibit an individual’s creativity and the firm’s sensing, seizing, and transforming capabilities. Until now, opportunity recognition studies have been mostly devoted to understanding why some individuals are more creative than others, ignoring the social context in which individual thinking is embedded (Perry-Smith, 2006). In contrast, innovation studies largely address the importance of the family context (Chrisman and Patel, 2012; Gomez-Mejia et al, in press(a)).

This chapter is divided into three parts. The first part revisits the concept of entrepreneurship as a dynamic process and examines its main elements. The second part establishes a set of propositions using an SEW logic to guide future research on the sensing and seizing of opportunities in family firms as well as family firms’ transforming capacity. The third part offers concluding remarks.

THEORETICAL BACKGROUND: ENTREPRENEURSHIP AS A MULTIFACETED AND DYNAMIC PROCESS

In line with entrepreneurship research (Wiklund and Shepherd, 2008), our approach to examining the entrepreneurial process in family firms focuses on the creation of not only new ventures but also of new products, markets, or technologies. That is, rather than delimiting entrepreneurship as a static process leading to starting a new business, we consider it as a dynamic process that begins with sensing new opportunities and continues with seizing such opportunities, where seizing can include a new product, a new market, or a

new technology. We examine each of the elements of this process before explaining their meaning in the context of family-owned firms.

Sensing Entrepreneurial Opportunities

While some scholars suggest that an opportunity exists only if it actually generates economic wealth (Eckhardt and Ciuchta 2008), implying that sensing and seizing are entangled processes, others define opportunities independently of whether their potential is realized. For example, Alvarez and Barney (2013) hold that competitive market imperfections generate the *potential* for economic wealth, but that potential may or may not be realized. Here we view the sensing of entrepreneurial opportunities as independent from seizing, and like most scholars, we consider opportunity recognition as a critical first step if not a core aspect of entrepreneurship (Christensen et al., 1994; Hills, 1995; Shane and Venkataraman, 2000; Stevenson, Roberts and Grousbeck, 1985; Wiklund and Shepherd, 2003).

Kirzner (1973) was the first to use the term “alertness” to explain the individual entrepreneur’s recognition of opportunities. He defines it as “an individual ability to identify opportunities which are overlooked by others.” Building on Kirzner’s work, several authors have suggested factors that allow some individuals to identify opportunities (Shane and Venkataraman, 2000): cognitive capacities (i.e., individual creativity), information processing skills, knowledge, and social interactions (Ardichvili, Cardozo and Ray, 2003; Tang, Kacmar and Busenitz, 2012).

Creativity

Opportunity recognition has been linked to creativity (Hills, Shrader, and Lumpkin, 1999; Long and McMullan, 1984). Indeed, some authors define opportunity recognition as a

form of creativity that can result in organizational innovation and/or new venture opportunities (Lumpkin and Lichtenstein, 2005). According to Dimov (2007), opportunity identification implies that entrepreneurs use creative processes to perceive new ideas and to put them in action. Amabile (1996) defines entrepreneurial creativity as “the implementation of novel ideas to establish a new business or new program to deliver products or services” (p. 82).

Initial creativity research focused primarily on creativity as an individual trait (Barron and Harrington, 1981), but more recent perspectives tend to focus on how contextual factors can constrain or facilitate individual creativity (Perry-Smith, 2006). Baron (2007) and Dimov (2007) have called for analysis of both personal and organizational factors. The context imposes social roles, identities, and cultural norms that may facilitate or inhibit the individual’s creative accomplishment (Amabile, 1988; De Carolis and Saporito, 2006). Individuals’ psychological relationships with their groups, teams, or organizations may influence the extent to which they feel motivated to engage in creative behaviors (Hirst, Van Dick and van Knippenberg, 2009). Flexible reward systems, collaborative leadership styles, and efficient communication channels have been said to foster creativity in organizational settings (Amabile, Conti, Coon, Lazenby, and Herron, 1996; Perry-Smith and Shalley, 2003), as have workplaces that encourage risk taking and autonomy (Amabile, 1983). Conversely, the tendency to act without adequate thought, abruptly, and with little or no regard for potential negative consequences can impair creativity (George and Zhou, 2007; DeYoung, 2010).

Knowledge

Several empirical studies have found that knowledge conduces to opportunity recognition (Corbett, 2006; Shane, 2000; Shepherd and DeTienne, 2005). The underlying argument of these studies is that, rather than being evenly distributed, information about

underutilized resources, new technology, or unstated demand that may create business opportunities is “dispersed according to the idiosyncratic life circumstances of each person in the population” (Shane and Venkataraman, 2000: 222). Entrepreneurs’ existing knowledge can help them more efficiently process this fragmentary and sometimes even contradictory information (Alvarez and Buseniz, 2001).

Yet, as too much domain knowledge may impede outside-the-box thinking, the link between knowledge and opportunity recognition is contingent upon one’s mode of learning (Dimov, 2007). Background and experiences not only give information but also influence cognitive processes (Baron, 2006). What counts is not only what one knows, but also how one applies and extends his or her knowledge in a particular situation (Weisberg, 1999).

Moreover, entrepreneurs possess different types of knowledge: explicit, as in scientific or technological knowledge, or tacit and personal, which is more difficult to communicate and imitate. Both are relevant to opportunity-seeking (Lane and Lubatkin, 1998), but tacit knowledge is critical, since it represents much of what the firm knows and it is not easily transferred (Barney, 2002). Tacit knowledge develops through the interaction between an individual and the situation, becoming context specific.

Therefore, as in the case of creativity the influence of prior knowledge on the opportunity recognition process cannot be understood without analyzing the context in which knowledge is developed and transferred.

Social Networks

Entrepreneurs’ social networks are another important factor influencing opportunity recognition (Hills, Shrader and Lumpkin, 1997). Networks provide access to diverse or novel information (Burt, 1992), which may in turn be instrumental for the development of opportunities (Singh, 2001). Following Granovetter’s (1973) classic article on the strength of weak ties, research has highlighted the positive effect of weak ties and the negative effect of

strong ties on creative actions (Perry-Smith, 2006). When actors cultivate networks of optimal size and weak strength that simultaneously link them to contacts in very different social worlds, they will more likely be exposed to different and unusual ideas (Baer, 2010) and develop higher autonomy (Perry-Smith and Shalley, 2003). In turn, this may enhance their alertness toward new business opportunities since several researchers have found that team diversity is related to higher creative performance (Payne, 1990; Visart, 1979).

In contrast, when individuals share common attitudes and beliefs, the information that circulates among them is likely to be redundant, and the closeness and affect among them can produce conformity, which keeps them from sensing opportunities (Amabile, 1996). Although strong ties may provide some benefits for opportunity recognition, such as social support and trust (Ibarra, 1992), work-related information relevant to opportunity-seeking can be effectively exchanged across weaker ties (Perry Smith and Shalley, 2003).

Thus, network characteristics may facilitate or constrain the individual's recognition of new business opportunities, depending on context, since certain factors may make it more likely that one will take advantage of a particular type of network (Amabile, 1996).

Seizing Entrepreneurial Opportunities

Seizing opportunities may involve developing new companies, new products, new markets, or new technologies. Entrepreneurs have indeed a wide range of possibilities for creating wealth, some of which do not necessarily involve starting a new independent firm (Carter, Dimitratos and Tagg, 2004). In established organizations, entrepreneurial outcomes include not only new entries but also product innovation (Shane and Venkataraman, 2000) and the creation of new technologies (Makri, Hitt, and Lane, 2010).

New Entry

New entry is seen as a key aspect of entrepreneurship (Davidsson and Wiklund, 2001). According to Lumpkin and Dess (1996), “new entry is the act of launching a new venture, either by a start up firm through an existing firm (business venturing) or via internal corporate venturing” (p.136). Established companies can adopt different modes of organizing their business ventures. Among these, companies are increasingly using external corporate venturing to learn from knowledge sources beyond the boundaries of the firm. External corporate venturing refers to the creation of new businesses in which a corporation uses external partners in an equity or nonequity interorganizational relationship (Miles and Covin, 2000; Sharma and Chrisman, 1999). External venturing can facilitate the development of new products, markets, or technologies (Keil, 2002; Dushnitsky and Lenox, 2005), and the firm can learn from its partners (Mowery, Oxley, and Silverman, 1996; Lane and Lubatkin, 1998; Rosenkopf and Almeida, 2003; Rothaermel, 2001) to increase invention quantity and quality (Makri et al., 2010; Ahuja and Katila, 2001; Vermeulen and Barkema, 2001), and more generally to become more innovative and grow faster (Stuart, 2000).

Research on corporate entrepreneurship shows that companies vary significantly in their use of different entry mechanisms because of their diverse environments and other contextual variables (Badguerahanian and Abetti, 1995; Hitt, Nixon, Hoskisson and Kochhar, 1999).

New Products/Markets and Technologies

Most authors accept that entrepreneurship is largely based on innovations (Stopford and Baden-Fuller, 1994). The innovativeness of a firm, therefore, is assessed from the point of view of generating a new product to capitalize on a marketplace’s opportunities (Ozsomer, Calantone, and Di Benedetto, 1997; Brown and Eisenhardt, 1995), creating a

completely new market or adopting a new technology that can lead to improved products or processes (Sciulli, 1998; Subramanian, 1996).

Central to the literature on innovation is the distinction between improving an existing design or creating a new concept that departs significantly from existing ones (Freeman, 1982), that is the distinction between incremental and radical innovation. While incremental innovation introduces relatively minor changes to existing products or services, radical innovation implies the use of fundamentally different principles and procedures and the creation of new designs (Dess and Beard, 1984). As a result, they have different consequences but they also require different types of organizational capabilities (Henderson and Clark, 1990).

Transforming Knowledge

The entrepreneurial process doesn't end once the firm discovers a new technology or develops a new product. Rather, in order to remain competitive, firms need to continually renew their existing knowledge base by recombining technological components in a novel manner (Fleming and Sorenson, 2004). The recombination process leading to an invention² is facilitated by two types of knowledge: scientific (knowledge about the core design concepts and the way in which they are implemented in a particular component) and technological (knowledge about the ways in which the components are integrated into a coherent whole). Science and technology affect the process of discovery in different ways.

Rip (1992) argues that technology³ is about exploitation, adapting and combining what is known to achieve what is desired. It is driven by pressures from markets for products

² Innovation involves discovering an invention and then exploiting it through product development, manufacturing, marketing, distribution, and after-sales service. As a result, an innovation differs from an invention in that it provides direct economic value to the firm and is diffused to other parties beyond the discovering firm (Makri et al, 2010; Makri et al., 2006).

³ Patents are considered a representation of technological knowledge, while papers and citations to them are viewed as representations of science (Meyer, 2000).

and services (Clark, 1987; Balmer and Sharp, 1993) and begins with an idea of what is needed to respond to those pressures. When a solution to a technological problem is not obvious, the firm works backwards from its preconceived ends and evaluates potential starting points (solutions) until an optimal one is found (Nightingale, 1998). Science, on the other hand, is exploratory and driven by the interests of researchers (Balmer and Sharp, 1993). While it has a known starting point, it searches towards unknown ends (Nightingale, 1998). These sociological and cognitive differences suggest that scientific knowledge can enrich innovation (Makri and Lane, 2007) and enhance a firm's transforming capability in R&D. The nonlinear and cumulative manner in which scientific knowledge evolves suggests that it can move a technological community away from its existing trajectory, leading to radical innovations. Technological knowledge evolves in a linear and noncumulative manner, moving a technological community along its existing trajectory and leading to incremental innovations (Makri, Hitt and Lane, 2010). Simply put, scientific knowledge is a key indicator of a firm's transforming capacity because it facilitates exploration (Makri, Lane, and Gomez-Mejia, 2006; Makri, Hitt and Lane, 2010).

THE ENTREPRENEURIAL PROCESS IN FAMILY FIRMS: A SEW APPROACH

The above discussion suggests that because entrepreneurship is a process of sensing and seizing opportunities, it is highly context dependent. Family businesses provide a unique organizational context to study the entrepreneurial process, since they are influenced by a number of distinctive contextual factors such as a strong family identity, loyalty, and transgenerational intentions (Berrone et al, 2012). Families determine norms, culture, and values, and they condition access to key resources needed for the entrepreneurial process (human capital, financial resources, and so on) (Aldrich and Cliff, 2003). Sirmon and Hitt (2003) recognize the family business is a context prone to developing firm-specific

knowledge, mainly tacit (Sirmon and Hitt, 2003). Similarly, Cruz, Gomez-Mejia, and Becerra (2010) highlight the uniqueness of individual relationships in the family context, characterized by kin networks, trust, and altruism.

The literature on family businesses largely addresses the influence of the unique aspects of the family on several strategic outcomes (see the work of Gomez-Mejia and colleagues). However, despite the importance of fostering entrepreneurship in family businesses, how family ownership affects the entrepreneurial process is not yet well understood. Taking a family embeddedness perspective on entrepreneurship, Aldrich and Cliff (2003) point to the family as a key influence on both opportunity recognition and exploitation. But research on how families recognize the renewal of opportunities is practically nonexistent (Nordqvist and Melin, 2010), and the influence of family owners on the transforming capacity of the firm has not yet been established.

Most empirical articles examining entrepreneurship in family firms have focused on the concept of entrepreneurial orientation (EO), or the processes and practices that make a firm entrepreneurial (Covin and Slevin, 1986; Covin and Slevin, 1991). For instance, Salvato (2004) concluded that “entrepreneurship in medium-sized family firms is intrinsically related to individual CEO-characteristics, to aspects of the relationship between family and firm, to governance and organizational characteristics, and to ownership structure” (p. 74). Additionally, Kellermanns and colleagues (2008) concluded that multigenerational involvement was a strong predictor of entrepreneurial behavior in family firms, and Martin and Lumpkin (2003) found that autonomy, risk-taking, and competitive aggressiveness decreased as later generations were involved in the family firm. Finally, Casillas, Moreno, and Barbero (2011) found that environmental dynamism significantly moderates the relationship between the next generation's involvement and entrepreneurial orientation in family contexts.

The other bulk of empirical evidence on entrepreneurship and family firms comes from studies on innovation, mainly using R&D expenditures as a proxy for innovation. For example, Block, Miller, Jaskiewicz, and Spiegel (2013) found that family ownership in publicly traded U.S. firms in research-intensive industries correlates inversely with R&D intensity, while Chin and colleagues (2009), using a sample of Taiwanese electronics companies, found that family ownership reduces the quality and quantity of patents. Indeed, regardless of their theoretical approach, most studies have found that family firms tend to underinvest in R&D relative to nonfamily firms (Gomez-Mejia et al., in press(a); Chrisman & Patel, 2012; Muñoz-Bullon and Sanchez-Bueno, 2011).

While these studies did a great job in examining how family ownership affects entrepreneurial *outcomes*, none of these studies has captured how the unique family business context may facilitate or impede different aspects of the entrepreneurial *process*. As the next section shows, the SEW approach is designed precisely to capture the impact of family ownership on the process of entrepreneurship.

The Pervasive Effect of SEW

The concept of socioemotional wealth (SEW) was first introduced by Gomez Mejia and colleagues (2007) as a framework to integrate existing theories explaining empirical differences between family and nonfamily firms. The SEW model represents an extension to the Behavioral Agency Model or BAM (Wiseman and Gomez-Mejia, 1998). According to the BAM, firm choices depend on the reference point of the dominant principals, who aim to preserve accumulated endowment in the firm. For family firms, that reference point is SEW rather than economic efficiency (Gomez-Mejia et al., 2007).

SEW was first defined by Gomez-Mejia and colleagues (2007) as the stock of affect-related value that a family derives from its controlling position in a particular firm. It

includes aspects such as the fulfillment of needs for belonging, affect, and intimacy (Kepner, 1983); the continuation of family values through the business (Handler, 1990), the preservation of the family dynasty (Casson, 1999) or the protection of the family's social capital (Arregle et al., 2007). Losing this SEW implies a loss of closeness, reduced status, and/or failure to meet the family's expectations. Then, the model predicts that family owners are "loss averse" with respect to SEW; that is, they will embrace risky decisions that preserve SEW even if doing so decreases economic wealth.

Implicit in this reasoning is consideration of SEW as a unique reference point that guides family owner's strategic decisions. This view has been recently modified by a more nuanced conceptualization of SEW that disaggregates it into five dimensions (referred to as the FIBER model; Berrone et al, 2012). These dimensions include: "Family Control and Influence", "Family Identity", "Sense of Dynasty", "Emotional Attachment" and "Social Ties". These dimensions represent different aspects of the non economic utilities that family owners derive from owning the firm and, more importantly, different reference points which may justify family principals' heterogeneous responses to different strategic outcomes (Berrone et al., 2012). Hence it is possible that the salience of various SEW dimensions may vary across family firms and that, as argued later, they might have conflicting effects on creativity, innovation and entrepreneurial activities.

The SEW model has received extant empirical support regarding strategic outcomes such as diversification (Gomez Mejia, Makri and Larraza-Kintana, 2010), environmental performance (Berrone, Cruz, Gomez-Mejia and Larraza-Kintana, 2010), and innovation (Chrisman and Patel, 2012). Recent research also provides preliminary support for the differential effect of the SEW dimensions (Cruz, Larraza-Kintana, Garcés-Galdeano and Berrone, 2013).

However, although the ubiquitous drive to preserve the family firm's SEW is likely to affect individuals' perceptions of their work environment, the process by which the presence of socioemotional goals affects sensing opportunities is unknown. Similarly, our understanding of the influence of SEW goals on the seizing of opportunities is incomplete, restricted to the study of family influence on innovation outcomes. To fill in these gaps, in the next sections we develop some propositions following a SEW approach to the entrepreneurial process in family firms.

Sensing: SEW and the Recognition of Entrepreneurial Opportunities in Family Firms

Our model proposes that the presence of SEW within family firms influences how individuals, groups, and organizations identify business opportunities through its impact on creativity, prior knowledge, and social networks. However, the direction of the effect is not clear, since, while some aspects of SEW may foster opportunity seeking, others may inhibit it. Therefore, the final impact of SEW on the sensing of opportunities depends on the weight family owners give to each of the different components of the family SEW.

SEW, Creativity, and Sensing Opportunities in Family Firms

One of the mechanisms organizations use to enhance creativity is setting creativity goals. In doing so, organizations are essentially signaling to employees what is being valued. If goals for creativity are not established, but there are goals for other aspects of performance (e.g., financial), then creative performance is significantly less likely to occur (Shalley, 1991). Simply put, assigning a creativity goal can cause individuals to spend more time thinking about a task and trying to expand the range of potential solutions. This type of critical reflection requires a long-term orientation rather than a focus on immediate financial payoffs. Because creativity often evolves through trial and error, even organizations that do set creativity goals may not achieve much creativity if employees are pressured to achieve immediate results or punished for failed attempts (Amabile, 1998; Jung, 2001).

The long term orientation characterizes family firms in which family owners' have a strong intention of handing the business down to future generations (Berrone et al., 2012). When this is the case, the firm symbolizes the heritage and tradition of the family (Casson, 1999) and might not be sold easily (Zellweger, Kellermanns, Chrisman and Chua, 2012). Thus, we expect that family firms that emphasize the "family dynasty" dimension of SEW would have a long term orientation and a higher level of tolerance for occasional failures that lend well to the setting of creativity goals.

The SEW preservation also acts as an internal sustaining force that propels organizational members to persist in the face of environmental challenges (Gomez-Mejia et al., 2007). Research suggests that when the "Family Identity" dimension of SEW is perceived as highly salient, the firm becomes in itself a projection of the core values of the family (Berrone et al, 2010). Symmetry of personal and firm goals lead to higher commitment from family owners as well as spontaneous selfless cooperation beneficial to other organizational members, such as their supervisors, peers, and subordinates (Mowday, Porter, and Steers, 1982). In firms in which the "family identity" dimension of SEW is particularly salient, the family members' strong sense of belonging is often transferred to the rest of the employees. Such forces have been associated with higher levels of creativity, since individuals are most creative when they are motivated primarily intrinsically (Shalley, 1995; Glynn and Webster, 1993; Amabile and Gryskiewicz, 1987).

The above discussion suggests that a strong commitment to continuity in family firms and a high identification of family owners with the firm encourages creativity within the organization. Formally stated,

Proposition 1a: The “Family Identity” and the “Family Dynasty” dimensions of SEW will foster creativity in family firms, by setting creativity goals and promoting intrinsic motivation among organizational members.

However, evidence also suggests that sometimes the desire to preserve SEW can make the organizational climate too restrictive, inhibiting the creative process (Kellermanns and Eddleston, 2006). We argue that this negative influence derives from the emotional overtones of some family owners’ and from their desire to retain family control over the firm’s strategic decisions, two key dimensions of family SEW.

Emotions are inseparable from everyday work in all organizations (Ashforth and Humphrey, 1993) but in family firms emotions may be so intense that the boundaries between the family and the company become rather porous (Berrone et al., 2010). When the “Emotional attachment” dimension of SEW becomes salient, family members are more likely to be altruistic toward each other (Schulze et al., 2003). Although family altruism is generally reputed to temper self-interest inside the family business (Chrisman, Chua and Litz, 2004), it may also have negative consequences. Altruistic motives lead parents to overprotect their adult children and care for them even if they know they are going to free ride (Buchanan, 1975). This might create a “paternalistic culture” in the organization that tends to overprotect employees who are members of the controlling family (Cruz et al, 2010). As a result of this overprotection, family employees are denied the possibility of making autonomous choices and the freedom to express their ideas (Chirico and Norqvist, 2010). All of this creates “family inertia” which in turn inhibits creativity among family employees.

Because creativity involves uncertain and untested approaches (Tesluk, Farr, and Klein, 1997), the presence of this paternalistic culture may also significantly penalize

employees who do not belong to the family system. If non-family employees feel they will be punished for failing at work, it is far easier, more efficient and potentially more practical for them to avoid trying a new, possibly better approach. Moreover, in firms where family principals are concerned about the desire to preserve family control, another key dimension of family SEW (Berrone et al, 2012), the altruism and psychological safety available to family members will generally not be extended to non-family members. Such a concession may be interpreted as a loosening of the family's control of the firm. So, as the desire to preserve family control becomes stronger, so will the belief that employees outside the family system may be penalized for negative consequences of creative behavior; hence, there will be greater reluctance among members of the non-family system to engage in creative behavior.

Lastly, there is another pervasive effect on the firm's creativity if family owners put too much emphasis on maintaining family control. When this is the case, decision making is concentrated in a few entrenched individuals whose main aim is to preserve control and traditions, rather than create wealth (Berrone et al., 2012). The company perpetuates a culture that is inward looking and rigid (Konig et al., 2013), inhibiting the exploration of new methods and practices (Zahra et al, 2004).

The above discussion suggests the following:

Proposition 1b: The "Family Control" and the "Emotional Attachment" dimensions of SEW will tend to inhibit creativity in family firms by engendering inertia among family employees and perceptions of organizational injustice among nonfamily employees.

SEW, Knowledge, and Sensing Opportunities in Family Firms

When assuring the company legacy to be bequeathed to descendants is an important goal for family owners (i.e when the “family dynasty” dimension is more salient), they are more likely to involve children early in the family firm. Such intergenerational grooming transfers family firm–specific human capital (Sirmon and Hitt, 2003) in the easiest way, through direct exposure and experience (Lane and Lubatkin, 1998). This firm-specific knowledge may make family members more productive within the family firm, although not necessarily outside it (Vallejo, 2009; Sardeshmukh and Corbett, 2011). Early entrepreneurial experience makes them more alert to signals than others because they will have a better appreciation for the type of information being sought. Cooper and colleagues (1995) demonstrated that entrepreneurial experience provides benchmarks for assessing the relevance of information, which in turn can lead to a better understanding of the value of opportunities available (Davidson and Honing, 2003). Family members who get a ground-level view of the business operations and a better understanding of the social dynamics within the firm can understand the competitive challenges and opportunities, make decisions as a group, and explore various alternatives and discuss the risks associated with these options (Zahra 2005; Habbershon, 2006). These arguments suggest that when the dynastic motive is prioritized, the presence of SEW would foster opportunity recognition through its impact on the development of tacit knowledge.

However, other aspects of SEW may have a pervasive effect on the family owners’ ability to recognize new business opportunities. Specifically we argue that when family owners prioritize the “Family Control” dimension of SEW, there would be a lower propensity to share privileged information outside the family system. This lack of sharing would in turn negatively affect opportunity recognition in two ways. First, reluctance to share privileged information with non-family employees will hinder the process of recognizing potentially valuable opportunities as a result of inadequate information

availability. Second, it also evokes a reciprocal reticence from nonfamily employees who sense the inequity of their relationship with the organization. Lubatkin, Ling, and Schulze (2007) suggest that non-family employees' perceptions of fairness will be dependent on the extent of self-control exhibited by these individuals.

The above discussion suggests that as in the case of creativity, the influence of SEW through knowledge is a double-edged sword: the early involvement of children gives them the knowledge to sense opportunities, but the reluctance to share information with nonfamily employees may suppress this effect. This leads to the following proposition:

Proposition 2a: The “Family Dynasty” dimension of SEW favors tacit knowledge and entrepreneurial experiences that facilitate opportunity recognition in family firms.

Proposition 2b: The “Family Control” dimension of SEW reduces the likelihood of family members sharing information with nonfamily employees and thus impedes opportunity recognition in family firms.

SEW, Social Ties, and Sensing Opportunities in Family Firms

In family firms, kin networks based on strong social ties become an integral part of the SEW that families strive to preserve over time (Berrone et al., 2012). Cruz, Justo and De Castro (2012) argue that SEW provides kinship ties with some of the same collective benefits that arise in closed networks, including the development of “collective social capital” (Coleman, 1990). This social capital allows the family firm to enhance its ties with external stakeholders (Miller and LeBreton-Miller, 2006; Sirmon and Hitt, 2003), to build more effective relationships with suppliers and customers (Sirmon and Hitt 2003), and consequently to collect broader information about new opportunities, preventing the firm from becoming rigid or stagnant (Sirmon, Arregle and Hitt, 2008). Externally, family members become deeply embedded in their communities and tend to be active there (Graafland, 2002; Lansberg, 1999). Whereas other firms may engage with the community at

a rudimentary level (for instance, by providing information or philanthropic donations), family firms dominated by social ties consider the community in firm decision making (Boehm, 2005). In such firms, expanding networks and fostering network diversity will be the norm, and external ties nurture entrepreneurial opportunity recognition (Aldrich and Cliff, 2003; Habbershon, 2006; James, 1999).

However, the social capital literature also warns against “too much collective capital,” which can limit access to information and new ways of doing things (Coleman, 1988). This is likely to happen in family contexts when emotional attachment is too high, since the presence of SEW goals also endows kinship ties with the characteristics of strong (versus weak) ties (Nahapiet and Ghoshal, 1998). Although the resulting relational trust and strengthening of closeness (Uzzi, 1997) may to some degree facilitate opportunity recognition, creativity studies show that this is not a key requirement for sharing innovative ideas across functional boundaries (Burgelman, 1983). On the contrary, the closeness and affect of strong ties can produce conformity and lead to “relational inertia” (Gargiulo and Benassi, 1999), which hinders the sensing of opportunities (Amabile, 1996).

Thus, the network diversity that emerges as a result of binding social ties with external stakeholders may foster creative thinking and opportunity recognition, while the network homogeneity that results from the emotional attachment between family members may stifle opportunity recognition. Formally stated,

Proposition 3a: The “Binding Social Ties” dimension of SEW engenders a higher level of network diversity that improves opportunity recognition in family firms.

Proposition 3b: The “Emotional Attachment” dimension of SEW engenders closed networks that impair opportunity recognition in family firms.

Seizing: SEW and Entrepreneurial Outcomes in Family Firms

The SEW approach predicts that family owners will favor certain entrepreneurial outcomes because there is a socioemotional reward for the family, regardless of any associated economic gains. The aim here is to understand the trade-offs (financial versus socioemotional wealth) that family owners face when deciding the best way to seize business opportunities. Specifically, our model proposes that the presence of different SEW dimensions associated with different family owners' goals will affect the choice among product innovation, and technological innovation and new entry.

SEW and Technological Innovation

Investment in R&D, if it leads to successful innovation, can help the firm compete and ultimately survive (Ahuja, Lampert and Tandon, 2008; Bushee, 1998; Nelson and Winter, 1982; Palmer and Wiseman, 1999; Sundaram, John, and John, 1996). The importance of successful R&D is even greater in high-technology sectors, as they are typified by rapid change. A key factor contributing to success in such settings and a potential benefit of R&D for the family owners is resilience to rapidly changing external environments. (Gomez-Mejia et al., 2007). However, undertaking significant R&D may demand talent not available within the family and raises the probability that family members will lose control (Gomez-Mejia et al., 2007).

The science/technology distinction that we noted earlier corresponds to March's (1991) distinction between exploration—which is characterized by search, variation, experimentation, flexibility, and discovery—and exploitation—which is characterized by refinement, efficiency, implementation, and execution. Knowledge generated by exploration is often distant from the existing knowledge base of the firm (Katila, 2001), while exploitative learning is a directed search emphasizing limited variety (McGrath, 2001) and building closely on the existing knowledge base.

Because in comparison to exploitation, returns from exploration are systematically less certain (March, 1991), firms tend to prefer “tried and true” solutions over novel ones (Benner and Tushman, 2002). This tendency is even greater in family firms. While exploration increases the possibilities of recombining existing knowledge into new innovations (Fleming, 2001) and protects the firm from being locked into a particular technological trajectory, it also increases complexity and thus the difficulty of maintaining family control. Block and colleagues (2013), using patent data for U.S. companies, show that family firms produce innovations of less technological significance and economic value than nonfamily firms. These arguments suggest that family ownership may affect a firm’s transforming capacity as follows. On one hand, family owners for whom family control and emotional attachment to the firm are dominant (as per Proposition 1b) will be less likely to invest in scientific knowledge and the uncertainty that accompanies it and would rather invest in technological knowledge which is more certain. As a result, those firms are less likely to develop radical technological innovation. On the other hand, family owners for whom family identity and family dynasty are prevalent (as per Proposition 1a) will be more likely to invest in the uncertain process of scientific knowledge and the long term orientation that accompanies it. Formally stated:

Proposition 4a: The “Family Control” and the “Emotional Attachment” dimensions of SEW are less likely to foster investments in science and therefore less prone to develop radical technological innovations among family firms.

Proposition 4b: The “Family Control” and the “Emotional Attachment” dimensions of SEW are more likely to promote investments in technology and therefore more likely to develop incremental technological innovations among family firms.

Proposition 5: The “Family Identity” and the “Family Dynasty” dimensions of SEW are more likely to encourage investments in science and therefore more likely to develop radical technological innovations among family firms.

SEW and Product Innovation

Previous studies have suggested that because family firms are more averse to loss of control than nonfamily firms, they are less willing to diversify either domestically or internationally (Anderson and Reeb, 2003), and if they do pursue international diversification, they tend to focus on culturally close regions (Gomez-Mejia et al., 2010). The underlying assumption is that diversification jeopardizes SEW. Similarly, family firms may be more reluctant to diversify into unrelated product categories because such a move often requires expertise and resources from external parties, and thus threatens SEW (Gomez-Mejia et al., in press (a)).

The above arguments do not imply that family firms do not engage in product innovation. On the contrary, Miller and Le Breton Miller (2005) argue that their long-term orientation and persistence give family firms an advantage in developing new products. Accumulated knowledge and traditions allow family owners to capitalize on their family brand and reputation to produce new products in a region, and their dominance can give them advantage even over larger national players (Habbershon, 2006). However, these arguments imply that the innovations are based on existing or related products. This is to say, product innovation in family firms is accomplished by “creating the new through the

old” (Nordqvist and Melin, 2010: 224). To use Aldrich and Martinez’s (2001) terms, this implies that family owners are more likely to be reproducers than innovators when it comes to products. Developing completely new products is highly risky from an SEW preservation point of view, since it may “induce important changes in the way the family-owned firm is organized, and this is likely to engender resistance from family members who may feel their traditional sphere of influence is being threatened” (Gomez-Mejia et al., 2007, p.7). Additionally, recent research suggests that family firms have a responsive market orientation, which focuses on satisfying current customers, rather than a proactive market orientation, which addresses latent customer needs and completely new markets (Lichtenthaler and Muethel, 2012). Based on these arguments, we expect product innovation in family firms to be more incremental than radical. More specifically, based on the arguments leading to Propositions 4 and 5, we would expect that family owners who use the family control and the emotional attachment dimension of SEW as main reference points will be more likely to develop incremental technological innovations and thereby incremental product innovations. On the other hand, family owners who use the family identity and family dynasty dimension of SEW as main reference points will be more likely to develop radical technological innovations and by extension radical products. Formally stated:

Proposition 6a: The “Family Control” and the “Emotional Attachment” dimensions of SEW are more likely to foster incremental product innovations among family firms.

Proposition 6b: The “Family Identity” and the “Family Dynasty” dimensions of SEW are more likely to generate radical product innovations among family firms.

SEW and New Entry

Organizations entering new or established markets can either launch a new independent company (business venturing) or engage in internal corporate venturing. Moreover, business venturing can be accomplished independently or through interorganizational relationships (external corporate venturing). In what follows, we argue that the “family control” dimension of SEW fosters new entry.

For family owners, new venture creation reduces risk, because owning multiple businesses implies that resources can be moved between firms, reducing the overall risk of failure. This strategy is particularly relevant for family owners who use family control as main reference point, because they have most of their wealth tied to one company rather than in a diversified portfolio of investments (Galve-Górriz and Salas-Fumás, 2003; Gomez-Mejia, Larraza-Kintana and Makri, 2003). Therefore, family owners who emphasize the family control dimension of SEW may promote greater diversification in the firm’s portfolio of businesses in order to spread their risk and ensure family influence (Casson, 1999; Chami, 1999).

Moreover, as the family grows, family owners need to generate not only more wealth (Miller, Steier and Le Breton Miller, 2003), but also a new job for every member who joins the business (Cruz and Justo, 2012). This need is even greater for family owners who use family dynasty as a main reference point. Starting a new venture or division of the business meets both needs (Barach, 1984). Additionally, new generations can “experiment” with new ventures without risking the whole family wealth. As Sieger and colleagues (2011) argue, family owners develop business portfolios to “seek growth while protecting the firm’s core activity” (p. 327). Accordingly, new venture creation gives family owners that emphasize the family control and the family dynasty dimensions of SEW the opportunity to find a middle

ground between being entrepreneurial and preserving the SEW attached to the family's core activity. Formally stated,

Proposition 7: The “Family Control” and the “Family Dynasty” dimensions of SEW make family owners more likely to engage in business venturing when entering new markets.

Use of the SEW framework also sheds some light on the mode in which family firms choose to create new ventures. Firms in general are increasingly adopting external corporate venturing, because interorganizational learning from alliance partners facilitates the development of new products, markets, or technologies and the firm's ability to create new knowledge. For family firms, however, external corporate venturing threatens SEW because the increased variance in the knowledge being integrated increases complexity, and thus the difficulty of monitoring these new activities (Oxley, 1997). This threat is even greater for family owners who use family control as a main reference point. As the firm enters multiple partnerships simultaneously, it becomes increasingly difficult to maintain family control and autonomy. Including multiple external partners in the innovation process restricts the family firm's decision-making latitude, and such restriction will be especially felt in family firms with a family CEO (Classen, Van Gils, Bammens and Carreem, 2012). Formally stated:

Proposition 8: The “Family Control” dimension of SEW makes family owners less likely to engage in external corporate venturing when entering new markets.

CONCLUSIONS

Our dynamic capabilities framework suggests that family ownership affects the entrepreneurial process of sensing, seizing, and transforming. While past research has explored how family ownership affects entrepreneurial outcomes, no study has examined how family ownership may facilitate or impede these three steps of the entrepreneurial process. We argue that various SEW dimensions differentially affect the entrepreneurial process of sensing, seizing and transforming and hence higher or lower salience of particular SEW dimensions may influence the behavior of family firms. Our general thesis is that these three steps of the entrepreneurial process along with the five dimensions of socioemotional wealth are key to understanding how entrepreneurship in family firms differs from that in nonfamily firms. Our framework suggests that the family's networks and multigenerational involvement give family owners a potential advantage over nonfamily firms in discovering new business opportunities, but that emotional attachment and emphasis on maintaining family control can make them less prone to exploration. Furthermore, we argue that all things considered the avoidance of net SEW losses is conducive to greater business venturing and lower corporate venturing in family firms.

Our SEW framework also provides some insights into how family dynamics can facilitate or constrain firms' seizing and transforming capacity. In particular, we argue that new entry decisions are going to be driven by a desire to protect the family's SEW. As a result, family businesses are more likely to start new businesses and enter new markets alone and less likely to form alliances with other organizations. Further, we expect that family owners for whom family control and emotional attachment to the firm are dominant will be less likely to invest in scientific knowledge which makes them less likely to discover radical technological and/or product innovations. On the other hand, family owners for whom family identity and family dynasty are prevalent will be more likely to invest in scientific

knowledge and hence more likely to develop radical technological and/or product innovations.

A vast body of research on family firms has focused on understanding the effect of family ownership on firm performance. These studies suggest that evidence is inconclusive as to whether family firms outperform non family firms. In a recent meta-analysis Van Essen, Carney, Gedajlovic, Hengens, and Van Osterhout (2013) concluded that “family control has a modest, but statistically significant positive effect on performance.” (p.26). Simply put, empirical evidence thus far shows that family firms are a viable form of economic organization and that they that can perform at least as well or slightly better than their non-family counterparts. Our study contributes to this body of research by looking at how some aspects of family ownership are beneficial for entrepreneurship, innovation and by extension firm performance while others hinder it. Family owners need to be mindful of how their emotional attachment, identity, long term commitment to the family and need to control its fate, affects innovation mode, quantity and quality.

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