ABSTRACT

This chapter illustrates the main issues with respect to innovation process within family firms. In the first part, it describes the main theories underlying the innovation process of family firms (agency theory, altruism, portfolio theory, stewardship theory, socioemotional wealth perspective). In the second part, it exposes the R&D underinvestment problem in large companies with a focus on the effect of the family ownership on the R&D investments. In the third part, it describes the effect of family ownership on the innovation output with a focus on the kind of innovation (radical vs. incremental). In the fourth section, studies exploring the innovation strategies of family firms (prospectors, analysers, defenders, reactors) are examined. In the fifth section, it sheds light on the innovation management process of family firms. In this part, it explores the issues of internal innovation process (functional vs. cross-functional structure) and of the partnerships with external actors aimed to generate innovation.

INTRODUCTION

Over the last years, technological innovation within family firm context is receiving an increasing attention (Calabrò et al., 2019; De Massis et al., 2012a). Although family firms are recognized more conservative and less incline to innovation, the majority of the most innovative firms around the world are family firms (Calabrò et al., 2018; Rondi et al., 2018). According to the consolidated process based conceptualization (Tidd & Bessant, 2009), technological innovation can be conceived as the set of activities through which a firm identifies, designs, produces, and introduces a new product, technology, system, or technique (Freeman, 1976). Literature indicates that innovation represents a key driver for firms’ competitiveness and technologically innovative companies are more likely to achieve an enduring competitive advantage (Geroski et al.,1993). Scholars have widely investigated innovation process in small and medium firms so as with respect to large companies. Anyway, only recently an emerging strand of literature has focused on innovation activities within a family firm context, emphasizing the scant

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attention paid referring this theme. This is surprising considering that family firms are characterized by an interaction between family, individual family members and the business (Habbershon & Williams, 1999) that generates a unique bundle of idiosyncratic resources and capabilities with an intangible and tacit nature favouring the achievement of long-lasting competitive advantage. Technological innovation issue represents a great potential research area “... because there are strong theoretical reasons to believe that the antecedents and effects of technological innovation” (De Massis et al., 2012b p. 1).

Family firms may differ from nonfamily counterparts with respect to risk aversion, investment horizons, return aspiration, climate organization and so on (Carney, 2005; Zellweger et al., 2012). These aspects inevitably influence firms’ propensity to invest in innovation and in managing innovation activities. While some research portrays family firms as reluctant to undertake R&D investments (Chen & Hsu, 2009), and assume risk (Morris, 1998), other research suggests that family firms show a high innovation productivity rate (Matzler et al., 2015).

The aim of this chapter is to review and systematize literature referring to technological innovation in family firms, separating the different phases of family firms’ innovation process (De Massis et al., 2012b), and emphasizing the role of family-related antecedents. The discussion of the main issues regarding family firms’ innovation allows to illustrate the research areas where scholars find a consensus and other areas where literature manifests different results and therefore the consequent debate is still open. In order to explore family firms’ innovation process, empirical studies will be examined and the interpretation of the relative results will leverage on the main theoretical frameworks used within family business literature.

The chapter is articulated in the following sections:

1. The first section illustrates the theoretical frameworks used in the most of the family firms’ innovation studies, which are agency theory, altruism, portfolio theory, stewardship theory, and socio-emotional wealth perspective;
2. The second section explores studies on direct effects of family involvement on technological innovation inputs and on the moderating effect of some factors (such as aspirational gap, Ceo duality, growth opportunities) on the relationship between family involvement and innovation inputs. Starting by the R&D underinvestment problem, the chapter highlights some factors featuring family firms, such as risk aversion and the agency conflicts between controlling family and minority shareholders, may negatively affect the propensity to invest in R&D;
3. The third section highlights the influence of family involvement on technological innovation management; more specifically, studies in this research area focus on how the innovation process is managed and favoured inside the firm (e.g.: the choice of type organization that handles the innovation process) and outside it (propensity to interact with external stakeholders, their number and kind);
4. The fourth section sheds light on family firms’ strategic behaviour with respect to the innovation. These studies, on one hand, emphasize family firms approach towards product R&D activities and development of new products/markets; on the other hand, they emphasize how some family antecedents, such as succession process and ownership dispersion, affect the above mentioned strategic behaviour;
5. The fifth section describes the innovation output of family firms, focusing on the number of innovative output, the choice on incremental vs disruptive innovation and the generational involvement effect on the output.
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