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Innovation in Family Business

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Abstract

Innovation is one of the pillars of any successful business. Family businesses are portrayed as having a conservative behaviour when it comes to innovation, as this concept comes from the risk taken that can change the history and the reputation of companies and the market trust of their products and services. Family studies have focused so far on the financial elements that gradually shaped family business end performance. But the internal family insights, especially from the psychological and social perspective, which are pushing towards a successful innovation, haven't been explored at length. The aim of this article highlights the relation between family business behavioural insights and successful innovation process, analysed in the context of their different sectors where family businesses are coming from. To bridge the main key drivers behind families and empirical gap to innovation, the Authors have conducted a quantitative study based on a descriptive and statistical interpretation while presenting their findings. The traditions and values of family business, as well as family involvement in the strategic decisions over multiple business plans and family member expertise within their business roles, play important roles for constant innovative success.

Keywords: Innovation, family business, dynamic, development, strategy.

JEL Classification: O3

1. Introduction

Family companies are known as having an impact on the worldwide economies, with strong contribution regarding economic growth and stability, seen as the most organizational “phenomena”. They account for approximately 75% from the global economies (Conto et al., 2014; Llach and Nordqvist, 2016; Astrachan and Schanker, 2003; Mandl, 2008; Lindow, 2013; Zellweger, 2017). Still, innovation remains the

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driver force for economic development, characterized by the commitment of the family businesses to innovate, forced by a dynamic environment according to their industry. Innovation represents the entrepreneurial expression of a research and design activity performed by a company. Innovation embraces many forms, from organizational process implementation (Schaper and Volery, 2004), like new technologies and concepts, until extraordinary tangible assets. According to Miller and Friesen, (1983), an entrepreneurial firm is the one which undertakes some risks in its innovative business venture, showing a proactive innovation attitude and becoming finally the leader in its field. There are companies willing to innovate, keeping premium position on the markets and targeting large profits. (Hatak et al., 2016; Kraiczy, 2013; Kraiczy and Hack, 2017). There are advantageous status positions for the pioneer companies, recognized and accepted by the public, but in the same time, there are numerous catastrophic ends for the unsuccessful companies with costly unhappy products, rejected by the public. Although, in the global business competition, as a primary tool, continuous innovation is perceived as a core challenge for the company success. (Llach et al., 2012) and in spite of their successful running operations, family firms are portrayed as conservative leaders (Morris, 1998; Habbershon et al., 2003) when it comes to their innovative behaviour, they behave rather reluctant than with aggressive innovative initiative, as compared to their counterparts, non-family businesses (Economist, 2009; Kraus et al., 2012; Duran et al., 2016). Scholarly research indicated and described the family business as difficult to change in the newest business environment (Lubatkin et al., 2007; Carney, 2005), but in spite this picture, family companies are very successful worldwide, and they do innovate. The aim of this Article is to focus on the influence of family over the process of innovation, by analysing the behavioural insights of the family business.

2. Problem statement

Innovation represents the strategic orientation, the result of an action and not a coincidence; its scope is to bring on the market a change in the business routine, as well as economic benefits through acknowledgment, novelty, qualitative originality, (King and Andreson, 2002; Leenen, 2005; Kraus et al., 2012) and to contribute to the survival of the family businesses, which are unique and have their own traditions, values, patterns, transferred by the family over the business. From the psychological and social point of view, in relation to innovation, researchers revealed three common direction types which lead to conservative behaviour regarding family businesses: (1) family culture influences innovation process (2) conflicts within the family block innovation process (3) involvement of the family is pushing innovation. (Chrisman and Patel, 2012; Lee and Rogoff, 1996; Zahra, 2003; Romano et al., 2000; Naldi et al., 2007). Nevertheless, behaviour of family business comes from their organizational traditions, internal rules and past roots, or their vision on long-term strategy and old running partnerships with the stakeholders; time decision in family business can be longer, as compared to that of non-family companies. (Cioca and Popescu (2019); Lindow (2013); Zellweger (2017). However, family businesses are

innovative and extremely competitive in their business fields, learning from best practices. With respect to their innovative decisions, family business proved to be dedicated in terms of time study and long financial sacrifice (Lee, 2006; Glover and Reay, 2015; Simon, 2009). By reviewing the literature, (Block, 2012; Matzler et al., 2015; Roed, 2016; Suess-Reyes and Roed, 2018; Frank, 2019, the Authors observed that the family business perceive the innovation process for keeping themselves competitive or leaders in their business niche. Many family businesses perceive innovation as part of their corporate strategy. (Kraus et al., 2012; Fuetsch and Suess-Reyes, 2017). The Authors have summarised in Table 1, the most important behavioural insights of the family business:

Table 1. Main drivers regarding behavioural insights of the family business

Causes	Behavioural insights of the family businesses	Characteristics	Innovation measurement
Internal Factors; Psychological factors	Organizational management structure	Business Roles definition	Experience of the family members reflected into innovation process
	Define needs of the family business		Clear targets for development investment
	Risky decisions	Risk-aversion	Long-term consumption for analysis before innovation
	Strategy development	Short term targets versus long term targets	
	Internal conflicts between family members	Expertise of each member involved	New ideas versus old ideas regarding innovation
	Mistakes and failures in development	Family business meeting evaluation	Responsibility for innovation
	Family tradition, values, culture transfer from generations	Each family business is unique	Innovative behaviour
	Family members expertise	Practice	Clear objectives for innovation
External Factors; Social Factors	Reputation of the company	Stakeholders perception	Successful innovation through quality and efficiency
	Economic situation of the company	Evaluation of the yearly the market capitalization of the company	Financial power for R&D investments
	Dynamic environment	Evaluation of the business niche	Frequency of the innovation process
	Competition analysis	Evaluation	Good practice model

Source: Authors

2.1. Family behavioural insights regarding decisions innovation process

2.1.1. The interconnection between family culture and innovation process

Due to their conservative approach and their traditions in having long-term company strategy, family businesses analyse the external or the internal factors that urge them to invest in innovation. Family businesses are very cautious in keeping their traditions, pattern and their business succession to the next generation, (Chen and Hsu, 2009; Munari et al., 2010; Gómez-Mejía et al., 2014; Patel and Chrisman, 2014). Mostly, they involve well-known researchers in the innovation process who depict their personalized innovative needs, such as Universities, scientists, reputable research and design companies. Doing so, family businesses are aware about the consistent financial efforts' involvement. Despite this, they are keen to preserve resources even for the next generation. Their pattern and emotional connection to the past can hamper innovation, (Broekaert et al., 2016). However, surrounded by all external and/or internal factors, the family business faces one very difficult obstacle: taking risky decisions regarding future innovation, (Kammerlander and Ganter, 2015). This could affect not only a current negative balance sheet, but also the future assets threatening future existence of the family business. Of interest, it does not mean that the family businesses are less innovative than other companies, but their innovative boosters behaviour dictated by the influence of family business brings advantages, on their long-term strategy. There are also disadvantages related to less risk-taking organizations, when it comes about new partnerships for new developments, (Grundstroem et al., 2012; Calabro et al., 2018; Duran et al., 2016). However, family businesses do not prefer internal partner's involvement with the risk to affect family values and emotions, but employ external parties, such as Universities, real well-known experts who will never be in the position to threaten the family business values. Under threatening factors, studies have revealed (Llach and Nordquist, 2010; Frank et al., 2019; Bergfeld and Weber, 2011) that family businesses are afraid of losing company' control and the innovation feeling becomes much more expressed. Nevertheless, when it comes to the interconnection between long term family business strategy and risk avoidance, the behaviour results are translated into a sensible and cautious innovation, focused more on exploitative innovation, (Shane and Venkataraman, 2000; Cassia et al., 2011; Gómez-Mejía et al., 2014; Nieto et al., 2015).

Hypothesis 1: There is a positive association relation between family business culture and innovation process

2.2. Open conflicts within family businesses can create blockage in innovation process

The older and larger the family business is, the more mixed generations exist in the company. There are many cases when conflicts occur between family members, involved in management positions, because of old vs. new business ideas. These

factors can represent a threaten to their business reputation, survival or profits and result from the impact conflict between different family members', translated by the non-acceptance of the management roles within the company or non-acceptance of family's decisions. In the need of innovation, it could happen that unexperienced family members hold strategic management positions, instead of specialists qualified for this need. However, the involvement and the common view and perspective of the experienced family members in the business have the role to strengthen the innovation process, (Cassia et al., 2011; Chirico and Salvato, 2016). The results of these conflicts have an influence over the management innovation, dictated by the informal family members, instead of employing outside experts. The innovation process takes place but in a weak manner. The studies worldwide indicated other internal family conflicts; examples regarding the difference between family business internal organizations as compared to other companies from the same industry or having the same age, such as Canadian companies driven by heirs who had a less active behaviour, (Morck et al., 2000). Or Tanewski et al. (2003) showed on Australian market that the family businesses are less innovative, but are having a greater innovative strategy, which pushes them to be leaders in their fields. Another European study lunched in 11 countries pointed out the human role and internal key factors for successful families businesses in terms of innovation, (Llach and Nordqvist, 2010) or the Italian one with reference to the technological innovation as compared with strategy innovation in family businesses, (Giacosa et al., 2016). Family businesses have the right to set up their own research and design set of tools, by acquiring external knowledge. In this way, the ability to change is put it into practice, from an internal innovation model to external innovation, (Alaenge et al. 1998; Teece, 1980; Kraus et al., 2012). Undoubtedly, management innovation could refer to the product development innovation, present more in the organizations with Research and Design departments. If the innovative product does not have a clear message for the end consumer, then, the wave will affect the organizational family business by producing uncertainty (Sapprasert, 2010). The organizational management innovation involves new management structures, managerial innovative systems, and much more capacity to innovate. The difference between internal choices approach causes family businesses better define and understand their internal social, cultural and political innovative processes, (Birkinshaw et al. 2008; Wengel et al. (2000). The family member's conflicts lead to the recognition by the family of external sources of innovation, both, in front of employees, if management innovation creates uncertain effects, and for the family itself, by a lawfulness implementation in their business organizational management. A considerable key factor represents the role of the family business new generation, which is keener when it comes to innovation, being risk taking, than the second one, which is more focused on prevention and risk avoidance. The studies have indicated the weakness of the 2nd generation behaviour in innovation but at the same time recommend the creation of additional business to the main family business pillar (PWC Succession Study, 2019).

Hypothesis 2: Open conflicts and innovation process could be a negative association relation between family members

2.3. Family involvement determine successful innovative results

The family influence and control over the business represent a key factor for the innovation decisions. In terms of innovation, the literature cannot generally present that some family businesses are much more competitive than others, but as a key start driver it is highlighted that, each family is unique and has its own values. In addition, for a successful innovative result, it is ideally for the family business to be involved in both organizational and management innovation. (Goel and Jones, 2016). The degree of the family member's involvement, as well as their common capacity and expertise will positively affect innovative decision, with a good financial performance result (Hiebl, 2015; Veider and Matzler, 2016). Alberti and Pizzurno, (2013) referred to family business as performing a gradual innovation, because of their continuous exploration and exploitation of organizational activities, an idea supported also by Nieto et al., (2015). Another key factor of family business success represents the innovation perceived as an "invisible" process (Zellweger and Sieger, 2012) due to the continuous improvement of the innovation process. The advantages for the family business are shown in terms of cost efficiency, (Classen et al., 2014), but not when it comes to radical innovative change. By analysing the relationship between innovation and key performance indicators, family business can benefit from corporate strategy translated through the family brand, which consecrates them over years. (Duran et al., 2016; Kraiczy and Hack, 2017).

Hypothesis 3: Between family members involvement and innovation process is a positive association relation

3. Research Questions/Aims of the research

The Authors have drawn up the main question of the Research around business innovative behaviour of the family business:

Which are the family company's key drivers regarding the business innovation?

The Aim of the research is to analyse the family key drivers behind the innovation decisions. In terms of innovation, many key factors have been analysed, showing the differences between family business and non-family business, with more or less innovative management or the level of contribution of the shares' owner over the business, but definitely, these were not the key drivers for a particular innovative behaviour of a family company. (Fuetsch, 2018). Other qualitative researches (Callabro et al., 2018) suggested as an example the innovative "best practice / good practice", adopted by family business, described as the first learning rule in terms of successful long-term innovative behaviour. Expansion of the knowledge over the "rules of the successful innovative game" with the role of contribution to the Literature, are present in both, theoretical and practical models (Frank et al., 2019).

The Authors have summarised the family business behavioural insights in Table 1. Main drivers regarding behavioural insights of the family business.

4. Research Methods

4.1. Empirical study on the family business behavioural insights

The Authors have drafted a detailed questionnaire on the internal and external family behavioural insights correspondent with Table 1, “Main Drivers regarding behavioural insights of the family business”. The questionnaire was sent to a sample of 50 companies, at the level of Europe, with 25% -50% shares ownership, with 45 years+ experience on the market, meaning after the 1st generation, medium to large companies, where the family/members of the family are involved in the business and where the family business innovate for their core business.

The questionnaire was addressed to the family companies coming from 4 different industries with the target to show the differences in family key drivers regarding innovative business behaviour. The following industries where the family companies come from are: (1) Consumer industry (2) Serial production industry (3) Real Estate/Construction (4) Farming industry. Out of 50 family companies, only 42 confirmed participation to the questionnaire. The research period was November 2018 – September 2019. The persons involved in the research had a detailed understanding about the family company, the research has been addressed mainly to the owners or family members involved in the business daily running and helped to emphasize the behavioural innovative role of the family business. The analysis had also some limitations related to the financial crisis, which could have brought a pause into the dynamic innovative action of the family business in the last couple of years or a strong financial recovery, affecting the financial health of the family business. Also, another limitation addressed the low no. of industries limited to four, but which involve different family behaviour insights. The Authors present the Questionnaire of the research study in Table 2.

Table 2. Questionnaire to the Analysis of the family behavioural insights

1. From which industry your company makes part?
2. On a scale from 1-5 what is your company position in your national market share?
3. On a scale from 1-5 does your company innovate based on a culture, traditions from the past?
4. Does your company innovate due to the dynamic industry where it belongs?
5. Is the Family involved in the daily business?
6. How many members of the family are involved in the business roles?
7. On a scale from 1-5 does your company have a long-term strategy for 10 years+?
8. On a scale to 1-5 does your company have a short-term strategy for 5 years?

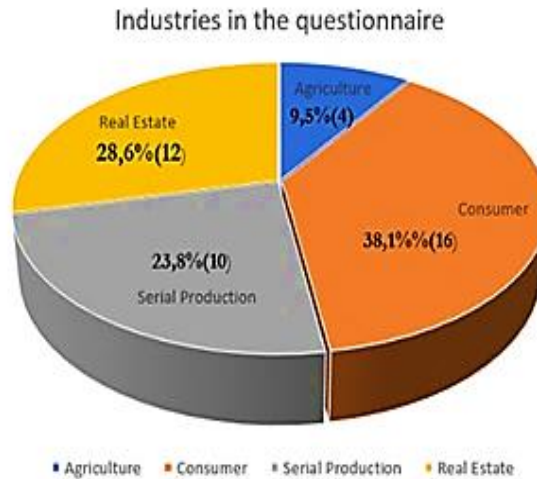
9. Does your company have an internal R&D department?
10. Are the family members involved in R&D decisions?
11. On a scale from 1-5 are your young family members involved in the innovation process?
12. On a scale from 1-5 is there a yearly neutral evaluation of the family members involved in the business roles?
13. On a scale from 1-5 are there the family members on the right business position within the company according to their expertise?
14. On a scale from 1-5 are there any conflicts between the owners and young family members when it comes to innovation ideas?
15. Please indicate what is the conflict reason?
16. On a scale from 1-5 are the family open conflicts a blockage delaying/ stopping the innovation process?
17. Please select the average no. of days consumed for solving the conflicts? 7 days / 14 days/ more than 14 days
18. What is the family % ownership over the shares?
19. On a scale from 1-5 does the company make yearly reserves for future innovation?
20. On a scale from 1 to 5 what is the % of the annual turnover reinvested in R&D?
21. Does your company collaborate with external R&D?
22. On a scale from 1-5 how often does your company innovate at every 3 years?
23. On a scale from 1-5 how important is innovation for your company?
24. How many times per month innovation meetings take place?
25. On a scale from 1 to 5 how fast the decision regarding innovation is to be taken?
26. On a scale from 1-5 does your company analyse the “lessons learned” after wrong decisions regarding innovation process?
27. On a scale from 1-5 does your company measure innovation regarding efficiency of the innovative process?
28. On a scale from 1 to 5 does your company learn from other similar companies, from the same business niche. (good practice model)?
29. On a scale from 1-5 how much did your company suffer in the period 2008-2012?

Source: Authors

4.2. Findings of the Questionnaire:

From the sent-out questionnaire, 84%, 42 companies from the family companies have answered with the following splitting: 38% family companies from consumer industry, 23.3% from serial production, 28% from Real Estate and 9.5% from Agriculture, as shown in Figure 1.

Figure 1. Industries types in the Questionnaire

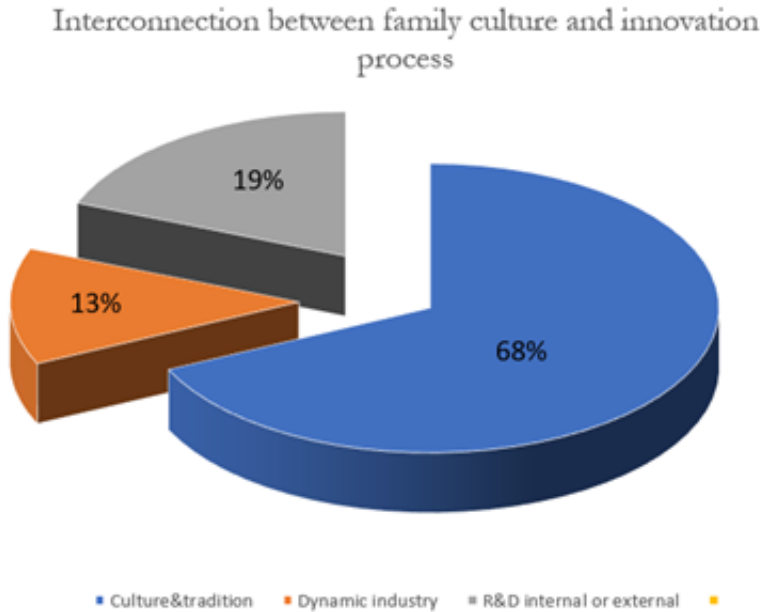


Source: The Authors

Hypothesis 1: There is a positive association relation between family business culture (for the innovative companies) and innovation process

68% from the answers of the family business admitted that their company culture and traditions are key drivers for innovation as shown in Figure 2). 13% of the answers indicated that keeping up with competition is mainly given by the dynamic environment of the industry, where the family business activates. The rest of 19% of the answers indicated a high importance of the internal R&D as well as the external collaboration with Experts who ensure continuous innovative activities. Regarding the four industries analysed, 76% of the family businesses coming from consumer industries and 45% from the ones coming from serial production ranked a high level of importance regarding innovation process, because as compared to Real Estate and Agriculture industries, the consumer and serial production imply much more processes in terms of innovative products for Consumer industries and cost efficiency valid for serial production. Based on the statistical results, the Authors demonstrated hypothesis 1.

Figure 2. Interconnection between family culture and innovation process

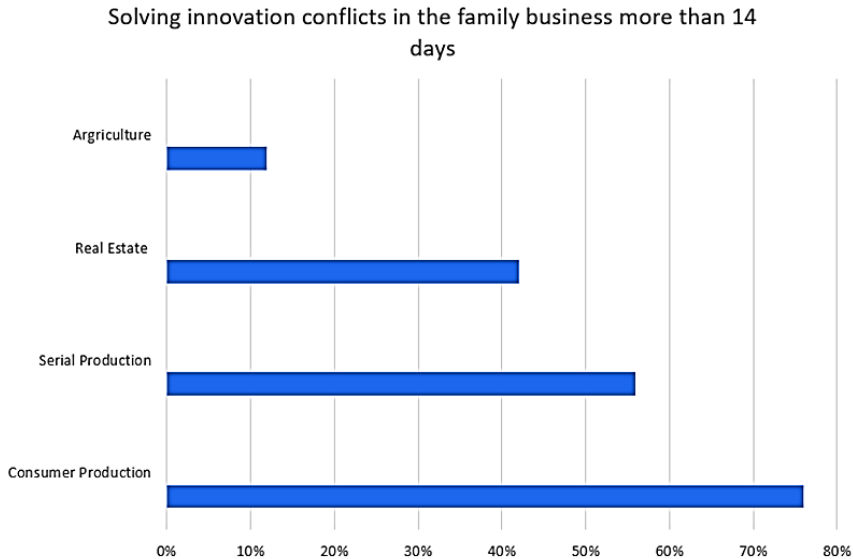


Source: The Authors

Hypothesis 2: Open conflicts and innovation process could be a negative association relation between family members

The answers of the family businesses indicate a high importance for the innovation process regarding the solving of conflicts within 14 days or more as shown in Figure 3) 76% from the consumer industry answered that they solve conflicts in more than 14 days, which means there is a blockage of the continuous innovation process. Agriculture is a sector without too much competition rate, still, judging by the collected answers, the main reason for possible open conflicts (88%) confessed by the farming family business are the agricultural machines purchases. Serial production turned out to have a rate of 56%, namely more than 14 days to solve conflicts within the family. Real estate sector indicated a percentage of 42 in terms of the term longer than 14 days for solving the conflicts. The authors conclude that hypothesis 2 is demonstrated, based on the high percentages calculated regarding the negative impact on the long time until open conflicts are to be solved and the innovation process deblocked.

Figure 3. Solving innovation conflicts in the family business in more than 14 days

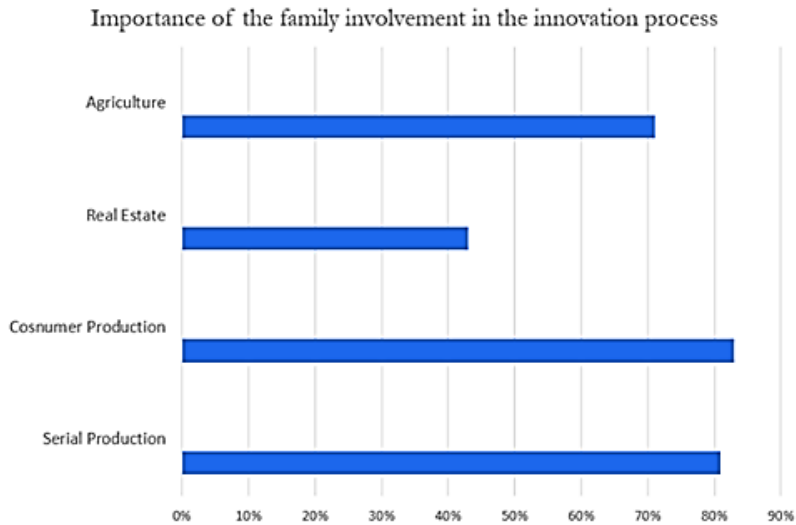


Source: The Authors

Hypothesis 3: There is a positive association relation between family involvement and innovation process

The Authors found out that a successful innovation and the family involvement are the key factors behind family business. This was interpreted by the Authors in the collected answers, especially in the consumer and serial production industry which answered in a percentage of more than 80% that they considered family involvement as the most important factor for positive innovation process. In the Real Estate business, the relation between family involvement and innovation is less important because innovation is limited; still the rate calculated is 43 %, while in agriculture business the involvement of the family was rated at a very high level, 92%, as shown in Figure no 4. With these results, the Authors demonstrated hypothesis 3.

Figure 4. Importance of the family involvement for the innovation process



Source: The Authors

5. Conclusions

Family businesses are driven by the following social and psychological factors: by the fear of losing the business, or due to family traditions acting continuously for innovation or the innovative ways in keeping the brand name, by corporate strategy, or by the involvement of the family members in business management. Even though financial efforts are considered, family businesses call often-external experts regarding R&D for innovation (universities, experts, designers). Preservation of good quality produced and offered on the market will always be existing in the family business members thinking. Depending on the industry they come from, innovation of their internal processes can bring a better efficiency and cost savings at the level of the company. Through a successful corporate strategy itself, the family business is continuously innovating. The family values, traditions and patterns are part of their corporate strategy, which for a family business segment it imposes continuous products development. Secondly, the survival of the family business in their industries could not be possible without a psychological understanding of the industry requirements and continuous product development.

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