

UNLOCKING THE INNOVATION POTENTIAL OF FAMILY FIRMS: AN ASSESSMENT TOOL

When it comes to innovation, family firms often are trapped in an “ability–willingness paradox”: the superior ability to innovate is unrealized because of fear of innovation. Our research¹ suggests that the key to solving this paradox and unlocking innovative potential, resides in the family.

Family firms’ reluctance to innovate is surprising because it clashes with a long-term orientation, which should otherwise motivate a focus on new technologies to ensure a sustainable future for the family across generations. Yet, many observe that family owners and managers fear of losing control, undermining the family reputation, or compromising their socioemotional wealth (i.e., the pool of non-financial benefits associated with family ownership and control). Thus, it is necessary that family firms strike a delicate balance between the business and the family. From the business perspective, they need to ensure there is sufficient risk taking while preserving tradition. At the same time, they need to leverage goal diversity and cohesion within the family. Navigating these tensions is certainly a challenging task. Here, we provide an assessment tool that you can use in your family business to check and ensure a fit between the business and the family systems so as to fully unlock the innovation potential.

The ability-willingness innovation paradox of family businesses

Consolidated ownership power of family business leaders endows them with the discretion to deploy resources toward innovation without needing to engage in internal political dynamics or needing to convince managers to pursue innovative initiatives. Moreover, family members that aim to transfer their business to next generations are more prone to engage in

¹ Rondi, E., De Massis, A., & Kotlar, J. (2018). Unlocking innovation potential: A typology of family business innovation postures and the critical role of the family system. *Journal of Family Business Strategy*, in press. <https://doi.org/10.1016/j.jfbs.2017.12.001>

long-term oriented investments. Once the leader has been convinced about the opportunity of an innovation, the low level of bureaucracy in family firms allows for rapid implementation. These are only few of the many reasons why family can be more innovative than non-family firms.

While the ability is high, family firms are constrained by lower desire to undertake innovative initiatives. Family firms have a variety of financial and non-financial goals that lead to different propensity to engage in innovation. For example, the intention to transfer the business to next generation can be a deterrent of uncertain investments, since they might jeopardy the survival of the firm in the long run. On the other hand, wanting to keep the business in the family can also act as an incentive because innovation is generally seen as necessary to keep the business thriving overtime (unless the business operates in a highly protected niche).

Therefore, in comparison to their non-family counterparts, family businesses are characterized by higher discretion to engage in innovation (ability) combined with lower disposition to do so (willingness). Research has labeled this tension “ability-willingness paradox”².

Assess your family business innovation posture: The business system perspective

The family business innovation posture flows from the strategic orientation that the family imprints on the family business, shaping the firm’s innovation climate, philosophy, and practices. You can assess your family business posture by looking at two core dimensions: risk-taking propensity and tradition attachment.

Risk-taking propensity is the tendency of a family business to engage in behaviors that have uncertain outcomes. A family business with high risk-taking propensity is more prone to

² Chrisman, J.J., Chua, J.H., De Massis, A., Frattini, F., & Wright, M. (2015). The ability and willingness paradox in family firm innovation. *Journal of Product Innovation Management*, 32(3), 310-318.

gamble precious resources on new ideas, taking steps into the unknown with the aim of reaching higher returns. Conversely, family businesses with low risk-taking propensity are characterized by sticking to more ordinary paths, consciously and smoothly moving forward in a step-by-step manner.

Tradition attachment refers to the extent to which the family firm is anchored to its past and wants to transmit it to the future. When family businesses share and are committed to shielding their legacy with intangible resources (such as histories, stories, rites and events) or tangible objects (books, portraits, museums and archives) across generations and celebrate their ancestors' past behavior, they are considered highly attached to their tradition. Conversely, family businesses are characterized by low traditional attachment when consider the past as a burden and such firms constantly seek to evolve by discarding the old to make room for the new.

The combination of the characteristics of the business system in terms of risk-taking propensity and tradition attachment leads to a framework of four representative family business innovation postures. Figure 1 depicts the framework and provides examples of family businesses adopting each posture. As you think about the innovation posture in your family business, you may benefit from reflecting on the characteristics of your business system.

--- Insert Figure 1 about here ---

Seasoner: your family business is oriented toward changing the meaning of current-state activity in contrast with the past, without bearing too much risk. So, you reshape current resources, while maintaining the inner nature, to develop something “tastier”.

Re-enactor: in your family firm you innovate close to the status quo. Such historical philosophy leads to searching in your family business memories and inherited values to inspire innovation.

Digger: your family business boosts the intertwining of unique traditional organizational resources and capabilities, based on your legacy and historical roots, with contemporary ones in order to innovate.

Adventurer: in your family firm you innovate beyond the trends, always challenging the status quo and leveraging accumulated expertise to develop something distant from current and past activities.

In all the four circumstances the family business can be very innovative, but each type innovates differently. A problem is that, oftentimes, the innovation posture defined at the business level does not fit the family system.

Assess your family business innovation posture: The family system perspective

To solve the ability-willingness paradox, looking exclusively at the business system is not enough. It is also necessary to ensure consistency between the business system and the family system. In other words, innovation is best served when the innovation posture of the family firm is consistent with the characteristics of the family. Two dimensions of the family system emerge as crucial: goal diversity and cohesion.

Family goal diversity. The goals pursued by family members in the family business might diverge or converge. The misalignment of goals is not necessarily negative, since it can trigger individual interests beneficial to the family firm, specifically in innovation initiatives. Conversely, when family members are aligned toward the same target(s), such misalignment could be positive since harmony smooths innovation processes, but it could also be detrimental if it hampers the development of divergent thinking.

Family cohesion refers to the emotional bonding that family members have toward one another. It is essential for creating resources, and families endowed with cohesion can rely on altruism and greater sense of belonging, encouraging family business members to pursue innovative initiatives. However, high family cohesion might lead to excessive inward

perspective, lacking openness. Low family cohesion can be negative due to potential quarrels that stifle the unity needed to ideate and implement innovative ideas on the one hand and might spur novel ideas through creative conflict resolution on the other hand.

Assessment tool: Ensure a close fit between the business and family systems to unlock innovation potential

To fully unlock your family business’s innovation potential, the innovation posture adopted by the business should have good fit with the family’s dimensions of goal diversity and cohesion. So, what is your family business innovation posture? Are you ensuring a close fit between the business and the family systems so as to solve the family business innovation paradox?

We provide a short list of questions below that allow you to look at where you currently stand along the family and business systems in your family firm and enable you to see what position your family business occupies in the framework. The first step is to understand the innovation posture that your family business is adopting. For each of the statements in *Table 1 – business system*, indicate the likelihood that your family business would engage in the described activity or behavior:

---- Insert Table 1 about here ----

The second step requires you to understand the characteristics of the family system. For each of the statements in *Table 1 – family system*, indicate the likelihood that your family would engage in the described activity or behavior.

Does the innovation posture identified in the first step match that suggested in the second step? If the postures you have identified in steps one and two match, then your business and family systems characteristics are consistent, and the innovation posture adopted allows you to fully unlock your family firm’s innovation potential. If not, we provide some guidelines to take action on the drivers in order to ensure closer fit.

Re-establishing a fit between the family and business systems

One of the most critical dimensions of change for family firms, involving both the family and the business systems, is inter-generational leadership transitions. Such change is likely to alter goal diversity of and cohesion in the family, while also altering risk-taking propensity and tradition attachment. Therefore, intergenerational leadership transitions are a significant opportunity for family firms to ensure fit between the family and business systems, by potentially adopting an alternative family business innovation posture or tuning the drivers toward a new configuration that unlocks innovation potential. Inter-generational leadership transitions are just one of the many opportunities to boost change in the business and family systems. The creation of a new division, the entry of a new family member into the business, the marriage of a new generation member involved in the business that causes the creation of a new family system that has to interact with the business and with the original family are all examples of changes that can be exploited as opportunities for ensuring a novel fit in your family business.

Conclusion

Family businesses are often stigmatized as more conservative and reluctant to innovate in comparison with their non-family counterparts. Yet, in reality, most innovative firms worldwide are family owned and managed. Using the framework elucidated here and the tool offered, you can conduct an assessment of the relationships between the family and business systems in relation to innovation, and identify your family business innovation postures. This tool can help you assess the fit between the posture adopted at the business and the family system levels, providing guidance on how to unlock your family business innovation potential.

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FIGURE 1
Family business innovation posture in relation to family and business system characteristics

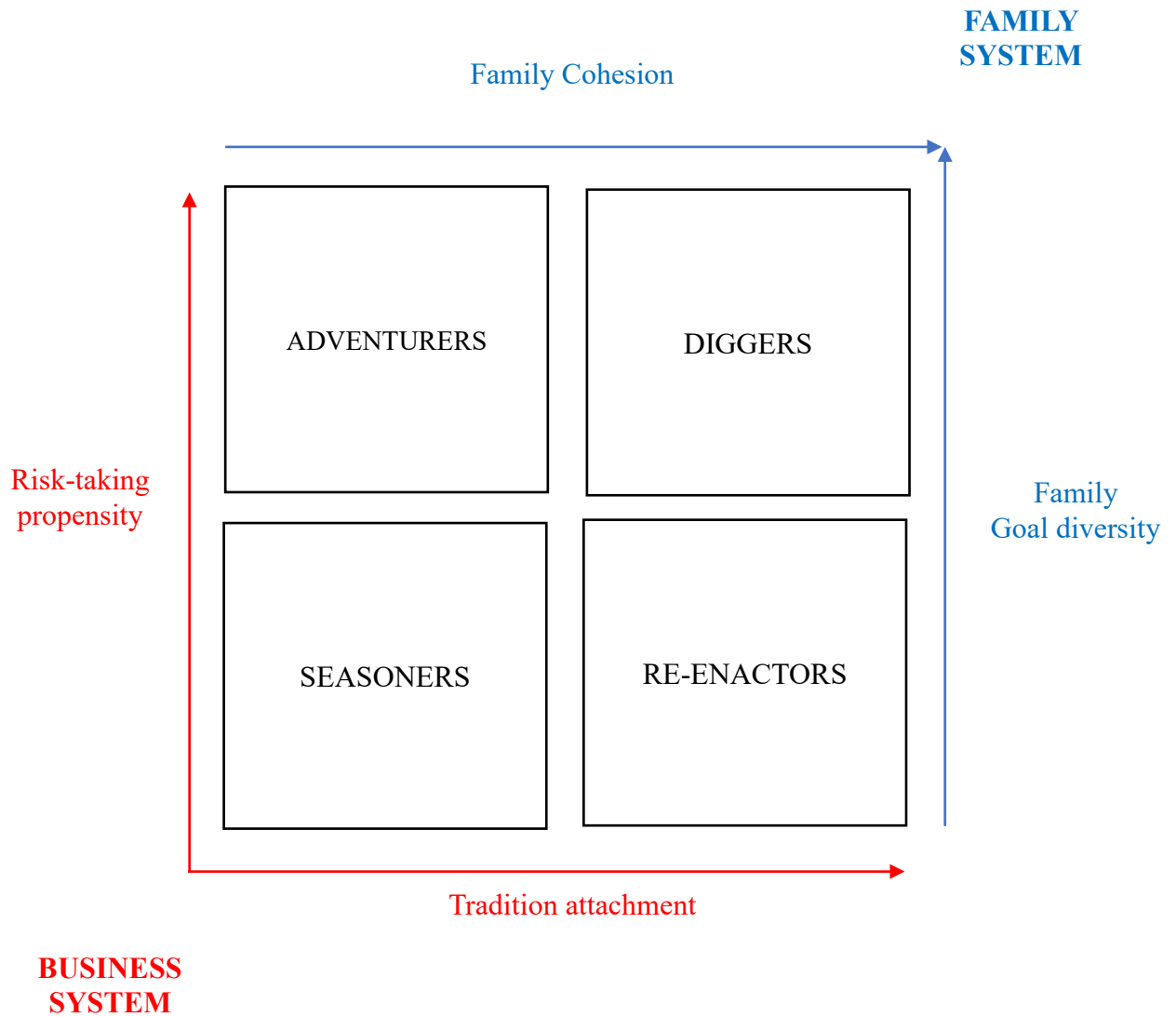


TABLE 1- Assessment tool for business and family system

*****NOTE FOR Familybusiness.org*** This table should become a dynamic assessment tool. First, like a survey, it automatically computes the results for the business system identifying an actual family business innovation posture. Second it identifies a suggested suitable innovation posture that would be coherent with the family system. Third, it analyses the fit between the actual family business innovation posture and the suggested suitable innovation posture giving a result of “Fit! You solved the paradox, the innovation potential of your family business is unlocked” if the tests lead to the same assessment. Otherwise: “There is a misfit between the family and business systems, look for opportunities to ensure the fit in the section “Re-establishing the fit between the family and business systems”.**

For each item provide a point from 0 to 5.

| | | 0 | 1 | 2 | 3 | 4 | 5 |
|--|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Business system | <i>Risk-taking propensity</i> | | | | | | |
| | In our family business, we tend to invest in initiatives although we are not 100% sure about the results | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | People in our family firm are encouraged to present new ideas, although still to be tested | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Our family firm supports venture into unknown territory | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | <i>Tradition attachment</i> | | | | | | |
| | In our family business, we continue the business created by the founder | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | The activities of the family firm are attached to the ideas of our golden age | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| During the year we organize events to celebrate our ancestors and to transmit our story to new employees | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Family system | <i>Family goal diversity</i> | | | | | | |
| | In our family, we acknowledge that some targets are more important for some individuals than others | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | As a family, we know each member might have individual goals that can differ from the other’s ones | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | By asking family members to list their 3 most relevant goals, we found low overlaps | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | <i>Family cohesion</i> | | | | | | |

| | | | | | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| In our family, we get along better with people outside our family than inside | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Family members consult other family members on important decisions. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| The degree of closeness between family members is very high | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Scores for the business system:

Risk taking propensity >7.5, tradition attachment >7.5 = Digger

Risk taking propensity <7.5, tradition attachment >7.5 = Re-enactor

Risk taking propensity <7.5, tradition attachment <7.5 = Seasoner

Risk taking propensity >7.5, tradition attachment <7.5 = Adventurer

Scores for the family system:

Family goal diversity >7.5, Family cohesion >7.5 = Digger

Family goal diversity <7.5, Family cohesion >7.5 = Re-enactor

Family goal diversity <7.5, Family cohesion <7.5 = Seasoner

Family goal diversity >7.5, Family cohesion <7.5 = Adventurer