Innovativeness in family firms - a family influence perspective

– Franz Kellermanns, Kimberly Eddleston, Ravi Sarathy and Fran Murphy

Aimed at expanding the current understanding of family firms and innovation, family business researchers, Franz Kellermanns, Kimberly Eddleston, Ravi Sarathy and Fran Murphy conducted a survey of seventy family firms to investigate how family influence and innovativeness affect the performance of a family firm.

Dimensions of Family Influence - The authors suggest that there are three core aspects or dimensions of family influence that an owning family wields over the business. These three dimensions are the following –

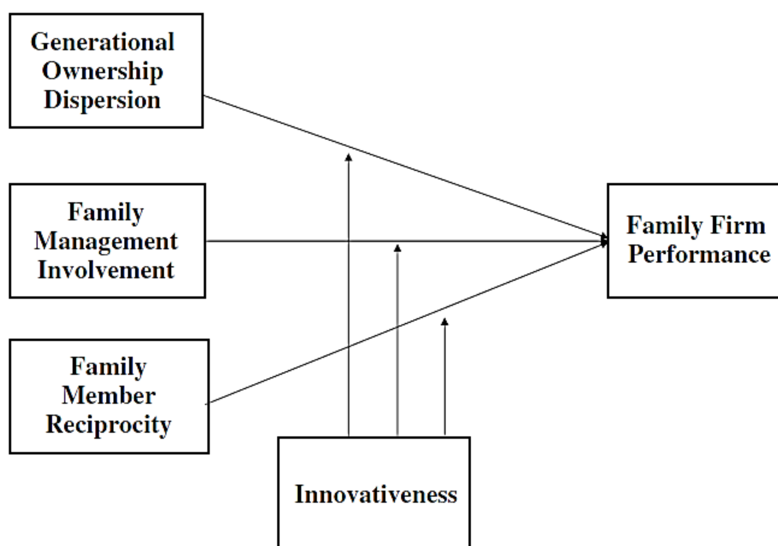
1. **Family Management Involvement** – It is the extent to which the owning family's members are involved in managing the business. The authors posit that, extensive family involvement in business increases management's commitment to the firm and thus positively influences its performance.
2. **Generational Ownership Dispersion** – The desire of maintaining family's control beyond the current generation by transferring ownership of business to the next generation, is a key factor that shapes the goals and strategies of the family firm. Ownership of a family may range from unitary control (wielded by single-family member) to multi-generational control (exercised by multiple members across different generations of the family). The authors theorize that more dispersed ownership negatively influences the family firm's performance.
3. **Family Member Reciprocity** – It is the extent to which family members assist other members, share responsibilities and help each other in achieving organizational goals. While doing so, the family members put aside their personal interests for the sake of the business. The authors posit that family member reciprocity positively influences the firm's performance.

Innovativeness – It is a firm's tendency to engage in and support new ideas and creative processes that may result in new products, services or technological processes. Innovation has been considered a core aspect of entrepreneurship. The authors argue that the need to study innovative behavior in family firms is essential to understand how family influences the firm's innovativeness.

Since innovation helps to renew businesses, enhance their competitive advantage, spur growth and generate wealth, this study becomes even more significant in family business context. The

authors suggest that the interaction between innovativeness and the dimensions of family influence play an important role in predicting a family firm's performance.

Interaction of Innovativeness and Family Influence – Family ownership can inhibit a family firm from investing in innovation as it is a risky proposition. However, innovation is an essential condition for family firm continuity because the lack of it would render the firm stagnant and risk its survival in the long-term. The authors, therefore, suggest that innovativeness contributes to family firm's performance.



The authors established through their research, that the following interactions happen between innovativeness and family influence –

- Higher levels of family involvement in management benefits innovative behavior as the firm is better placed to capture the gains from its innovation.
- If family ownership is concentrated, then the firm can better capitalize on its innovativeness. Alternatively, a dispersed ownership makes the family firm risk averse.
- If family members have a strong sense of shared ownership and support the efforts of each other, it places the firm in better position to exploit its innovativeness.

In this research study, these positive interactions were found to improve the family firm's performance.

The key takeaway of the study for family business owners is that greater family involvement, concentrated ownership and high level of cooperation among family members go a long way in enhancing the firm's innovativeness that is inextricably linked to the family firm's performance.

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