# LEVERAGING INNOVATION IN FAMILY STARTUPS: A STEWARDSHIP APPROACH

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## ABSTRACT

*Family firms are often criticized for failing to seek new ventures, being conservative and resisting change. On the other hand, researchers believe that certain characteristics in family relationship can foster strategic flexibility. Drawing on Stewardship theory, this paper, rather than arguing in favor or against family business innovation, takes a contingency approach and analyzes variables that may affect innovation in family startups and the conditions that leverage their family resources as competitive advantage. Specifically, this paper proposes that altruism, power concentration and their interaction affect strategic flexibility. It is also argued that family business with main founders high in altruism and low on power concentration can become more innovative than when the main founder is low in altruism and high in power concentration. Finally, it is suggested that the effect of altruism on strategic flexibility should be stronger in family business than in non-family business. Implications for theory and practice are derived.*

**Keywords:** Strategic Flexibility, Family startups, Altruism, Power Concentration

## 1. INTRODUCTION

Family businesses represent 40 to 60% percent of the gross national product in the US (and more worldwide, and employ upward of 80 percent of the US workforce (Neubauer & Lank, 1998). Given the importance of innovation for economic development and the strong impact of family business in the overall economy, scholars are interested in understanding what makes a family business more innovative.

Most of the research on family businesses has focused on the performance of family firms, but no research has been done on the drivers of innovation in family startups. There is a controversy regarding family businesses and innovation. Family business startups can provide an important social capital that allows flexibility to adapt to changing environments (Granovetter, 1985; Burt, 1992) and are considered a fertile ground for innovation (Zahra, Hayton & Salvato, 2004). On the one hand, Family founders are considered an important resource for imprinting an innovative capability by calling on their family and others in their family network for different kinds of help and support (Rosenblatt et al, 1985. On the other hand, family businesses have often criticized for failing to seek new ventures (Cabrera-Suarez, Saa-Perez & Almeida, 2001), being conservative and resisting change (Morris, 1998).

Stewardship theory offers an alternative explanation as to why family businesses can outperform non family businesses (Corbatto & Salvato, 2004). Basically, Stewardship theory argues that family firms are not only moved by self-interested motives, but rather by collective motives, in which family business members are willing to sacrifice their personal welfare in behalf of the family business. This collectivistic motivation leads to the formation of trust and commitment, which may become a source of competitive advantage over non family businesses, which are more moved by self-interest (Habbershon et al., 2003).

Recently, Zahra, Hayton, Neubam, Dibrell, and Craig (2008) used Stewardship theory to propose and empirically test that family members' commitment is related to strategic flexibility. Zahra and colleagues argued that family members' commitment to the family business results in long term organizational goals which lead family business members to embrace change in order to enhance the long term survival of the firm. Moreover, the authors suggest that this family commitment is not sufficient to achieve strategic flexibility. A stewardship culture also needs to be present, which puts emphasis on the quality of the interactions among family members and other stakeholders. Although it is important to understand the relevance of commitment and the existence of a stewardship culture in the development of strategic flexibility, there is still a gap in research regarding the conditions in which a stewardship culture and the commitment of family founders facilitate the development of strategic flexibility.

Davis, Schoorman and Donaldson (1997) described Stewardship theory as a participatory approach in which the motivation comes from a need for growth and advancement with a long term orientation. Stewards are motivated to contribute to the business because satisfaction of the collective goals is more important than individual satisfaction. Stewardship theory, suggests that any form of direct or indirect control may lower stewards' motivation, negatively, affecting their pro-organizational behavior, both in the short and in the long term. Contrarily, agency theory suggests that direct control, monitoring and monetary incentives are necessary in order to preclude opportunistic behaviors from agents which may threaten the interests of the principals (Jensen and Meckling, 1976).

Based on agency theory, Chrisman, Chua and Litz (2004) proposed that family businesses will have less agency costs because management and ownership are held within the family control, which maximizes alignment between personal interests and the family business goals. On the other hand, Corbetta and Salvato (2004) suggested that it is not self-interest which drives family businesses, but other non-economics motives related to self-actualization, need of affiliation, need of power identification and belongingness, better captured by Stewardship theory (Davis et al., 1997).

Beyond this debate, Davis et al. (1997) took a neutral approach in which neither agency nor stewardship approach can exclusively explain performance in family businesses. Davis and colleagues argued that either stewardship or agency approaches can be the preferred model depending on the situational conditions and the psychological characteristics of the founders. Similarly, this study, drawing on stewardship theory proposed by Davis et al. (2007), asks the research question: What is the effect of the situation and psychological characteristics of the main founder on innovation in family startups and how do these effects differ from non-family startups?

Based on recent findings based on stewardship theory application to family business performance (Eddlestone and Kellermmann, 2007), it is proposed that the psychological characteristics of the main founder, the situational conditions of startups, and their interaction should affect strategic flexibility. Specifically, it is proposed that altruism of the main founder and his/her Power concentration interact and directly affect strategic flexibility.

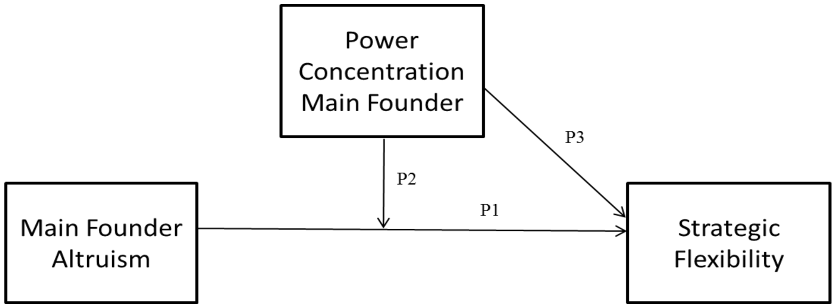
This study makes important contributions three important contributions to the field of family businesses and innovation. First, it is the first to propose, using Stewardship theory, that the psychological characteristics of the main founder (altruism) and the situational characteristic in the family startups (power concentration) of the main founder influence strategic flexibility. Second, this study takes a contingency approach in which power concentration of the main founder interact with altruism of the main founder to affect the degree of strategic flexibility. This, in turn, has implication for practitioners in clarifying under what conditions family businesses' can be more innovative and leverage their source of competitive advantage (Eisenhardt and Martin, 2000). Finally, this study is the first to propose a direct association between altruism and strategic flexibility, which in sheds light to the source of family businesses' competitive advantage.

In the following section I will use stewardship theory to draw propositions about the relationship between psychological characteristics and situational conditions. First, I will review the literature regarding the association of altruism of the main founder and strategic flexibility. Then, I will make the case that power concentration should interact and have a direct effect on strategic flexibility. Finally, the strength of the relationship between altruism in family versus non-family startups is analyzed using Stewardship theory. Propositions are derived and further discussed.

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The following propositions are based on Fig. 1 which summarizes our model.

**FIGURE1. STEWARDSHIP MODEL FOR STRATEGIC FLEXIBILITY IN FAMILY STARTUPS**




### 2.1. Psychological Factors and Strategic Flexibility

#### 2.1.1. Stewardship and Altruism

Most research has focused on how family relationships can negatively impact firm performance (Kellermanns & Eddlestone, 2004). However, recently it has been argued that "familiness" can be a source of competitive advantage for family firms (Sirmon & Hitt, 2003).

Some researchers in family business field agree that altruism may explain why in some family firms members are able to successfully work together and run a business while in others, family members are laden with animosity that deteriorates performance (Kellermanns & Eddlestone, 2004; Eddlestone & Kellermann & Sarathy, 2008). Altruism has been reported to contribute to positive and effective family relationships and family business performance. It is considered an important source of competitive advantage that is unique to family firms (Kellermanns & Eddlestone, 2004).

At the core of stewardship theory is the idea that involvement of the principals in achieving a collective goals for the organization leads agents to align with the organizational goals, which in turn reduces opportunism and reduces agency costs (Davis et al., 1997). Principals with an altruistic orientation are more likely to be trusted and to instill in the other family members trustworthiness and reciprocity (Kellerman and Eddlestone, 2004). This can foster pro organizational behaviors and increase involvement of the other family members working for the business consistent with an stewardship orientation (Corbetta and Salvato, 2004).

Zahra (2003) suggested that family members with high levels of altruism will put more emphasis on the achievement of collective goals rather than in individual needs of the principals. Zahra suggested that altruism is closely related to stewardship orientation because a steward fosters a common family responsibility to see the business prosper (Cabrera-Suarez et al., 2001). Altruism can also foster interdependence, loyalty and commitment among family members who see the business as part of their identity as a family and as a business (Ward, 1987). Previous studies demonstrate that family members are more committed and have higher expectations for performance than non-family members (Beehr, 1997). Kellermann and Eddlestone (2007) found a negative correlation between altruism and relationship conflict and a positive correlation with family members' participation. A stewardship culture can also lead a firm to emphasize long-term rather than short-term financial performance (Davis et al., 1997) which favors a safe environment for mutual reciprocity. Therefore altruistic culture seems to be closely related to predictions of Stewardship theory.

#### 2.1.2. Altruism and Strategic Flexibility

Zahra et al. (2008) found, using Stewardship theory, that family businesses with stewardship culture not only directly affect strategic flexibility, but also interacts with family commitment culture to enhance the relationship between family commitment culture and strategic flexibility—the ability to pursue new opportunities and respond to threats in the competitive environment. Given the association between altruism and stewardship altruism, this study proposes that altruism should affect strategic flexibility.

Innovation may be an important resource that distinguishes family firms and contributes to their competitive advantage (Zahra et al., 2004). Researchers have suggested that altruism is a resource that may create a sustainable competitive advantage through “familiness”, which must be properly assessed and managed in a family business (Cabrera-Suarez, et al., 2001). Altruism has also been found to be positively related with family firm’s performance and this effect becomes stronger as technological opportunities increases (Eddlestone et al., 2008).

Amabile, Barsade, Mueller and Staw (2005) using quantitative and qualitative data demonstrated in a longitudinal study that affect in teamwork increases creativity. This connection is an interesting one as family businesses have the potential to be a fertile ground for positive emotions due to the presence of the other family members and their positive interactions. According to Andriopulos’ (2001) literature review many antecedents of creativity has been proposed such as the organizational climate, leadership style, organizational culture, resources and skills and the structures and systems of an organization.

Altruistic family founders, therefore, are likely to foster a positive climate that will reflect their values and contribute to a stewardship culture characterized by active participation and engagement in pro organizational goals that foster the common wealth of all family members and stakeholders, rather than individualistic agendas. This stewardship culture, according to Zahra et al. (2008), interacts and directly affects strategic flexibility.

Since altruistic main founders imprint the policies and culture according to their preferences and values (Carroll & Hannan, 2000; Boeker, 1989), it seems reasonable to conclude that altruistic principals will foster a positive climate that will enhance a culture of reciprocity that leads to strategic flexibility. This flexibility is necessary because it allows coming out with new ideas and avoid rigidities that may lead to failure (Leonard-Barton, 1995). This is particularly important at the startup level where strategy needs to be aligned with the environment in order to buffer against environmental changes and increase survival rate. Moreover, a fast response and flexibility can lead family startups to have the first mover advantage over larger and older firms. Therefore,

Proposition 1: Main family founders’ altruism is positively related to strategic flexibility

### 2.2. Interaction Person Situation and Strategic Flexibility

Although altruism has many positive outcomes for family firms, researchers recognize that there is a dark side to altruism as well (Schulze, Lubatkin & Dino, 2003b)

Altruism may put challenges on the effective management of resources. For example, when family firms place noneconomic goals --such as avoiding family conflict or creating unnecessary jobs for family members, ahead of economic considerations, performance can be compromised (Chrisman et al., 2003; Schulze et al., 2003b).

Another problem in managing family businesses resources stems from family employees who often work for a firm not because of their qualifications, but because of their family status (Schulze et al., 2003b). An excessive altruism of the main founder can distort the allocation of resources by giving excessive priority to non-economic over economic considerations. This can be a source of relationship conflict especially if more qualified family members regret the poor performance of the less qualified family members (Kellermanns & Eddlestone, 2004).

Eddeleston et al. (2008) argue that family businesses members need to be motivated to participate in strategic planning and implement strategies, if the firm wants to benefit from these human resources (Sirmon & Hitt, 2003) and improve strategic flexibility. Therefore, whether a family business member’s abilities can or cannot be deployed is of the utmost importance (Kellermanns & Eddlestone, 2004).

However, research is still mute about what conditions favor the proper allocation of family resources in order to avoid the negative externalities of altruistic transfers from the main founders on strategic flexibility. This study proposes that there are circumstances that reduce the challenges and maximizes the benefits of altruistic transfers on strategic flexibility.

The concept of strategic flexibility is closely related to creativity. Amabile proposed a componential model in which creativity depends on personal factors and situational factors (Amabile 1983). This model proposes 3 components: expertise, creative thinking and task motivation. According to Amabile (1996), although all of these components are important, task motivation is the most important of all. In Amabile's model, the characteristics of the task can exert an important influence on intrinsic motivation. Intrinsic motivation depends on individual interests and goals and it is also sensitive to slight influences of social changes (Deci and Ryan, 19850. Intrinsic motivation explains why people are willing to put effort on a task regardless of extrinsic motivation, or incentives not related to the task itself, such as organizational rewards. Moreover, Amabile (1996) suggests that no amount of skills or method of creative thinking can compensate for the lack of intrinsic motivation, and, although the other two skill components determine what a person is capable of doing in a given domain, it is the task motivation component which determines what a person will actually do.

Similarly, Woodman and Schoenfeldt (1990) proposed an interactionist model for creative behaviors at the individual level. Woodman, Sawyer and Griffin (1993) applied this model at the organizational level and argued that "…the creative behavior of organizational participants is a complex person-situation interaction influenced by events of the past as well as salient aspects of the current situation" (p. 294). In particular, they proposed that social interaction and individual characteristics can facilitate or hinder creativity accomplishment either by affecting the continuous innovation based on current competencies and experiences, or the radical innovations that allows for a "creative destruction" (Schumpeter, 1965. Put differently, the interactionist model provides an integrating frame-work that combines elements of the personality (e.g., Woodman, 1981, cognitive (e.g., Hayes, 1989), and social psychology (e.g. Amabile, 1983) to explain creative behaviors related to strategic flexibility.

Given the importance of the context and its interaction with psychological variables on creativity and innovation, this study incorporates situational contingencies that may foster innovation at the startup level. Specifically, this study is interested on how power concentration affects the positive relationship between altruism of the main founder and strategic flexibility.

### 2.2.1. Interaction between Power concentration and Strategic Flexibility.

Power or control concentration corresponds to the relative power of the most influential founder(s over the rest of the founders. This control concentration depends on the relative contribution of the most powerful founder (i.e. main founder relative to the rest of the founders in terms of experience, resources, reputation, and/or social capital (Finkelstein, 1992).

Eddlestone and Kellermann (2007) argue that power concentration and altruism, are two important factors which affect family business performance through two intervening variables related to stewardship culture: participation and relationship conflict. Although Eddlestone and Kellerman used altruism and power concentration as major determinants of performance in family businesses, they didn't analyzed their interaction effect on strategic flexibility.

Zahra et al. (2008) tested the interaction of altruism and strategic planning, but they didn't analyze the role of power concentration on explaining resource allocation. We argue that power concentration is a situational variable which affects the positive behavioral effect of a family business (i.e. altruism) and also the extent of strategic flexibility.

In order to understand how altruism interacts with power concentration of the main founder we need to pay more attention to the positive and negative effects of altruism in family businesses..

### 2.2.2. Dark Side of Altruism

Literature on altruism in family businesses points out the positive and the negative effects of altruism, which has also been called the "dark side of altruism". The dark side of altruism has been related to negative outcomes such as free riding, shirking, lack of monitoring, self-serving bias and escalation of commitment (Kellermanns & Eddlestone, 2004, Schulze et al., 2001; Schulze et al., 2003b).

These negative outcomes stem from parents' desire to enhance their family and business welfare by being generous to other family members, even though that increased generosity may cause their children to free-ride. Some authors argue that the dark side of altruism "… can give both parents and children incentives to take actions that can threaten the welfare of the family and firm alike" (Schulze et al., 2003b p.472). This dark side of altruism is analogous to the children leaving an assigned household chore for a parent to complete, or to squander their parent's money. This has been identified as an agency cost for the founders, which is very common in family firms, especially when a family founder controls almost all of the firm's resources (Schulze et al., 2001). These agency costs for the founder include perquisites, lack of monitoring and adverse selection, which are typically the result of the founder's altruistic transfers to other family members and suggests a "Samaritan dilemma".

Altruism may limit the founder's ability to monitor and discipline family members. The consequences that such actions might have on familial relationships can be significant (Donovan, 1995). For example, relationship conflict might arise among family members when a powerful founder unilaterally rewards some family members whose contribution to the business are not compatible with the position or level of responsibility in the company. Altruism can distort "what is good for the business" and "what is good for the family" and lead some family members to maximize their welfare by free riding on other family members with better skills and qualifications for the job.

This threat can be increased if the CEO's has more power relative to the other family members Moreover, powerful founders can make altruistic transfers to other family members, which may evoke a sense of entitlement on those family members (Gersick et al., 1997). Therefore, we argue that a strong power concentration of the main founder makes the effects of altruism on strategic flexibility weaker. Therefore,

Proposition 2: Main Founder Power moderates the relationship between altruism and strategic flexibility. For higher levels of altruism this relationship would be decreased.

### 2.3. Power concentration and Strategic Flexibility

Main Founders in Family businesses tend to concentrate a great amount of power over the rest of the founding team (Taguiri & Davis, 1992). The reason for this is 1) most of the time one founder is the major stakeholder in the company therefore it is in his/her best interest to make the decisions him/herself to maximize predictability; 2) The main founder most likely has experience in the business and has some scarce resources (tacit knowledge, capital, human capital), that he/she can apply in the business in a unique way, which, according to Resource Based View (e.g. Habbershon & Williams, 1999; Wernerfelt, 1984; Barney, 1991), would represent a competitive advantage and 3) Family founders have invested themselves into the business in a way that their business is part of their identity and a source of identification that some scholars have labeled "Socio emotional wealth" (see Gomez-Mejia et al., 2011 for a review) which leads them to use more power in order to protect that source of satisfaction.

Entrepreneurship and family business literature provides anecdotal and empirical evidence = that individuals who have a higher concentration of power, have a strong desire for leadership and authority for decision making (Harvey & Evans, 1994), which can impede sensible decision making (Daily & Dollinger,1992). They also can dictate strategy, choose the developmental path of the company (Schulze et al., 2003a) be authoritarian, lack trust and planning (Dyer & Handler, 1994; Kelly, Athanassiou, & Crittenden, 2000) and use just a few managerial tools (Kelly et al., 2000). Indeed, start-up teams with high ownership concentration tend to have less participative atmosphere (Ronstadt, 1984). Not only do the other members refrain from challenging the belief structure of the powerful controlling individuals with new insights (Walsh & Fahey, 1986), but they are often reluctant to seek out advice and assistance from other members (Gersick et al., 1997).

This creates two problems. First, family members will follow the decisions of the most powerful founder, reducing their contribution to the family business. Second, a unilateral decision making of a powerful founder can lead to escalation of commitment.

#### 2.3.1. Socio-emotional Wealth and Strategic Change

Family founders perceive a non-economic benefit on their involvement on the family business. This is consistent with the concept of psychological ownership (see Pierce, Kostova and Dirks, 2003 for a review) in which the identification with the business and the family leads them to perceive a sense of purpose, belongingness and identity which is a source of satisfaction for the founder.

Family business researchers have recently pointed out that non- economic factors embedded in family ties is pivotal to differentiate family from non-family business, and their differences in processes and outcomes (Gomez-Mejia, Cruz & Berrone, 2011). Gomez-Mejia et al. (2007) labeled these factors “Socio-emotional wealth”, or “affective endowments”, to refer to the non-economic factors embedded in family relationships among the owners such as altruism, sense of belongingness, identification and control (see Gomez-Mejia et al., 2011 for a review). These affective endowments represent a non-economic welfare, which is not reflected in economic value, and represent a source of satisfaction of affective needs (Gomez-Mejia et. al., 2007).

In Gomez-Mejia et al.’s (2007) empirical study, family businesses were three times more likely to refuse to join a cooperative of Spanish oil mills than non-family businesses, even if joining the cooperative reduced performance hazards and the probability of failure. The authors reasoned that these firms refused to join the cooperative to avoid losing their source of affective satisfaction represented by their involvement in their family business. These findings suggest that family startups may be constrained by the presence of affective endowments because family ties are salient for founders and thus need to be protected, which may lead them to be less explorative in order to avoid losing those endowments.

Consistent with the idea that this source of satisfaction is valued by a powerful founder, he /she would likely see it as an “affective endowment” which needs to be protected and nourished. This means that ideas that are generated by the founder are overrepresented and ideas that are external are disregarded.

### 2.3.2. Escalation of Commitment and Strategic Flexibility

A powerful founder can also lead to escalation of commitment. Literature on escalation of commitment (see Brockner 1992) for a review suggests that, in conditions of uncertainty and when facing a negative feedback, decision makers tend to escalate their commitment to failing courses of actions (Arkes & Blumer, 1985; Brockner & Rubin, 1985; Northcraft & Wolf, 1984; Staw, 1981; Teger, 1980; Thaler, 1980). One of the most accepted explanations of escalation of commitment is self-justification (Brockner, 1992), that is, individuals are willing to escalate commitment to prove to themselves and others that the resources invested were not in vain. This problem is aggravated when the goals pursued are relatively high in value (Brockner, 1992).

A powerful founder will have many expectations to protect their status which gives him/her a source of satisfaction or “Socio-emotional wealth”. Since the perceived probability of success will match the expectations of the founder, projects that might be too risky to undertake will be preferred in order to maintain their Socio-emotional wealth and what it represent psychologically for the founder (e.g. a source of identification, control and belongingness. In other words, if a decision threatens this Socio emotional wealth, it will be avoided in favor of the decision that maintains and preserves the perceived control or power of the main founder (Gomez-Mejia et al., 2007; Gomez et al., 2011).

Putting these arguments together, it is proposed,

Proposition 3: Main founder’s power concentration is negatively related to strategic flexibility in family businesses startups.

Finally, it is proposed that the differences in the Effect of Altruism on Strategic Flexibility differ in Family versus non family status. According to Stewardship theory, family businesses, due to the family ties among the family members, are infused with mutual reciprocity and affect. This is the case of altruistic transfers that occur amongst family members. Since family businesses are more likely to present this unconditional reciprocity than non-family members, it is expected that, for a given level of power concentration, the effect of altruism on strategic flexibility would be stronger for family startups than for non-family startups. Therefore,

Proposition 4: Family status moderates the relationship between altruism and strategic flexibility. For family startups this relationship would be stronger than for non-family startups.

## 3. DISCUSSION AND CONCLUSIONS

Scholars have researched how Stewardship theory can be applied to family businesses to shed light on their competitive advantage (Corbetta & Salvatto, 2004; Eddlestone & Kellerman, 2007). Altruism and powerful concentration have been related to Stewardship theory and to family business performance

(Eddlestone & Kellermann, 2007). Studies suggest that strategic flexibility is achieved by a family culture and a stewardship culture. However, no study has analyzed the effect that altruism and power concentration of the main founder have on innovation through strategic flexibility.

Some debate still holds regarding whether ownership and management concentration (Christman et al., 2004) or the stewardship culture of family businesses (Corbetta & Salvatto, 2004) leads to less agency costs. Davis et al. (1997) proposed a Stewardship model which uses both paradigms and proposes that any combination of both depends on the context in which the family business is placed.

This study complements Davis et al.'s view by proposing certain conditions that may facilitate or hinder strategic flexibility. It draws on Stewardship theory to propose that altruistic founders increase the main effect on strategic flexibility but it has a stronger effect when the main founder has lower power concentration. This implies that family businesses need to make a tradeoff between altruism and Power concentration if they want to increase their strategic flexibility, that is, strategic flexibility requires that the main founder gives up control represented by their power concentration.

This has important implications for theory and practice because imprinting strategic flexibility in family startups placed in dynamic environments can imprint an innovative culture which should help in recognizing more opportunities otherwise ignored and to avoid getting caught in competency trap or learning myopia (Levitt and March, 1988. This, in turn, should lead to more innovation and to reduce survival hazards (March, 1991).

This study has implications for practitioners because it helps to understand how family business startups can become more innovative. According to this study's predictions, family founders in dynamic environments should foster a more participative climate in which decision making is shared putting emphasis in achieving the business goals rather than the main founder's agenda. This is more likely the case when family founders are altruistic as they are more likely to act like stewards akin to transformational leaders (Zahra et al., 2008). An altruistic orientation of the main founder nurtures positive relationship, which should help in creativity and innovation. However, a powerful founder can stymie this creativity by creating dependencies from him/her in order to maintain his/her power status and the Socio-emotional wealth associated with it.

Another implication for practitioners is that altruistic founders who want to leverage innovation should allocate family resources so that their contribution to the business is valuable. This will allow founders to share power and decisions with other family members, reduce dependence from the main founder while allowing for the materialization of their contributions. This, in turn, should foster participation and the emergence of a stewardship culture, (Zahra et al., 2008) which should enhance strategic flexibility.

For theory, this study introduces attenuating and triggering circumstances for the emergence of an innovative culture at the startup level. Previous research on ambidexterity --the ability to exploit (i.e. incremental innovation and explore (i.e. radical innovation simultaneously, suggests that firms that are able to develop this dynamic capability earlier in time (Eisenhardt & Martin, 2000) are more likely to have better performance and survival (e.g. March, 1991. If family firms are more likely to exploit than explore as they are often criticized for failing to seek new ventures (Cabrera-Suarez et al., 2001), being conservative and resisting change (Morris, 1998), increasing strategic flexibility can lead family startups to screen a broader pull of options that may, explore new alternatives or lead to radical innovations. Moreover, since family businesses possess valuable and scarce resources that foster creativity and innovation (Zahra et al., 2004), identifying the facilitating conditions for innovation in family business in rapidly changing environments may be a productive research stream that may unleash their innovative capacity and thus boost economic development (Schumpeter, 1965).

The propositions on this study can be useful for researchers interested in pitting agency theories and stewardship theory. This study proposes that power concentration and altruism are two aspects related to either theory, which can be appropriate depending on the degree of environmental uncertainty. In environmental conditions that require predictability, accountability and predictability, predictions of agency theory can work well for non-family business, however in family business in dynamic environments –such as hi tech industry, which require creativity and flexibility, altruistic founders with low power concentrations are better prepared to deal with environmental changes.

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