

# Dynasties of Innovation: Highly Performing German Family Firms and the Owners' Role for Innovation

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Family businesses aim for long-term survival to keep the family legacy intact across multiple generations. An important requisite for that is to constantly innovate to remain relevant and competitive across times. While many business families fail to remain innovative over time, some families are able to sustain innovation performance across multiple generations. The authors of this study label them as '*dynasties of innovation*' and probe the qualities, traits and behaviours that help them sustain innovation.

## Understanding 'Dynasties of Innovation'

The authors interviewed family members of ten successful German dynasties for this study. All of them were board members of their respective companies. The firms were renowned for their innovativeness and were present across industries with annual turnover ranging from 0.5 billion euros to 2 billion euros. With 50% or more voting rights, all the firms were predominantly managed by the descendants of founding families. The key questions that the authors asked them were –

- How do they define successful innovation and why is it important to them?
- How do they position their activities in terms of radical, progressive and incremental innovations? *and*

- How do they strive to maintain the innovative performance of their firms across the firm lifecycle?

## Sustained Innovation: Owners' Role

Though the family firms studied varied in size and industry (for instance, ranging from the high-tech sector to construction materials sector), the family owners shared a common attitude towards innovation. They all had a deep entrepreneurial understanding and spirit, which formed the basis of their innovativeness.

The owners played a vital role in their firms' sustained innovativeness. The study revealed the following key findings:

1. **Constant Entrepreneurship:** Owners perceived innovation as the result of continued entrepreneurial efforts and skills. This entrepreneurial spirit was at the root of their innovativeness.
2. **Innovation – an Insurance:** Family business owners viewed innovation as the firm's insurance for sustaining long-term competitive edge that is instrumental to business growth and family wealth.
3. **Not a Cost but Investment:** Owners perceived expenses on research and innovation activities not as mere cost-heads but as an investment in the future. Therefore, reinvestment of profits in R&D and development of new products

and businesses is considered a strategic imperative in these firms.

4. ***Focus on Profitable Innovation:*** Owners identified converting ideas into valuable patents and products as the most important factor for innovation performance. Their sharp focus on turning ideas into profitable products gave competitive advantage and high profitability to these firms, which was used to fuel further growth.

### **Distinct Approach of the ‘Dynasties of Innovation’**

Family owners clearly distinguished operational and strategic innovations. The day-to-day innovations in systems, processes, products and services were found to be driven by external managers while the strategic innovation initiatives aimed at long-term corporate renewal were driven by family owner-managers.

Family firms that were part of the study had mainly grown due to radical and progressive innovations that either took them to new business areas or to radically new technologies in an existing business. However, such radical innovations were funded by the profits generated by core businesses, which were constantly renewed

by continuous incremental innovations. Thus, the 'dynasties of innovation' favour continuous corporate change. They were found to be driven by the constant desire to develop the business further to secure wealth for future generations.

### **Practical Implications**

Family business owners must recognize the importance of innovation for long-term sustenance. They need to strengthen the entrepreneurial spirit in their businesses and focus on constant innovation to stay ahead of the competition. Though radical innovations are crucial for long-term growth, it is important to keep in mind that such initiatives are funded by current cash earners. These existing products or businesses also need to be constantly renewed through incremental innovation in order to maintain their relevance and competitiveness.

Constantly coming up with both incremental and radical innovations requires fierce entrepreneurial spirit and readiness for constant change. Family owners would be helped if they leave the responsibility of incremental innovation on external managers while they themselves focus more on radical (strategic) innovation.

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