Family-Driven Innovation: Resolving the Paradox in Family Firms

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Family firm innovation is often characterized by a paradox. On one hand, family firms are known to be conservative and less innovative while on the other, data shows that more than 50% of Europe's most innovative firms are family firms. Thus, family firms have a challenge to resolve this innovation paradox and unlock their potential. This article introduces the concept of 'Family Driven Innovation' (FDI) and presents a framework bearing a set of strategic decisions that help the family firm resolve the innovation paradox. This summary provides a gist of the framework and its implications for family firms.

Paradoxical Effects of Family Involvement on Innovation

Innovation development requires leveraging external sources of knowledge. Often, managements of family firms are averse to openness in exchange of knowledge and information due to concern for potential loss of control. Thus, propensity to acquire external knowledge is low in family firms while they have superior capabilities of opportunity identification and knowledge acquisition from relationship networks. This accentuates the effect of the paradox.

Family firms are likely to have a lower propensity to adopt innovativeness than their non-family peers because innovation adoption can hinder non-economic objectives of family owners and reduce their control over the firm. However, once a family firm decides to adopt an innovation, higher degree of family's control over the firm lowers the barriers to innovation integration and practice. Again, this results in paradoxical behaviour.

In order to capture maximum value from innovation, family firms need to unlock these paradoxical effects. The authors suggest that the FDI framework can help the firms resolve these.

Family Driven Innovation

Family Driven Innovation (FDI) is defined as "*an internally consistent set of strategic innovation decisions that allow family firms to resolve their innovation paradox by enhancing the close fit between these decisions and the characteristics of the family firm.*" The FDI framework builds on contingency theory.

The contingency factors that describe and capture family firm heterogeneity based on their characteristics are the following:

1. **Family willingness:** It is the family owners' goals and intentions that govern the firm's dominant logic, i.e., whether it prioritizes non-economic goals or economic goals.
2. **Family ability as discretion:** It is the family's discretion to direct and allocate resources and to make strategic/ tactical decisions to achieve its objectives.

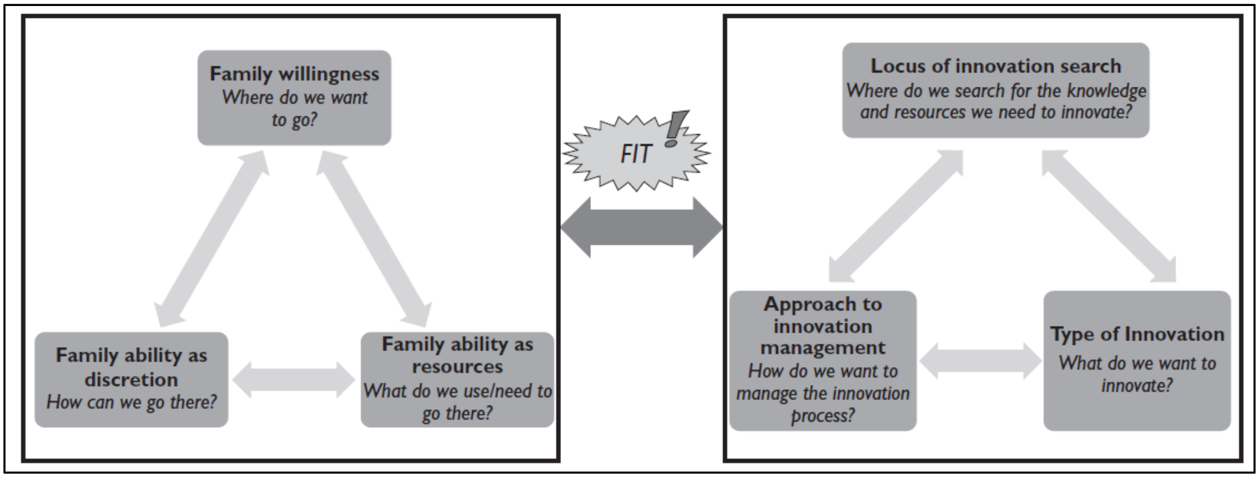

Figure 1. Model of Family-Driven Innovation. (Source: De Massis et al., 2015).

3. **Family ability as resources:** It is the family's power to act, i.e., the resources and capabilities that help it build competitive advantage.

The contingency factors that capture heterogeneity of innovation decisions are the following:

1. **Locus of Innovation Search:** It is the firm's decision about the sources where it looks for knowledge and resources for innovation. For instance, exploiting existing knowledge versus exploitation of novelty.
2. **Innovation Management Approach:** It is the firm's decision on how it wants to manage the innovation process, for instance, propriety versus open innovation.
3. **Type of Innovation:** It is the firm's decision on what does it want to innovate: i.e., products/ services, or process(es) or business model. This decision also includes, the degree of change that the firm decides to achieve, i.e., incremental or radical innovation.

As figure 1 depicts, FDI resolves these paradoxes by ensuring a close fit between firm characteristics and innovation decision decisions. For instance, a firm with limited resources may undertake incremental innovations as it may find that radical innovation does not offer it a good fit.

Practical Implications

This paper has a significant implication for family firms. It helps family firms resolve the paradox of innovating less while having the ability to innovate much more. Using the framework presented in this paper, family firms can assess their distinct firm characteristics and work towards getting a close fit with their innovation decisions. By arriving at appropriate fit between these contingencies family firms can unlock their innovation potential and achieve sustainable competitive advantage.

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