

# Journal of Family Business Strategy

## “One for all, all for one”: A mutual gains perspective on HRM and innovation management practices in family firms

--Manuscript Draft--

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<b>Abstract:</b>	<p>&lt;p style="margin: 0cm; font-size: 12pt; font-family: &amp;quot;Times New Roman&amp;quot;; serif; color: rgb(0, 0, 0); text-align: justify; line-height: 32px;"&gt;&lt;span lang="EN-US" style="color: rgb(34, 35, 37);"&gt;The aspiration to thrive in the long run, potentially over multiple generations, is among the most distinctive traits of family firms. Depending on the family&amp;rsquo;s goals, a long-term view can spur the family firm to plan and secure its human&amp;resources (HR), thereby attracting local employees seeking stability, and retaining them for decades. &lt;/span&gt;&lt;span lang="EN-US"&gt;However, low employee turnover may constitute a barrier to innovation, which is needed to survive and compete in the long run. Nevertheless, numerous family firms are renowned for being simultaneously excellent employers and outstanding innovators. Therefore, how can a long-term oriented family firm nurture its employees while pursuing innovation? To address this question, we conducted an in-depth longitudinal case study of Carl Schlenk AG, a fourth-generation family firm from the German Mittelstand consistently awarded over its 141-year history for both its human resource management (HRM) and innovation initiatives. Building on interviews, multiple observations, and over 1,700 pages of archival documents dating back to the late 1800s&lt;/span&gt;&lt;span lang="EN-US" style="color: rgb(34, 35, 37);"&gt;, our findings suggest that the distinct family business characteristics of credibility, solidarity, and loyalty lead to a unique virtuous cycle of reciprocal reinforcement between sophisticated HRM and innovation practices. This virtuous cycle ultimately fosters mutual gains for the family firm and its employees. Overall, our findings offer relevant contributions to research on HRM and innovation management in the context of family firms and beyond.&lt;/span&gt;&lt;span lang="EN-US"&gt;&lt;o:p&gt;&lt;/o:p&gt;&lt;/span&gt;&lt;/p&gt;</p>
<b>Suggested Reviewers:</b>	
<b>Opposed Reviewers:</b>	
<b>Response to Reviewers:</b>	

Bolzano, Italy, October 3<sup>rd</sup>, 2020

## **COVER LETTER**

Dear Professor Gnan and Professor Lambrechts,

Enclosed is the manuscript entitled ““One for all, all for one”: A mutual gains perspective on HRM and innovation management practices in family firms”, co-authored by Emanuela Rondi, Ruth Überbacher, Leopold von Schlenk-Barnsdorf, Alfredo De Massis and Marcel Huelsbeck.

We really appreciated the helpful feedback and clarity of constructive suggestions provided in the editorial and review reports during this further round of review. We have been working intensively to address the comments. We sincerely hope that the measures taken to further improve the quality of our manuscript will alleviate any potential remaining concern.

We are grateful for your support in developing a more compelling manuscript and hope you will find it coherent with the aim of this JFBS Special Issue

Sincerely,

Emanuela Rondi, Ph.D.  
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Dear Author(s):

We write in regards to the manuscript entitled: One for all and all for one: A mutual gains perspective on HRM and innovation management practices in family firms (JFBS\_2019\_108\_R2) that you recently resubmitted to the Journal of Family Business Strategy.

Thank you for the detailed responses to the previous reviews and the thorough revision of the manuscript. Overall, this is a very strong revision that demonstrates significant reworking of the previous version. Our recommendation at this stage is Conditional Accept.

Both reviewers suggest minor revisions. In our view, these revisions will need to be addressed for the paper's contribution to be fully realized.

**Dear editors, we are glad that you appreciated our revision and conditionally accepted our manuscript. In this further round of revision, we tried to address all the remaining comments raised by you and the reviewers. In the effort of addressing the latest suggestions, we believe to have developed a stronger and more compelling manuscript. Thank you for the opportunity to address the remaining concerns and make this a better paper.**

Most comments are low-hanging fruits that are easy to harvest. Please allow us to give you the following extra guidance on an important issue raised by Reviewer 2; an issue that mirrors the concern we also raised in the previous round. Reviewer 2 correctly and appreciatively states that "what is unique and valuable about your work is the creation of a final model that depicts the interaction between HRM and innovation. So, I would prefer to see the results from the interviews and archival data that lead to the generation of this model in the main body of the article rather than in an appendix - these are your results after all." We fully concur with this advice. With other words, the findings section should be enriched and you have the data. Our recommendation would be to report the current "Appendix B - Selected evidence" in the main text (Findings section), as this Table summarizes your coding efforts, with raw data illustrations, that lead up to your final model. This Table is simply too important to leave it in the Appendix. Of course, you cannot just copy and paste this Table: you will need to creatively embed it in the Findings text so that it complements and enriches your historical story. We are confident that you will succeed. For us, this is the most important comment that needs to be addressed successfully before the paper can be published in the Special Issue.

**We are grateful for your clear direction that made us understand what was needed to strengthen the coherence and consistence between our findings and the final model. In addressing this point, we thoroughly revised the Findings section by embedding the quotes from the Table into the text and structured our section into the three key pillars of the model. Please note that, although we could have revised the structure of the section according to the three key pillars of the model, we believe that the historical perspective adopted to depict the findings across the four generations has a strong value in highlighting the reiteration of the grounded model and the consistency that the family firm holds over time (a point raised also by Reviewer 1). For these reasons, while we deleted the Table from the Appendix and embedded the relevant quotes into the text, we outlined the key pillars within each generation. We believe that this structure allows to both be coherent with the key elements of model and highlight their consistency over time. We hope that this change in both structure and content of the Findings section is**

**able to fully outline the empirical evidence that allowed us to come up with our grounded model.**

Please include with the revised paper a letter that indicates in point by point format how each comment is addressed in the revision. Please note that while you should respond to all reviewer and editor comments fully, the revised version of the paper will receive an editorial review only and a final decision will be made at that stage.

Thank you for considering the Journal of Family Business Strategy for the publication of your research. We look forward to receiving a revised version. Your work is very important and has the potential to offer important insights to other family business scholars and HRM scholars! All the best as you continue to develop this important manuscript.

Sincerely,  
Frank Lambrechts  
Luca Gnan

**Thank you again for the conditional acceptance of our study, as well as the additional feedback. We really appreciate your guidance throughout this review process and hope that our approach to addressing your comments above will alleviate your remaining concerns.**

## **Response to Reviewer 1**

Dear Colleagues -

Thank you for your work on "One for All and All for One." Your consideration of my previous comments and those from the editor and other reviewer is thorough and appreciated.

**We thank you for your words of appreciation and encouragement, as well as for the clear efforts again expended towards guiding us in the further improvement of our study. We were happy to be challenged to reflect once more on the strength of our arguments. Below we provide responses to your comments and indicate what we have done to incorporate your suggestions in our study.**

Your newly designed focus in the literature review on the strategic HRM lit review is helpful, but in some places, your review of the literature seems disconnected from your paper. For instance, you say on page 5 that "Despite frequently adopting the AMO model in HRM research, scholars have mostly considered the ability- and motivation-enhancing practices, leaving opportunity-enhancing practices and the interrelationships among the AMO elements scantily understood (Boxall, Guthrie, & Paauwe, 2016)." Are you directly providing illustrations of the opportunity-enhancing practices and interrelationships of the three? If so, this needs to be emphasized in the front end of the paper as a contribution and explicated clearly in the discussion section.

**We are grateful for highlighting this not so clear contribution of our study. In revising the manuscript, we now clearly introduce the AMO model in the front-end and explain our first contribution to the underlying mechanisms of the interaction among the core elements of HR practices, the family firm entity, and employees as instrumental to shed light on the interrelationships among the AMO dimensions.**

In addition, I'd ask you to consider one additional element in Figure 3. Your trust-based environment is almost certainly being affected by the mutual gains experienced as the outcome of this process. In other words, when employees experience job stability and security and the organization performs better, the organization accrues more credibility, loyalty, and solidarity, thus reinforcing the antecedents of the virtuous cycle. At the very least, your data speak to this in that Carl Schlenk AG's process has repeated so many times throughout its history and across generations and the trust-based environment has only strengthened during that time.

**This is a very important aspect. We agree that there is a feedback-effect of the mutual gains on the trust-based environment, which we pointed out through our evidence and included in the model. This is the reason why we consider not only a forward-flowing process (bottom arrow) but also a feedback effect of the mutual gains on the trust-based environment (top arrow). We hope that the combination of the forward and feedback effects depicts the strengthening effect across generations.**

In conclusion, thanks again for your work on this. I hope my comments have presented you with thought-provoking issues that will help you continue to hone its contribution.

**We wish to once more thank you for challenging us to really reflect in depth on the theoretical background and logic present in our model. We hope that our approach is**

**appreciated, and that our clarifications have reassured you of the soundness of our theorizing.  
Thank you!**

## **Response to Reviewer 2**

The front end is a great improvement over the last submission so very well done. I still have one or two further observations that should be addressed before publication.

**Thank you very much for your positive words on our revision of the manuscript, which was possible thanks to the insightful comments raised in the previous rounds. Your further comments provided us a great guide to improve and refine our manuscript. In those cases in which we have decided, upon deep consideration, to deviate from your suggestions we explain our reasoning and whether/how we have addressed your concern in another way. We respond to all your comments and suggestions below in a point-by-point manner and hope you will agree that the revision effort resulted in a much more improved manuscript.**

First, you still don't define a virtuous circle on first use

**Thank you for pointing this aspect out, we now maintain that “the characteristics of a family business can shape a virtuous cycle - where HRM enriches innovation which in turn, fosters HRM - thereby leading to mutual gains between the family firm entity and its employees, allowing family firms to thrive in the long run” (p. 3).**

Second, there are still instances when you state that family firms 'will' rather than 'could'. We need to recognise that FBs are a heterogeneous group and won't all behave in the same way.

**We apologize for this confusion. In thoroughly revising the manuscript we tried to get rid of the remaining instances when we understated the importance of heterogeneity among family firms, which we agree is of great importance for understanding their distinctive behavior.**

Third, Figure 1 contains the thematic analysis derived from your interviews and archival data so these are your results and as such should be in the results/findings section.

**We appreciate your comment and reflected upon it. However, after revising empirical articles adopting a similar methodology to ours – e.g. Corley and Gioia, 2004; Stigliani & Ravasi, 2012 – we noticed that they included the data structure (our Figure 1) in the data analysis section as we currently do. Therefore, we decided to keep the Figure 1 as part of the methodology, to describe the process through which we moved from data to theory.**

Fourth, what is unique and valuable about your work is the creation of a final model that depicts the interaction between HRM and innovation. So I would prefer to see the results from the interviews and archival data that lead to the generation of this model in the main body of the article rather than in an appendix - these are your results after all. The purely historical information about the company can go into an appendix.

**This is a very important point highlighted also by the editors. In addressing it, we embedded the quotes from the Table into the text of the Findings section and structured evidence from each generation according to the three key pillars of the model (Family business essence, virtuous cycle and mutual gains). We hope that this change in both**

**structure and content of the Findings section is able to fully outline the empirical evidence that allowed us to come up with our grounded model.**

**We are very grateful for your interest in our topic and we were very pleased that you took time and effort again to provide very constructive insights. We hope you agree with us that addressing the concerns raised by you, the editor and the other reviewer has resulted in a much-improved manuscript. Again, thank you very much for your insightful comments! We hope you are satisfied with our work and like the revised version.**

**ONE FOR ALL AND ALL FOR ONE: A MUTUAL GAINS  
PERSPECTIVE ON HRM AND INNOVATION MANAGEMENT  
PRACTICES IN FAMILY FIRMS**

**Highlights**

- Mutual gains between the organization and employees in a single case of Schlenk, a German FF
- In-depth analysis of primary data combined with historical archival data (1879-2019)
- Identification of distinct FF characteristics of credibility, solidarity, and loyalty
- Emergence of a virtuous cycle of reciprocal reinforcement between HRM and innovation management practices
- Transgenerational perspective on HRM systems

**“One for all, all for one”: A mutual gains perspective on HRM and innovation  
management practices in family firms**

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## **“One for all, all for one”: A mutual gains perspective on HRM and innovation management practices in family firms**

### **ABSTRACT**

The aspiration to thrive in the long run, potentially over multiple generations, is among the most distinctive traits of family firms. Depending on the family’s goals, a long-term view can spur the family firm to plan and secure its human resources (HR), thereby attracting local employees seeking stability, and retaining them for decades. However, low employee turnover may constitute a barrier to innovation, which is needed to survive and compete in the long run. Nevertheless, numerous family firms are renowned for being simultaneously excellent employers and outstanding innovators. Therefore, how can a long-term oriented family firm nurture its employees while pursuing innovation? To address this question, we conducted an in-depth longitudinal case study of Carl Schlenk AG, a fourth-generation family firm from the German Mittelstand consistently awarded over its 141-year history for both its human resource management (HRM) and innovation initiatives. Building on interviews, multiple observations, and over 1,700 pages of archival documents dating back to the late 1800s, our findings suggest that the distinct family business characteristics of credibility, solidarity, and loyalty lead to a unique virtuous cycle of reciprocal reinforcement between sophisticated HRM and innovation practices. This virtuous cycle ultimately fosters mutual gains for the family firm and its employees. Overall, our findings offer relevant contributions to research on HRM and innovation management in the context of family firms and beyond.

*Keywords:* Human resource management, Innovation, Mutual gains, Long-term orientation, Case study.

## 1. Introduction

*“One for all, all for one” - that is not just a slogan for us but a living corporate culture (Schlenk Corporate Communications)*

Human resource management (HRM), i.e. “all management decisions and activities that affect the nature of the relationship between the organization and its employees – the human resources” (De Leede & Looise, 2005, p.109), is acknowledged as a critical success factor for family firms to enhance performance, attract new talent, improve employee attitudes and behaviors; hence a source of long-term competitive advantage (Hoon, Hack, & Kellermanns, 2019). Strategic HRM research increasingly focuses on understanding the performance effects of systems of HR practices (Boon, Den Hartog, & Lepak, 2019) and the mutual gains or shared benefits for employees and firms, despite their divergent interests (Cullinane, Bosak, Flood, & Damerouti, 2014). Although research has examined the systems of ability- (A), motivation- (M), and opportunity-enhancing (O) HR practices (AMO model) (Appelbaum, Bailey, Berg, & Kalleberg, 2000), their empirical investigation has mostly focused on ability and motivation, leaving the opportunity-enhancing practices as well as the integration of the three dimensions scantily addressed (Boxall, Guthrie, & Paauwe, 2016). The family business context stimulates the creation of strong, lasting, and bonding social capital among employees, fostering cohesiveness, coordination, and decision-making effectiveness (Arregle, Hitt, Sirmon, & Very, 2007). While mutual gains are likely to emerge for the family firm and its employees, from planning security for the former to job security for the latter, they potentially lead to overinvesting in loyal, stable, and long-term HR (Bassanini, Breda, Caroli, & Rebérioux, 2013), at the expense of an inflow of new knowledge and ideas, ultimately detrimental to innovation.

However, family firms are among the most innovative organizations in the world (e.g., Urbinati, Franzò, De Massis, & Frattini, 2017; De Massis, Audretsch, Uhlaner, & Kammerlander, 2018), especially renowned for their unique HR, considered a cornerstone of innovation success (e.g.,

Duran, Kammerlander, Essen, & Zellweger, 2016). Scholars have recently identified the long-term orientation that family firms oftentimes have as a ‘shaper’ of innovation, finding “consistent patterns associated with their innovation motives which impact innovation behavior in subsequent generations” (Diaz-Moriana, Clinton, Kammerlander, Lumpkin, & Craig, 2018, p. 258). Family firms are often exempt from the pressure of short-term paybacks in managing innovation projects due to their typical long-term orientation, unique resources, and especially human capital (Dyer, 2003; Zellweger, 2007). Therefore, to thrive and survive in the long-run, family firms need to innovate by renewing their products, services, processes, and business models (e.g., Calabrò et al., 2018). However, the tendency of family firms to rely on strongly bonded HR with low turnover might increase cohesiveness and groupthink, leading to stagnation and hampering innovation, which instead requires new knowledge and skills (e.g., Brockman, Rawlston, Jones, & Halstead, 2010). It is thus unfortunate that research on HRM in family business is still scarce, and as such, the effects of the owning-family’s influence on the firm’s HRM practices remain in a black box (Combs, Jaskiewicz, Shanine, & Balkin, 2018).

Therefore, in this study we address the following research question: *“How can a long-term oriented family firm simultaneously nurture its HR while pursuing innovation?”*. To address this question, we conducted an in-depth longitudinal case study of Carl Schlenk AG, a family-owned and managed business founded in 1879 and representative of the German Mittelstand (De Massis et al., 2018). In fact, in 1911, its founder received a hereditary title from Duke Carl Eduard of Saxony-Coburg and Gotha in the name of Emperor Wilhelm II for the firm’s distinct social and economic contributions. This attitude has prevailed over the evolution of the family business across four generations, with the firm receiving numerous awards for its social engagement, listed

among the 100 most innovative German Mittelstand firms (MSG, 2015). The data collected include over 43 interviews and extensive secondary data from the business and the family archives.

Building on our evidence, we develop a process model that explains how the characteristics of a family business can shape a virtuous cycle where HRM enriches innovation which, in turn, fosters HRM, thereby leading to mutual gains between the family firm entity and its employees, allowing the family firm to thrive in the long run. Based on our findings, we develop diverse contributions through analytic generalization (Yin, 2013). First, we contribute to the overall HRM literature by illuminating the mutual gains between employees and employers from a dynamic perspective that explores the recursiveness and transgenerational nature of HR systems and related mutual gains. In so doing, we contribute to the AMO model (Appelbaum et al., 2000) by providing an illustration of the interrelationship among its three dimensions. Second, by exploring the influence that the owning-family exerts on shaping a trust-based environment that enables a virtuous cycle between HRM and innovation management practices, we unpack the underlying mechanisms of the interaction among the core elements of HR practices, the family firm entity, and employees (Hoon et al., 2019). Third, we examine how family firms can thrive in the long run by simultaneously nurturing their HR and innovation capacity. Finally, we discuss the study's managerial implications, limitations, and directions for future research.

## **2. Theoretical Background**

### ***2.1. Strategic HRM systems and mutual gains***

Research has examined why and how organizations achieve their goals through implementing HR practices (e.g., Jiang, Lepak, Hu, & Baer, 2012), i.e., “organizational actions or processes and job characteristics that focus on attracting, developing and motivating employees” (Boon et al., 2019, p. 2518). In their recent literature review, Boon et al. (2019) identify the six most adopted

HR practices: training and development, participation/autonomy, incentive compensation, performance evaluation, selection, and job design. Scholars have investigated the relationship between HR practices and outcomes, finding that HRM has an impact on organizational performance through its influence on employee attitudes and behaviors. Examined outcomes include direct HR outcomes (e.g., employee turnover, employee skills), operational outcomes (e.g., organizational innovation), and financial outcomes (e.g., sales growth) (Jiang et al., 2012). Strategic HRM practices, i.e., “the pattern of planned HR deployments and activities intended to enable an organization to achieve its goals” (Wright & McMahan, 1992, p. 298), are therefore considered effective when employees act coherently with the need to implement strategies and achieve various organizational objectives (Jiang et al., 2012).

Research on strategic HRM has increasingly emphasized HR systems as an interrelated set of practices to which employees are exposed to achieve some overarching organizational goal (Lepak, Liao, Chung, & Harden, 2006). When organizations aggregate HR practices in a coherent system, the synergic effect is higher than the sum of effects of each practice (e.g., Meyer, Tsui, & Hinings, 1993). The ability-motivation-opportunity (AMO) model is one of the most adopted frameworks to analyze systems of HR practices designed as a set of ability-enhancing practices (influencing employee knowledge and skills), motivation-enhancing practices (including incentives, support, and rewards, but also shaping the work climate), and opportunity-enhancing practices (designed to motivate employees to use their abilities to achieve organizational objectives) (Appelbaum et al., 2000; Lepak et al., 2006). Despite frequently adopting the AMO model in HRM research, scholars have mostly considered the ability- and motivation-enhancing practices, leaving opportunity-enhancing practices and the interrelationships among the AMO elements scantily understood (Boxall et al., 2016).

Indeed, strategic HRM systems are potential sources of competitive advantage for employers and for the livelihood of employees (Wright, Dunford, & Snell, 2001; Miller, Wright, Le-Breton-Miller, & Scholes, 2015). However, considering the complex interaction between employers and employees, and their different interests (Guest, 2017), achieving congruence between organizational and employee goals is challenging (Argyris, 1964). Research has defined mutual gains as opportunities to establish shared benefits for two interdependent parties with divergent interests (Cullinane et al., 2014). Examining mutual gains in the context of workplace partnerships, all parties (e.g., employees, employers) seek the most effective means to achieve their respective interests (Kochan & Osterman, 1994). The mutual gains perspective is built on the concept of reciprocity such that the firm considers employees as valuable assets and promotes their wellbeing, and in turn, employees respond positively, reflected in performance beneficial to the firm (Guest, 2017). Boxall's (2013) interdisciplinary study identifies three conditions for mutuality in employment relations: capability match (the fit between the employer's need for a competent workforce and employees' need for a conducive work environment), commitment match (the fit between the employer's need for a committed workforce and employees' need for job security and fair treatment), and contribution match (the fit between the employer's and employees' perceptions of meeting their respective needs).

However, the findings on mutual gains in HRM research are controversial. On the one hand, research shows that commitment-oriented HRM does not intensify employee wellbeing in their work experience or contribute to their work-life-balance (Edgar, Geare, Zhang, & McAndrew, 2015). On the other hand, practices designed to enhance the wellbeing of employees and positive employment relationships are identified as necessary to improve organizational and individual performance (Guest, 2017). Other studies explore the heterogeneity among stakeholders in mutual

gains, influenced by the employment relations climate (Valizade, Ogbonnaya, Tregaskis, & Forde, 2016). Boxall et al. (2016) underline that even the AMO framework, through which employee wellbeing and organizational performance could be enhanced, considers employee attitudes and behaviors as a means to serve the organizational performance goal, rather than mutual gains. Overall, the configurational approach that has characterized strategic HRM research, including the focus on the systems of HR practices that allow achieving mutual gains, adopts a static approach without examining how such systems might evolve, and the related mutual gains maintained over time (Boon et al., 2019).

## ***2.2. Strategic HRM Systems in Family Firms***

In family business, mutual gains consist in the reciprocal advantages between the family firm and its employees. Studies on strategic HRM and distinctive HR practices in family firms have gained momentum (Flamini, Gnan & Pellegrini, 2020; Hoon et al., 2019). Mostly focused on the owner-family's unique influence on the design of the HR practices system and related family firm performance (e.g., Barnett & Kellermanns, 2006; Hauswald, Hack, Kellermanns, & Patzelt, 2016; Madison, Daspit, Turner, & Kellermanns, 2018), research has identified the unique characteristics of family business human capital (Sirmon & Hitt, 2003) and superior employee relations (De Massis et al., 2018) as distinct from non-family firms. In their recent study, Hoon et al. (2019) introduce an integrative framework of family firm HRM that examines the interaction among three core elements (i) HR systems/practices, (ii) family firm/owning-family entity and (iii) non-family employees. Scholars have found that employment relationship management (e.g., recruitment or selection) in family firms is less-formalized (Astrachan & Kolenko, 1994; Ferraro & Marrone, 2016), leading to broad job descriptions and a flat hierarchy, thereby attributing high responsibilities to employees at an early stage (De Massis et al., 2018).

Research on HRM in family firms has exalted their unique caring culture toward employees, also shedding light on their distinctive nepotism trait or the preferential treatment of family members in an employment context by giving them positions based on kinship rather than merit or abilities (Bellow, 2004). The strong personal ties between family members and employees are deemed to create a family business culture characterized by powerful reciprocal loyalty between the owning-family and employees (Carmon, Miller, Raile, & Roers, 2010). Family firm employees might prefer a family-like environment characterized by longevity, care, and concern (Hoon et al., 2019), feeling “part of the family”, while the owning-family may consider the emotional bond with employees as vital (Shepherd, 2016). Nevertheless, owning-families often privilege kinship ties, and when dealing with relatives, allow HR practices to conflict with business values and profitability (Dyer, 1989). While nepotism might have a negative impact on family firm performance, it also allows higher goal alignment among family members (Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013). Drawing on the AMO framework, Firfiray, Cruz, Neacsu, and Gomez-Mejia (2018) identify contingencies under which nepotism might be beneficial or detrimental for family firm performance. These debates offer fertile ground for a deep investigation of mutual gains in family business research, since the family-like culture and nepotism constitute potential enablers and constraints of mutual gains in family firms. For instance, employers providing privileges to family employees are likely to undermine the career progress and satisfaction of non-family employees, thereby negatively influencing the latter’s commitment to pursue organizational goals.

Early family business studies emphasized the great importance of HRM as an antecedent of organizational long-term success and survival (Lansberg, 1983; Astrachan & Kolenko, 1994). Oftentimes, family firm long-term orientation, i.e., “the tendency to prioritize the long-range

implications and impact of decisions and actions that come to fruition after an extended time period” (Lumpkin, Brigham, & Moss, 2010, p. 241), leads these firms to act according to a time horizon spanning multiple generations. In other words, long-term orientation can be considered a higher-order heuristic that provides a dominant logic for decisions and actions with outcomes that emerge over time (Lumpkin & Brigham, 2011). In regard to HRM, family firm long-term orientation may generate mutual gains, when job security and the lower risk of job losses (Bassanini et al., 2013; Dailey & Reuschling, 1979) is compensated by an increase in planning certainty for the firm. Long-term orientation shapes family firms’ unique HR practices, leading to high employment duration, cohesiveness, and low turnover (Miller & Le Breton-Miller, 2005), fostering continuity and internal social capital (Ortiz-Villajos & Sotoca, 2018). However, it can also drive family business behavior in terms of “futuraity” (Lumpkin & Brigham, 2011; Diaz-Moriana et al., 2018), thus leading to the development of distinct capabilities to link the family firm’s past, present, and future innovation outcomes (Erdogan, Rondi, & De Massis, 2020; De Massis, Frattini, Kotlar, Petruzzelli, & Wright, 2016). This is likely to lead to a tension between HR retention and the need to innovate in family firms, which may undermine achieving mutual gains. Therefore, although the mutual gains challenge emerges in all types of organizations, it is especially crucial in family firms where the owning-family exerts high influence on HR practices. However, research on family firm HRM still lacks a clear understanding of the business family, its different goals and relationships, and hence its influence on HR practices (Combs et al., 2018; Hoon et al., 2019).

### ***2.3. Tensions between strategic HRM systems and innovation in family firms***

Strategic HRM and the related systems of HR practices are crucial in the innovation process, since scholars assume that a firm’s ability to innovate resides in its employees, and thus their

capabilities and motivation (Jiménez-Jiménez & Sanz-Valle, 2008). Therefore, HR practices constitute an antecedent of innovation (Seeck & Diehl, 2017) and contribute to firm performance (Gupta & Singhal, 1993; Paauwe & Boon, 2018). Coherently, the interaction of HR practices and innovation is increasingly discussed in the general management literature (e.g., Beugelsdijk, 2008; Chen & Huang, 2008; Fu, Flood, Bosak, Morris, & O'Regan, 2015; Perdomo-Ortiz, González-Benito, & Galende, 2009). In the context of family firms, innovation is essential to remain competitive and ensure long-term survival in increasingly dynamic environments (Johnson, Christensen, & Kagermann, 2008). There are, however, strong theoretical reasons to believe that family firms may encounter greater difficulties in innovating (König, Kammerlander, & Enders, 2013).

To date, the majority of studies focus largely on the differences between family and non-family firms, and whether they are more or less innovative (Duran et al., 2016; Urbinati et al., 2017). In addition to their resource dependence, inertia and rigidity, family firms are further constrained by generational transition and emotional ties that together impact how family firms manage innovation (König et al., 2013; De Massis et al., 2016). Nevertheless, family firms are amongst the most innovative in the world (e.g. Urbinati et al., 2017), and their long-term orientation acts as a stimulus for innovation (Diaz-Moriana et al., 2018). Paradoxically, despite the lower innovation inputs, family firms are found to have relatively high innovation outputs (e.g., new patents or products), demonstrating their ability to innovate more with less (Duran et al., 2016). This evidence points to high HR efficiency in dealing with innovation in family firms.

Employees may seek job security and stability, and find these in family businesses (Bassanini et al., 2013) oriented toward the long term, leading to mutual gains. The workforce in family firms is often characterized by higher average age, strong firm-specific knowledge (Sirmon & Hitt,

2003), high internal social capital, and redundancy of external contacts in a small community (Arregle et al., 2007). In fact, the family business culture can lead to an energized and highly productive workforce that is often very difficult for competitors to imitate (Ferraro & Marrone, 2016). Such unique combination eases the circulation and accumulation of ideas within the organization (Kammerlander & van Essen, 2017; Fahd-Sreih & El-Kassar, 2018). However, innovation requires the injection of new knowledge and external collaboration, and while increasing efficiency, the distinctive workforce of family firms may hinder access to novel information, thereby hampering innovation (De Clercq & Belausteguigoitia, 2015).

Therefore, while family firms oriented toward the long term adopt HR practices that foster low turnover and stability, this may turn into a disadvantage for the firm, leading to high cohesiveness and groupthink. Family firms need to innovate to thrive in the long run but tend to rely on internal HR with a high average age and low turnover. Under these conditions, mutual gains might disappear, leading to conflicting outcomes where organizational goals diverge from employee goals (Huettermann & Bruch, 2019). Therefore, the time is ripe to investigate the crucial link between systems of HR practices and innovation in family firms, where the distinctive long-term orientation can shed light on underexplored mechanisms at the intersection of HRM and innovation management. We argue that family firms are particularly suited to a longitudinal examination of how the HR practices and related mutual gains are developed and evolve over time (Boon et al., 2019).

### **3. Methodology**

#### ***3.1. Research Setting***

Carl Schlenk AG, run by the fourth generation and specialized in the production of metal powder, embodies the unique traits of family firms and especially those of the German Mittelstand,

a subset of private enterprises, mainly family-owned and family-run, and internationally renowned for high quality and innovation (De Massis et al., 2018). The family firm's founder, Carl Schlenk, was ennobled back in 1911 in recognition of his services to the country's industry and society, and especially his employees. Carl Schlenk AG was more recently ranked among the 100 most innovative and successful German Mittelstand firms (MSG, 2015). Moreover, the family business is an award-winner for its HRM and innovation practices. For example, the company's founder showed particular responsibility for his employees at a very early stage by providing health insurance, a support fund, building employee housing and a school for their children. This attitude toward employee wellbeing has been maintained over generations to today. The family business celebrated its 140th anniversary in 2019, and although the firm has tremendously increased in size and global presence, the headquarters are still located in its original rural location – Barnsdorf (Germany). The family has always lived next to the firm's original production site. This family business has been owned and managed for four generations by the family, and is a global player and world market leader with over 1,000 employees and revenues in excess of 150 million euro. Its unique HRM and particularly the care of its employees in combination with innovation have been at the very heart of the family business, recently recognized for its social responsibility by the German Association of Family Entrepreneurs 'Die Familienunternehmer e. V.'. Therefore, the history of Carl Schlenk AG gave us the rare opportunity to study the family firm innovation-related processes and HR practices over four generations.

### ***3.2. Data Collection***

The purpose of this study is to explore the intersection of HRM and innovation in a family business considering its long-term orientation. Since knowledge on this topic is still scarce and largely undertheorized (Cruz, Firfiray, & Gómez-Mejía, 2011), a case study is deemed an

appropriate method to gain understanding of how and/or why a phenomenon occurs (De Massis & Kotlar, 2014). Therefore, our study combines a longitudinal case study analysis (Yin, 1994) with grounded theory building (Glaser & Strauss, 1967), relying on a wide range of data sources allowing us to capture multiple perspectives (De Massis & Kotlar, 2014). We built an understanding of the familial, organizational, and historical context within which the observed process unfolded. Moreover, we captured the perspectives of actors involved in this process and collected observations on the current status quo. Once the data were collected, we performed multiple iterations between the data and our emerging interpretive framework (Locke, 2001).

The data collection took place from November 2018 to March 2019 (see Table 1 for details). One of the authors is a family member of the fifth generation and a shareholder in the business. To ensure reliability and internal validity, two authors undertook 26 interviews, gathering different perspectives of the business from family employers and employees, family members not directly involved in the business, and non-family employees. Family members of different generations (third, fourth, and fifth) involved in the firm were interviewed to attain a historical overview of the business and the dynasty through retrospective, current, and prospective accounts. The questions related to firm background, historical accounts, family generations, family involvement, and future outlook. Interviews with family members – whether active in the business or not – were complemented with non-family respondents across different departments and roles. The interviews lasted between 30 minutes and two hours, and were conducted in German and mainly onsite (i.e., the headquarters or family home), recorded and transcribed verbatim. In addition to our interviews conducted in person, we also undertook confirmatory interviews, including some of our previous interviewees, gaining more clarification through additional talks in an informal setting (e.g., at joint lunches or dinners with family members, in onsite meetings, or guided tours of the company

and its different production sites). Furthermore, access to past interviews from the corporate archives allowed a longitudinal perspective of the phenomenon under investigation, complementing the formal and confirmatory interviews.

To overcome the general limitation of retrospectively exploring a phenomenon at one specific point in time, we triangulated the primary data with secondary data from the historical archives, including reports, company and employee magazines, photos, letters, news articles, annual reports, anniversary publications, and the family archive. Ultimately, the comprehensive data collection resulted in 43 interviews (over 40 hours of recordings and 400 pages of transcripts), multiple observations, and over 1,700 pages of archival data dating back to the late 1800s. This rich body of information together with the primary and secondary data provided a deep understanding of the interplay between HRM and innovation in the long-established Carl Schlenk family business.

**Table 1**

Data collection: Primary and secondary data.

	<b>Primary Data</b>				
	<b>Family Member</b>	<b>Role(s) in the firm</b>	<b>Interview Duration</b>		
<b>Interviews</b>	No	HR - Apprenticeship & Young Talents	00:30:22		
	No	HR – Recruitment manager	00:30:22		
	No	Corporate Communications	01:45:31		
	No	Member of the Executive Board	00:40:54		
	No	Managing Director Metal Foils	00:51:00		
	No	Director - BU Coatings & Plastics	02:10:00		
	No	Director - BU Coatings & Plastics	01:55:00		
	Yes	Shareholder & Marketing	00:26:33		
	Yes	Shareholder	01:15:00		
	No	Marketing manager	00:48:00		
	No	Head of Information Technology	01:01:00		
	No	Director R&D	00:52:57		
	No	R&D - Head of Laboratory	00:50:27		
	No	BU Metal Foils	01:30:00		
	No	Product Manager Photovoltaic	00:46:01		
	No	Head of R&D	01:00:47		
	Yes	CEO	01:20:00		
	Yes	CEO & Director Public Relations	04:00:00		
	Yes	Director Public Relations	01:10:00		
	Yes	Shareholder	01:30:00		
	No	BU: Coatings & Plastic	01:15:00		
	Yes	CEO, Co-CEO & Directors BUs	02:00:00		
Yes	CEO & Applicant	01:30:00			
Yes	CEO, Co-CEO & Applicant	00:45:00			
No	R&D Manager	01:00:00			
No	Corporate Communications	01:00:00			
<b>Secondary Data</b>	17 Former Interviews	Employees, Executives	Average duration 1:00:00		
	<b>Internal Archives</b>	<b>Type</b>	<b>Content</b>	<b>Document length</b>	
		Anniversary Publication	Comprehensive summary of 100 years of Schlenk	20	
		Anniversary Publication	Comprehensive summary of 125 years of Schlenk	40	
		Pictures	Historical and current pictures	170	
		Academic Literature	Scientific articles analyzing Schlenk as employer	395	
		Family Archive	Shared stories, letters etc. across previous generations	400	
		Marketing Document	Material about employer branding etc.	-	
		Employee Magazine	Quarterly magazines	300	
		Company Website	Broad overview and information about the firm	-	
		<b>External Archives</b>	Internet Sources	Various articles	-
			Anniversary Publication	Comprehensive summary of 135 years of Schlenk	52
			Award	Nobilitation (1911)	-
			Award	Deloitte Internationalization award (2009)	-
			Award	MSG innovation award (2015)	56
	Award	Family business award (2018)	-		

### **3.3. Data Analysis**

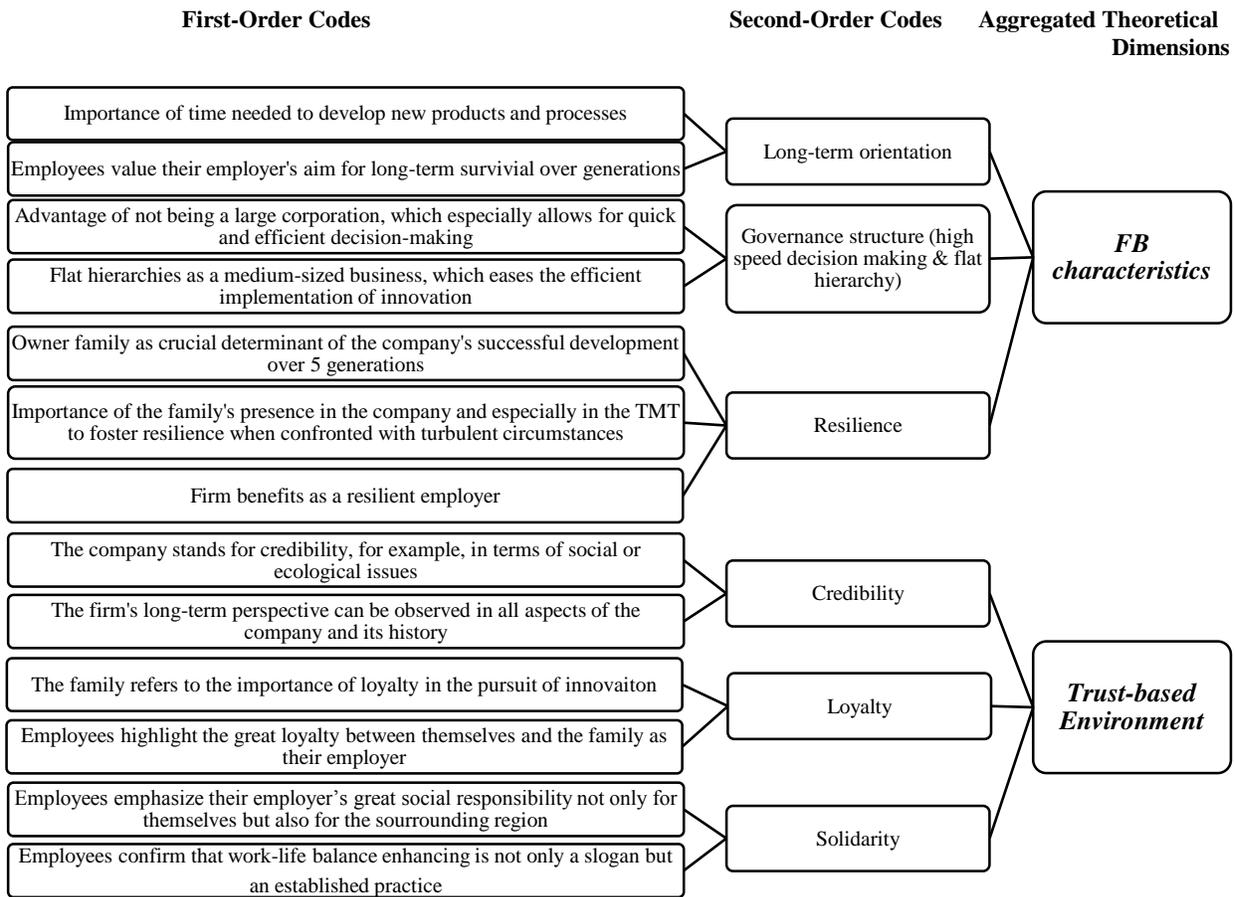
Following Yin's (1994) recommendations for case-based research, we first went through all the archival documents to chart the detailed narrative of the company's history by identifying the different actors involved in the business and their relation to the company, the various generations, their core activities, and the business evolution over its 141-year history. This first analysis allowed us to produce an accurate account of the events and actions, and helped us relate our emerging interpretations to the context analyzed. Specifically, we started compiling a timeline of the HR and innovation practices across the four generations. Then, following the well-established approach in organizational research (e.g., Corley & Gioia, 2004), we used grounded theory building to create an interpretive framework of the innovation-HRM related dynamics from the perspective of our informants. To analyze the collected empirical evidence, we independently read the interview transcripts and archival data, applying open *in vivo* coding using the qualitative data analysis program NVIVO®<sup>1</sup>, which also enabled exchanging memos to capture the themes and broad observations. From open-coding the interview transcript, we uncovered common themes and an initial set of first-order codes by looking for crucial elements of the practices implemented to manage HR and innovation. Progressively including interviews in our data collection, we revised these categories to seek similarities and differences among them, and check the data fit and consistency. Indeed, the consolidation of similarities and/or differences among groups (e.g., family members, executives, employees) allowed us to compare the multiple roles, ensuring internal validity. In further coding rounds, we collapsed the first-order categories into fewer but more substantive and theoretically relevant second-order categories (Locke, 2001). Once the core categories emerged from our analysis, we adopted axial coding (Strauss & Corbin, 1998) to identify relationships among these categories. Further iteration between our emerging theoretical

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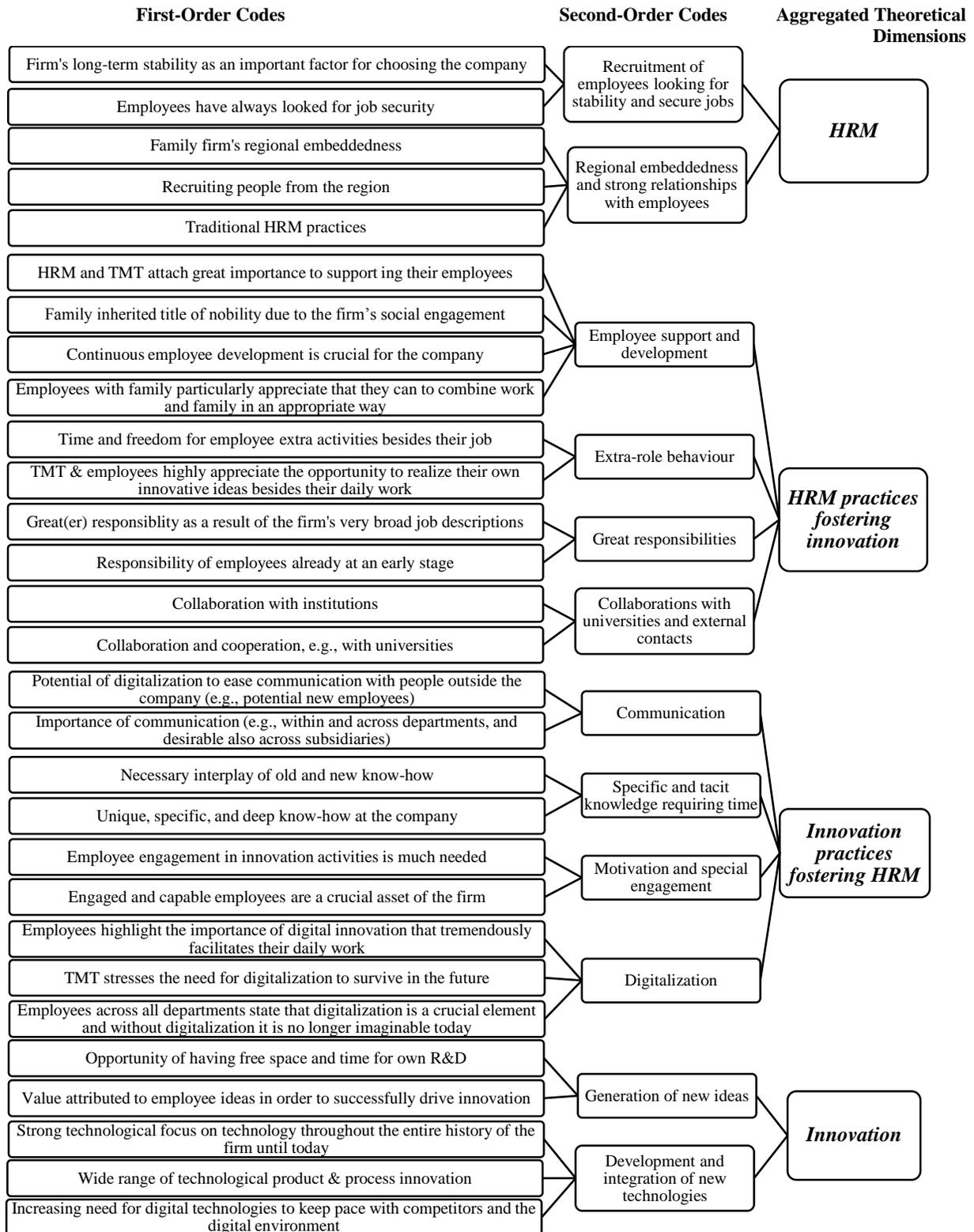
<sup>1</sup> QSR International, version 12.

framework and the large amount of data from the different sources allowed us to triangulate and consolidate the emerging evidence identifying recurrent patterns across the four generations. At this stage, the second-order categories were grouped into six broader overarching themes as depicted in Figure 1. Following Locke (2001), we analyzed potential alternative conceptual frames until we assembled our categories into an overarching model fitting our evidence.

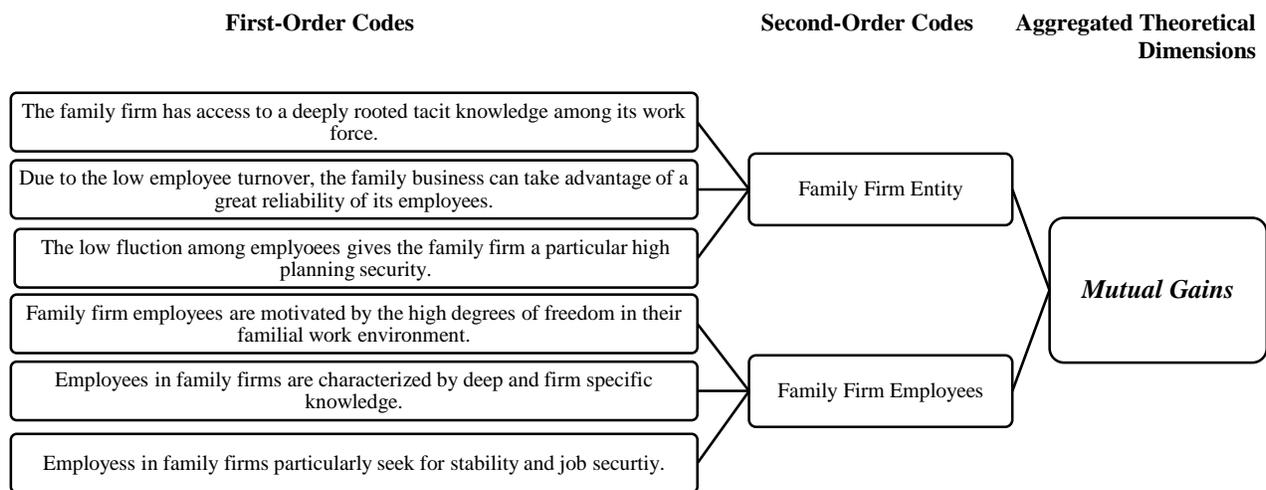
**Figure 1.** Data structure



**Figure 1. Data structure (continued)**



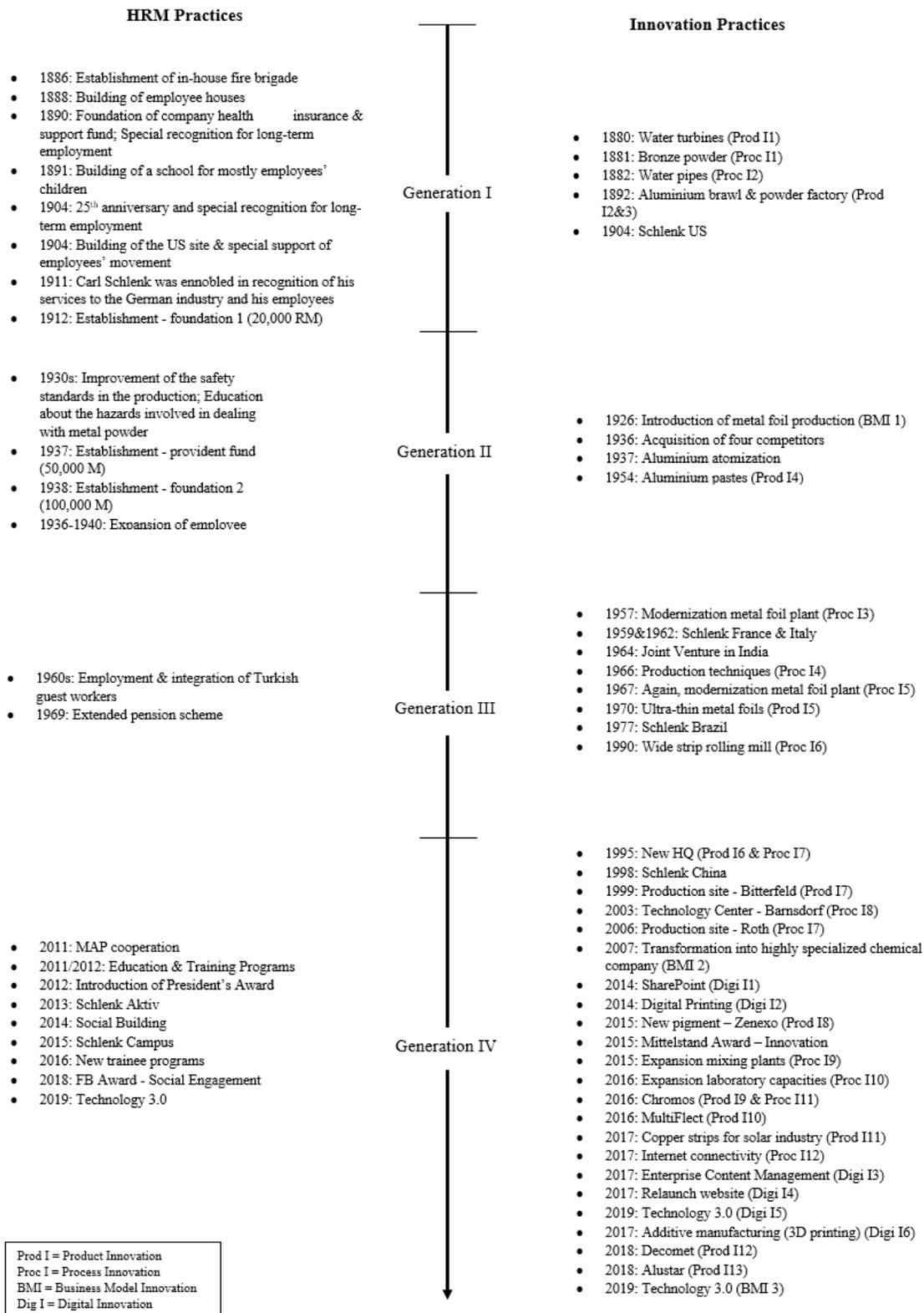
**Figure 1.** Data structure (continued)



#### 4. Findings

In the following section, we describe the historical evolution of the family business from its foundation to current IV generation (Figure 2 illustrates the historical development of Carl Schlenk AG over its generations). Our examination of the evidence unveiled three key elements of the interaction between HR practices and innovation in family firms, consisting in the *family business essence* (including family business characteristics and trust-based environment), their unique HR and innovation practices whose interaction engenders a *virtuous cycle*, and *mutual gains* between the family firm entity and its employees. We organize our findings according to these three key elements for each generation.

**Figure 2.** Historical development of HRM and innovation practices at Carl Schlenk AG



#### **4.1. Generation I - First industrial revolution in Germany (1875–1921)**

*Family Business Essence.* Carl Schlenk was born in 1851 as the younger son of an entrepreneurial family who could not take over the actual family business – a hop trading company. In 1875, after being bought out of the family business, he acquired a hammer mill, and founded his own business in Barnsdorf in 1879. Nevertheless, the founder kept ties with his family and especially with his elder brother, who helped him to grow his new business by providing the essential contacts and (patient) capital. Given that the founder ran the business independently, new ideas and decisions about their implementation could be realized fast and efficiently.

*The relationship between Carl von Schlenk-Barnsdorf and his workers was a family one. He made their worries his own and knew very well that wellbeing and motivation not only included a good word, but also a visible sign. (Family Archive)*

Already in the early days, the realization of innovative ideas was an interplay between the hands-on founder and his loyal employees, who were in turn given vast responsibilities and trust (Figure 3 depicts the Schlenk workforce in the first generation). The trust-based environment endured also during hard times as World War I.

*Despite all the manufacturing difficulties, the founder of the factory always found a way out to keep the workers in wages and bread, no one was dismissed in the years of almost complete production standstill (Family Archive)*



**Figure 3.** Schlenk's employees and family in the late XIX century.

*Virtuous Cycle.* At a time when blue-collar workers – especially those in factories – were scarcely considered, Carl Schlenk invested heavily in their wellbeing, safety, and efficiency. For example, since dealing with metal and especially aluminum powder in the production process posed great risks, Carl Schlenk decided to set up an in-house fire brigade back in 1886. Over 80 Schlenk employees were specifically trained and equipped, and did not only serve the company, but also the surrounding region. As the family business grew in size, it increased its workforce and became more and more dependent on employees and people from the larger surrounding area. In the 1890s, he launched a large-scale project and built housing for his employees and their families. In this way, he shortened their daily commute and created a growing community around the factory, which also included the development of the regional infrastructure and the establishment of a school for his employees and his own children.

*For his workers and their families, he built comfortable company apartments, which were connected to the central water supply (...) A school and a street to Roth's railway station were also built in the village on his initiative, whereby he also assumed a large part of the costs. The various social facilities in Barnsdorf, which were very progressive at the time, ensured a good climate in the village and in the company. (100<sup>th</sup> Anniversary Publication & 135<sup>th</sup> Anniversary Publication)*

In 1891, Carl once again showed his commitment to employees by introducing a company health insurance and support fund. This was not only an outstanding HRM practice back in the late 1800s, but was intended to be improved and further developed by his successors.

*He showed particular responsibility in 1890 with the founding of a company health insurance fund and a provident fund to provide for his employees (135<sup>th</sup> Anniversary Publication, external)*

For the 25<sup>th</sup> anniversary of the business, Carl Schlenk organized and paid for a big celebration for the entire workforce and doubled wages for Christmas. Long-term employment was particularly recognized by Carl, as those employees who had worked for the firm for more than ten years were given an extra bonus – rewarding long term tenure and low turnover. Back then, even more meaningful was the founder and his wife's intention to establish a foundation that has

since cared not only for employees, but also for the ‘poor and worthy’ in the region through supporting non-profit organizations.

*On April 2, 1911, Carl von Schlenk-Barnsdorf established the Carl und Caroline von Schlenk-Barnsdorf'sche Gedächtnisstiftung (Memorial Foundation) in the amount of 25,000 marks with the stipulation that from the interest accrued support is paid to the needy in the district of Roth (Family Archive)*

All these unique HRM practices in combination with further economic (i.e., establishing an internationally operating business and world market leader in the area of bronze and aluminum pigments) as well as social accomplishments (i.e., building a community in the rural area of Barnsdorf and developing it into a ‘cultural oasis’) led to Carl Schlenk’s ennoblement in 1911, and thus to a change in surname from ‘Schlenk’ to ‘von Schlenk-Barnsdorf’.

*In recognition of his services to German industry, Carl Schlenk was ennobled on May 18, 1911 by Duke Carl Eduard of Saxony-Coburg and Gotha, his father. On 24 November 1911, the Bavarian government registered the ducal Saxon hereditary title of nobility conferred to Carl von Schlenk-Barnsdorf in the Bavarian aristocratic register (official register) of all noble families, after approving the name change to Schlenk-Barnsdorf (Family Archive)*

As regarding innovation practices, in 1904, he established the first production site overseas in the US. Due to the trust and loyalty Carl had built among his workforce, he did not struggle to find experts and experienced staff willing to make the huge step to move to the US with their families. The early years of the family business were characterized by rapid growth, which required continuous improvements in production and the underlying processes. Although the founder did not have any technical background, he soon became its driving innovative force by giving employees advice and assistance, and taking several roles, for example, as metallurgist, chemical, and hydraulic engineer. First, he implemented two state-of-the-art mechanical turbines, which replaced the old water wheels, and complemented them with a high-pressure water pipe. Furthermore, after the original core product – wrought iron – was about to be replaced by bronze powder in the early 1880s, the family business set up the world’s first modern bronze factory in 1888. Only two years later, he further implemented another major innovation project, namely the

establishment of an aluminum powder factory. In addition to the rapid growth of the major production site in Barnsdorf, the family business established its first trade branches at ‘all the major places in the world’ (100th Anniversary Publication) and even set up its first production site abroad in the US at the turn of the 20th century, which required adapting the business model in the respective context.

*Mutual Gains.* Committed and skilled employees were of fundamental importance to successfully drive the company’s industrial change to achieve world market leadership in the sector. To keep up with the company’s rapid growth, Carl Schlenk employed people from the broader surrounding area at a time when the rural infrastructure was hardly developed. He not only improved the road network and the overall regional infrastructure, but also built employee housing and a school to establish a community. In this way, he shortened his employees’ journey to work, improved their satisfaction and wellbeing, ultimately increasing their efficiency and innovativeness. At the turn of the 20th century, the still young company was undergoing a transition of rapid development at a time of tremendous technological changes. Only the many process innovations driven by the founder and his committed employees enabled the company to adapt to the industrial revolution’s disruptive force.

*Is it any wonder that the Barnsdorf bronze factory has never experienced a strike? There was no reason for that, said Waitz, head of the shipping department. My father came to Barnsdorf in 1895 and was a foreman at the production site. At that time, he was 36 years old. Later, I started as an apprentice in the storehouse and today I am head of shipping. My boy will succeed me one day because I am now in my seventies. My wife, Marie, was a maid to the old lady (i.e., the founder’s wife). I drove their horses and went hunting with them, we didn’t need any strangers (i.e., additional to employees), we did everything ourselves and when the boss was away once, we stood at the windows when he came home and waved, because we were happy that he was back again. We were one big family. (135th Anniversary Publication)*

#### **4.2. Generation II - World war, economic crises, and inflation (1921–1957)**

*Family Business Essence.* The next generation had been active in the business since 1907, but after the founder died in 1921, his two sons – Arthur and Wilhelm – took over the management of the family business in a tough era between wars, inflation, and economic crisis. Nevertheless, inspired

by their father and mother (chairwoman of the supervisory board), they were resilient and continued improving the safety standards of the production processes after an explosion occurred in the aluminum factory. When the second generation took over the family business, the German economy was still suffering from the consequences of World War I and had to overcome several economic crises as well as inflation before stumbling into World War II. Carl Schlenk AG did not only lose many employees on the battlegrounds, but also its very important production site in the US, which contributed to almost half the company's overall turnover. The family business showed high resilience in relation to the great turmoil and economic downturn.

*Even though production at Carl Schlenk AG was virtually idle during the war years, the personal relationship between the family and its employees intensified. Like most employees, the two brothers (...) were participants in the war. (125<sup>th</sup> Anniversary Publication)*

However, in the spirit of their father, the two brothers continued to expand employee housing, the school, and the overall regional infrastructure, for example, by further improving the roads from and to Barnsdorf, and connecting it to the emerging rail network.

*Virtuous Cycle.* In 1937, the second generation set up a provident fund with a capital investment of 50,000 German marks to take care of their workforce in these very difficult times, and further supplemented the Schlenk foundation with over 200,000 marks in subsequent years.

*In 1937 the "Unterstützungskasse" with a 50,000 marks capital was created from the pension reserve. [...] The Foundation was allocated 100,000 marks. In 1938, the Foundation again received 100,000 marks. (100th Anniversary Publication)*

Furthermore, the company placed much emphasis on personnel development. For example, employees were provided with specific courses and seminars to enhance their skills and knowledge (e.g., language or technological skills).

In terms of innovation, the family's major focus at that time was not so much on state-of-the-art revolutionary products or processes, but on keeping the business alive and slowly regaining its former innovative strength and size. Despite the harsh economic times, the next generation of family entrepreneurs acquired a rolling mill and thus expanded their traditional business model.

Although completely different, the antecedents and raw materials were the same, and an exchange of knowledge from employees of the different production sites led to fruitful synergies in terms of product and process innovations. In addition to the production of metal powder and pigments, the family business also produced metal foils. However, it also focused on incrementally innovating the existing products and processes, in great part driven by the deep and specific know-how of its employees, for example, transferring the atomization of aluminum to bronze production and producing aluminum paste from 1954 onwards. At the same time, they extended the range of applications of aluminum powder to the aerated concrete industry in which the family business is still world market leader today.

*In 1954, Schlenk first produced aluminum pastes in Barnsdorf. Two years later, aluminum powder was also produced for the aerated concrete industry. (135th Anniversary Publication)*

*Mutual Gains.* In these unparalleled difficult times, the family took particular care of its employees by establishing a provident fund and further increasing their support through social initiatives. In this way, the family business again increased its attractiveness for potential new employees while boosting their existing employees' loyalty.

#### ***4.3. Generation III - The economic boom of the golden 50s (1957–1998)***

*Family Business Essence.* In May 1957, the founder's wife – last representative of the first generation – passed away, a memorable date because up to then the founding generation had still been present in the firm (through their position on the supervisory board). With the end of World War II and economic recovery in the 1950s, the third generation, later supported by a brother-in-law, ultimately took over the business in 1957.

*An important step was taken in 1957 with a far-reaching restructuring of the management: the next generation together with his brother-in-law (...) from 1961 onwards - as the third generation of the management board. (135th anniversary publication)*

The family had to navigate the business through very turbulent times, but under the management of the third generation, it successfully returned to its former size and importance

*The fact that the second generation was able to pass the family business on to the third generation, that this seemingly vulnerable family business rose again even after the Second World War, basically proves the mental robustness of this 'personal union' of family and company, from which the employees have benefited again and again. (135th Anniversary Publication)*

*Virtuous Cycle.* The economic and industrial boom of the late 1950s implied the increasing scarcity of production employees. It was at this time that the first (i.e., Turkish) foreign workers settled in the region. The family business was also a pioneer when it came to recruiting and selecting foreign employees, supporting their integration, not only in terms of the family business, but also within the region and society.

*This was the time when the first Turkish foreign workers settled in Barnsdorf. Together with colleagues from various other countries they contributed in the following years until today to the fact that production could continue in the company. Together with their families, they now represent a population group that can rightly feel at home in the region. (100th Anniversary Publication)*

The third generation also promoted the social heritage of the predecessors and the unique compensation practices by establishing a pension scheme that guaranteed a significantly higher pension for all employees than the second generation's provident fund. The third generation was also highly involved in technological innovation projects, for example, modernizing the production of metal pigments in Barnsdorf.

*The family's third generation began to modernize the Barnsdorf production of aluminum pigments for cellular concrete by introducing new production techniques. This process was successfully completed in 1966. (135th Anniversary Publication)*

Furthermore, on the advice and recommendation of employees running the metal foil production, the underlying processes were innovated by implementing state-of-the-art machinery, which enabled the production of ultra-thin metal foils. Carl Schlenk AG was soon to become the European market leader in this field. In addition, the family business also enhanced its internationalization by establishing not only subsidiaries in the US, France, and Brazil, but also acquiring new production sites in Eastern Europe.

*In 1964, an Indian company acquired the know-how for an aluminum powder plant, because in the industry and especially at Schlenk it was customary to develop the machines themselves. (125th Anniversary Publication)*

*Mutual Gains.* It was not until the third generation took over the business that Schlenk regained its original relevance and size, although the industrial boom was also accompanied by certain difficulties, for example, finding enough qualified employees to keep up with the firm's rapid growth. As the family business and its foundations were strongly involved in social projects supporting not only employees but also those in the surrounding area, the foreign workers became increasingly involved. Furthermore, in line with the predecessors, the third generation further developed the company's compensation practices by increasing the social benefits that the family firm offered its employees, for example, introducing the pension scheme that further enhanced employee satisfaction and loyalty.

#### ***4.4. Generation IV - Globalization and ecological footprint (1998 – Today)***

*Family Business Essence.* The fourth generation joined the board in 1995, and only three years later took over the management until today. The family business characteristics of Schlenk, transferred across the former generations have been able to shape the current trust-based environment where credibility, loyalty and solidarity are at the core. These aspects were clearly highlighted by the employees in the interviews.

*Sustainability and respectability are part of this family-run company's culture. A person can feel at home at Schlenk; the conditions here are a good fit!* (Former Interview, Vice President Global Sales)

*Innovation and tradition secure my future. Decisions for generations are not based on quarterly figures* (Interview, Director - BU Coatings & Plastics)

*Many of our employees here come from the region and this is also connected to a certain extent with the responsibility I mentioned at the beginning. This means that responsibility is reflected in many areas. There are also environmental issues as well as general responsibility for the region. We are one of the most important employers in the Roth region. Accordingly, we have to live up to our responsibility and that is what we and the family want. We want to be a trustworthy employer here in the region.* (Interview, HR – Apprenticeship & Young Talents)

*Virtuous Cycle.*

*The global, highly complex problems of the 21st century require not only technical competence but also a high level of commitment, flexibility, personal responsibility and networked thinking from our management and all other employees. We have taken a major step in this direction in recent years. This path remains exciting.* (125th Anniversary Publication)

Coherently with this vision, besides protecting the environment and saving valuable resources, the strategy at Carl Schlenk AG is aimed at further improving the quality of working, which in turn engenders innovation.

*Due to the structure of the company, our employees have a very high level of responsibility from the very beginning, but also freedom to make decisions, so that decisions can be made very quickly, and innovations can be implemented efficiently (Interview, Family CEO)*

*We are an employer that focuses very strongly on employees, and the employee, i.e., the human capital, is very important to us. And here we are very keen to always attract good people to the company and, of course, to retain them for the company, because that is ultimately also the decisive factor for innovation and that you can also be innovative there (Interview, HR – Apprenticeship & Young Talents)*

Recently, a new social building has been created to intensify the exchange and spill-over of knowledge across departments and subsidiaries.

*We focus on the human being! We offer much more than the usual: job security, childcare, a physiotherapist and sports activities. Schlenk has even built its own multi-purpose workplace for its employees. And of course, we have a great canteen! This creates a wow effect. Appreciative cooperation is simply a part of it for us (Interview, HR Recruitment)*

The family deeply understands that innovation cannot be dictated from the top down but has to increasingly become a routinized process that emerges from the heart of the company. Innovation at Carl Schlenk AG requires the generation of new ideas as well as the development and integration of new technologies. Providing employees' freedom and space for elaborate innovative ideas and solutions is fundamental for the firm's competitiveness and survival, especially in an ever changing and increasingly digital environment. The canteen, social rooms, and gym (see Figure 4 for an image of the social building) serve as open spaces for communication and exchange for all employees, enhancing the community spirit in the company and Barnsdorf. Moreover, employees allocated a certain amount of free time to generate and develop their own innovative ideas, which they are then encouraged to realize besides their actual daily work.

*Innovation is a cultural issue and here at Schlenk there are a lot of good ideas. Our employees are also constantly improving processes and products and, above all, initiating their own ideas and innovations. For the latter, a great deal of freedom is always given here. As a production employee, I am involved in the development of new products and help to further optimize processes. The company offers free space for innovation - 80% of regular work and 20% free space and room for innovation (Interview, Director – BU Coatings & Plastics)*

*With the Schlenk Campus and the Schlenk Aktiv program, we allow employees to meet outside of work and enable them to exchange with each other, which ultimately may lead to employees coming up with new ideas or concepts when they are not actually at work per se (Interview, HR Recruitment)*



**Figure 4.** Schlenk social building.

The fourth generation currently running the family business has also been strongly involved in technological and business model innovation. For example, Carl Schlenk AG strengthened its research and development of new products by building a state-of-the-art technology center in 2003. In addition, the company established a new plant to produce the raw materials for new product lines, e.g., new finished inks, which again required the construction of a new plant. The continuous expansion of the mixing and production plants was complemented by the construction of another completely new plant for the production of special copper strips for the solar industry. Under the fourth generation, the family business continuously innovated its original business model, and increasingly transformed from a producer of metal powders, pigments, and foils into a specialty chemicals company focused on new materials and special chemical products.

*An essential feature of recent history is the further development from a company in the metal industry (metal pigments, metal powders, metal foils) to a manufacturer of new materials and special chemical products. (135th Anniversary Publication)*

The current generation in charge of the family business also drives its ongoing internationalization with a mixing center in Shanghai and a factory in mainland China.

Nevertheless, the family CEO has also recognized the need to respond to digital innovation early. At the very beginning, he decided to implement and finance the company's connection to the internet himself due to the fact that the German government struggled to promote fast internet also in rural areas. If not for the family business, the villages around Barnsdorf would not have access to fast internet, as is the case in many rural areas in Germany still today.

Just like their predecessors from earlier generations, the current family management has established a unique bundle of specific HRM practices that support their employees (e.g., sport facilities, kindergarten, etc.). In addition to supporting its employees, the family also place great emphasis on employee development, for example, through further training and education programs at the "Schlenk Campus". In combination with typical family business governance (flat hierarchy, quick decision-making), these support and development activities result in extra-role behaviors and great responsibilities, which again foster innovation. The ever-faster changing environment in which the family firm found itself increasingly called for the exchange of conventional and new know-how. Therefore, the company rapidly increased its overall workforce and especially focused on recruiting qualified and skilled employees who helped to progressively become a specialized producer of high-end and high-quality niche products. The new knowledge and skills (e.g., design thinking, Kanban, etc.) that employees gain from attending courses and seminars at the Schlenk Campus enables them to realize ideas more efficiently and turn them into innovation (see for example the latest Schlenk machinery for metal rolling in Figure 5). The latter mostly derives from within the company and is further complemented by cooperation with universities and external contacts. These HRM practices do not only increase employees' job satisfaction and foster innovation. While the "Schlenk Campus" is intended for the company's employees only, whereas family members gain their training and further educational development through external courses and seminars.

*Our employees are at the heart of our daily work. Therefore, their continuous development through advanced training is becoming increasingly important, especially in the current ever-changing environment of digitalization. Our employees appreciate the additional activities that we offer to develop their skills and know-how. We offer them training and education in the framework of our Schlenk Campus. (Interview, HR – Apprenticeship & Young Talents)*



**Figure 5.** The latest Schlenk machinery for metal rolling is at the forefront of technological development.

As can be seen from the company's development, it has always had a long-term orientation, particularly noticeable in its HRM characterized by low turnover and long-term employment.

*The quality of our employment culture is expressed in low employee turnover, long term employment, and our many supervisors that either started their careers as trainees here or have developed with the company. (Carl Schlenk AG, Website)*

*In addition, among our employees we have some families who have been with us for four or even five generations. (Interview, Family CEO)*

Long-term employment again leads to the creation of very specific as well as tacit knowledge, in combination with greater responsibilities and family governance, which facilitate exchanges and knowledge-spillovers across departments. Its unique HRM fosters innovation, and the innovation practices in turn foster HRM.

*An important form of innovation is the interaction between old and new. This means that I have a core of employees and can occasionally acquire one from the outside. I'd say that's the ideal story. But when an employee leaves, he always takes a lot of unlisted knowledge with him and I can't get that from any database, because that's not just specialist knowledge but also the relationship knowledge I have (Interview, Head of R&D)*

*I think that in the end, the mixture of both (i.e., conventional and new knowledge) is exactly the recipe for success, so you need employees who have been with the company for a very long time to implement certain developments. Innovation itself is now not something that comes in a short time, but in the end is also the effect of the interaction of old and new over a longer period of time. And of course, it is helpful to have employees who have been involved in these processes for some time. At the same time, it is still important*

*to get an input from outside. For certain areas, in order to eliminate exactly this operational blindness to a certain extent. Or at least to minimize it, I say. (Interview, HR Recruitment)*

*Mutual Gains.* According to employee statements, whether long-established members of the executive team or new employees, they refer to the importance of the family firm's long-term orientation enabling enduring employment and innovation for generations.

*The higher responsibility of employees leads to a general entrepreneurial mindset and hence to more innovation (Interview, BU Metal Foils)*

*We want to continue to grow – sustainably and over the long term! For this reason, we also have to venture forward into new areas. (Interview, Managing Director Metal Foils)*

The interplay of HRM and innovation practices ultimately leads to mutual gains for the family business and its employees. As we have illustrated, these mutual gains are observable over the course of time, recalling that the company celebrated its 140<sup>th</sup> anniversary in 2019.

*But it is precisely for this reason that we are proud of our competent and committed employees, who have worked together with great imagination and creativity on the success of Carl Schlenk AG over the years. "It is important to us that they know that we see it that way" said von Schlenk. (Verlag Nürnberger Presse Druckhaus Nürnberg GmbH & Co. KG)*

In summary, Carl Schlenk AG has a wide range of HRM (e.g., compensation, personnel development, recruitment, and selection) and innovation (e.g., cross-functional work environment, Kanban) practices that were established by previous generations but are continuously developed and improved by their successors. For example, one HRM practice that throughout the centuries became tradition in the family is that during Christmas the family CEO together with members of the future next generation visit some long-term employees and give them and their families special presents in the name of the family. This HRM practice allows a double goal throughout the generations. First, it involves the family and especially the next generation allowing them to build that special and unique connection with the employees in the business. Second, it makes the employees feel as a part of the family.

*It is clear to us that the balance between work, private, and family life is the most important basis for the satisfaction and performance of our employees. We therefore offer solutions for the needs of different situations. In the long term, the use of our foundations will also have lasting effects and do us good as a company. The award shows us that we are on the right track - this is both a source of satisfaction and confirmation for us, and an incentive at the same time (Company Website)*

## 5. Discussion

Our study examines how a long-term orientated family firm can simultaneously innovate and manage its HR, ensuring mutual gains for the firm and its employees. Based on our evidence of Carl Schlenk AG, a German Mittelstand multigenerational family business recognized for its HRM practices and innovation initiatives, we uncovered the process through which a long-term oriented family firm can foster innovation and strengthen HRM practices. We identify the origin of such process in the family business characteristics that shape a trust-based environment of solidarity, loyalty, and credibility. These characteristics generally operate in an informal system (Rosanas & Velilla, 2003), and emerged strongly in the case investigated. Our analysis unveiled that the trust-based environment engenders a virtuous cycle between innovation management and HRM practices whose outcomes are mutual gains for the family firm and its employees. We illustrate the process in detail in the next section, then explain the contributions of our study to theory and practice, and finally, the limitations that provide directions for future research.

### ***5.1. A process model of innovation and HRM practices generating mutual gains in family firms***

Building on our exploration of the single case of Carl Schlenk AG, we identify a process model that depicts the virtuous cycle of HRM and innovation management practices able to enhance the mutual gains of the family firm and its employees. Therefore, we develop an analytical generalization to theorize from the findings of a single case study (Yin, 2013) based on a progression strategy (Kouamé & Langley, 2017). Our case reveals three distinct phases through which the family business solves the tensions between potential HRM and innovation “conflicting outcomes” (Huttermann & Bruch, 2019). As depicted in Figure 6, *family business essence* spurs a *virtuous cycle* between HRM and innovation management that leads to *mutual benefits* for the family firm entity and its employees.

The *family firm essence*, composed of the key family business characteristics (long-term orientation, governance structure, and resilience) is shaped by the consistent presence of the owning-family over time and engenders a trust-based environment between the organization and its members by leveraging loyalty, solidarity, and credibility. Loyalty emerges from the special relationship between the firm and its employees, but also among non-family employees and family members due to the flat hierarchy. Solidarity subsists in the familiar atmosphere and strong cohesion between the family and employees, generating commitment. Finally, the family business' credibility ensues from its stability and nurturing employee wellbeing. Our evidence shows that thanks to creating a trust-based environment, the family firm has not only lasted through four generations of family leaders but has also been accompanied by generations of employees and their families.

Such a trust-based environment shapes both the HRM and innovation management practices, so that they are synergized in a *virtuous cycle*. The specific HRM of family firms not only leads to an increase in employee wellbeing, engagement, and satisfaction, but also boosts innovation efforts. Wellbeing and satisfaction are enhanced through various HRM practices aimed at improving employee work-life balance and family support. Furthermore, innovation is sparked through training, development, and the incentive to integrate conventional and new knowledge. The HR practices depicted in our findings include all six categories (training and development, participation/autonomy, incentive compensation, performance evaluation, selection and job design) that Boon et al. (2019) identified in their recent literature review, shedding light on their idiosyncratic characteristics in the family firm context. In terms of innovation management, employees appreciate the opportunity and time they are given to realize their own ideas that they believe can enhance product or process efficiency. The higher responsibilities of employees, deriving from a flat hierarchy and greater autonomy, promote creativity and collaboration with

external parties (e.g., universities and research institutes). Moreover, the converging evidence shows that employees emphasize the strong tradition of employee benefits that span the boundaries of work-related aspects, including employee housing, health insurance, childcare, school, gym, canteen, etc. Finally, the family firm promotes initiatives to boost employee development, for example, through education and training programs. These HRM practices foster the development and implementation of innovation initiatives leading to new products, services, technologies, and business models, ultimately enabling the family firm to achieve its desired outcomes of value generation and growth.

In turn, the innovation management practices analyzed influence the family firm's HRM. The high level of tacit and specific knowledge embedded in the family firm - thanks to employees retained for many years, sometimes from different generations of the same family - requires considerable time to establish, thus family firm's long-term orientation can be considered an enabler of the development of these competences. Moreover, communication across departments and subsidiaries enables the transmission of specific and tacit knowledge among the workforce. The exchange of new and conventional know-how across generations is especially important in the digitalization era. Employees are motivated by the unique HRM in combination with the family business culture, showing special commitment to innovation activities. Similarly, broad job descriptions, leading to greater responsibility and engagement, are particularly beneficial for innovation outcomes in the case analyzed.

The *mutual benefits* are ensured through innovation and HRM practices that allow the firm to satisfy employee goals, and in turn, employees contribute to the achievement of the family firm entity's goals. While the family firm entity can benefit from planning, stability, and innovation, it ensures employees the ability-, motivation- and opportunity-enhancing practices that foster job stability and wellbeing. In fact, the high degree of employee autonomy and support allow the firm

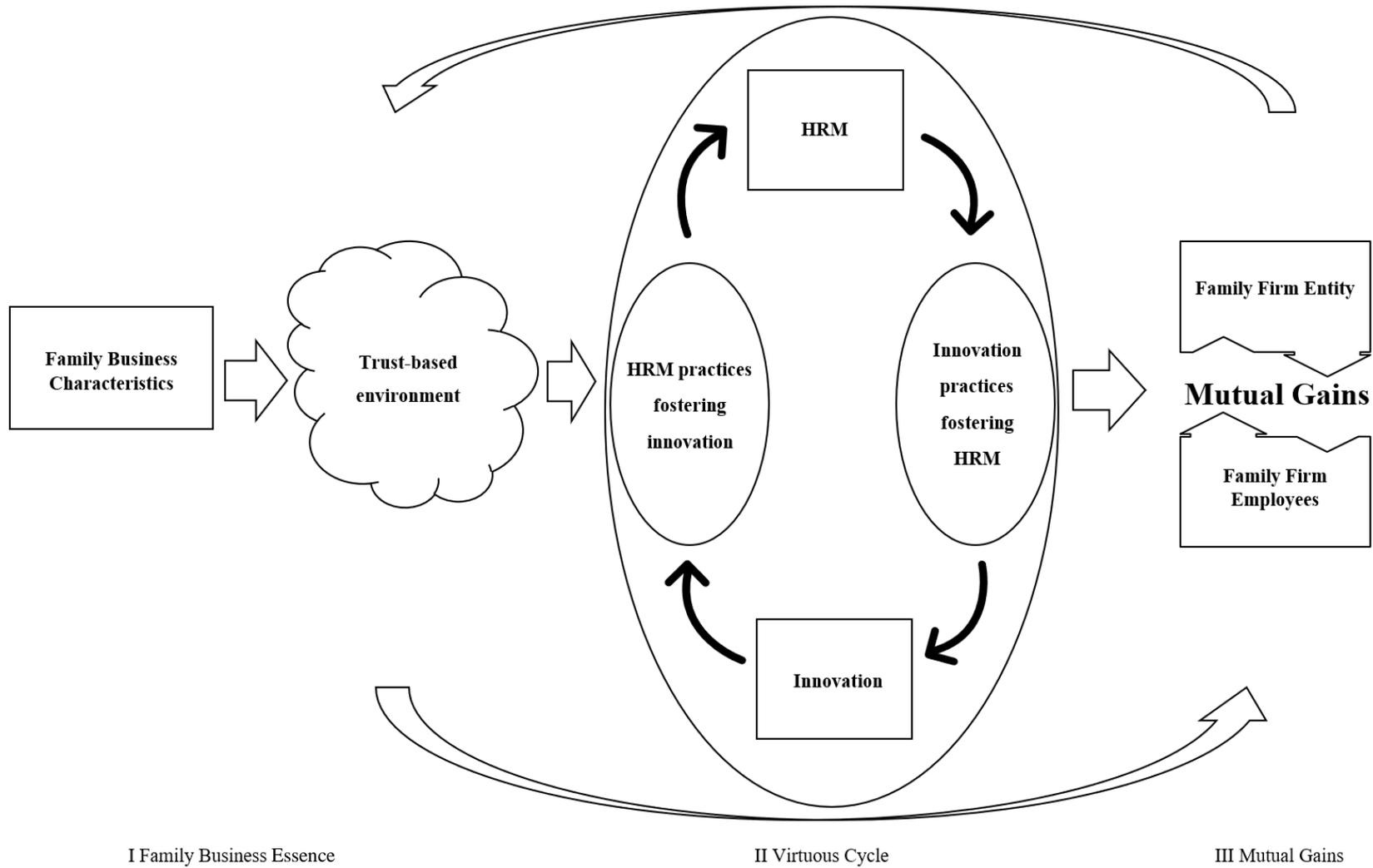
to generate innovative ideas from within, consisting in not only incremental changes to products and processes, but also to the business model. By encouraging its employees to engage in external collaborations with institutions, such as universities, research centers, and other firms, the family firm ensures the combination of specific knowledge with the new skills and competences that employees acquire.

What is intriguing about our study is the consistency, persistence and adaptation of the model over time. In other words, each generation in the family business has been able to adapt HRM and innovation management practices to the current historical and social context to enable enhancing the mutual gains. In fact, each generation of family leaders has adopted HRM practices that are coherent with the social needs of their specific time period, thereby duly addressing the requirements of their employees who feel supported, and in turn boosting the firms' innovation and growth over time. Through our longitudinal perspective spanning more than four generations, we also identify a feedback effect of the mutual gains developed in one generation on the trust-based environment of the next generation<sup>2</sup>. This highlights that the long-term orientation of the family firm regenerates and nurtures a trust-based environment over time. The feedback effect generates a virtuous cycle not only within a specific generation but also from one generation to the next.

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<sup>2</sup> We are grateful to the editor and a reviewer for encouraging us to address the recursive elements of our model.

**Figure 6.** Process model of HRM and innovation management practices in generating mutual gains for the family firm entity and its employees.



## ***5.2. Contributions, limitations, and future research***

Our study begins to shed light on the underexplored processes and mechanisms through which the family firm essence stimulates a virtuous cycle between HRM and innovation practices, thereby engendering mutual gains. While past research has analyzed the potential mutual gains of HRM using a static approach (e.g. Boon et al., 2019), and the link between family business HRM characteristics (Flamini et al., 2020) and their innovation management (e.g. De Massis et al., 2018) in isolation, in this study, we integrate family business HRM and innovation management to unveil a process model that ensures mutual gains for the family firm entity and its employees, offering contributions to research on HRM and innovation management in the context of family firms and beyond.

First, by examining the HRM practices in family firms through a dynamic perspective, we contribute to research on mutual gains, specifically its relationship with the AMO model (Appelbaum et al., 2000). Previous research has argued that ability-, motivation-, and opportunity-enhancing practices are implemented by organizations to foster employee wellbeing as a means to achieve organizational outcomes (Boxall et al., 2016). Building on our process model, we contend that if the previously theorized means-ends relationship between employee wellbeing and organizational outcomes is examined from a dynamic perspective, for instance, considering the transgenerational evolution of HR practices, the relationship might be inverted (ends-means). Therefore, moving away from the one-sidedness perspective (Boxall et al., 2016), we shed light on the emergence of organizational outcomes and employee wellbeing as either the means or the ends over time, thereby allowing the AMO model to embrace mutual gains and contribute to its sophistication. Moreover, by illustrating the set of involving and empowering opportunities offered to family firm employees (Lepak et al., 2006), we not only explore the scantily investigated dimension of opportunity-enhancing practices in the AMO model (Boxall et al., 2016) but also illuminate the interrelationship among its three dimensions. Therefore, we identify long-term oriented family firms as the ideal context to ensure consistency in HRM practices that nurture mutual gains over time. Future research could examine

whether other organizational contexts (e.g. non-family firms, NGOs, etc.) function differently, and how the means-ends alternation might be interrupted with detrimental effects on mutual gains. Moreover, the single case investigated constitutes an example of what Kochan & Osterman (1994) define as the “mutual gains enterprise” that ensures benefits to its employees, the organization, but also the regional and national economy. However, in our study, we focus only on the mutual gains accrued to a portion of stakeholders (employees and firm), therefore future studies could examine how the wider range of mutual gains, including for instance regional and national benefits, emerges and evolves over time, potentially by considering contextual factors that are critical for innovation (e.g., Brinkerink & Rondi, 2020).

Second, our study extends current understanding of HRM in family firms by unpacking the core elements of the integrative framework that Hoon et al. (2019) developed, including (i) HR systems/practices, (ii) family firm/owning-family entity, and (iii) non-/family employees. Through our process model, we unpack the core elements of the integrative framework by illustrating not only how they interact and lead to mutual gains but also how they evolve over time. Our investigation shows the strong influence that the owning-family exerts on the business characteristics, thereby imbuing the organizational environment with trust, so that when family firms consider their employees as part of the extended family and care about their wellbeing, a virtuous cycle ensues. Our study contributes to this research stream by highlighting that the trust-based environment accruing across multiple generations of family leaders and employees can benefit the family firm in the long run. In so doing, we also extend the conceptualization by Rosanas and Velilla (2003)<sup>3</sup> on the interrelation between trust and loyalty with the complementary features of credibility and solidarity that the family firm can accumulate over time. Future research should investigate whether such trust-based environment that accrues across generations can also positively influence the succession process. Although family business research describes succession as one of the most agonizing experiences for any family firm

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<sup>3</sup> We are grateful to our reviewers for inducing us to reflect on this contribution.

(Barnes & Hershon, 1976), the historical reconstruction of the case analyzed shows that the four generational transitions evolved rather smoothly. This points to a link between HRM practices, innovation practices, and generational transition, which deserves further attention to explore whether introducing specific HRM practices allows family firms to overcome some of the serious hurdles and challenges that emerge during intra-family succession (Schein, 1995; Daspit, Holt, Chrisman, & Long, 2016). We acknowledge that the family firm HRM literature has dedicated much attention to examining the different treatments that owning-families adopt toward family and non-family employees, leading to phenomena such as nepotism, bifurcation bias (e.g., Verbeke & Kano, 2012) and hierarchical dyadic (in)congruence in the leader-member exchange (Campopiano & Rondi, 2019) that influence employees' commitment and performance. Although in our study the family-like treatment of employees (Hook et al., 2019) led us to assume the owning-family's fair treatment of employees, regardless of whether they are family members or not, future research could examine whether family and non-family members perceive differences in mutual gains, and how such differences might influence the trust-based environment and virtuous cycle over time, particularly in the current challenging time (De Massis & Rondi, 2020).

Third, we contribute to the innovation management literature by examining the underlying mechanisms of interaction between innovation and HRM practices in the family business context. Long-term employment in family firms could foster low turnover, continuity, and internal social capital, and might thus be deemed detrimental to innovation, which instead is essential to thrive in the long-run (Ortiz-Villajos & Sotoca, 2018). Based on our investigation, we build a deeper understanding of the mechanisms that allow a family firm to thrive in the long run by simultaneously nurturing HR and innovation (de Geus, 1997; De Leede & Looise, 2005). Indeed, we challenge existing findings that depict innovation as either an antecedent (Gupta & Singhal, 1993) or outcome (Seeck & Diehl, 2017) of HRM practices by showing that the two actually interact in a virtuous cycle. Innovation encompasses the interplay of conventional and new knowledge, as well as the development and

integration of new technologies leading to HRM practices that foster innovation, including employee support and development, extra-role behavior, greater responsibilities, collaborations with universities and external actors. In the case under investigation, the family firm has implemented such practices for over 140 years by duly adopting and updating the practices according to the historical context and social needs. The family firm innovation literature has so far mainly observed technological types of innovation (Calabrò et al., 2018), scantily investigating other types, such as business model innovation. As a further implication, in our study we observe that business model innovation is not only highly important in today's dynamic and increasingly digital environment, but it is also a crucial driver of a family firm's historical development. However, further attention should be dedicated to this phenomenon that requires a reconceptualization of the organizational paradigms and strategies, and is likely to be unique in family firms characterized by a strong tradition and heritage.

Our study also offers important managerial implications. We present a range of specific HRM practices and their interplay with innovation management. Managers, executives, and consultants of family firms could reflect on how to implement the illustrated model in their own respective setting to engender mutual benefits. Moreover, we highlight the importance of adapting HR practices to the current historical and social context to enable the virtual cycle between HRM and innovation practices to emerge and enhance mutual gains. Non-family firms can also be inspired by our process model to synergize their own innovation and HRM, and reflect on the implications of a shorter-term orientation on mutual benefits.

Despite the theoretical and empirical contributions, this study is not free from limitations. First, the generalizability of our findings to other family firms is limited, since we rely on a single case study and can only analytically generalize from it (Yin, 2013). However, this methodology has allowed us to deeply analyze the idiosyncrasies of the family firm as a means to explore how such firms can virtuously and synergistically manage HR and innovation. Promising contributions could emerge from future studies adopting a multiple-case methodology, comparing HRM and innovation management

practices among a wider range of family firms. Moreover, a large-scale investigation could analyze the extent to which mutual gains emerge from the virtuous cycle of innovation and HRM practices in heterogeneous types of family firms, such as firms owned by a single family, firms managed by multiple families, or business families.

Moreover, we consider the individuals in the firm as a homogeneous group. However, the family business literature has discussed the presence of heterogeneous groups in family firms, such as family and non-family employees, different roles, family shareholders, and family managers (Dibrell & Memili, 2019). The differences among such groups in terms of goals, interests, cognitive biases, and behaviors, as well as in their propensities to share and disclose information with each other (Uhlener, De Massis, Jorissen & Du, 2020), are likely to influence HRM, innovation management, and ultimately mutual gains. Therefore, future research could explore the role that different groups and individuals, either family or non-family members, play in shaping mutual gains.

## **6. Conclusion**

Family business long-term orientation influences both HRM and innovation management practices, leading to a tension between low turnover and innovation. Investigating Carl Schlenk AG, a German Mittelstand multigenerational family firm, we built a process model that explains how the family essence, consisting in family business characteristics that shape a trust-based environment, allows the family firm to engender a virtuous cycle between HRM and innovation practices, ultimately leading to mutual gains for the family firm entity and its employees that can last and accrue over multiple generations. In so doing, we unpack the family firm HRM framework by examining how the family firm/owning entity, HR systems, and employees interact, shedding light on the influence of family firm characteristics on innovation management, considering its intertwined relationship with HRM.

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