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Innovativeness and family-firm performance: The moderating effect of family commitment

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ABSTRACT

The positive relationship between innovativeness and firm performance is well established and applies equally to all businesses, including family firms. However, little is yet known about how the unique characteristics of family firms influence this relationship. Drawing upon the resource-based view (RBV) of the firm, this study explains how the interplay between innovativeness as a firm-specific resource and family commitment as a family-specific resource affects performance. The analysis of longitudinal survey data collected from Finnish family firms demonstrates a curvilinear (U-shaped) moderating effect of the owner family's commitment to the firm, in that the impact of innovativeness on firm performance is strongest when family commitment is either low or high. This implies that owner families should avoid their level of commitment becoming becalmed between high and low if they wish to convert their firm's innovativeness into performance.

1. Introduction

The ongoing globalization process highlights the importance of a firm's ability to engage in the development and launching of product innovations (innovativeness; Greve, 2003) (Camps and Marques, 2014). However, more than just the ability to develop a product is needed to capture new business opportunities and translate innovativeness into improved firm performance (Rosenbusch et al., 2011; Tsai et al., 2013; Wiklund and Shepherd, 2003; Yu, 2013). This research focuses on the specific context of family firms, defined as businesses "governed and/or 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" (Chua et al., 1999, p. 25). Because family firms represent 80–95% of the stock of firms in most capitalist economies (Nordqvist and Melin, 2010), understanding how innovativeness in this specific organizational context turns into performance is relevant not only for the development of individual firms but for the economy as a whole. Prior research identifies a positive relationship between innovativeness and family-firm performance (Naldi et al., 2007), but there is a lack of understanding as to how the characteristics that distinguish family firms from non-family enterprises (Shanker and Astrachan, 1996; Sharma et al., 1996; Shepherd and Zacharakis, 2000) influence the innovativeness–performance relationship (De Massis et al., 2013).

Previous studies suggest that the owner family's involvement in the firm, also described as *familiness*, is an important distinctive feature explaining the strategic behavior of family firms (Chrisman et al., 2005; Habbershon and Williams, 1999). As a prominent part of a family firm's resource portfolio,

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"familiness has the potential to affect a family firm's efforts to innovate" (Carnes and Ireland, 2013, p. 1400) and is an important element in understanding a family firm's performance (Kellermanns et al., 2012). However, there is no prior research on the relationship between familiness and the impact of innovativeness on performance (Weismeier-Sammer, 2011). The study most closely referring to this topic is that of Kellermanns et al. (2012) referenced above. The study examines how family dynamics is an important part of a family firm's resource portfolio that can help or hinder a family firm's ability to exploit its innovativeness. Nevertheless, Kellermanns and colleagues do not specify how factors that determine familiness (Carrasco-Hernandez and Jimenez-Jimenez, 2012, p. 32) – the power, experience, and culture of the owner family – contribute to the innovativeness–performance relationship. This is the additional step taken in the present study to break new ground.

More specifically, the current research addresses the owner family's commitment to the firm as a manifestation of familiness – and by that as an intangible, unique resource of family firms – and examines how it moderates the innovativeness-performance relationship. Our hypothesis development draws upon the resource-based view (RBV) of the firm (Barney, 1991; Priem and Butler, 2001) and its previous applications in family firm research (Eddleston et al., 2008a; Nordqvist, 2005) that explain how the unique interplay between family-specific and firm-specific resources affects family-firm performance. Our empirical analysis is based on longitudinal data from 106 large and medium-sized family firms in Finland.

Our study contributes to the underdeveloped research on innovativeness in family firms (Hausman, 2005; Llach and Nordqvist, 2010; Memili et al., 2014) by showing how family commitment as a distinctive characteristic of family firms influences the relationship between innovativeness and firm performance. This knowledge adds to the RBV-based research on family firms by increasing our understanding of the performance impact of the unique interplay between resources derived from the firm and the family spheres (Arregle et al., 2007; Dyer and Handler, 1994; Sirmon and Hitt, 2003) in the course of engaging in the development and launching of new products. More generally, our findings contribute to a more contextualized understanding of the performance impact of innovativeness as called for, for example, by Rosenbusch et al. (2011). The results of the study extend our understanding of the performance effect of innovativeness in the distinct yet common organizational context of family firms. With regard to management practice, the findings call for the members of owner families to adopt a clear stance on their involvement in the firms' management and to be consistent with this strategic decision in their everyday conduct.

2. Literature review and hypotheses

2.1. Innovativeness and family-firm performance

Previous studies argue that family firms, characterized by the overlap of the family and firm spheres (Habbershon et al., 2003), possess unique characteristics capable of providing competitive advantages over non-family firms (Memili et al., 2013; Sirmon and Hitt, 2003; Zahra et al., 2008). Assessing a family firm's uniqueness and linking it to an advantage in the marketplace requires researchers to identify the firm's specific strategies, resources, and skills (Habbershon and Williams, 1999). As the resources of family firms have been characterized as unusually complex, rich and dynamic, the RBV offers an appropriate theoretical lens on family firm behavior because it examines the links between a firm's internal characteristics and its performance (Arregle et al., 2007; Habbershon and Williams, 1999; Sieger et al., 2011).

According to RBV theorists (e.g., Penrose, 1959; Wernerfelt, 1984), a unique bundle of complex, intangible and dynamic resources is the foundation of a firm's competitive advantage. Therefore, in order to attain a competitive advantage and enjoy a sustainable level of performance, firms need to possess valuable and rare resources (Barney, 1991). Furthermore, these resources must also be inimitable and non-substitutable so that the firm can sustain its advantage in the longer term (Barney, 1991; Dierickx and Cool, 1989). In this regard, the RBV highlights the role of innovativeness as a critical resource in itself (Cho and Pucik, 2005) or as a way of generating resources essential for developing competitive advantage (Barney, 1991; Wernerfelt, 1984), as exemplified by dynamic capabilities (Teece et al., 1997) and the ability to learn (Jiménez-Jiménez and Sanz-Valle, 2011).

We start with a broad definition of innovativeness as "a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes" (Lumpkin and Dess, 1996) that may result in the launch of new products (product innovativeness; Camps and Marques, 2014; Gopalakrishnan and Damanpour, 1997; Salavou and Avlonitis, 2008), new business models (organizational or firm innovativeness; Lumpkin and Dess, 1996; Gopalakrishnan and Damanpour, 1997), and in process innovations (Garcia and Calantone, 2002; Frank et al., 2010).

While prior research indicates the presence of a generally positive link between innovativeness and subsequent firm performance (Bowen et al., 2010; Rosenbusch et al., 2011; Rubera and Kirca, 2012), findings on the effect of innovativeness on family-firm performance are equivocal (Chirico and Nordqvist, 2010; De Massis et al., 2013). In fact, the overlap of family and firm spheres in family firms (Flemons and Cole, 1992) implies specific bundles of resources and capabilities (Sirmon and Hitt, 2003), such as familiness (Chrisman et al., 2005), social capital (Arregle et al., 2007) and specific patterns of ownership, governance and succession (Chua et al., 1999; Hatak and Roessl, 2013; Steier, 2003) that constitute a unique organizational context (Westhead and Howorth, 2006). The current literature has prompted lively discussion on whether this unique organizational context of family firms fosters or hinders innovativeness and its translation into improved firm performance (Habbershon and Pistrui, 2002; Memili et al., 2014; Zahra, 2005).

Family firms are often criticized for adopting an approach unconducive to innovativeness when they pursue stability (Vago, 2004) and neglect risk-taking (Morris, 1998; Chen and Hsu, 2009). However, recent research provides a more multifaceted view of family firms that recognizes that engaging in the development and launching of new products constitutes a necessary condition for family-firm continuity (Carnes and Ireland, 2013; Kellermanns et al., 2012). Prior studies have argued that family firms may possess characteristics that foster innovativeness (Craig and Dibrell, 2006; Özsomer et al.,

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