ARTICLE IN PRESS

Journal of Family Business Strategy xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Journal of Family Business Strategy

journal homepage: www.elsevier.com/locate/jfbs

Reaping what you sow: The family firm innovation trajectory

Marleen Dieleman*

NUS Business School, 15 Kent Ridge Drive, Mochtar Riady Building, 119245, Singapore

ARTICLE INFO

Keywords:
Innovation
Family firm governance
Ambidexterity
Co-evolution
Ability-willingness paradox
Case study

ABSTRACT

This study sheds more light on the 'ability-willingness paradox', which argues that family firms may be more able but less willing to engage in innovation. Using a longitudinal case study, we investigate the influence of family governance attributes during different stages of innovation and suggest that family entrepreneurship facilitates the conversion of innovation inputs to outputs. Family governance attributes (control, monitoring and networking) support innovation activity during some phases, but impede it during others. We also found the reverse: accumulated innovation capabilities influence family firm governance practices such as monitoring behaviour and control, especially when later-generation family members join the firm. These outcomes partially resolve the conflicting outcomes of prior studies and lead to useful propositions that can redirect future research.

1. Introduction

The ability to innovate is crucial for long-term firm performance, but the matter of whether family firms innovate more or less than other types of firms has been subject to debate (e.g., De Massis, Frattini & Lichtenthaler, 2013). Recent studies suggest that family firm governance attributes simultaneously stimulate certain types of innovation while impeding others (Duran, Kammerlander, Van Essen & Zellweger, 2015; Hauck & Prügl, 2015; König, Kammerlander & Endig, 2013; Röd, 2016). For instance, Duran et al. (2015) argued that family firms invest less in innovation but derive greater innovation output – a puzzle sometimes referred to as the 'ability-willingness paradox' (Chrisman, Chua, De Massis, Frattini & Wright, 2015).

One possible reason for these puzzling results is that research commonly measures family firm innovation inputs and outputs and compares them to those of non-family firms. However, *how* family firms convert inputs into outputs, i.e., their innovation activity (Lumpkin, Steier, & Wright, 2011), has received less attention. This is precisely where family firms may have an advantage (De Massis et al., 2013) – for instance, because of different governance attributes such as ownership patterns and monitoring behaviours. Currently, we have only a limited understanding of how the process of innovation works in family firms, and how family governance attributes influence this process. Few studies take a longitudinal perspective and uncover the innovation trajectory in family firms (Craig & Moore, 2006; Fletcher et al., 2016). The purpose of this study is to develop better theoretical arguments to explain the link between governance attributes and innovation using an in-depth, longitudinal case study to explore causalities that are hitherto poorly understood.

We achieve this goal through a qualitative study of a Malaysian family firm that grew into one of the largest palm oil companies in the world, with operations throughout Asia, Europe and the United States. Our analysis shows that the firm went through different, partially overlapping stages of innovation, each connected to a different business strategy. Family governance affected these stages in different ways, depending on the phase of innovation. Through triangulation, comparison within the industry and contextualisation, we tease out novel propositions on the causal links between the different stages of innovation and family governance attributes such as control, monitoring behaviour and networking.

The aim with this study is to contribute to the literature on family firm innovation, particularly on the influence of family governance attributes on innovation. We partially resolve the conflicting outcomes of prior studies that led to the ability-willingness paradox by placing family firm innovation in a long-term perspective while considering typical family firm lifecycles characterised by exploitation and exploration (Sharma & Salvato, 2011). Benefiting from a fine-grained analysis and insights from family firm executives on their innovation processes, we formulate propositions on governance attributes and their effects on innovation activity in various phases and across generations. By generating more precise insights into the process of innovation during a longer timeframe, we hope to redirect future research on family firm innovation and governance.

2. Theory

New products, new services and new ways of doing things have long been considered essential for firm survival and economic prosperity

* Corresponding author.
E-mail address: marleen@nus.edu.sg.

https://doi.org/10.1016/j.jfbs.2018.03.003
Received 5 June 2017; Received in revised form 25 October 2017; Accepted 7 March 2018
1877-8585/

(Schumpeter, 1934) and key for competitive advantage (Porter, 1980). This is equally true for family firms, which are usually defined as firms with substantial presence by the founder or the founder's relatives as owners and/or acting in leadership roles (Duran et al., 2015).

The family firm literature has paid substantial attention to innovation (e.g., De Massis et al., 2013; Duran et al., 2015; Röd, 2016) and found puzzling results. Although family firms are thought to place great emphasis on innovation (e.g., Craig & Moores, 2006; Sharma & Salvato, 2011) some studies show that family firms are more innovative than non-family firms (Muñoz-Bullón & Sanchez-Bueno, 2011), whereas others show the opposite (e.g., Block, 2012; Chen & Hsu, 2009).

It is now commonly understood that the notion that all family firms are always more (or less) innovative than non-family firms is far too simplistic. To advance our understanding of family firm innovation, we must account for the following: 1) firms can innovate in different ways at different stages of their development, and 2) family firms vary in their governance attributes, depending on their stage of development.

2.1. Innovation attributes

A commonly applied innovation framework distinguishes between innovation inputs, activities and outputs (e.g. Lumpkin et al., 2011). Inputs are the resources committed to innovation, for instance research and development (R&D) or human resource expenses. The innovation activity stage is concerned with how inputs are transformed into outputs, i.e., how various firm resources are brought together. Innovation outputs can vary from new products to new business models, technologies or new ways of doing things.

Three recent studies have provided a comprehensive overview of the research on family firm innovation. Two were literature reviews (De Massis et al., 2013; Röd, 2016) and one was a meta-analysis (Duran et al., 2015). Despite some conflicting findings, the literature reviews suggest that family firms may have lower innovation inputs than non-family firms but achieve greater outputs. Another theme in the family business innovation literature is incremental and radical innovation. There is some debate as to whether family firms are particularly good at innovating based on their unique histories and resources (e.g., De Massis, Frattini, Kotlar, Messeni Petruzzelli, & Wright, 2016; Patel & Fiet, 2011) and whether their long-term outlook stimulates them to engage in more radical innovations that ensure their long-term sustainability (e.g., Bergfeld & Weber, 2011; Penney & Combs, 2013). Here, too, the consensus appears to be that while family firms may initially be reluctant to engage in discontinuous innovations, when they do, they adopt new technologies more rapidly and effectively than non-family firms (König et al., 2013).

Thus, the literature suggests that understanding the conversion of resources into innovation outputs is a key factor of family firm innovation. However, how this process takes place is still not sufficiently understood (De Massis et al., 2013). One reason for this is that most prior work is quantitative in nature and seeks to compare family firms and non-family firms using variables such as R&D intensity or patent filings as indicators of input and output. Such studies are less suited to investigating the complex process by which resources are combined and transformed into innovations (Fletcher et al., 2016) and lack a holistic multi-faceted approach (Röd, 2016). In addition, due to a focus on variables that can be easily compared across family and non-family companies, relatively less attention is paid to innovation activities or outcomes that cannot be readily captured in quantitative studies (Röd, 2016).

Qualitative studies can provide a better understanding of processes and explore the 'why' behind innovation decisions, but these have hitherto mostly focused on smaller firms, where innovation activities are likely to be more personalised and tied to the owning family. Thus, a qualitative study on innovation processes in a larger firm, which takes both measurable indicators and the rationale behind innovation decisions into account, can help to bridge the gap between quantitative and qualitative studies and offer new insights that can be mutually reinforcing.

2.2. Family governance attributes

As highlighted above, the literature provides evidence that family firm innovation patterns differ from those of non-family firms. To explore why this is so, several studies investigated the role of unique family governance features, including family ownership, leadership and the family's networks.

The literature suggests that family ownership, particularly tighter control through a greater ownership stake, is associated with lower innovativeness (e.g., Block, 2012; Chen & Hsu, 2009; Chin, Chen, Kleinman, & Lee, 2009; Czarnitzki & Kraft, 2009). Families that put up their own capital also have greater incentive to closely monitor how money is spent, which facilitates a culture of parsimony (Carney, 2005) but may also discourage innovation spending (Chrisman & Patel, 2012), especially on radical innovations with unknown outcomes (König et al., 2013).

In terms of leadership features, studies focused on CEOs and chairs, as these positions have the power to allocate resources to innovation and hence are thought to have the greatest effect on firm innovativeness (Duran et al., 2015). It is often thought that firms with family CEOs or firms where the chair/CEO role is combined invest less in innovation (e.g., Chen & Hsu, 2009), although they may also have greater innovation outputs (Duran et al., 2015).

Family-led firms are known to combine financial goals with socio-emotional wealth goals (e.g. Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson & Moyano-Fuentes, 2007), leading to a long-term orientation and more openness to innovation (e.g., Lumpkin et al., 2011; Sharma & Salvato, 2011). However, family influence in leadership is also argued to lead to a different type of control and monitoring behaviour, which facilitates the conversion of innovation inputs into outputs (e.g., Hsu & Chang, 2011; Cassia, De Massis, & Pizzurno, 2012). Tight control of management by the family may also stifle innovative activities. Although family firms are thought to be more entrepreneurial, which may help them push new innovations, their innovativeness may be reduced with long tenures and in generations beyond the founder (Le Breton-Miller, Miller & Bares, 2015). Long tenures may lead to rigid mental maps and discourage innovation (König et al., 2013).

Another feature of family leadership lies in the close, long-term networks that family businesses are argued to build over time. While these networks may be advantageous for creating a harmonious culture and facilitating family control, they may also limit innovation, as families have a lower 'search breadth' (Classen et al., 2012) and appear more innovative if they have more independent directors (Chen & Hsu, 2009).

Altogether, these family governance features and their connections to innovation have been summed up in the so-called 'ability-willingness paradox': family firms are more able to innovate but less willing to engage in innovation (Chrisman et al., 2015). Their greater ability stems from greater control, strong networks, intimate knowledge of the business and great monitoring power to ensure that investments lead to tangible outcomes. Their lower willingness stems from a generally prudent attitude towards resource allocation for innovation, rigidity due to entrenched mental models and long tenures, risk aversion and reluctance to share control with others (Röd, 2016).

Scholars have begun to realize that innovation intensity and type are strongly related to business cycles and therefore must be studied using a temporal dimension (Lumpkin et al., 2011; Sharma & Salvato, 2011). Indeed, the temporal dimension has the potential to shed light on some of the paradoxes that research has been unable to resolve (König et al., 2013), including the ability-willingness paradox (Fletcher et al., 2016; Veider & Matzler, 2016).

Family firms need to simultaneously combine different innovation goals, including incremental and radical innovation, but the intensity of