Three Essays on Innovation in Family Firms

Nadine Kammerlander
University of St. Gallen

Research gap and motivation

Family firms are all around: On average, more than 80% of all firms are family firms and they contribute roughly two thirds of all employment positions. Often, family firms are termed the backbone of economies worldwide. Moreover, family firms are often characterized as loyal employers that do not only purse short-term shareholder value maximization goals but also care about stakeholder wellbeing. However, despite a wide agreement about the importance and ubiquity of family firms worldwide (Anderson and Reeb, 2003; La Porta et al., 1999), there is still a lack of scholarly agreement what a family firm exactly is and how family firm status can be measured. Within the recent years, scholars seem to have converged against Chua et al.'s (1999: 25) essence-based approach, which describes family firms as businesses "governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families." Moreover, researchers have increasingly emphasized that family firms do not constitute a homogeneous group of organizations, yet there is an abundant amount of heterogeneity among family firms (Chua et al., 2012), calling for more nuanced operationalization of family firms and investigations of contexts.

Innovation is a key driver of long term organizational success (Danneels, 2002; Kessler and Chakrabarti, 1996) as it is associated with novel products, improved production processes, and ultimately competitive advantages. Thus researchers have long sought to understand determinants of innovation in organizations (Bell, 2005; Damanpour, 1991; Greve, 2003; Hult et al., 2004). For instance, firm performance below aspiration level, slack resources, and top management team diversity have been shown to positively influence a firm's innovative behavior (Bantel and Jackson, 1989; Chrisman and Patel, 2012; Greve, 2003), while formalization and centralization are associated with mixed or negative effect on innovation (Damanpour, 1991; Jansen et al., 2005).

Within the last decade, scholars have begun to investigate how family control affects the respective firms' innovativeness (Chrisman and Patel, 2012; De Massis et al., 2013; Gómez-Mejía et al., 2014) and how innovation in SMEs differs from that in larger organizations (Keizer et al., 2002; Lee et al., 2010). In particular, based on the idiosyncrasies stemming from family involvement and/or a small organizational size, such as unity of ownership and control, several sets of goals and capabilities arise that render innovation behavior of those businesses distinct from those of other types of organization (Gómez-Mejía et al., 2014; König et al., 2013; Lee et al., 2010; Patel and Chrisman, In press).

While this research has advanced our understanding of family firms' and SMEs' behavior and revealed some first interesting insights, findings of previous studies are not cumulative (De Massis et al., 2013). For instance, some studies argue that family firms are risk averse (Anderson et al., 2012) and prefer conservative strategies to preserve family owners' socioemotional wealth (SEW) (Gómez-Mejía et al., 2007) over more long-term oriented goals such as innovation (Chrisman and Patel, 2012) and thus are less innovative (Block, 2012; Classen et al., 2012). Other authors argue that because of their transgenerational intentions (Chua et al., 1999), their opportunity to pursue long-term oriented strategies (Le Breton-Miller and Miller, 2006; Zellweger, 2007), and their specific human and social capital (Sirmon and Hitt, 2003), family firms are more innovative (Zahra, 2005). In line with theoretical arguments that family control entails costs as well as benefits (cf. Demsetz and Lehn, 1985), there is an abundant body of empirical evidence that supports either the negative (Block, 2012; Chen and Hsu, 2009; Munari et al., 2010) or the positive (Gudmundson et al., 2003; Llach and Nordqvist, 2010) perspective on family firms' inclination to innovate. Given those inconsistencies and shortcomings of prior literature, more investigation into family firm and SME innovation is required (De Massis et al., 2013). In particular, an increased understanding of the drivers and impediments of innovation in family firms and SMEs appears to be a topic of high relevance.

Contributions and findings of my three essays on family firm innovation

In three articles related to "innovation in family firms", I aimed to study the antecedents of firm-level innovation in either family firms or SMEs. However, these papers focus on different aspects and take various perspectives.

Essay 1. Empirical findings of the effect of family influence on innovation are not cumulative so far, with some studies pointing to higher innovation in such firms (Zahra, 2005), while others find a negative correlation (Block, 2012; Chrisman et al., 2009). As such, one pressing research question is: How can those previous, inconsistent findings be reconciled? Are family firms, ceteris paribus, more or less innovative as compared to other types of organizations? These questions will be addressed in the first essay which is based on a meta-analysis of 108 primary quantitative studies on family vs. non-family innovation, covering a total of 42 countries. In this article, we found that innovation input, defined as resources, such as money and equipment, dedicated to the exploration and exploitation of new opportunities (cf. Adams et al., 2006), is significantly lower in family firms as compared to other types of organizations. We also find that, despite lower innovation input, innovation output, which reflects the outcome of the innovation process, such as number and sales volume of new products, number of patent releases, or patent citations (e.g., Schmiedeberg, 2008), is higher in family firms as compared to non-family firms. We further find that both relationships—lower input and higher output—are even more salient if the CEO is a later generation family member. However, if the CEO is the founder of the firm, both relationships turn into the opposite, meaning lower innovation output despite higher input. Interestingly, a post hoc test reveals that those relationships are contingent on the institutional context. When minority shareholder protection is high instead of low, family firms invest even less into innovation input—a finding that is counter-intuitive at first sight and might be explained by recent law and economics literature (Anabtawi, 2005; Belloc, 2013) that points to the heterogeneous interests of minority shareholders. The post-hoc test also reveals that the positive relationship between family firms and innovation output is even more positive in countries in which the level of education is high, so that family firms can benefit from the knowledge of suppliers, customers, and employees with high levels of human capital.

Essay 2. We also know that not all family firms are equal. Indeed, recently much scholarly attention has been drawn to gain a better understanding of heterogeneity in family firms (Chua et al., 2012). In other words, the question arises which factors do either impede or foster innovation in family firms? It is indeed the "family" and thus the individual family members that make family firms distinctive from other forms of businesses. As such, it is of greatest interest to study the effect of those individuals on innovation (James, 2006). In the second essay that is based on a qualitative interview-based multi-case-study approach, we ask how the stories shared among family members, a frequent act that takes place in private settings such as joint family dinners (Jaskiewicz et al., 2015), affect decision making structures within the firm and ultimately innovation. The comparison of innovation behavior of 41 Sardinian wineries shows that stories shared among family members were important in all studied wineries, however, the main focus of those shared stories differed among the studied firms, with some focusing on the founder and others focusing on the family, emotions, as well as values. The stories shared within the family also affect how the family members make decisions within the firm. First, the stories might constrain the scope of decision making options considered. For instance, a strong focus on founders within the stories, as observed for several of our studied firms, narrows the scope of decision options to those strategic activities which are in line with what the founder would have done. A focus on the family, emotions, and values, does not have such a constraining effect. Based on literature on path dependence (Sydow et al., 2009), we synthesize that the shared stories provide legitimacy to certain decision making options. Second, we find that stories also affect who is involved in decision making. While many of the studied family firms, on paper have high level of intergenerational involvement, this is not true in practice: In family firms with founder-centered firms, decision making power is concentrated within the older generation and also conflicts are solved in their favor. In family firms with shared stories focusing on the family, emotions, and values, however, also younger family members are invited to actively participate in decision making. Abstracting from those findings, we propose that the shared stories provide authority to certain family members that are active in the family business. Via their effect on decision making, the shared stories ultimately affect innovation in family firms. More specifically in those family firms with shared stories focusing on founders (and, thus, legitimacy for only few, narrow strategic actions and authority concentrated among few family members), innovation is infrequent and belated. Family firms with shared stories focusing on the family, emotions, and values, however, do not experience such constraints in decision making and new ideas are very often proposed by younger family members. As a consequence, innovation in those firms is rather high, with frequent and sometimes even radical innovations, realized, for instance, through own laboratories.

Essay 3. In the third essay, we turn the focus to the CEO's personality by asking: How does the CEO's regulatory focus (Higgins, 1998), which is a dimension of personality recently identified as important in the entrepreneurship context (Tumasjan and Braun, 2012), affect innovative firm behavior, namely exploration and exploitation? In the third article, which is based on survey responses from Swiss SMEs (many of them being family firms), we found that the CEO's regulatory focus has a strong effect on the SME's level of exploration and exploitation. More specifically, as hypothesized, high levels of promotion focus, that is a motivational approach focused on maximum goals and on continuously achieving "hits," are associated with higher levels of both, exploration and exploitation, which is in line with a complementary view on finding and harvesting new opportunities, that assumes exploration and exploitation as two separate dimensions (Bierly and Daly, 2007). We further found support for our hypotheses that both correlations are even stronger in case the competitive intensity is high. We further hypothesized that high levels of prevention focus, that is a motivational approach focused on minimal goals and on avoiding failure, is negatively related to exploration and positively related to exploitation. However, while we found some support for the negative relationship of a CEO's prevention focus with exploration, we could not identify any significant relationship with exploitation. Additional tests revealed that a high prevention focus might be associated with high levels of exploitation in case of high competitive intensity. In a post-hoc analysis that investigates different types of combinations of promotion and prevention focus (Markovits, 2012), we find that *achievers* (high promotion, low prevention focus) engage more in exploration (and similar levels of exploitation) as compared to *rationalists* (high promotion, high prevention focus). Moreover, our findings indicate that *indifferents* (low promotion, low prevention focus) might have been inadequately displayed as “less capable” workers/individuals in prior research (Markovits, 2012), since they engage in significantly more exploration than *conservatives* (low promotion, high prevention focus) and in similar levels of exploration as compared to *rationalists*.

Original references to the three essays:

Essay 1: P. Duran, N. Kammerlander, M. van Essen, T. Zellweger. Forthcoming. Are family firms really less innovative? A meta-analysis. Academy of Management Journal.

Essay 2: N. Kammerlander, C. Dessi, M. Bird, M. Floris, A. Murru. Forthcoming. The Impact of Shared Stories on Family Firm Innovation: a Multi-Case Study. Family Business Review.

Essay 3: N. Kammerlander, D. Burger, A. Fust, U. Füglistaller. 2015. Exploration and Exploitation in Established Small and Medium-sized Enterprises: The Effect of CEOs' Regulatory Focus. Journal of Business Venturing 30(4): 582–602.

References:

Adams, R., Bessant, J., Phelps, R., 2006. Innovation management measurement: A review. International Journal of Management Reviews 8, 21–47.

Anabtawi, I., 2005. Some skepticism about increasing shareholder power. UCLA Law Review 53, 561–599.

Anderson, R.C., Duru, A., Reeb, D.M., 2012. Investment policy in family controlled firms. Journal of Banking & Finance 36, 1744–1758.

Anderson, R.C., Reeb, D.M., 2003. Founding-family ownership and firm performance: Evidence form the S&P 500. The journal of Finance 58, 1301–1328.

Bantel, K.A., Jackson, S., 1989. Top management and innovations in banking: Does the composition of the top team make a difference? Strategic Management Journal 10, 107–124.

Bell, G.G., 2005. Clusters, networks, and firm innovativeness. Strategic Management Journal 26, 287–295.

Belloc, F., 2013. Law, finance and innovation: The dark side of shareholder protection. Cambridge Journal of Economics 37, 863–888.

Bierly, P.E., Daly, P.S., 2007. Alternative knowledge strategies, competitive environment, and organizational performance in small manufacturing firms. Entrepreneurship Theory and Practice 31, 493-516.

Block, J.H., 2012. R&D investments in family and founder firms: An agency perspective. Journal of Business Venturing 27, 248–265.

Chen, H.-L., Hsu, W.-T., 2009. Family ownership, board independence, and R&D investment. Family Business Review 22, 347–362.

Chrisman, J.J., Chua, J.H., Kellermanns, F.W., 2009. Priorities, resource stocks, and performance in family and nonfamily firms. Entrepreneurship Theory and Practice 33, 739–760.

Chrisman, J.J., Patel, P., 2012. Variations in R&D investments of family and non-family firms: Behavioral agency and myopic loss aversion perspectives. Academy of Management Journal 55, 976–997.

Chua, J.H., Chrisman, J.J., Sharma, P., 1999. Defining the family business by behavior. Entrepreneurship Theory and Practice 23, 19–39.

Chua, J.H., Chrisman, J.J., Steier, L.P., Rau, S.B., 2012. Sources of heterogeneity in family firms: An introduction. Entrepreneurship Theory and Practice 36, 1103–1113.

Classen, N., Van Gils, A., Bammens, Y., Carree, M., 2012. Accessing resources from innovation partners: The search breadth of family SMEs. Journal of small business management 50, 191–215.

Damanpour, F., 1991. Organizational innovation: A meta-analysis of effects of determinants and moderators. Academy of Management Journal 34, 555–590.

Danneels, E., 2002. The dynamics of product innovation and firm competences. Strategic Management Journal 23, 1095–1121.

De Massis, A., Frattini, F., Lichtenthaler, U., 2013. Research on technological innovation in family firms: Present debates and future directions. Family Business Review 26, 10–31.

Demsetz, H., Lehn, K., 1985. The structure of corporate ownership: Causes and consequences. Journal of political economy 93, 1155–1177.

Gómez-Mejía, L.R., Campbell, J.T., Martin, G., Hoskisson, R.E., Makri, M., Sirmon, D.G., 2014. Socioemotional wealth as a mixed gamble: Revisiting family firm R&D investments with the behavioral agency model. Entrepreneurship Theory and Practice 38, 1351–1374.

Gómez-Mejía, L.R., Takács Haynes, K., Núnez-Nickel, M., Jacobson, K.J.L., Moyano-Fuentes, J., 2007. Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. Administrative science quarterly 52, 106–137.

Greve, H.R., 2003. A behavioral theory of R&D expenditures and innovations: Evidence from shipbuilding. Academy of Management Journal 46, 685–702.

Gudmundson, D., Tower, C.B., Hartman, E.A., 2003. Innovation in small businesses: Culture and ownership structure do matter. Journal of Developmental Entrepreneurship 8, 1–17.

Higgins, E.T., 1998. Promotion and prevention: Regulatory focus as a motivational principle. Advances in experimental social psychology 30, 1-46.

Hult, G.T.M., Hurley, R.F., Knight, G.A., 2004. Innovativeness: Its antecedents and impact on business performance. Industrial marketing management 33, 429–438.

James, H., 2006. Family capitalism. Belknap-Harvard University Press, Cambridge, MA.

Jansen, J.J.P., Van Den Bosch, F.A.J., Volberda, H.W., 2005. Managing potential and realized absorptive capacity: How do organizational antecedents matter? Academy of Management Journal 48, 999–1015.

Jaskiewicz, P., Combs, J.G., Rau, S.B., 2015. Entrepreneurial legacy: Toward a theory of how some family firms nurture transgenerational entrepreneurship. Journal of Business Venturing 30, 29-49.

Keizer, J.A., Dijkstra, L., Halman, J.I., 2002. Explaining innovative efforts of SMEs.: An exploratory survey among SMEs in the mechanical and electrical engineering sector in The Netherlands. Technovation 22, 1-13.

Kessler, E.H., Chakrabarti, A.K., 1996. Innovation speed: A conceptual model of context, antecedents, and outcomes. Academy of Management review 21, 1143–1191.

König, A., Kammerlander, N., Enders, A., 2013. The family innovator's dilemma: how family influence affects the adoption of discontinuous technologies by incumbent firms. Academy of Management review 38, 418–441.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., 1999. Corporate ownership around the world. Journal of Finance 54, 471–517.

Le Breton-Miller, I., Miller, D., 2006. Why do some family businesses out-compete? Governance, long-term orientations, and sustainable capability. Entrepreneurship Theory and Practice 30, 731–746.

Lee, S., Park, G., Yoon, B., Park, J., 2010. Open innovation in SMEs—An intermediated network model. Research Policy 39, 290-300.

Llach, J., Nordqvist, M., 2010. Innovation in family and non-family businesses: A resource perspective. International Journal of Entrepreneurial Venturing 2, 381–399.

Markovits, Y., 2012. The development of regulatory foci characters and moderation effects on satisfaction and commitment. International Journal of Psychology and Behavioral Sciences 2, 71-80.

Munari, F., Oriani, R., Sobrero, M., 2010. The effects of owner identity and external governance systems on R&D investments: A study of Western European firms. Research Policy 39, 1093–1104.

Patel, P.C., Chrisman, J.J., In press. Risk abatement as a strategy for R&D investments in family firms. Strategic Management Journal.

Schmiedeberg, C., 2008. Complementarities of innovation activities: An empirical analysis of the German manufacturing sector. Research Policy 37, 1492–1503.

Sirmon, D.G., Hitt, M.A., 2003. Managing resources: Linking unique resources, management, and wealth creation in family firms. Entrepreneurship Theory and Practice 27, 339–358.

Sydow, J., Schreyögg, G., Koch, J., 2009. Organizational path dependence: Opening the black box. Academy of Management review 34, 689–709.

Tumasjan, A., Braun, R., 2012. In the eye of the beholder: How regulatory focus and self-efficacy interact in influencing opportunity recognition. Journal of Business Venturing 27, 622-636.

Zahra, S.A., 2005. Entrepreneurial risk taking in family firms. Family Business Review 18, 23–40.

Zellweger, T.M., 2007. Time horizon, costs of equity capital, and generic investment strategies of firms. Family Business Review 20, 1–15.