

# New Product Portfolio Performance in Family Firms

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Family firms significantly contribute towards the economic development and growth of most economies. They are also known for entrepreneurial behaviour. Yet research on innovation in family firms has received inadequate attention. Moreover, findings of the few studies conducted on this issue, have arrived at mixed results - suggesting both positive and negative influences of owner family on the firm's innovation performance. In this study, the authors examined the effect of innovation orientation of family firms' top management teams on its new product portfolio performance. They surveyed 107 top management team members from 63 family firms and arrived at interesting results that are presented in this summary.

## Top Management Teams and Innovation

Research suggests that characteristics, idiosyncrasies, and behaviours of top management teams (TMT) affect strategic decisions and performance of a firm. Some studies attribute firms' performance differences to the composition of the TMTs. For instance, some studies found that diversity in TMTs had a positive effect on firm performance. In the context of family firms, TMTs are dominated by family members. Two important dimensions of TMT diversity in the context of family firms that authors considered in this study are –

1. The number of generations involved, *and*
2. The ratio of family members to non-family members.

TMT's innovation orientation is the commitment and support that a firm's senior management offers to its innovation activities. Research shows that innovation orientation at the firm level influences new product performance. Family involvement and their long-term orientation suggest that family firm TMTs would have a stronger influence on fostering innovation.

The TMT assigns resources to each new product. Therefore, innovation orientation of the TMT affects the entire new products portfolio of the firm. As family firms have long-term orientation, it gives further incentive to TMTs to improve new product portfolio performance.

## Family Involvement and Innovation Orientation

Younger generations of business families bring new perspectives, knowledge and skills to the firm. They are open to experimentation and change. Thus, TMTs with members from multiple generations of the owner family are likely reduce the risk-averse behaviour of family firms and enhance innovation orientation and new product portfolio performance.

The external professionals in TMTs contribute to innovation orientation through their varied perspectives, knowledge and experience. If the TMTs have high number of family members they might tend to favour status quo and innovation orientation might go down.

## **Key Findings**

The statistical analysis conducted by the authors led to the following significant findings -

**(1) Multiple Generations Improve Innovation Orientation** – The more the number of generations involved in the TMT, the better is the innovation orientation of the family firm. However, only highly innovative TMTs benefit from this multi-generational involvement, as they are able to improve new product portfolio performance. The less innovative TMTs are not able to translate it to improved performance. This may be due to negative conflicts and implementation problems.

**(2) TMTs Concentrated with Family Members Adversely Affect Innovation** – The firms that have TMTs with more concentration of family members have lower innovation orientation and new product portfolio performance. These firms may lack the diversity in knowledge and skills that

external professionals bring. This limits them to come up with successful innovations.

## **Practical Implications**

It is important for family firms to involve multiple perspectives in their top decision making teams. This can be done by including family members from younger generations and/or bringing in external experts/professionals. These individuals are most likely to contribute to innovation through their diverse knowledge, skills and experience. They will also make the organisation more open to experimentation and reduce the tendency of risk aversion.

Improved innovation orientation will make the family firm more open to experiments and change. This will increase successful new product development, thereby contributing to long-term sustenance of the family firm.

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