

## Exploring Strategic Innovation and New Product Development in Family Firms: a theoretical framework and an empirical study

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### Abstract

Strategic innovation and NPD are important dimensions of strategic entrepreneurship (Hitt *et al.*, 2007; Ireland *et al.*, 2003). This paper is focused on strategic innovation management and New Product Development (NPD) in the dominant and most significant form of organizational enterprises: family firms.

One of the most discussed issues in family business research is that there is no commonly accepted definition of what is meant by the term ‘family business’ (Chua *et al.*, 1999; Westhead and Cowling, 1998; Lansberg, 1988). In this study we follow Chua, Chrisman, and Sharma (1999) in defining a family business as “a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.” This definition is consistent with the fact that the term *family business* is typically used to define organizations in which the behavior of actors and the nature of relationships within them are influenced by the family vision that is oriented to trans-generational pursuance and controlled by a familial dominant coalition.

The firms that fit this definition play a crucial role in all the economies of the world (Neubauer and Lank, 1998; Aronoff and Ward, 1995; Churchill and Hatten, 1987). Studies in several countries suggest that family firms have a major impact on the growth and employment generation of the national economies (Morck *et al.*, 2000; Neubauer and Lank, 1998; Poutziouris, *et al.*, 1997; Gallo, 1995) and a percentage between 65 percent and 90 percent of firms in the world can be considered family businesses (Caselli and Gennaioli, 2003; Family Firm Institute, 2003; Shanker and Astrachan, 1996). And not only SMEs are family firms since 37 percent of all Fortune 500 firms can be considered family businesses (Jetha, 1993). The importance of family businesses is particularly visible in: (i) Europe, where they constitute a substantial part of the existing companies (nearly 85%) and play a pivotal role in the strength and dynamism of the European economy (European Commission, 2008); and (ii) Italy, where they are 93% of the national firms and 98% of the workforce in manufacturing companies fewer than 50 employees (European Commission, 2008).

Given that the family firm is the dominant organizational form today, it is surprising that only a few studies in the mainstream management literature have included the family as a variable and most of the management journals and books seem to have rather ignored it (Dyer, 2003; Schulze *et al.*, 2001).

This is true, in particular, in the field of strategic innovation management and New Product Development (NPD) where a small number of researches have been published (Craig and Moores, 2006; Litz and Kleysen, 2001) about the managerial and organizational practices related to innovation in the specific and prevailing context of family firms. In the same field the new product development process within family businesses has been largely ignored and it requires more in-depth

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investigations (as suggested by Souder, 2003), considering the crucial role NPD plays as determinant of sustained company performance (Ernst, 2002; Cooper and Kleinschmidt, 2007).

We must question whether current strategic innovation and NPD management theory and practice can be generalized to the important population of family firms and how the presence of a family within a business enterprise may affect its strategic innovation and NPD activities.

To address this gap in the literature, this study attempts to explore strategic innovation and new product development within Italian family firms, outlining potential differences emerging between family and non-family enterprises. It provides an exploratory understanding of how “familiness” influences strategic innovation and NPD, and what impact the family has on the managerial factors affecting the success of NPD and the way the firm organizes and positions its activities and structures within its surrounding environment.

To this aim, a multiple case-study (Strauss & Corbin, 1998; Yin, 1994; Handler, 1989) on eight Italian companies has been conducted, and the NPD process as well as its related managerial and organizational implications have been in-depth analyzed in four family firms and four non-family companies. The strength of case-study methodology is in that they are extremely suitable for exploring processes (Van Maanen, 1983) and answering “how” and “why” questions, they provide explanations rather than statistical information, causality can be investigated, and theory can be tested and generated (Eisenhardt, 1989; Wolcott, 1994).

The objective of the study can be structured into three main research questions:

1. What is the relationship between the presence of the family variable within a business enterprise and the managerial factors affecting the success of NPD activities?
2. How the managerial factors affecting the NPD process are faced in family businesses?
3. Which are the main differences (e.g., strengths and/or weaknesses) in dealing with the managerial factors affecting the NPD process between family firms and non-family enterprises?

The paper is thus organized into five main sections:

1. *Theoretical context*: description of the theoretical background and concepts of the study; it is structured in three distinct subsections providing an in-depth review of the previous literature on: (i) the relationship between the family variable and the management of a business; (ii) strategic innovation and NPD in family firms, focusing on the few contributions specifically related to family businesses; and (iii) the managerial factors affecting NPD success.
2. *Research questions, framework and methodology*: definition of the paper’s research questions, the theory-based research propositions at the basis of the research framework and the adopted methodology;
3. *Empirical investigation*: description of the empirical study, structured in two subsections: (i) description of the empirical base; and (ii) discussion of the empirical findings and their implications for researchers and practitioners;
4. *Conclusion, limitations and future research directions*: discussion of limitations of the study and outline of directions for future research and theory development.

**Keywords:** strategic innovation management, new product development, strategic entrepreneurship, family firms.