The Secret to Family Firm Innovation

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It is a common assumption among scholars that family firms are conservative, invest less in innovation, and therefore, not as innovative non-family counterparts. Current research finds that this perspective is outdated; non-family employees contribute exceedingly to family firm innovation when their personal values align with those of the family firm—enabling them to amplify the perceived level of innovation support from family firm management to engage in more innovative behaviors.

Family firms are ubiquitous and make a substantial contribution to innovation across industries. Family firms differ in their ability and willingness to innovate due to various strategic factors, for instance, market orientation, family generation in control, family involvement in management, and the size of a family firm. Nevertheless, these factors have not provided sufficient evidence to explain the higher conversion rate of innovation inputs into outputs[1].

This study submits that employee innovation is a possible explanation for the higher innovation efficiency among family firms—and specifically employee innovation by non-family members. In general, employee innovation is the purposeful creation, promotion, and implementation of new useful ideas that benefit an individual's task performance, the group, or the entire firm. In recent years, scholars have started to appreciate the value of employee innovation in ensuring a firm's effectiveness and adaptation to rapidly changing markets. Moreover, research has also shown that family firms that implement creative ideas of their employees introduce more products, and processes, or generally have higher innovation.

Since the management of the family firm plays a vital role in leveraging firm resources—including employees, the motivation behind this study was to establish if and how perceptions of non-family employees related to management support for innovation and fit with family firm values influence innovative behavior. Moreover, there is a need to determine whether the selection or hiring practices family firms implement to hire non-family employees increase the occurrence of innovative behaviors. I studied 262 non-family employees from 24 private family firms and looked at whether they perceived that their values aligned with those of the family firm. Further, I explored if they perceived that the management of the family firm was supportive of their innovation efforts, for example, by providing the recourses needed for innovation and rewarding employee innovative behaviors. To understand how non-family employees join the family firm, leaders were asked to explain the comprehensiveness of the non-family employee selection process. Specifically, the degree to which formal (i.e., media ads or consultants to attract a large pool of candidates) and informal (i.e., attracting a limited number of candidates from family networks and contacts) recruitment and selection practices are utilized.

The findings of this study showed a higher occurrence of employee innovation among family firms whose non-family employees reported that their values aligned more with the values of the family firm. Further, the results also revealed higher incidences of employee innovation when non-family employees perceived that family firm management was supportive of their innovative behavior. The results provided further evidence that employee innovation was enhanced in family firms whose selection practices focused more on evaluating the values of candidates and their creativity. The bottom line is that non-family employees are more innovative when they fit with family firm values; enabling them to amplify the perceived level of support they receive from family firm management to engage in innovative behaviors.

Overall, this study sheds light on internal drivers of innovation among family firms. The presence of non-family employees in family firms addresses the human resource gap due to limited kin as the family firm grows. Hence their contribution to the growth and sustainability of the family firm is crucial. This is interesting because while many scholars have shown family firms as conservative and make less investment in research and development, emphasizing the characteristics of employees who join the family firm will improve firm outcomes.

This study triggers a number of recommendations for family firm management or leadership. First, communicating clearly the values of the family firm to potential candidates and emphasizing a preference for individuals that are aligned with the firm. Second, designing effective ways to equally evaluate all candidates' creativity and values. Furthermore, when candidates are selected and hired, family firm management will benefit from iterating the support available towards innovation, such as the available financial recourses, the reward system for innovation efforts, and support for collaboration in problem-solving and information sharing.

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