Doing More with Less: Innovation Input and Output in Family Firms

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Family firms are known to be conservative organisations that are reluctant to make investments in innovation. However, some studies also suggest that these firms may be the most innovative organisations. With the help of a meta-analysis of 108 primary studies conducted in 42 countries, this study examines the innovation input and output in family firms and assesses their innovativeness. This summary captures the essence of the study and presents its implications for family firms.

Family Firms and Innovation Input and Output

Based on earlier research the authors posit that wealth concentration makes family firm managements reluctant to make risky investments like that in innovation. Their desire to maintain control over the firm also makes family firm managements reluctant in taking external funds. In addition, higher degree of control allows owners to force their investment preferences on the firms. Due to all these factors, family firms invest less in innovation compare to their non-family peers.

Further, the authors posit that when a family member is the CEO of the firm there is an even superior alignment between the owners' and management's investment preferences. Hence, the firm's investment in innovation is likely to be even lower.

However, family firms exhibit a better ability to monitor innovation process due to their high level of control. In addition, the pursuit of non-financial goals, privileged access to networks and tacit knowledge also improve the innovation output efficiency of family firms. Thus, the authors posit that family firms are able to achieve higher conversion rate of innovation input to output and thus higher innovation output compared to their non-family peers.

Institutional Factors and Innovation

The authors posit that high levels of minority shareholder protection may impede innovation in family firms as these shareholders focus more on immediate returns and encourage defensive investment strategies.

The authors further posit that highly educated workforce benefits innovation efforts of family firms compared to non-family firms. This is because the family firms rely more on human capital of their employees and on support provided by their network members throughout the innovation process.

Key Findings

The key findings of the meta-analysis were as the following:

- Family firms were found to invest less in innovation than compared to investments made by their non-family peers.
- Family firms were found to have a more efficient innovation input to output conversion ratio.
- Family firms were found to have more innovation output compared to their non-family peers.
- The above-observed effects were even stronger when the family firm had a later-generation family CEO.
- However, in family firms where the founder was the CEO, innovation input was high but output was low. This maybe because such a firm may be in the initial stages of growth and innovation investments were yet to deliver results.
- The authors also found that macro factors had an influence in family firm innovation input-output relationship. For instance, minority investor protection was found to have a negative effect on innovation investments and high level of education in employees contributed to family firm innovation.

Practical Implications

The significant practical implication of the study is that the family firms must continue to maintain the efficiency of their investment in innovation. However, they also need to give more weightage to innovation and increase their investment in innovation. Yet another implication is that the founder CEOs who have been at the helm for a long time, may start thinking of grooming a family successor to take on the CEO role. As indicated by the research the family successor CEO may bring new capabilities and may improve the family firm's innovation output.

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