Innovation activities during intra-family leadership succession in family firms: An empirical study from a socioemotional wealth perspective

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Innovation is the key to a firm's competitive advantage and long-term survival. In the case of family firms and their need to survive across generations, innovation becomes even more significant. On one hand, family firms have been considered traditional, conservative and reluctant to change, while on the other, their unique familiness is also known to have created some very innovative family firms. In this paper, the authors argue that leadership succession phase is a crucial time for innovation that can become a catalyst for change in family firms. They studied family managers' perception of innovation during leadership succession in 103 family firms in the Austrian hospitality sector. They arrived at some interesting findings that are presented in this summary.

Innovation, Succession and Socioemotional Wealth

Research on innovation in family business has been inconsistent. While some experts opine that family firms are change averse and stifle innovation, others suggest that being led by passionate family leadership, they are uniquely positioned to foster innovation. Family firm's propensity to innovate has been found to decrease over time, especially in the later stages of a family leader's duration of control. This may be due to a preference for status-quo or risk aversion as the leader becomes old.

Leadership succession phase is generally viewed as a problem-ridden threat to the family business. However, the authors argue that succession is a critical phase in family business life cycle in which family firms can renew their innovation propensity. The succession phase typically has higher involvement of both the senior and the next generation members as they work towards the transition and redistribution of authority. The successor's involvement during this phase can act as a catalyst for change and renew the firm's innovation activities. The successor brings new entrepreneurial zeal, goal diversity, new information and knowledge, and willingness to change. All of these may contribute to foster innovation.

However, the family firms are also affected by non-economic factors like socio-emotional wealth (i.e. the non-economic utility that the family receives from ownership control of the firm), which lead to varying levels of willingness to innovate. The authors identified that family influence and adaptability, intergenerational authority, family member's closeness to the firm, history of family bonds and family firm's social ties were some critical factors that could potentially affect whether the succession phase was perceived suitable for innovation activities. They surveyed family owner-managers of 103 Austrian hospitality firms to test whether such effects actually existed.

Findings

The authors conducted thorough statistical analysis of data and arrived at the following results –

1. ***Non-economic factors*** were found to have influenced innovation activities during the family firms' succession phase.

2. These factors ***could both foster or hinder*** innovation. Non-economic factors had a mixed effect on innovation activities during succession phase. While some factors aided innovation, others stifled it.

3. ***Family adaptability*** was found to be a positive influence on innovation activities during succession phase. Families that were more flexible in dealing with challenges were more open to change and innovation.

4. ***Intergenerational authority*** was found to be negatively related to innovation during succession. More authoritative meant centralized decision-making which stifled innovation.

5. A ***close relationship*** between the owner-manager and the firm had a positive effect on innovation activities during succession. The authors attribute this effect to the family-owner's changing socioemotional wealth priorities across the firm's life cycle. Passionate owners might develop a tendency to break the inertia and view succession phase as an opportunity to innovate.

6. ***History of family bonding*** with the firm was found to be negatively correlated to innovation activities. The older firms tend to favour status-quo and do not innovate much.

6. Unlike what the authors had expected, a family firm's ***social ties*** were not found to have a significant effect on its innovation activities during the succession phase. A possible reason suggested by authors was that family managers are often reluctant to discuss sensitive matters of succession and innovation in their social contexts. The authors called for further research to better understand this phenomenon.

Implication for Family Businesses -

Organizational inertia often sets in family firms with long leadership tenures. They tend to become risk averse and reluctant to change. Innovation, which is essential for long-term survival of family firms, often gets stifled in such conditions. Succession phase is a peculiar period that involves change in leadership and ways of managing business. Family firms, specially the older firms must utilize this phase as a catalyst in fostering innovation. Family adaptability and successor's passion for the business are positive forces that must be harnessed to drive innovation during the succession phase. The senior generation leadership should review their intergenerational authority to provide adequate space for innovation to foster in their firms.

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