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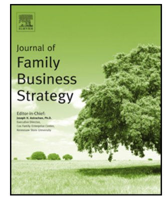

Innovation activities during intra-family leadership succession in family firms: An empirical study from a socioemotional wealth perspective[☆]

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ABSTRACT

We reason that the intra-family leadership succession phase has distinct characteristics that render it a peculiar time frame for innovation. However, the incumbent owner-manager's willingness to support innovation during that phase is of decisive importance. Building on this argument, the article provides an investigation of how socioemotional factors are related to the owner-manager's perception of the intra-family leadership succession phase as an opportunity for innovation activities in family firms. We use quantitative data from a unique research setting in which family influence in terms of ownership and management, and thus the ability to innovate, as well as major contextual variables were held constant. Overall, the results of our study show that socioemotional factors have both dark and bright sides in the context of innovation. In particular, we find that family adaptability and a family member's closeness to the firm are *positively* associated with perceiving the succession phase as an opportunity for innovation. On the contrary, intergenerational authority and the history of family bonds are *negatively* related with the perception of the succession phase as a suitable time frame for innovation. Our findings primarily contribute to the literature on innovation and succession in family firms and emphasize the inherent heterogeneity of family firm behavior.

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Introduction

Innovation leads to the development of competitive advantages (Porter, 1990) and serves as a key driver of (family) firm performance (Kellermanns, Eddleston, Sarathy, & Murphy, 2012) as well as the long-term survival of (family) firms (Schumpeter, 1934). Innovation activities in this sense are, broadly speaking, a way to adapt to changes and to exploit changes as entrepreneurial opportunities (Craig & Dibrell, 2006; Drucker, 1985).[2] In the context of family firms[3] and their vision to succeed across multiple generations, the need for long-term survival through innovation becomes even more evident (Cruz & Nordqvist, 2012).

Given the pivotal role of innovation activities for long-term firm survival as well as the utmost importance of family firms around the world (La Porta, Lopez-de-Silanes, & Shleifer, 1999; Villalonga & Amit, 2009), it is actually surprising that our knowledge of innovation in family firms remains incomplete and inconsistent. On the one hand, family firms are often described as resistant to change, conservative, and traditional (Dunn, 1996; Hall, Melin, & Nordqvist, 2004). On the other hand, there is a "mysterious something" about family firms that may support their innovation activities (Gudmundson, Tower, & Hartman, 2003, p. 15) and makes them a driver of, e.g., technological innovation (Zahra, 2005). In fact, we see that there exist many highly innovative family firms, even in non-technology industries. Take, for example, Spa Hotel Post in Bezau (Austria), which was founded as a post office in 1850 and is now a large and luxurious spa and design hotel led by Susanne Kaufmann (fifth generation) with a gourmet restaurant awarded with a Gault Millau chef's hat.[4] The Kaufmann family intentionally

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[2] We follow the Schumpeterian definition of innovation as the commercialization of new products and services, new processes, new organizational structures, and new business models (Schumpeter, 1934).

[3] We apply a narrow definition provided by Chua, Chrisman, and Sharma (1999): A family firm is "a business governed and [...] managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (p. 25).

[4] Information on Spa Hotel Post was gathered on the family firm's website (http://www.hotelpostbezau.com) and in an interview with Susanne Kaufmann.

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seized the last succession phase for innovation: Susanne engaged in product and service innovations, renewed processes and even developed new business models. However, it was only possible for her to pursue innovation activities because the incumbent owner-manager supported her in the daily business and intentionally granted freedom of discretion to Susanne. Certainly, the owner-manager's perception of the succession phase as a unique chance for innovation was a crucial factor in preparing the family firm for the future. What would have happened if the owner-manager did not perceive the succession phase as an opportunity for renewal and innovation? Could the heterogeneous innovation behavior of family firms be explained by the *willingness* rather than the *ability* to innovate?

This question is taken up by the recently introduced 'Ability and Willingness Paradox' (De Massis, Kotlar, Chua, & Chrisman, 2014; Chrisman et al., in press). The authors postulate that due to concentrated family ownership and the family owners' power to control resources, family firms have an unusual *ability* to innovate. However, family firms have various levels of willingness to innovate that may impede or support innovation activities. The *willingness* to innovate is driven by non-economic or socioemotional factors (Chrisman et al., in press; Chrisman & Patel, 2012). In sum, the 'Ability and Willingness Paradox' is an unpretentious but very powerful framework in explaining the heterogeneous innovation behavior of family firms by integrating non-economic factors and the willingness view next to the predominant ability view in existing research. Some previous studies indeed compare willingness with ability and describe the dilemma between these two views of innovation (e.g., Chrisman & Patel, 2012). However, existing studies fail to recognize that different non-economic factors may have different effects on the willingness to innovate. Thus, this article focuses on the relationship between various non-economic factors and the willingness to innovate during the intra-family leadership succession phase.

As shown in the aforementioned example of the Austrian tourism industry,[5] the time frame of succession might have distinct characteristics that render it a peculiar time frame for innovation. Accordingly, this article addresses the following research question: *How are socioemotional factors related to owner-managers' perceptions of the suitability of the intra-family leadership succession phase for innovation activities in family firms (the willingness to innovate)?* To answer this question and to test our hypotheses, we conducted a quantitative survey among the *owner-managers* of family firms in the Austrian tourism industry. We show that non-economic factors can be both positively and negatively related to the willingness to innovate in terms of owner-managers' perceptions of the suitability of the intra-family leadership succession phase for innovation.

Prior research on innovation in family firms does not fully address the time frame of intra-family leadership succession despite the obvious relevance of this topic.[6] Thus, our first contribution is to address this research gap in the literature on innovation and succession in family firms. Second, we confirm the usefulness of considering non-economic factors as drivers of family firm behavior. Although we argue that the time frame of leadership succession may be a peculiar time frame for family firms to innovate, different non-economic factors may affect the willingness to innovate and thereby help to explain the heterogeneity of family firm innovation behavior (Chrisman et al., in press). In order to account for non-economic factors, the theoretical framework of socioemotional wealth (SEW) has recently gained attention (e.g., Berrone, Cruz, & Gómez-Mejía, 2012; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). Although it is widely acknowledged that family firms are a heterogeneous population (e.g., Chrisman, Chua, Pearson, & Barnett, 2012; Basco, 2013; König, Kammerlander, & Enders, 2013) as a result of the inherent heterogeneity of families and their unique goal set (Dyer & Dyer, 2009; Kotlar & De Massis, 2013), the majority of prior studies oversimplifies the world by measuring merely potential family influence via ownership and management as a proxy for SEW (Miller & Le Breton-Miller, 2014). Moreover, we contribute to the recent discussion on the dark and bright sides of SEW (Kellermanns, Eddleston, & Zellweger, 2012; Miller & Le Breton-Miller, 2014; Naldi, Cennamo, Corbetta, & Gómez-Mejía, 2013). Third, we confirm and even extend the notion of the heterogeneity of family firms caused by different non-economic factors: Despite intentionally maintaining family influence via ownership and management, or the ability to innovate, as well as major contextual factors constant in our research setting, we still observe high levels of heterogeneity in our dependent variable.

The article is organized as follows. We begin with a brief literature review on innovation in family firms and discuss why the succession process is a peculiar time frame for innovation. Next, we introduce SEW, on whose various aspects we develop our five hypotheses. Subsequently, we present our methodology as well as the findings of the study at hand. We conclude by discussing our results.

Background

Innovation in family firms

Despite increasing scholarly interest in the topic of innovation in family firms, our understanding is still incomplete and inconsistent (De Massis, Frattini, & Lichtenthaler, 2013). Some studies, such as Craig and Moores (2006) or Bergfeld and Weber (2011), stress the great importance that family firms attach to innovation in order to ensure long-term survival. Other studies, such as Dunn (1996), state that family firms are traditional and conservative rather than innovative and creative. Moreover, these studies ascribe family firms a hesitant attitude toward opening their boundaries, e.g., toward external sources or collaborations (Classen, Van Gils, Bammens, & Carree, 2012). The inconsistency of findings has recently been addressed by De Massis et al. (2014) as well as Chrisman et al. (in press) by introducing the 'Ability and Willingness Paradox.' This paradox is manifested by family firms innovating less despite having the ability to do more. The (un-)willingness to innovate is considered to originate from non-economic factors, e.g., risk aversion, the hesitancy to share control, or the commitment to traditional products (Chrisman et al., in press). For example, Chrisman and Patel (2012) show that family firm owners have the ability to commit a superior level of resources to R&D (in comparison to non-family firms) – but most are not willing to do so due to non-economic factors. Accordingly, non-economic or socioemotional factors can account for the heterogeneity of family firms and their particularistic innovation behavior (Chrisman et al., in press; Chrisman & Patel, 2012). While previous studies mainly compare willingness with ability and describe the resulting dilemma between both (e.g., Chrisman & Patel, 2012), the relationships between different non-economic factors and the willingness to innovate are, to the best of our knowledge, far from being fully understood in the existing research.

Prior research has mainly treated family firms as a homogenous population and lacks a differentiated perspective on the 'family variable' (e.g., Craig & Dibrell, 2006; Dyer, 2003; Hirigoyen &

[5] Family firms are the most important organizational form in Austria (90% of the national firms) and especially dominant in the Austrian tourism industry (93% of the national firms) (Pleininger, 2014). More details on the research context can be found in section "Methods".

[6] An example of a related study is that of Au et al. (2013) which investigates the nurturing of intergenerational entrepreneurship by incubating the next generation in spin-offs of the family firm.

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