

Product Innovation, Firm Renewal and Family Governance

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New product development is central to strategic renewal and long-term growth of a firm as it demands creation and expansion of firm competences. This paper looks into the relationship between firm's product innovation decisions and renewal of firm competency in family business context. The authors examine product innovation decisions made by 220 Italian firms and probe the effect of family governance on their strategic choices. This summary succinctly presents the setting, findings and implications of the study.

Family Governance, Firm Finances and New Product Risk

Family owners value control over the firm. Hence, they are likely to reject new product development decisions when the proposed product is distant from their existing portfolio and is perceived to be too risky. This risk aversion is likely to limit the firm's innovation activity to its existing competence domain. This is likely to impede the firm's technological competency renewal as no new capabilities are developed.

However, authors posit that when the family firm is in financial stress, the firm may introduce high-risk product innovations with an aim to reap higher rewards. For instance, when its debt is high, rewards of such innovations will help the firm avoid making defaults and protect it from the adverse effects on socioemotional wealth (SEW).

Innovation and Competency Renewal

According to the authors, new products can be categorized into those that leverage existing capabilities and those that pioneer new direction. Introduction of new products of the latter kind generates new capabilities that contribute to firm's technological renewal. For instance, while entering into new markets with novel products firms develop key technological and marketing capabilities as it creates, integrates, combines or sheds resources. This also contributes to organisational learning.

However, when the family management's desire for control over the firm is paramount, they are not likely to undertake 'risky' innovations. This is because a new product failure will not only financially hurt the firm but will also damage the SEW and threaten their control on the firm.

The Study and its Findings

In order to examine the relationship between family ownership, innovation and renewal of firm competency, the authors studied introduction of new products by 220 Italian firms. Data on patents, relatedness of new products to existing portfolio, new markets, market share, return on sales, family versus non-family management etc. were analyzed.

The key findings of the study were the following:

- Family managed firms were found to have innovated in product categories related to their existing portfolios.
- Debt/Equity ratio, a proxy measure for losing firm control, was found to have a significant influence on new product introduction.
- The impact of introduction of number of subsequent patents was found to be negative in companies run by later generations in comparison to that in the founder led firms. This indicated that the innovation efforts of the former firms were not effective in promoting the firm's technological competency renewal.

Thus, the family management's desire to maintain control over the firm was found to have resulted in risk-averse behaviour. This had adversely affected the firm's innovation strategy as new product introductions were limited to the related areas. This had affected expansion and renewal of the firm's technological and marketing competence.

Practical Implications

The study has significant implications for family firms. Product innovation is a vehicle for competency renewal. If family firms limit their innovation efforts to a narrow band of familiar/ related product categories, they may not be able to augment their capabilities. Besides, such innovations may always remain incremental in nature. In such a case, market disruptors may suddenly leave the family firm's products obsolete and irrelevant.

Therefore, family firms need to step out of their comfort zone and take measured risks by making investments in unrelated but promising innovations. These innovations may be distant from the firm's existing portfolio of products but may help the firm in developing/ renewing their technical and marketing capabilities, thus providing long-term benefits.

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