

# **INNOVATION IN SMALL FAMILY FIRMS**

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## **Abstract**

Research on innovation in family firms has flourished in the last decades. Nevertheless, most of the current understanding has been developed by studying large organizations, leaving the specific challenges and opportunities of innovating in small family firms still untapped. This introductory article summarizes the studies included in the special issue, integrates their contributions by uncovering four types of innovation that allow small family firms to overcome the liability of smallness. Finally, we suggest directions for future research.

## **Introduction**

Family firms are organizations “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, Chrisman & Sharma, 1999, pp. 25). Scholars have been strongly debating about whether family firms are more or less innovative than their non-family counterparts and the elements that characterize their innovation initiatives (De Massis, Frattini & Lichtenthaler, 2013). Although considered less innovative and more reluctant to change, evidence shows that the majority of the most innovative firms worldwide are actually family firms (Calabrò, Vecchiarini, Gast, Campopiano & De Massis, 2018; Duran et al., 2016).

Despite the increasing understanding developed on family firm innovation, research has mainly focused on large and listed firms with few studies highlighting contingencies to the applicability of such general findings to small-sized firms (e.g. Sciascia, Nordqvist, Mazzola & De Massis, 2015). However, the vast majority of the business worldwide are small and family owned and/or managed, therefore it is paramount to understand the specificity of innovation in small family businesses (De Massis, Kotlar, Frattini, Chrisman & Nordqvist, 2016).

While both family businesses and small firms have idiosyncratic characteristics in relation to innovation (De Massis & Rovelli, 2019), when turning to small family firms the specificities of small firms overlap with those of the presence of the family in the business increasing the degrees of complexity. The liability of smallness (Freeman, Carroll & Hannan 1983) constrains small family firms to search for novel technologies and ideas in areas that enable them to build upon their established resource base (Stuart & Podolny, 1996). Indeed, small family firms are more likely to engage in local search – geographically and

technologically (Rosenkopf & Almeida, 2003) – by relying on the results of past searches as starting point for initiating new searches (Nelson & Winter, 1982). Nevertheless, the specificity of competences and skills developed through this approach toward innovation allow them to develop hard to imitate resources that become sources of competitive advantage. Small family businesses are also more flexible to quickly adapt to a fast-changing environment and the strong embeddedness within family relationships, local communities and business networks are crucial in shaping their innovation activities (e.g. Classen, Carree, Van Gils & Peters, 2014), for instance through network brokerage (Kwon, Rondi, Levin, De Massis & Brass, 2020).

The articles included in this issue contribute to development of a deeper understanding of the types of innovation that small family firms may implement, thereby overcoming their liability of smallness, and allow us to outline interesting directions for future research.

#### **Four types of innovation in small family firms**

The articles in this special issue illuminate our understanding on the types of innovation that small family firms can implement. Specifically, from the articles four types of innovation emerge, that we classify according to two dimensions: the temporal horizon and the approach to innovation management. When engaging in innovation, small family firms can adopt a temporally distant or a proximate horizon, and draw on a social or specialist approach to innovation management. From the combination of these two dimensions it emerges a 2x2 matrix with a configuration of four innovation types (see Figure 1).

(Insert Figure 1 about here)

First, the long-run mindset that may characterize small family firms (De Massis, Audretsch, Uhlaner & Kammerlander, 2017) may spur them to forward-looking toward distant future with a social approach to innovation management. In this case, small family firms are prone to implement *sustainable innovation* – innovation that improves sustainability performance, including ecological, economic, and social criteria (Carillo-Hermosilla, Rio & Könnölä, 2010) - with a distant time horizon that spans multiple generations aiming at creating values for the society to come. Second, with a similar distant temporal horizon toward the past but focusing on specialist approach to innovation management, small family firms might engage in *innovation through tradition* (De Massis, Frattini, Kotlar, Petruzzelli, & Wright, 2016; pp. 94) by searching in their historical roots and emotional attachment to tradition ideas and resources, whose recombination with new technologies or new meanings leads to unique innovations that can generate value also for future generations of family members (e.g., Rondi et al., 2019; Erdogan, Rondi & De Massis, 2020). Third, the adoption of a proximate temporal horizon combined with a specialist approach to innovation management spurs family firms to engage in *digital innovation* – “the creation of (and consequent change in) market offerings, business processes, or models that result from the use of digital technology” (Nambisian, Lyytinen, Majchrzak & Song, 2017, p.224). Fourth, concentrating on the present by relying on the adoption of a social approach to innovation management, small family firm can engage in *collaborative innovation* – “a form of inter-firm relationship that involves the exchange and sharing of information, knowledge, technology, and resources with external parties in order to achieve innovation” (Feranita, Kotlar & De Massis, 2017, pp. 138) – thereby undertaking initiatives together with partners that allow the firm to rely on resources that are not directly possessed but can be mobilized through social ties to generate value.

It is important to highlight that the four types of innovation are not mutually exclusive, but in undertaking innovation initiatives small family firms can combine them in different

configurations and levels, for example by engaging in digital innovation through collaborations, developing sustainable innovation by getting inspirations and resources from their tradition. In the next section we present the contributions of the articles in this issue by exploring the empirical investigation of the innovation types identified.

### **Articles in the special issue**

In addition to the present editorial article, this special issue includes four studies (see Table 1). They represent a balanced portfolio of studies also in methodological terms, with two papers based on a quantitative methodology and two ones based on case studies. Each article explores a specific type of innovation yet also provides hints about how small family firms can combine the different innovation types to overcome the challenges and thrive.

(Insert Table 1 about here)

In the first article, Barbaritano and Savelli (2020) investigate to what extent environmental practices and eco-design methods drive sustainable innovation to satisfy consumers' expectations in terms of aesthetic, functionality and environmental saving. They analyze the case of a small Italian family firm operating in the furniture industry to provide empirical evidence that environmental sustainability is a driver of product and process innovation.

In the second one, Dettori, Dessì and Floris (2020) investigate how small family firms innovate when embedded in traditional industries and closed contexts. Building on the embeddedness perspective, the authors analyze two exemplary cases of small family bakeries and propose a model to highlight the role that local legitimization and target market play in innovation strategies. Innovation within tradition expresses four main kinds of strategies: radical innovations, embodiment of tradition, reinterpretations of tradition and retro-innovations.

In the third study, Überbacher, Brozzi and Matt (2020) scrutinize the digitalization level of family small and medium enterprises (SMEs). Data from 100 craft firms were collected in the Italian northernmost Region of South-Tyrol. A taxonomy of four types of craft family SMEs is proposed based on the digitalization level accomplished. The four types of firm include the digital leader, the digital oriented, the digital surrendered and the digital steady state. Results show a relatively high willingness towards digital innovation, coupled with severe challenges hampering the craft family SMEs adoption of new digital technologies.

Last, Gjergji, Lazzarotti, Visconti and Garcia-Marco (2020) examine how the relationship between business-partner collaboration and innovation performance is moderated by the family nature of the business. Leveraging data on Spanish manufacturing firms, the authors show that the effectiveness of business-partner collaboration is hampered by the family nature of the firm. In addition, within small family firms, the effectiveness of business-partner collaboration is hampered by family involvement in management.

### **Opportunities for advancing the understanding of innovation in small family firms**

The articles in this special issue contribute to develop a fine-grained understanding of the specific challenges and opportunities that characterize innovation in small family firms and offer the opportunity to identify interesting directions for future research. First, since small family firms rely more on local search and suffer from the liability of smallness, we acknowledge the need for further theoretical and empirical research of the role that the family and its resources, functioning and structure (Jaskiewicz, Combs, Shanine & Kacmar, 2017) play in the innovation of this type of small firms. The influence of family dynamics in small family firms is more prominent, due to the higher overlap between the family and business systems, reciprocally influencing each other (Sciascia, Clinton, Nason, James & Rivera-Algarin, 2013). Oftentimes, family members not formally involved in the business become source of information, contacts and skills that are crucial for the innovation of these firms. For

instance, how does family interactions and relationships among family members influence the development of innovation in small family firms? How different forms of family involvement affect the process of innovation in small family firms? Understanding how innovation decisions of small family firms may vary depending on their reliance on formal and informal institutions (Brinkerink & Rondi, 2020) is another promising direction for future research that might depend on the role that the family as institution plays in the society wherein the firm operates.

In addition, stemming from the articles in this issue, we have identified four types of innovation that can help small family firms overcome the challenges related to their dimension by leveraging local strengths, within and outside the firm. Promising research questions on the distinctive characteristics of small family firms engaging in the four types of innovation emerge. As regarding sustainable innovation, small family firms with the aim of enduring over generations might be equipped with tacit competences, particularly if operating in craftsmanship, that allow them to master unique resources. Nevertheless, small family firms are called to preserve their tradition over time in order to allow heritage to not be forgotten. However, differently from large family firms, they might lack the resources to invest in codifying the tacit knowledge creating for example museums, formal accounts of the family history but can also rely on a smaller family nucleus where this type of knowledge is shared more informally and tacitly. Scholars could investigate these dynamics in small family firms to explore how they affect innovation, exploring how small family firms preserve or recover their tradition in order to leverage it to innovate and whether the lower turnover of employees that characterizes small family firms become an enabler of innovation through tradition instead of being an obstacle to innovation.

Third, digital innovation provides the opportunity to small family firms to evolve by engaging in the transformation of their products, processes and even business models. Scholars could examine whether digital opportunities can unlock the innovation potential of small

family firms and how the tensions that might emerge in the transformation between digital and non-digital tools might hamper small family firms' innovation. Finally, research has found families to prefer using internal knowledge, thereby adopting a close approach to innovation (Kotlar, De Massis, Frattini, Bianchi & Fang, 2013). Nevertheless, by searching locally, small family firms can establish partnerships and collaborations among their connections, overcoming the presence of limited resources. Scholars could explore the role of family ties in the development of collaborations in the emergence of cross-organizational innovation initiatives among small family firms as well as the role played by social capital in the identification of novel ideas that boost innovation.

## **Conclusions**

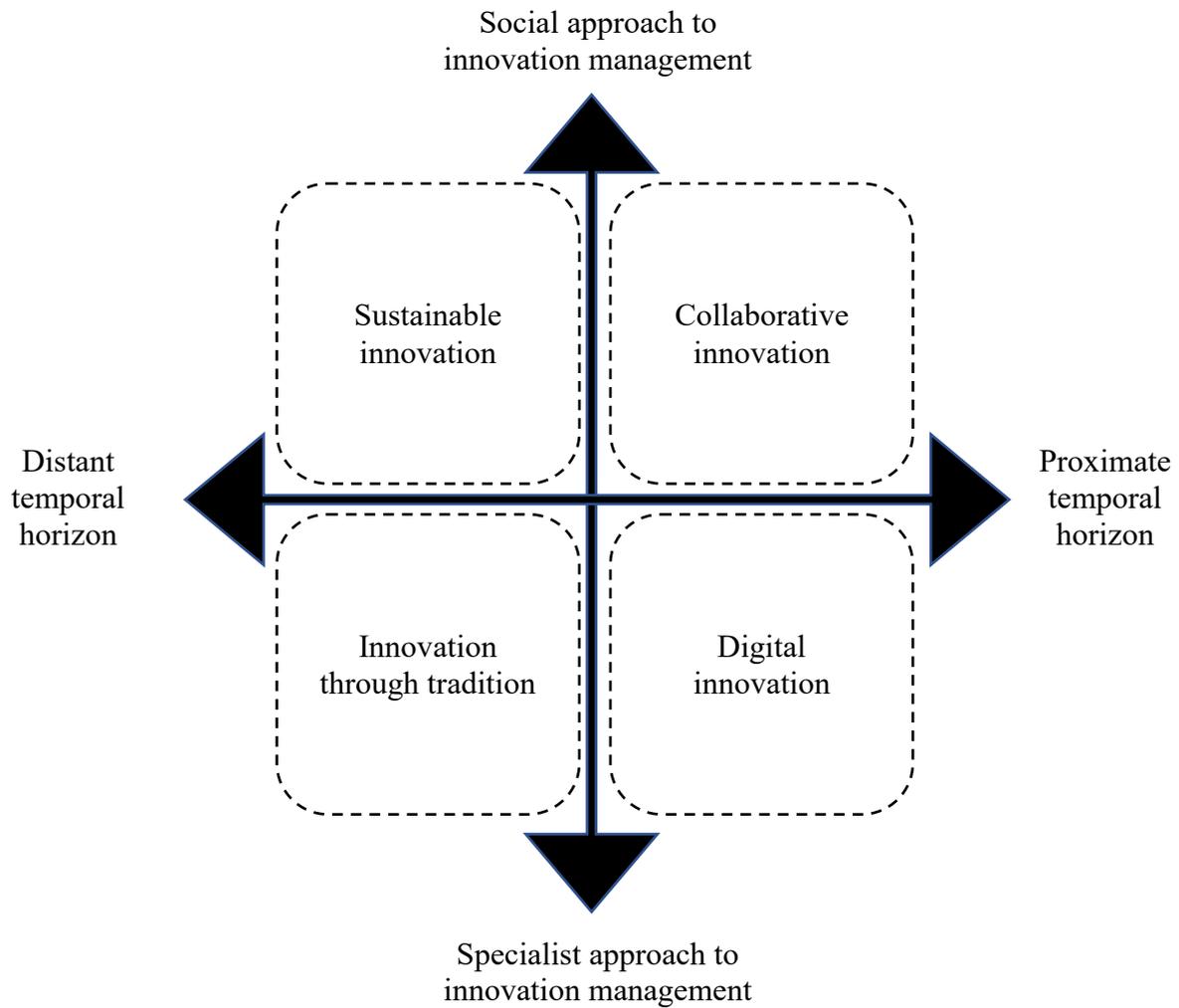
The articles in this special issue start illuminating the specific challenges and opportunities for innovation in small family firms by identifying four types of innovation (sustainable innovation, innovation through tradition, digital innovation and collaborative innovation) that may allow such firms to overcome their liability of smallness and thrive in the competitive environment.

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**Figure 1. Four types of innovation in small family firms**



**Table 1 – Articles in this special issue**

<b>Authors</b>	<b>Title</b>	<b>Type of innovation</b>	<b>Methodology</b>	<b>Empirical setting</b>	<b>Findings</b>
Barbaritano and Savelli	Design and sustainability for innovation in family firms. A case study from the Italian furniture sector	Sustainable innovation	Qualitative	Single case study in the Italian furniture industry	Environmental sustainability is a driver of product and process innovation.
Dettori, Dessì and Floris	Innovation within tradition: Interesting insights from two small family bakeries	Innovation through tradition	Qualitative	2-case study in the Italian bakery industry	A model of the relationship among target market, local legitimization and innovation strategies is proposed.
Überbacher, Brozzi and Matt	Innovation in craft family SMEs in the digitalization era	Digital innovation	Quantitative	100 South Tyrolean craft firms	High willingness towards digital innovation is coupled with severe challenges. A taxonomy of craft family SMEs is proposed.
Gjergji, Lazzarotti, Visconti and Garcia-Marco	Technological innovation performance and business-partner collaborations in family	Collaborative innovation	Quantitative	1,750 Spanish firms	The effectiveness of business-partner collaboration is hampered by the family nature of the firm. Within small family firms, the effectiveness is hampered by family involvement in management.