

# **Resources and innovation in family businesses: The Janus-face of family socio-emotional preferences**

**Danny Miller, Mike Wright,  
Isabelle Le Breton-Miller and  
Louise Scholes**

**ERC Research Paper No.34**

**June 2015**

**Resources and innovation in family  
businesses:  
The Janus-face of family  
socio-emotional preferences**

**Danny Miller**

HEC Montréal and University of Alberta  
[danny.miller@hec.ca](mailto:danny.miller@hec.ca)

**Mike Wright**

Imperial College Business School and University of Ghent  
[mike.wright@imperial.ac.uk](mailto:mike.wright@imperial.ac.uk)

**Isabelle Le Breton-Miller**

HEC Montréal and University of Alberta  
[isabelle.lebreton@hec.ca](mailto:isabelle.lebreton@hec.ca)

**Louise Scholes**

Durham University Business School  
[louise.scholes@durham.ac.uk](mailto:louise.scholes@durham.ac.uk)

The Enterprise Research Centre is an independent research centre which focusses on SME growth and productivity. ERC is a partnership between Warwick Business School, Aston Business School, Imperial College Business School, Strathclyde Business School and Birmingham Business School. The Centre is funded by the Economic and Social Research Council (ESRC); the Department for Business, Innovation & Skills (BIS); Innovate UK; and, through the British Bankers Association (BBA), by the Royal Bank of Scotland PLC; HSBC Bank PLC; Barclays Bank PLC and Lloyds Bank PLC. The support of the funders is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of the funders.

## **ABSTRACT**

Family business socioemotional preferences are often Janus-faced: Some strive to create a strong business they can pass on to offspring by building innovation-promoting resources such as human, relational and financial capital. Other family firms cater to family desires for unqualified nepotism, altruism towards undeserving kin, and appropriation of firm assets to fulfill parochial desires that erode these resources. We explore how some such preferences, together with their impact on resources and the innovation demands of their markets, shape the approach to innovation.

**CONTENTS**

**ABSTRACT ..... 3**

**INTRODUCTION..... 5**

**A TYPOLOGY OF FAMILY BUSINESS INNOVATION .... 5**

**Quadrant 1: Entrepreneurial innovators ..... 11**

**Quadrant 2: Conservative innovators ..... 11**

**Quadrant 3: Tardy innovators ..... 13**

**Quadrant 4: Turnarounds – successful and not..... 17**

**DISCUSSION..... 18**

**CHALLENGES AND LESSONS FOR MANAGERS..... 22**

**Conditions for Innovation and Family Resources..... 23**

**10 Constructive Steps ..... 25**

**APPENDIX..... 30**

**REFERENCES..... 33**

## INTRODUCTION

Family businesses are a diverse collection of organizations. Yet most are distinguished by their socio-emotional preferences – namely, non-economic objectives that cater to family desires such as keeping the firm in the family, providing jobs for kin, and establishing reputation in the community. Such preferences are Janus-faced however: some build resources that facilitate innovation, others do exactly the opposite. For example, family firms that wish to create a robust business to pass on to their relatives have unusually long investment time horizons and are willing to sacrifice in the present in order to develop human resources, relationships with stakeholders, and financial reserves. These resources and motivations can promote and facilitate innovation. On the other hand, other family firms embrace socioemotional objectives such as family-directed altruism, perquisites and jobs for incompetent family members, the use of business resources for personal purposes, and the entrenchment of undeserving family executives. These preferences and practices erode human, relational and financial resources, and stifle innovation.

We show that some businesses succeed over the long run via innovations that exploit the resource advantages arising out of some family preferences, whereas others falter because of their attachment to resource-eroding, innovation-killing family practices<sup>1</sup>, particularly in volatile environments. The cases we present illustrate these scenarios and enable us to extract lessons for family firms wishing to sustain their competitiveness. The rationale for the case selection and the sources of data are described in the Appendix.

## A TYPOLOGY OF FAMILY BUSINESS INNOVATION

Our proposed framework juxtaposes the non-financial or “socioemotional wealth” (SEW) goals of family businesses with the level of innovation needed to compete effectively in the different sectors in which they operate. Some family business owners are preoccupied with including

## Resources and innovation in family businesses

---

family members in the firm, using resources for parochial family purposes, and bequeathing the company to offspring<sup>2</sup>. They use the firm to propagate family-centric interests, and are risk averse. That can hinder their ability to innovate which might deny opportunities to the next generation<sup>3</sup> by threatening firm survival. At the other extreme the family may desire to build a robust business: they invest in the firm and its stakeholders, and build the social and human capital resources that enable them to innovate and thrive<sup>4</sup>. This allows them to keep the firm in the family for generations to come.

We dichotomize these SEW objectives as “feeding parochial family desires” and “creating an evergreen organization”. The former is family-centric in its objectives, and caters to the personal interests, emotions and legacies of the family. It may encompass nepotism and managerial entrenchment, and using business resources simply to fulfill family preferences – for jobs, perquisites, and kinship harmony<sup>5</sup>. That orientation often robs a firm of the resources needed to innovate.

By contrast, the objective to create an evergreen organization is far more encompassing as it is aimed, ultimately, at building a healthy, enduring business. That will require investing in a broader array of stakeholders and resources that can support innovation – talented employees, social and financial capital, relationships with external parties, and effective governance mechanisms. These two rather different types of SEW objectives will tend to be mutually exclusive. Certainly, these are not the only SEW objective a family may have: considerations of community contribution, family reputation, social status and the like may also be relevant<sup>6</sup>. We have focused on the family desires and evergreen polarities as these connect especially directly to the issues of family firm innovation.

Strategic environments can be characterized as high or low velocity. A high velocity environment is unstable; one of rapid, disruptive change. Such changes may arise in the technologies of the industry, the nature and degree of competition, and in patterns and preferences in customer

## Resources and innovation in family businesses

---

demand. An environment of low velocity is more stable and evolves more predictably and in a less threatening fashion. In high velocity environments, entrepreneurs and managers must be flexible, adaptable and innovative<sup>7</sup>. Although family businesses are often portrayed as competing in mature, low innovation markets, many do operate in turbulent and competitive sectors that demand significant innovation in products, markets and processes. Again, for expositional purposes, we dichotomize family business markets as high versus low velocity, each of which requires a different set of resources and capabilities with which to compete and innovate<sup>8</sup>.

These resources and capabilities concern firstly, the innovative expertise embodied in the family firm's human capital, an asset some family firms have unusual access to due to family emotional commitment to the company and its staff, and a willingness on the part of family members to work with initiative and devotion for little compensation<sup>9</sup>. Second, is the social capital derived from enduring family business' personal networks that help facilitate innovation<sup>10</sup>. Some families build especially strong ties with stakeholders because of their long time horizons, which make them generous and responsive business partners. Third, many family firms are known for their patient financial capital – which may be needed given the risks and lags in revenue generation entailed by many innovations. Finally, some family businesses may shine at minimizing agency costs and establishing effective governance mechanisms because incentives are aligned both among family owners and between family owners and managers<sup>11</sup>. All of these potential resource advantages provide the wherewithal to endow firms with superior innovation capabilities<sup>12</sup>. However, the degree to which such resources are abundant relies on the intention among some family owners and managers to create an evergreen organization.

Unfortunately, although some family firms possess such resource advantages, others, with more family-centric, parochial and conservative preferences suffer resource *disadvantages*. Preferences such as nepotism

## Resources and innovation in family businesses

---

may rob a firm of managerial talent<sup>13</sup> and parental altruism may cause undeserving family employees to shirk their managerial and stewardship responsibilities<sup>14</sup>. A desire for family perquisites from the business may drain capital needed for innovation, as would the financial conservatism stemming from a reluctance to jeopardize family control by issuing debt or equity<sup>15</sup>. Moreover, cronyism born of some kinship and family ties may constrain the broader network of talent and the knowledge resources required for innovation. Family firms confronting such resource disadvantages tend to innovate too little and too late. And a lack of innovation in a high velocity market will lead to performance difficulties. Even where such difficulties trigger a belated innovative initiative to keep a viable firm in the family, the shortage of resources may doom the project.

Our SEW and environmental dichotomies allow us to differentiate four distinct approaches to innovation by family businesses, their resource implications, and the outcomes expected. These are illustrated in Figure 1. Our framework highlights the resources that family firms in each quadrant typically lack or have in abundance and which give rise to special innovation advantages or disadvantages. We develop this framework in the pages that follow.

The evergreen objective aims to provide a robust long term future for the family in the business, and perhaps even to make a social contribution. Our firms in Quadrants 1 and 2 are motivated by that purpose. By contrast, the objective of catering to parochial family desires and maintaining risk-avoiding tradition constitutes maintaining family control, meeting personal perquisites, sacrificing firm resources to achieve family peace, engaging in nepotism, and installing managers in entrenched positions. Those priorities are reflected in Quadrants 3 and 4.



## Resources and innovation in family businesses

**Figure 1: Innovation and family SEW objectives**

| Strategic Environment | SEW Objectives   |  |
|-----------------------|--|--|
|                       | Creating an evergreen organization   | Feeding parochial family desires   |
| High velocity         | <p><b>Quadrant 1: Entrepreneurial Innovator</b><br/>Inculcate innovation as part of the inter-generational culture</p> <p><b>Resources:</b><br/><i>Human:</i><br/> <ul style="list-style-type: none"> <li>. long term investments in people (family and non-family)</li> <li>. cohesive corporate culture</li> <li>. ample mentorship by previous generation</li> </ul> </p> <p><i>Social:</i><br/> <ul style="list-style-type: none"> <li>. long term relationships and networks established with resource-suppliers and distributors</li> </ul> </p> <p><i>Finance:</i><br/> <ul style="list-style-type: none"> <li>. cautious financial management to build war chest to fund innovation</li> <li>. longer term innovation projects than rivals (patient capital);</li> </ul> </p> <p><i>Governance:</i><br/> <ul style="list-style-type: none"> <li>. assiduous stewardship over intangible assets</li> <li>. focused board to ensure innovative ethos maintained</li> </ul> </p> <p><b>Case example: Corning, Maison Louis Latour</b></p> | <p><b>Quadrant 4: Turnarounds</b><br/>Failure to keep up with innovation means that when it eventually occurs it is necessary to turnaround the company with too few resources. Innovation can't exist in isolation and badly handled succession can impact on an otherwise innovative firm</p>  |
|                       |  | <p><b>Quadrant 4a: Pre-turnaround</b></p> <p><b>Resources:</b><br/><i>Human:</i><br/> <ul style="list-style-type: none"> <li>. First generation innovative but lack of planning over departure loses</li> <li>. innovative human resource</li> <li>. next generation sleepy or incompetent to innovate (nepotism, entrenchment) or absent</li> </ul> </p> <p><i>Social:</i><br/> <ul style="list-style-type: none"> <li>. lack of maintenance of existing social networks</li> <li>. failure to build new social networks</li> </ul> </p> <p><i>Finance:</i><br/> <ul style="list-style-type: none"> <li>. lack of innovation erodes profitability and funding for innovation</li> <li>. lack of financial control over innovation.</li> </ul> </p> <p><i>Governance:</i><br/> <ul style="list-style-type: none"> <li>. family politics leading to stagnation</li> <li>. Lack of formal board with outside directors</li> </ul> </p> |

Resources and innovation in family businesses

**Figure 1: Innovation and family SEW objectives (continued)**

|                            |   |  |
|----------------------------|---|--|
| <p><b>Low velocity</b></p> | <p><b>Quadrant 2: Conservative Innovators</b><br/>Diversifying innovation ring-fenced as a subsidiary within the group. Balanced approach to innovation</p> <p><b>Resources:</b><br/><b>Human:</b><br/>. “kids” interested and capable of starting new and innovative venture<br/>. apprenticeships and training encourage children of non-family employees to get involvement from an early stage to maintain family culture.</p> <p><b>Social:</b><br/>. existing social capital may be of limited relevance for new activity<br/>. Networking difficult due to intense competition for IP</p> <p><b>Finance:</b><br/>. Conservative parent firm preserves capital from a cash cow business and stays safe from bankruptcy, also provides slack to fund innovation.</p> <p><b>Governance:</b><br/>. parent risk insulated through separate subsidiary<br/>. parent family board involvement in innovating new subsidiary may provide monitoring but constrain innovation</p> <p><b>Case examples: Wates Group; HMG Paints</b></p> | <p><b>Quadrant 3: Tardy Innovators</b><br/>Hyper-conservatism<br/>Too little innovation</p> <p><b>Resources:</b><br/><b>Human:</b><br/>. nepotism and selection from too small a management pool</p> <p><b>Social:</b><br/>. stick with existing, longstanding networks</p> <p><b>Finance:</b><br/>. appropriation of assets by greedy family members</p> <p><b>Governance:</b><br/>. family conflict<br/>. abandonment of long-term view<br/>. entrenchment</p> <p><b>Case examples: Eaton’s (Canada)</b></p> |
|----------------------------|---|--|

## Resources and innovation in family businesses

---

### Quadrant 1: Entrepreneurial innovators

Family businesses in Quadrant 1 embrace innovation in a high velocity environment. They inculcate innovation as part of an inter-generational culture in order to create an evergreen organization. Succeeding family generations are mentored, often from early life, to become enthusiastic about and capable at progressive approaches to continual product-market innovation. These businesses frequently have an advantage in developing resources that facilitate innovation: these include a long term perspective that induces them to invest in enduring relationships with internal and external stakeholders, to contribute patient capital, and to forego quick returns. Most successful companies in this quadrant develop enduring associations and solid networks with resource-suppliers and distributors who can facilitate and adapt to innovation. Their patient capital, typically provided by family members, enables them to undertake innovation projects with longer payoff periods than rivals are willing to accept. Their cautious financial management builds war chests to fund innovations internally that might otherwise be risky in an uncertain environment with its inevitable challenges and unexpected roadblocks. Such reserves may be especially critical to *family* businesses, which often are reluctant to dilute control by seeking outside funding. Internal funding and authoritative decision making by family leaders allow innovation projects to be decided upon swiftly, and with less comprehensive data. At the same time, concern for evergreen objectives such as family reputation exerts extra pressure on some firms, in the course of their innovation initiatives, to exercise assiduous stewardship over company image, quality of offerings, and ongoing relationships with stakeholders.

The examples of Corning and Maison Louis Latour are illustrative of highly successful entrepreneurial innovators (see Appendix table). *Corning* has been producing glass related products for well over a century. Founded and for much of its history controlled and managed by members of the Houghton family, Corning has led its industry in innovation almost since its inception. It created the first radio tubes for Marconi, the first television

## Resources and innovation in family businesses

---

picture tubes for General Sarnoff at RCA, the first heat resistant Pyrex glass, the first fiber optic cable, and numerous special types of glass for computer digital devices. The family's objective was to remain forever at the forefront of the industry in which it operated, consistently investing in projects with very long term payoff horizons, while being cautious to fund these bold ventures with its older, cash cow products. The family was deeply embedded in the community of Corning, New York, where its civic contributions are legendary. For example, after a catastrophic flood, Corning helped to rebuild the entire town and kept staff on the payroll even while its plants were idle. Employee turnover was extremely low and promotion from the inside was the norm. Corning also excelled at forming very long term partnerships, some of many decades duration, with inventive firms with which it engaged in its projects of innovation, some of which could help in the design and production of complex devices. In short, at Corning human, social, and financial capital born of family values and discipline helped to create an innovation success story and a firm that has, despite some serious bumps, proved to be evergreen.<sup>16</sup>

*Maison Louis Latour* is an eleventh generation wine producer based in the Burgundy region of France, with the current CEO being the seventh Louis Latour. The firm has inculcated innovation over multiple generations. A family culture of stewardship assures that the business will be innovative throughout successive tenures, and will be in a position to bequeath a robust organization to future generations. The current CEO and his father have taken the initiative to expand from the traditional Burgundy region and acquire vineyards elsewhere in France, for example, in less fashionable Ardeche, Var, Chablis and Beaujolais. They also have pioneered varietal wines, which are quite new to France. In Var they are developing a quality Pinot Noir styled as a Burgundy but with more stable costs of production compared to the Burgundy Pinot Noir. Maison Louis Latour makes use of both human and social capital resources in the newer regions in which it operates. In Ardèche, as in the Var, they develop relationships through long term and comprehensive contracts with local growers. In Chablis and Beaujolais they are working with local growers to build the reputation of

## Resources and innovation in family businesses

---

certain domains as quality wine producers. Maison Louis Latour does not always purchase the land itself but forms partnerships with skilled local growers to create a balance of power with the growers. This avoidance of takeovers reduces the financial demands needed to fund expansion. Latour has also evolved long term partnerships with other family businesses, such as the fourth generation wine freighting company Porter and Laker, who have developed innovative ways to transport wine in bulk. The father of its current CEO is the president of Latour.

Latour's governance policy dictates that the previous generation act as shareholders, while the current CEO reports to them during the first ten years of tenure to ensure that the two generations run the company together and reinforce the innovative ethos. Subject to the requirement of competency and a desire to take the reins, the business is typically passed from father to eldest son without involving brothers and sisters in the business, although they may be equal shareholders. That policy prevents sibling battles that might detract from the company's ethos. According to the current CEO: *"The biggest advantage of having only one family member [in charge] is that you are in a position to hire the best people that you can. When you start to have a lot of family members it is difficult to have [talent] from outside to come in. Because I was the only one, and my father was the only one, it [helped] attract the best [and most innovative] people in the wine industry in Burgundy".* Unitary family leadership also enables the courageous decision making required for bold innovations. As the Marketing Director of Latour's partner, Taylor-Wakefield expressed it *"There is a healthy willingness to discuss and to investigate and make a fast decision on whether [we are] going to do something or not ... without having to have it proved in endless research."*

### **Quadrant 2: Conservative innovators**

Family businesses in Quadrant 2 (Q2) also strive to create an evergreen venture, but operate in low velocity environments. Often, to achieve that objective, they seek to move beyond their sometimes limiting, slow growth

## Resources and innovation in family businesses

---

domains into more thriving, sometimes more competitive, market sectors, typically by setting up a financially independent subsidiary to undertake the boldest and riskiest renewal projects. Family may also use the new venture to fill positions for young, inexperienced family members who are motivated to innovate, and, importantly, to insulate the family reputation and the old business from the risks associated jeopardizing the firm as a whole. For example, Q2 firms may protect their core business by establishing arms-length subsidiaries in which the next generation plays a key innovative role<sup>17</sup>. If the subsidiary turns out not to be profitable and has to be shut down, this can happen without capital, war chests, and a long-term orientation towards relationships – also apply here in Q2. The capital from the cash cow business of the parent may protect the subsidiary from financial distress and fund innovation. Typically, family officers involved in the parent may serve on the board of the new venture. A potential downside of such involvement is that although it may provide useful counsel, it may also constrain innovation. Moreover, the social capital of the parent may be of limited relevance for the new subsidiary, so attempts to build new networks may be difficult.

The examples of HMG Paints and Wates Group are illustrative of successful risk averse innovators (see Appendix table). *HMG Paints* is a third generation family business based in the UK. The company operates in a location and sector where many volume paint manufacturers have been squeezed out by low cost foreign producers, and it competes mostly through moderate product and process innovation in the specialty paints segment of the market. Product innovations include biocidal antifouling for boats, flexible paint for commercial truck sides, PVC finishes for architectural coatings, temporary grass markings for sports grounds, and anti-graffiti coatings for buildings. The fourth generation is currently developing an online marketing business to bring the firm's products to a wider consumer audience. Apprenticeships encourage children of non-family employees to be involved from an early stage to maintain the family culture; they also reduce outsider domination. The company boosts its reputation by supporting local community enterprises. Networking with

## Resources and innovation in family businesses

---

other producers is difficult as competition for intellectual property is fierce in some slow moving sectors. Rather, social capital is mainly focused on that derived from close networks with distributors, some of them other family firms. The company refuses to recruit outside non-executive directors to avoid constraints that might compromise innovative initiatives.

According to the CEO “our modus operandi is to pursue a sort of organic growth within the core business and to be carrying out a few “outer edge” projects that could be very big, very exciting or crash and burn!” Some of these new initiatives have been ring-fenced to protect the core activities. For example, whereas the brother of the current CEO is on the board of HMG, he has also established a separate spin-off business in the chemicals sector, Byotrol, which is now listed on the secondary tier stock market, the Alternative Investment Market. This arrangement avoids exposing the parent company to the unusual risks involved in Byotrol. According to entrepreneur Stephen Falder, (brother of HMG CEO John Falder), “*Faced with a family business that’s got stability, security, don’t bet the farm... so [in Byotrol] we have a small PLC which is completely divorced [from HMG and] a listed company the Falder family owns 7% of....Yes spun it out, the right thing to do with innovation*”. Thus, in effect, a conservative family has isolated its bolder innovation initiatives in a separate business – preserving security for the main company, and providing the family with opportunities for riskier rich innovative initiatives in a growing niche of the chemicals sector. As the CEO stated “..the future of 170 people and their families is at stake in making the right choices”.

The *Wates Group*, one of the largest construction groups in the UK, has also developed innovative activities, often involving the next generation, which are ring-fenced in innovative subsidiaries. The company has diversified into sectors such as residential development, housing, education, local authority work, heritage projects, responsive maintenance, and retail and interiors. Family owners position themselves as professional stewards who ensure that from the CEO on down, the business will be focused on attracting the very best talent and being around for the long



## Resources and innovation in family businesses

---

term: as they proclaim on their website: “[Our] values, long term vision and financial independence have enabled us to thrive throughout the economic ups and downs of more than a century”.

Wates’ approach to supply chain management is to work in partnership and form strategic alliances with a few like-minded sub-contractors with whom they have been working for many decades, in part cemented by family connections. This has produced a strong track record in shortened delivery times, improving standards in health and safety, superior quality, more effective processes, cost savings and reliability. As a family-owned business, Wates demonstrates unusual respect for its people, communities and the environment, embedded and celebrated as values in the rituals of the organization. It has a strong social ethos and long record of philanthropy, making deep, long lasting connections within communities through its Building Futures program supporting the long term unemployed, and via low carbon sustainability programs. The company maintains a strong financial base with superior levels of liquidity, a commitment to long term investment, and rigorous financial management. Its financial stability is underpinned by a diversified portfolio of operations which help insulate it from the macroeconomic challenges of the construction sector.

The Wates Board reinforces its emphasis on external relationships and innovation. It consists of the Chairman, Chief Executive, Chief Financial Officer, Chief Operations Officer, four Family Directors and three independent Non-Executive Directors. This keeps the firm open to outside perspectives for renewal and opportunity and avoids family parochialism. The board also is committed to achieving the highest standards of corporate governance, conducting its business responsibly, and in accordance with all laws and regulations to which Wates’ business activities are subject. It delegates authority for all day to day management of the Group’s activities to the Executive Committee which consists of Directors responsible for the strategic business units and key functions.



## Resources and innovation in family businesses

---

### **Quadrant 3: Tardy innovators**

Family businesses in Quadrant 3 resist change and innovate relatively little. Their operating in low velocity environments often allows them for many years to maintain family traditions and legacy strategies. Thus SEW objectives often take the form of providing jobs and perquisites for relatives, and are family- rather than business-centric. A penchant for nepotism causes managers to be drawn from too small and shallow a pool of talent. Although these firms tend to stick with long-standing networks, they are too often inward looking, subject to cronyism, and inflexible. Family shareholders not running the business may appropriate assets so that funds for renewal are lacking for strategic initiatives and long term investments. Such problems may be exacerbated by family conflicts, especially where those in charge are reluctant to prune unproductive members. Where the firm is large and established and enjoys preferential relationships with stakeholders, a lack of competition can enable these firms to survive for quite a long time. Ultimately, however, they do tend to founder.

The example of Eaton's is illustrative of this dearth of innovation (see Appendix table). *Eaton's* was a century old Canadian dry goods department store that operated in major cities across the country. Owned and mostly run by members of Toronto's Eaton family, the firm was known for its judicious selection of quality goods, middle range prices, excellent service (satisfaction or money refunded, and home delivery of merchandise when those were rare policies). The firm grew to substantial size and the family became wealthy members of the Canadian "commercial aristocracy". By the 1980s, however, the velocity of the environment changed. Eaton's, began to be squeezed from below by discount merchandisers and from above by luxury department stores catering to a growing wealthier class. At the same time, the company had begun to rest on its laurels, allowing some of its stores to become stodgy, its famed service ethos to erode, and its selection of merchandise to be perceived as quaint and passé, in part because its information systems were behind the times and because the

## Resources and innovation in family businesses

---

later generations of the family had become complacent. Innovation in store design and merchandising was nowhere to be found. The family, it seemed, had become less interested in the business and more interested in the rewards it produced for them. Family centric preferences had begun to override the needs of the business, in the process eroding human, reputational and financial capital. Margins began to decline. We shall return to the fate of Eaton's in the next section.

### **Quadrant 4: Turnarounds – successful and not**

Firms in Quadrant 4 have similar family-centric SEW objectives to those in Q3, which are especially damaging – usually fatal -- in these high velocity environments. Thus a scenario most relevant to this quadrant is that of the failure or turnaround. Sometimes the history of these companies is one of an entrepreneurial founder failing to provide the next generation with the attitudes and skills needed to innovate. The departure of that person leaves the firm without the talent or motivation to renew the company. The result is that the business needs to be turned around by the reassertion of an innovative ethos, either through re-entry by the founder, or via the recruitment of competent new executives from within or outside the family. Quadrants 4a and 4b relate to unsuccessful and successful turnarounds, respectively, and we shall deal with them in turn.

Turnarounds can be risky, especially when a firm lacks a talented family successor. Bringing in outside managers, or unsuited family members, during a leadership vacuum may sacrifice the benefits of the longer term family investment perspective, and evoke a short term orientation focused on quick results. As we shall see, this departure from a family's traditional approach can lead to inefficiencies and excessive costs. Moreover, a failure to maintain business and family relationships and build new ones may deprive the firm of useful innovation partners. In what is a vicious circle, a lack of effective innovation ultimately erodes profitability and thus funding for future innovation. This problem is exacerbated where financial control systems have not been established or governance is weak. Finally,

## Resources and innovation in family businesses

---

conflict and family politics triggered by the crisis may plague the board, as may the arrival of an unskilled new generation.

A continuation of the Eaton's story from above exemplifies such a risky turnaround. At Eaton's the passing of the old generation and the unwillingness of the more talented family members to take part in the business left the firm in hands of an inexperienced and whimsical scion of the family – a former race-car driver. More interested in his hobbies than in the business, George Eaton hired a slew of consultants to help renew the company. But he lacked the talent to know which advice to take and the dedication and know-how to implement a coherent revitalization program: The result was a very incomplete grafting of new ideas onto an old ideology and infrastructure. Eaton's implemented an "everyday low price" policy that precluded the profitable discount sales which enabled the store to recoup its investments on merchandise that did not sell well -- an inevitability in fashion goods industries. Eaton's also created some "prestige" outlets to compete against higher end competitors – but it did so in a half-hearted way and located the stores in less affluent neighborhoods, thus failing to attract wealthy customers and also alienating traditional clientele. Customers no longer knew what to expect in pricing, merchandise selection, or décor and layouts, which now varied from store to store. Eaton's had lost its identity, and its clients. Due to the absence of managerial resources, a demotivated workforce, and an ever more precarious balance sheet, the turnaround effort failed and the firm declared bankruptcy.

Contrast this experience with the successful turnaround dynamics exhibited by Linn (Quadrant 4b). Linn is a manufacturer of high end music systems for the home, operating within a very competitive and innovative sector. The firm was highly successful in developing novel products under the founder (Quadrant 1) but then lost its way when the founder became ill in 2003 such that by February 2007, the need to change had become imperative as the company had slipped into Quadrant 4. After 2003 there had been two succession attempts that were not successful. Succession

## Resources and innovation in family businesses

---

attempt 1 (2003-5) involved giving non-family senior managers control of their own divisions but this ultimately led to a somewhat fragmented organization. Succession attempt 2 (2005-7) involved the appointment of a non-family CEO from inside the company, but by February 2007 the bank refused to extend the company's overdraft or support the CEO. The company was carrying debt which suddenly became unacceptable for its bank, partly due to the 2007 recession. The bank then appointed a turnaround specialist in 2007, the company doctor, who worked with the founder to restore the company to financial health. The turnaround was completed by 2009. The son of the founder had been working in the business since 2003 as R&D director and was appointed CEO in 2009 once the turnaround had been completed and the debt had been paid off (succession attempt 3). The son was at the forefront of the turnaround effort and designed a new technology platform which was launched in August 2007. This platform addressed the growing customer demand for streaming music from hard drives and the internet. It delivered higher performance and quality than any other product on the market and thus allowed Linn to establish a leading position in their industry, which they have since retained. The new platform therefore played a significant part in the turnaround, offering something highly innovative to the market, and helping Linn to repay the bank. *"I had a very clear understanding of the kind of company he [father] wants Linn to be [more innovative] ... and was clear of what I needed to do"*. The turnaround thus *"restored the company back to my father's original vision"*. According to the current CEO the non-family managers involved in the two previous succession attempts *"were just doing what they thought was the right way to grow the company and they maybe didn't share the same values [as those that are] much more attributable to owner-managed family businesses"* and *"The company was not in shape, innovation had not progressed at the rate it ought to have done in those intervening years [since 2003]*.

Governance at Linn was altered in the process of each succession attempt. The founder created the group structure in 2003 (phase 1) and the board at that time consisted, in essence, of the most senior people in the company.

## Resources and innovation in family businesses

---

When the non-family CEO was appointed in 2005 (phase 2), the board became a formal 'family' board made up of family members and the non-family CEO. This board did not support the management adequately as its objectives tended to be dominated by family objectives. In 2009 (phase 3), under the son and current CEO and after the turnaround, Linn transitioned from a family board to a professional board where a more effective, objective, governing body was established, with three non-family outside directors selected because of their experience: a turnaround specialist (operations), a marketing consultant (marketing) and a chief technology officer from one of the suppliers (technology). In other words, the outside directors covered the three main areas of the business. The current Linn board now has significant independence, more balanced objectives and extensive business experience. Many of the board own Linn products so they understand and support the company's innovative culture. *"What we have today is a board that ...challenge but they support, they're an effective way of formalising the relationship between me and my father."*

The current CEO states about Linn's innovation process that *"if your values are clear then everybody can understand...innovation is continuous...a lot of our innovation is grass roots... because the engineers/everyone can understand the company values therefore that allows the engineers to innovate from a grass roots level"*. Moreover, the new management is in the process of successfully aligning opportunities with the emerging innovative capabilities. *"[capabilities] they're always growing.... we're building on them ...adding capability all the time"*. Financial resources are sometimes ring fenced for new business ideas, some of which have their own 3/5 year plan. The renewed presence of family technical and managerial talent, combined with good governance, and continuous innovations, has helped to get the company back to Quadrant 1 where it was in 2003, before the founder became ill. Linn remains today one of the most innovative companies in its industry.

## DISCUSSION

Certainly, firms are by no means “stuck” within any of our quadrants. The altering influence of family and the changes in leadership as different family members get involved may be important sources of transition. Eaton’s was never the same in its approach to strategy and innovation after its last succession in family leadership. Linn moved from a creative approach with its founder (Quadrant1) to a troubled situation after several failed succession attempts, financial problems and weak governance (Quadrant 4a). The company finally resolved its problems with the help of a turnaround specialist, several product introductions, and a new family successor (Quadrant 4b) and is now firmly back in Quadrant 1. Another source of transition may be the changing environment such that an older approach no longer works and there develops a mismatch between family governance and the demands of the market, as was the case at Linn. In other words, our quadrants represent common configurations rather than fixed boundaries<sup>18</sup>.

It is important, moreover, to recognize that families can be as different as their socio-demographic characteristics and the personalities of their members. As such it is dangerous to postulate any one influence of families on innovation. For example, where there are numerous family members who share power but cannot get along because of childhood or parental friction, then concerted innovative action may be very difficult. Similarly, where an incompetent successor takes over simply because that person is a favorite child of the founder, that too augurs poorly for the success of the innovative effort. In short, the human element of the family looms large in these businesses, and so often the very best clues as to their innovative potential lies not so much in a firm’s systems and structures, but in the talents, motivations and interactions of the family members involved. These familial factors shape the SEW priorities that we have highlighted, along with the nature of the resources they enable or inhibit. Indeed, we see from our examples how family SEW priorities are by no means uniform: those concerned with longevity and a multiplicity of

## Resources and innovation in family businesses

---

stakeholders act for the benefit of innovative family businesses, while the more parochial family-centered priorities can hobble innovation.

## **CHALLENGES AND LESSONS FOR MANAGERS**

For expositional purposes we have simplified the array of choices facing family firms and their innovative missions in order to emphasize the Janus-face of family SEW preferences. For example, we have shown how family preferences regarding nepotism despite successor incompetence (the Eaton's example) can impede innovation, whereas an emphasis on family traditions of quality and pioneering can serve to enhance innovative efforts (the Linn example). It remains important to ask what family businesses must do – and what must they avoid doing – in order to choose the right side of this dichotomy?

Our analysis suggests that above all it is vital for them to embrace an attitude of stewardship. One family CEO told us he viewed the business not as something he owned, but as a precious asset of which he was the caretaker. He saw his job as keeping the business healthy for the benefit of later generations and the larger community. But given the inevitable changes in his business environment he stated that innovation was a necessity, not an option, in order for the business to remain evergreen. Clearly, family principals must foster stewardship to develop resources in which family firms have an advantage, and which bestow superior innovation capability.

At the same time, family firms must avoid the pitfalls of hyper-conservatism -- governance structures that sap resources, spoiling family members, and favoring nepotism – especially where the managerial task is complex. For example, as suggested by the case of Latour, a desire to continue father-to-son succession can work well only if the son is appropriately motivated and competent at innovation. Other enemies to innovation include glass ceilings for non-family managers, resistance to change, intolerant cultures, and personal loyalties that mire firms in old technologies and inappropriate



## Resources and innovation in family businesses

---

locations.

Our analysis enables us to draw some general lessons regarding the different resource configurations that need to be developed to sustain innovation, contingent on the environment in which the family business operates.

Family firms seeking to develop evergreen innovative family businesses in high velocity environments need to make long term investments in family and non-family human capital involving the development of a cohesive corporate culture and ample mentorship by the previous generation, establish long term relationships and networks with resource-suppliers and distributors, prudently manage finances to build a war chest to fund longer term innovation, and build a focused board to ensure that the innovative ethos is maintained.

Family firms seeking to develop evergreen innovative family businesses in low velocity environments need to make long term investments in the next family generation interested in and capable of starting new and innovative ventures, develop mechanisms to involve the next generation of non-family employees to maintain the family culture; build new social capital to enter new innovative areas, utilize capital from cash cow businesses to fund innovation, and perhaps insulate risk to the parent by conducting innovation through a separate subsidiary with a board that provides monitoring but does not constrain innovation<sup>19</sup>.

In short, it will be necessary for the family to distinguish among those socioemotional preferences and objectives that spawn the creation of resources needed to ensure innovation, evergreen survival and superior relationships with stakeholders, and those oriented towards parochial family benefits that curtail resource-building, curb innovation, and threaten long-term survival.



## Resources and innovation in family businesses

---

### Conditions for Innovation and Family Resources

Effective organizational action -- innovation in products, markets and processes included<sup>20</sup> -- can only take place when three conditions are present jointly: *awareness* of the need to act, the *motivation* to undertake the action, and the *capability* to act effectively.<sup>21</sup> Family resource advantages play a role in either facilitating or impeding each of these conditions. For example, awareness of opportunities and shortcomings that suggest the need for innovation may be enhanced via strong relationships that families build with partner organizations or key clients. Social capital and trust may strengthen those relationships. By the same token, family members' psychological ownership of the firm may provide them with the motivation and incentive to innovate, despite the costs and risks such innovation might entail. Because there are frequently strong personal ties between family members and their employees, some family firms are able to create cultures in which there are powerful reciprocal loyalties among the family and its staff (this was exemplified at HMG Paints). That can create energized and highly productive human capital resources that non-family firm rivals that are more formalized, bureaucratic and impersonal would find difficult to imitate<sup>22</sup>. Finally, the capability to innovate may be enhanced by long term investment horizons, patient capital and loyal stakeholders<sup>23</sup>. In short, the resources which family firms have an advantage in building may all contribute to effective innovation outcomes.

Unfortunately, family resource disadvantages can prevent effective innovation by acting on these three conditions, and this again relates to the more parochial, insular and family centered socioemotional family priorities we have discussed. Awareness may be hobbled when family executives who tend to have long tenures and are entrenched in their jobs for decades grow stale and unresponsive. Motivation may be lacking where later generation family members, often passive owners, wish to draw capital from the enterprise instead of investing it for the future benefit of the business. Family conflict can have a similar effect. Finally, capability to

## Resources and innovation in family businesses

---

innovate may be hobbled by weak managers selected via nepotism and by the extraction of funds from the business by family members who are alienated from the family or the firm.

### 10 Constructive Steps

There are a number of ways a family can facilitate innovation by nurturing the positive resources and avoiding the forces of resource erosion. First, they must foster attitudes favorable to innovation across the generations: to transmit the passion and creativity of many founders to the many who follow them. This not only involves the family members who will take over the company but also other next generation family members who will become influential shareholders. That may be achieved by passing on values and legacies that celebrate innovation and renewal, even beginning in the family hearth, by regularly recalling past achievements in innovation and the courageous quests required, and by encouraging a firm culture of creativity through meritocratic promotion. This may mean that cherished practices involving, say, father-to-eldest son succession may need to be altered if the eldest son in a particular generation does not possess the competences or motivation required for innovation<sup>24</sup>. The process of deciding whether the eldest son is the best potential innovative successor needs to begin early in case alternative candidates need to be identified and mentored. A climate of innovation may also be aided by flat organization structures and excellent cross functional and vertical communications, by welcoming experimentation, and by tolerating errors.

Second, because innovation, especially in more volatile environments, demands significant managerial and often technical and creative human capital, expertise and motivation are essential. This can sometimes be fostered via formal education, having family members garner work experience at innovative firms outside the family company, and by mentoring later generation family members in various roles in the family firm.

## Resources and innovation in family businesses

---

Third, where there is too little innovative talent in the family, it will be essential to hire outside experts, and often to eschew nepotism in high level management positions. Moreover, where, in competitive environments family managers lose touch with the market or become obsolete in their competences, their kinship must not promote entrenchment, and the board must act to replace them. Indeed, as noted, because of the personal nature of family firms and the freedom of family owners and managers to take a long-term view, they may be able to develop enduring win-win relationships with their employees by taking the time to hire very selectively, mentor assiduously, and reward generously. Although the initial costs of such an approach might be significant, the long term benefits may make such “culture-building” worthwhile.

Fourth, it will be useful to develop governance through expertise and independent judgment on boards of directors that is consistent with delivering the kind of innovation needed for firm survival and success. Outside management and board members with innovative experience, or even turnaround experience, may be recruited to provide added expertise and fresh perspectives on market opportunities. There must also be an attitude of commercial objectivity and independence from management such that the board is able to oust poorly performing family members. Boards also will have to be able to evaluate and be willing to approve the significant investments often needed for projects of innovation. At the same time, they will have to have the independence from family politics needed to deny parochial requests from family members that rob the firm of financial resources or saddle it with inferior human capital. Family firms with ‘family boards’ may be able to pre-empt problems by approaching their accountants, lawyers or banks in order to find suitable candidates for their boards<sup>25</sup>.

Fifth, there is a need for innovative family firms to develop networks of long-term partners who share their innovative ethos and who can be adaptive and help co-create innovation. And because innovation is dynamic, board development involving outsiders can also help extend the

## Resources and innovation in family businesses

---

social networks needed to facilitate innovative activity in new areas beyond traditional activities. This makes it especially useful to recruit board members for both their independent expertise and their contacts.

Sixth, decision making and implementation processes must be developed that facilitate innovation compatible with different SEW goals, and which meet the needs of the competitive environment. In other words, it is important to achieve an appropriate match between family objectives and environmental demands. Sometimes a family is so dominant that an ideology of innovation runs rampant and the firm innovates far more than their environment would reward. More likely, they may be entrenched in past ways and innovate too little. Furthermore, the time horizon of family objectives needs to be consistent with the demands of the market if an innovation is to be successful. Too short a time horizon will not allow for the funds, planning, or human resources required for innovation; too long a time horizon may drain firm resources and tax family funds due to the long-delayed payoffs.

Seventh, although we focused for expositional purposes on distinguishing two aspects of SEW goals of particular salience for innovation, in practice there can be a grey area where there are gradations between these poles. Further, SEW-related goals may co-exist with other goals and will probably change over the life-cycle of the firm<sup>26</sup>. The statistic that few family firms are handed down to the grandchildren of the founder is one possible indicator of the changing goals of the family over time<sup>27</sup>. As a result, there is a need for careful negotiation among owners and managers to resolve potential conflicts between goals that may compromise the need for innovation if the family business is to be able to continue to compete effectively or even survive. If conflicting objectives compromise survival it is important for this to be recognized, and acted upon, as soon as possible, and for alternate plans to be set in motion, for example, the possible sale of the company to the management team or to a commercial buyer.

## Resources and innovation in family businesses

---

Eighth, our examples also indicated that the velocity of the competitive environment may change over the life-cycle of the family business. Such changes call forth a need for family businesses to adopt governance and managerial processes that anticipate environmental changes and facilitate requisite changes in resources and capabilities.

Ninth, as illustrated by our contrasting cases, there is a need for prudent financial management. Careful husbanding of financial resources is crucial if the family firm is to reconcile the need to be innovative on the one hand, and maintaining family control of the firm by eschewing external finance on the other.

Finally, it will be essential to introduce mechanisms that ensure that parochial initiatives compromising long term SEW and commercial aspirations will be terminated. All businesses face the problem of abandoning the pet projects of key personnel. In family businesses this may be a particular challenge wherever it uproots family members involved in such activities. Therefore procedures must be in place to redeploy these employees elsewhere in the firm. In short, there is a constant need to be vigilant in reconciling family-centric SEW objectives with the resource and innovation requirements of the business.

It is encouraging that in an age in which short-termism has dominated many non-family firms, the family firm, if managed properly to exploit its preferences and the natural resource advantages they bring, may be an especially productive fount of significant innovation for many decades to come. The framework we have developed provides a new typology of innovation in family businesses based on different goals and environments. It shows that different family goals, in isolation, offer a partial understanding of innovation in family firms. Clearly, environmental velocity is an important moderator of the performance consequences of family firm innovation, and thus family firm goals. All of these factors must be considered in order to have a more complete picture of innovation in family businesses.

## **APPENDIX**

### **Case Data**

We have selected our cases in order to illustrate all of the different segments of our typology and to include firms where information could best be accessed on their histories and teams. We have used multiple and varied sources to collect data on the cases presented. We employed face-to-face interviews, company websites and other secondary sources such as financial and business reports, presentations, press releases, magazine articles and books. For some of our cases, interviews were conducted with both CEOs of the family businesses as well as with other family and non-family members and stakeholders involved in the firms. For those cases, interviews lasted between one and three hours.

## Resources and innovation in family businesses

### APPENDIX

#### Family related innovation resource advantages and shortcomings from our case examples

| Resource Categories | Background   | Human  | Social  | Finance   | Governance  |
|---------------------|--|--|---|---|---|
| Corning             | Founded 1851; glass related products; public; New York, USA  | Productive long term investments in people<br><br>Cohesive corporate culture<br><br>Ample mentorship across the generations                                      | Favorable relationships and networks established with resource-suppliers and distributors<br><br>Family deeply embedded in community  | Cautious financial management to build war chest to fund innovation<br><br>Longer term innovation projects than rivals (patient capital);                   | Assiduous stewardship over intangible assets  |
| Maison Louis Latour | Founded 1797; eleventh generation; wine producer; private; France  | Utilize expertise of local growers in areas they have expanded into.   | Win-win contracts and relationships with distributors and other wine producers<br><br>Long-term partnerships with other family firms  | Ample internal funds<br><br>Economies in innovation by using relationships/contracts in new areas rather than takeovers                                     | Energized family culture of stewardship   |
| Eaton's             | Founded 1869; dry goods department stores; public until bankruptcy Canada; 70,000 employees prior to failure | Older generation owners and managers sleepy and complacent (nepotism, entrenchment) or absent as effective retailing executives                                  | Costly failure to maintain good relationships with clients due to stodgy stores and merchandise<br><br>Increasing discontent among staff who see decline in Eaton's quality image | Lack of innovation and failure to keep up with emerging competition and changing fashions erodes profitability  | Decreasing psychological ownership of the business by the family in charge<br><br>Family politics contributes to stagnation<br><br>Non-family managers favor short term focus |
| Linn During Phase 2 | Founded 1973; now second generation; High end music systems; private; Scotland                               | Two succession plans failed leading to crisis (along with the recession). Company doctor (bank appointed), founder and second generation family restore the firm | Social capital used as a critical part of turnaround to identify turnaround expertise, find NEDs.   | Innovative, but company debt becomes unacceptable to bank during recession<br><br>Turned around by 'external' company doctor with help from new innovations | Lack of formal board or subjective 'family board'<br><br>Turnaround involves setting up a new professional board with more objective NEDs                                     |

## Resources and innovation in family businesses

### Family related innovation resource advantages and shortcomings from our case examples (continued)

|                             |  |   |  |   |   |
|-----------------------------|--|---|--|---|---|
| Wates group                 | Founded 1897; Construction and related sectors; private; UK based but worldwide offices; 2,500 employees     | Inexperienced<br>“kids” interested and capable of starting new and innovative venture   | Long-standing strategic alliances with few like-minded sub-contractors in core area,<br><br>Existing social capital may be of limited relevance for new activity | Conservative parent firm preserves capital from a cash cow business and stays safe from bankruptcy, also provides slack to fund innovation. | Family directors strong presence on main board but includes outside directors<br><br>Parent family board involvement in innovating new subsidiary provides monitoring but constrains innovation<br><br>Parent risk insulated through separate subsidiary/spin-off |
| HMG Paints                  | Founded 1930; Third generation; Speciality paints; private; England  | Apprenticeships encourage children of non-family employees to get involvement from an early stage to maintain family culture.<br><br>Operations board made up of non-family and family employees<br><br>Offspring given challenging projects abroad – new markets | Networking is difficult due to intense competition for IP  | Ample provision of initial finance for new projects/subsidiaries<br><br>Ultimately finance the spin-offs by listing on stock exchange (AIM) | Parent risk insulated through separate subsidiary/spin-off<br><br>No desire to have outside NEDs  |
| Eaton's - During Turnaround | Founded 1869; dry goods department stores; public until bankruptcy Canada; 70,000 employees prior to failure | Inferior family executive enters the firm to try to save the day<br><br>Nepotism and selection from too small a management pool   | Stuck with dated, longstanding networks  | Appropriation of assets by greedy family members  | Abandonment of long-term view<br><br>Executive entrenchment   |



## REFERENCES

<sup>1</sup> Franz Kellermanns, Kimberley Eddleston, Ravi Sarathy, and Fran Murphy, "Innovativeness in Family Firms: A Family Influence Perspective," *Small Business Economics*, 38/1 (2012): 85-101; Andreas König, Nadine Kammerlander, N., and Albrecht Enders, "The Family Innovator's Dilemma: How Family Influence Affects the Adoption of Discontinuous Technologies by Incumbent Firms," *Academy of Management Review*, 38 (2013): 418-441. We focus on risk-avoidance or hyper-conservatism practices by family businesses rather than on traditional practices that may be quite conducive to innovation (Antonio Messeni Petruzzelli, Daniele Rotolo, Daniele and Vito Albino, "The impact of old technologies on innovation: the case of the US biotechnology industry.", *Technology Analysis and Strategic Management*, 24 (5) (2012): 453-466).

<sup>2</sup> Danny Miller, and Isabelle Le Breton-Miller, "Challenge versus Advantage in Family Business," *Strategic Organization*, 1(1) (2003): 127-134.

<sup>3</sup> Nick Wilson, Mike Wright, and Louise Scholes, "Family Business Survival and the Role of Boards," *Entrepreneurship Theory & Practice*, 37 (2013): 1369-1389.

<sup>4</sup> Josip Kotlar, and Alfredo De Massis, "Goal Setting in Family Firms: Goal Diversity, Social Interactions, and Collective Commitment to Family-Centered Goals," *Entrepreneurship Theory & Practice*, 37 (2013): 1263-1288.

<sup>5</sup> Marianne Bertrand, and Antoinette Schoar, "The Role of Family in Family Firms," *The Journal of Economic Perspectives*, 20/2 (2006): 73-96.

## Resources and innovation in family businesses

---

<sup>6</sup> James Chrisman and P.J. Patel, “ Variations in R&D Investments of Family and Non-family Firms: Behavioral Agency and Myopic Loss Aversion Perspectives,” *Academy of Management Journal*, 55(4) (2102): 976-997; Alfredo De Massis, Federico Frattini and Ulrich Lichtenthaler, “Research on Technological Innovation in Family Firms: Present Debates and Future Directions. *Family Business Review*, 26(1)(2013): 10-31; Josip Kotlar, H. Fang, Alfredo De Massis and Federico Frattini, “Profitability Goals, Control Goals, and the R&D Investment Decisions of Family and Non-family Firms. *Journal of Product Innovation Management*, (2014) DOI: 10.1111/jpim.12165.

<sup>7</sup> Kathleen Eisenhardt, “Making Fast Strategic Decisions in High Velocity Environments,” *Academy of Management Journal*, 32 (1989): 543-76.

<sup>8</sup> Velocity can be high or low at any point in the life cycle of a firm and may change over the life-cycle (Alfredo De Massis, F. Chirico, Josip Kotlar and Lucia Naldi, “The Temporal Evolution of Proactiveness in Family Firms: The Horizontal S-Curve Hypothesis,” *Family Business Review*, 27(4)(2014): 35-50). Certainly, liabilities of newness may be greater in the early years when the firm is run by a first generation or founder. But it is possible for the early years to be placid, and for the environment to alter more rapidly and unpredictably in later years as technologies evolve and competition grows. Such a scenario is illustrated in our example of Eaton’s.

<sup>9</sup> Joseph Astrachan, and Thomas Kolenko, “A Neglected Factor Explaining Family Business Success: Human Resource Practices,” *Family Business Review*, 7/3 (1994): 251-262.

<sup>10</sup> Jean-Louis Arregle, Mike Hitt, David Sirmon, and Philippe Very, “The Development of Organizational Social Capital: Attributes of Family Firms,” *Journal of Management Studies*, 44/1 (2007): 73-95.

## Resources and innovation in family businesses

---

<sup>11</sup> Yannick Bammens, Wim Voordeckers, and Anita Van Gils, "Boards of Directors in Family Firms: A Generational Perspective," *Small Business Economics*, 31 (2008): 163-180; Yannick Bammens, Wim Voordeckers, and Anita van Gils, "Boards of Directors in Family Businesses: A Literature Review and Research Agenda. *International Journal of Management Reviews*, 13/2 (2011): 134–152; Guido Corbetta, and Carlo Salvato, "The Board of Directors in Family Firms: One Size Fits All?" *Family Business Review*, 17/2 (2004): 119-134.

<sup>12</sup> Jay Barney, Mike Wright, and Dave Ketchen, "The Resource-based View of the Firm: Ten Years After 1991," *Journal of Management*, 27/6 (2001): 625-641.

<sup>13</sup> Margaret Padgett, and Kathryn Morris, "Keeping it "All in the Family": Does Nepotism in the Hiring Process Really Benefit the Beneficiary?" *Journal of Leadership and Organization Studies*, 11/2 (2005): 34-45.

<sup>14</sup> William Schulze, Michael Lubatkin, and Rich Dino, "Toward a Theory of Agency and Altruism in Family Firms," *Journal of Business Venturing*, 18 (2003): 473–490.

<sup>15</sup> Maximiliano González, Alexander Guzmán<sup>2</sup>, Carlos Pombo, and María-Andrea Trujillo, "Family Firms and Debt: Risk Aversion versus Risk of Losing Control," *Journal of Business Research*, 66/11 (2012): 2308-2320.

<sup>16</sup> Danny Miller, and Isabelle Le Breton-Miller, *Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses*, (Boston, MA: Harvard Business School Press, 2005); Margaret Graham, and Alec Shuldiner, *Corning and the Craft of Innovation*, (Oxford University Press: New York, 2000).

<sup>17</sup> This is also a strategy of many Quadrant 1 firms.

## Resources and innovation in family businesses

---

<sup>18</sup> Unfortunately, too little is known about how changes in family governance influence the receptiveness to and nature of family firm innovation. Research into that question might explain the movement of family firms between the quadrants of our framework. Similarly, although we have highlighted different attitudes towards innovation across the generations, we need to know more about the extent to which succeeding generations alter family objectives in response to evolving environmental conditions, and the implications for the nature and success of innovation.

<sup>19</sup> Thomas Zellweger, Robert Nason, R., and Matthias Nordqvist, "From Longevity of Firms to Transgenerational Entrepreneurship of Families: Introducing Family Entrepreneurial Orientation," *Family Business Review*, 25 (2012): 136-155.

<sup>20</sup> For expositional purposes we have not explored the distinction between evolutionary and revolutionary innovation. This is an area for further research in the family business context and for comparison between family businesses and other ownership forms.

<sup>21</sup> Ming-Jer Chen, "Competitor Analysis and Inter-firm Rivalry: Toward a Theoretical Integration," *Academy of Management Review*, 21(1996): 100-134; Ming-Jer Chen, and Danny Miller, "Competitive Attack, Retaliation and Performance: An Expectancy-Valence Framework," *Strategic Management Journal*, 15 (1994): 85-102. This approach has been termed the AMC model.

<sup>22</sup> Yannick. Bammens, G. Notelaers, Anita Van Gils, "Implications of Family Business Employment for Employees' Innovative Work Involvement," *Family Business Review*, (2014) DoI 0894486513520615.

<sup>23</sup> These insights suggest that the capabilities required for innovation and the willingness to undertake innovation may be contingent on the nature of firm ownership, and hence an area for further research is to compare innovative capabilities in these different ownership contexts.

## Resources and innovation in family businesses

---

<sup>24</sup> The example of Maison Louis Latour illustrates how this has been successfully achieved over several generations but further studies are needed of the processes involved when a change from the initial intended successor needs to be made.

<sup>25</sup> There remains a need to explore how much operations boards and boards in subsidiaries of family firm groups have the discretion to decide upon and implement innovation. Such research might clarify the relationship between main and operations/subsidiary boards and how these relationships vary across different types of ownership.

<sup>26</sup> James Chrisman, Jess Chua, Alfredo de Massis, Federico Frattini and Mike Wright, "The Ability and Willingness Paradox in Family Firm Innovation," *Journal of Product Innovation Management*, (2014). Our cases hint at the effects on innovation of changing goals over the life-cycle of the family businesses, however this is an area where further studies are needed.

<sup>27</sup> Khai Lee, Guan Lim, Wei Lim (2003). Family Business Succession: Appropriation Risk and Choice of Successor. *Academy of Management Journal*, 28(4), 657–666.



Centre Manager  
Enterprise Research Centre  
Warwick Business School  
Coventry, CV4 7AL  
[Enquiries@enterpriseresearch.ac.uk](mailto:Enquiries@enterpriseresearch.ac.uk)

Centre Manager  
Enterprise Research Centre  
Aston Business School  
Birmingham, B1 7ET  
[Enquiries@enterpriseresearch.ac.uk](mailto:Enquiries@enterpriseresearch.ac.uk)