1. Introduction

This chapter is an introductory chapter, in which a definition of family businesses is provided, family firms' characteristics, complexities and distinguishing features when compared with non-family firms are discussed, and in light of this, family firms' theories are examined. The chapter sets the background and context of innovation in family firms, and defines key issues. It describes the nature of micro and small enterprises (MSEs), the positioning of the book as well as its contribution and contents.

WHAT IS A FAMILY BUSINESS?

A family business is broadly defined as a business that is owned and managed (that is, controlled) by one or more family members (Handler, 1989; Hollander and Elman, 1988); Or, "organisations where two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights" (Davis and Tagiuri, 1982).

According to the UK Institute for Family Business, family firms are those that invest funds collectively in their business, with one or more family members having an active role in management. A more extended definition of family firms is provided by the European standard definition of family businesses, as follows:

A firm of any size is a family business, if:

1. The majority of decision-making rights are in the possession of the person(s) who established the firm, or in the possession of the person(s) who acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.
2. The majority of decision-making rights are indirect or direct.
3. At least one representative of the family is formally involved in the governance of the firm.
4. Listed companies meet the definition if the person who established

or acquired the firm (share capital) or their families or descendants possess 25% of the decision-making rights.

As mentioned above, family firms are defined in terms of ownership-management, and family involvement (Handler, 1989). In practice, a family firm is a firm in which family members own more than 25 per cent of the share of the firm, and the company directors are the company shareholders (Institute for Family Business, 2011).

The definition of family firms adopted for this book is that the greater percentage of the shares is owned by family members. That is, the family must own 50 per cent or more of the firm, and the company directors are also the company shareholders (Institute for Family Business, 2011). Additionally, at least two family members must be involved in the day-to-day running of the company. This criterion is important as it distinguishes the family-owned business from a sole entrepreneur business.

CHARACTERISTICS AND DISTINCTIVE FEATURES OF FAMILY BUSINESSES

Family businesses are seen as among the most complex forms of businesses (Neubauer and Lank, 1998) due to operational, ownership issues, control, and management overlap. They are further complicated by the close proximity of dual relationships because family members simultaneously participate in both business and family relationships, in their personal and professional lives. The duality of these relationships increases their complexity, and creates a unique context for human capital, both positive and negative (see Chapter 2). Family firms' complex nature and uniqueness can be explained through the theories discussed below.

FAMILY BUSINESS THEORIES

Six theories explaining family firms' functioning, family and business systems, social capital, resources, and survival, which are emphasized in family succession are: Resource Based view, Agency and Stewardship theory, Social Capital, Systems theory and Succession.

Resource Based View

The Resource Based (RB) view considers familiness as the unique set of resources of a family business, which stem from the interactions between the family system, individual family members, and the business itself (Habbershon and Williams, 1999). This set of different resources will vary among family firms and determine their success.

Agency Theory

On the other hand, Agency theory states that families will pursue things that are to their advantage at the expense of their shareholders (Le Breton-Miller and Miller, 2009). Furthermore, their antipathy for risks (Gómez-Mejía et al., 2007) and investments can prevent them from innovation.

Stewardship Theory

By contrast, from a psychological perspective, stewardship contends that family owners will invest deeply in their enterprise, to the benefit of all (Le Breton-Miller and Miller, 2009). Based on this, it follows that family businesses will devote to new processes, new product development and other (e.g. Habbershon and Williams, 1999; James et al., 1996).

Social Capital

Social capital is the network of relationships owned by an individual or groups of individuals that generate value. Social capital theory suggests the way in which family firms manage innovation over time, using internal (or family social capital) and/or external resources that can be accessed through social networks or professional organisations (Laforet, 2013).

Systems Theory

Systems theory conceptualizes family firms in terms of the family, business and owner subsystems, which highlights the differences between family firms and non-family firms.

To start with, family firms are seen as having a family subsystem and a business subsystem, which may be incompatible and can create pressure when family members need to fulfil duties in both (Gersick et al., 1997). However, some argued that amalgamation between these two subsystems would promote the family firm's innovative disposition. As a result, the previous model was expanded to incorporate the family, the owner and the manager (see Tagiuri and Davis, 1996). Other researchers proposed a three circles model consisting of the family, business and owner subsystems (see Gersick et al., 1997). This model is also the theoretical framework which is universally accepted as the basis for conceptualizing family business systems.

Succession

Succession is often seen as a crucial aspect of family firms, given that there was a significant focus on succession in the family business literature. De Massis et al. (2008) also indicated that only a small percentage of family firms survived the transition to the second generation.

MANAGING FAMILY RESOURCES

Family firm survival relates to how family firms manage their resources to achieve their goal, which can be seen somewhat differently from non-family firms. It has been said that this manifests especially in troubled economic times, where the family business survives. The reason for survival of the business may be found in the fact that the blurring of the line between the family and the business may permit a sharing of resources in ways that are not possible in other settings. This is especially true for home-based family businesses, where not only could energy, skills, time, money, and durable goods flow in both directions between the business and the family, but those flows take place within the same physical setting.

Based on the model of adjustment and adaptation, and if it is extended to include business responses, to survive an economic downturn, family businesses would dip into the family's economic resources using savings, liquidating investments to provide needed capital for the business. Similarly, under times of pressure, the

family's human resources could be called upon (Winter and Morris, 2011). However, it should be noted that this argument does not extend to all family firms. As mentioned before, it applies to home-based businesses or low-cost businesses with little capital requirement.

THE VALUE OF FAMILY BUSINESSES

Economic Value

The vast number of family firms around the world published in a review of the state of family businesses worldwide highlights their predominance, economic importance and significance. The following statistics were published by The Cornell University Family Business Research Institute (2011). In Germany, 75 per cent of the workforce is employed by family businesses, who contribute 66 per cent of GDP (gross domestic product). Eighty per cent (about two million companies) of all Germany's companies are categorized as family-controlled; they are considered as the backbone of the German economy.

In Australia, 75 per cent of all businesses are family-owned and controlled; they account for 50 per cent of the country's workforce. In Chile, family firms contribute greatly to Chile's GDP and employment, with around 75 per cent of the nation's businesses family-owned and controlled. Chile had been the most dramatic example of economic growth in all of Latin America, so the effect of family businesses on its economy had been a particularly positive one, given that 65 per cent of medium to large sized enterprises are family-owned.

The statistics are similar in other regions. In Mexico 80 per cent are family businesses and have been known to dominate its economy for over 100 years. In Spain, it is known that for companies with over \$2 million in annual sales, family firms account for 71 per cent, and 17 per cent of the top 100 Spanish firms are family businesses.

In the United Kingdom, 76 per cent of the top 8000 companies are family-owned and controlled, with higher proportions expected in the wider business population. Across Western Europe, between 45 per cent and 65 per cent of GDP and employment are contributed by family businesses. The lowest level of family business activity is in

Portugal and the highest in Italy, where 99 per cent of firms are run by families.

Family firms play a vital role in the UK economy, with them representing more than 65 per cent of enterprises in the UK (Institute for Family Business, 2011). Over 40 per cent of private sector employment – one job in three throughout the UK (around 9.5 million people employed by family firms) – is in family-run businesses. As well as representing a large portion of SMEs in the country and contributing to the UK economy for over 30 per cent of GDP, as well as accounting for an estimated 70–90 per cent of annual global GDP, family run-businesses are the backbone to the British economy (Institute for Family Business, 2009).

Societal Value

Although family wealth and innovation are a compelling force in the development of Western socioeconomic systems, undue attention has been given to large firms, and publicly-held conglomerates. The media, sociologists and economists have, until very recently, overlooked how families and family enterprises shape and are shaped by the social and economic systems of which they are part (The Cornell University Family Business Research Institute, 2011).

With increasing concern about sustained economic recovery in the US and Western Europe, the importance of the family firm for recharging stagnant economies should be seriously considered. A multicultural research carried out by Benedict (1968) revealed the critical nature of the family firm, primarily in developing and less mature economies. This investigation led to the conclusion that the family enterprise could not be matched in terms of its potential for taking risks, the development of human resources, and access to capital and provision of continuity, compared with public sector or larger privately-held organizations. From a sociological and economic perspective, Benedict noted how the family firm was more important in the initial rather than the later stages of an economic system's development. At the same time, his conclusions suggested the continuing importance of a family firm's characteristics in a deteriorating or unstable system.

There is a general belief that a family enterprise is by its very nature more inclined than other types of corporations to re-invest in itself to support and perpetuate wealth in future generations – as can

also be seen in the case of economic recession, as mentioned above, the family uses its own resources such as savings to keep the business going. The family firm can make long-term investments and resist the pressure to give in to short-term returns unlike, the publicly held corporations.

The literature argues that family firms are different from non-family firms. Research indicates family companies are preferred by consumers and are more involved with customer service, offer greater opportunities for women, have a respect for tradition, and take care of their employees (Longenecker et al., 1989; Lyman, 1991; Prokesch, 1986). At the same time, family firms are reported to have problems with joint decision-making, career choices and supervision of family members as employees, and succession issues, including estate tax burdens.

As discussed through family firms' theories above, Davis and Tagiuri (1982) also suggested that the family company has several unique inherent bivalent attributes derived directly from the overlap of family, ownership, and management status. These attributes include such notions as simultaneous roles, shared identity, a life-long common history, emotional involvement and ambivalence, the private language of relatives, mutual awareness and privacy, and the meaning of the family company.

These bivalent attributes have led to family firms behaving differently, by caring more about providing jobs for people, treating workers fairly, and socializing family members into the business. Astrachan (1988) suggested that family firms were more socially conscious, family members could make great sacrifices and even sustain long-term losses to save the firm and the community around it. This has also been confirmed by Gordon (2009). Thus, family firms are committed to social responsibility; they provide vital support for communities nationwide. They also act as a breeding ground for entrepreneurial talent and start-ups (Institute for Family Business, 2009).

FAMILY BUSINESS CHALLENGES

Policy makers are often not aware of the family business sector's contribution. Policy frameworks, especially capital taxes, are another challenge for family businesses (Euro Expert Report – Institute for Family Business, 2009). Thus for instance, any increase in capital

gains tax (CGT) for business assets could have a damaging effect on family-owned firms and their ability to grow and be successful. That is, a raise in CGT would reduce family businesses investing in their business. Families often invest funds collectively in their business. Often the equity investment of family shareholders who are not involved in management roles is vital to the success and growth of the business (Laing, 2010). Besides, there is insufficient research into the family business sector (Habbershon and Pistrui, 2002; Arregle et al., 2007; Poutziouris et al., 2004; Steier et al., 2004) as explained below. A further challenge for these firms relates to their failing at succession planning. Statistics and research conducted in this area suggest that only 30 per cent of family businesses survive to the second generation, and only 10 per cent successfully to the third, the rest being either sold or closed down.

Evidence indicates that the transition from one generation to the next is not an easy task and despite the many benefits of having a succession plan in place, many family businesses simply neglect in developing one. Whilst a carefully planned and executed succession arrangement can overcome tragedy, it is unlikely to exist without first confronting a complex set of decisions and personal family issues (Society of Trust and Estate Practitioners, 2012).

Another problem linked with succession is highlighted by Ward (1987). He noted that as larger and larger numbers of family-held companies change hands from one generation to the next, more and more family legacies are lost due to poorly planned transitions. With new owners with different values taking over these firms, the impact is often negative, both in terms of company productivity and profitability, but also in terms of negative influence on families and communities. Astrachan (1988) revealed through the examination of the impact of family firms undergoing a transfer of management that sensitivity to the existing culture of the firm and the local community is critical to the continued success of the family business. Besides succession innovation has been highlighted in academic literature as a concern to family firms.

There is also limited research that links family businesses to wealth-creation topics such as entrepreneurial orientation and performance, high-growth companies, the dynamic marketplace, opportunistic risk taking, strategic experimentation, and finding above average returns (Habbershon and Pistrui, 2002) or, innovation.

Family businesses' success has also not been tied to, or established from the same performance measures as other business types. Often, ownership transition and efficiency of the family business system, rather than wealth creation and financial performance, are used to monitor successful performance (Habbershon and Pistrui, 2002; Sharma et al., 1997; Sorensen, 2000). Family business strategy formulation and decision-making, which includes attitude to risk, diversification, technology, and the like, is often dependent on or at least strongly linked to the life stage of the controlling generation (Moores and Barrett, 2003; Ward, 1987).

As can be seen from the above discussion on the complex nature of family firms, these firms require unique understanding and assistance within the multiple systems they embrace (namely: family, business, community). Further research into the dynamics of family firms will have important implications for the private enterprise as well as the familial, societal and economic systems in which they are embedded.

INNOVATION AND KEY ISSUES

Generally, any of the following can be used to measure a company's innovativeness: a company's position in the marketplace, percentage sales from products introduced in the last three years, implementation of ISO9001, net sale and profitability of new products, and the rate of research and development (R&D) investments in a given period.

The Department for Business, Innovation and Skills (BIS), and the Confederation of British Industry (CBI) use arbitrary measures of company innovativeness, based on the following ten key indicators:

1. Number of new product ideas a company has in the previous three years.
2. Number of new product(s) launched in the previous three years.
3. Number of product(s) improvement introduced in the last three years.
4. Innovation prize(s).
5. Percentage of sales from the most recent product introduced.

6. Extent to which major customers provide specification for new product(s).
7. Level of investment in systems, and technology for the office.
8. Level of investment in systems technology for the shop floor.
9. Extent to which these investments update, add or substitute existing plant.
10. Introduction of new ways of working in the previous three years.

The above are hard measures of innovation. The 'soft' measures of innovation include: major changes in corporate strategy, management practices, organizational structure, and marketing.

Furthermore, the literature states that innovative companies adopt radical and incremental product innovations at a faster rate (Kessler and Chakrabarti, 1999; Vazquez et al., 2001), produce better quality products, and are successful in creation and implementation of novel ideas, products, and services in the marketplace. They have also an ability to anticipate and respond to consumer needs better than their competitors (Simpson et al., 2006) as well as the capacity to introduce new product, process, or ideas (Hult et al., 2004), or new ways of working in the organization (Freel and Harrison, 2006; Laforet and Tann, 2006).

Some scholars also distinguish between novel innovators – those that introduce at least one product/process new to the industry over a three-year period; incremental innovators – those that introduce at least one product/process new to the firm during the same period; and non-innovators – those that introduce no new products/processes (Freel and Harrison, 2006).

In this book the DTI, and CBI indicators are adopted to arbitrarily measure company innovativeness, alongside Freel and Harrison's (2006) distinction between incremental and novel innovators, as well as Laforet and Tann's (2006) definition of innovation which take into account new products, process innovation, and new ways of working.

In addition to the arbitrary measures of innovation or a company's innovativeness, several basic conceptualizations exist in the literature. As a basic definition, for something to be labelled as an innovation it must possess novelty, have a tangible quality, be the result of intentional rather than accidental action, be aimed at

producing benefit, and be distinguished from routine change (King and Anderson, 1995).

Creativity and entrepreneurship are elements of innovation processes (Amabile, 1988; Anderson and King, 1993; Kanter, 1988), while innovation processes are seen as part of organizational and cultural change (King and Anderson, 1995). Innovation is also seen in terms of stages (Zaltman et al., 1973; Rogers, 1983; Amabile, 1988; Damanpour, 1991; Anderson and King, 1991) ranging from initial opportunity recognition and idea generation through to adoption and diffusion.

Intra-organizational innovation has stratified by the level at which occurs, including the individual (Kirton, 1976; West and Farr, 1989), the work group (Anderson, 1992), the organization (Zaltman et al., 1973; Staw, 1990), and the industry/society (Rogers, 1983).

At the individual level, a propensity for risk-taking (Glassman, 1986), intrinsic motivation, domain-relevant skills, and creativity skills (Amabile, 1988), self-confidence, autonomy, and openness (West and Farr, 1989; Angle, 1989; Kanter, 1988) have all been assumed to lead to innovation. At the group level, work on team climate (Anderson and West, 1998) as a contributing factor of innovation has become increasingly important. Other elements such as group composition, cohesiveness, development, social construction, and interpersonal interactions have also been discussed (Anderson, 1992).

At the organizational level, Damanpour (1991) found centralization to be negatively associated with innovation while specialization, functional differentiation, professionalism, managerial attitudes towards change, technical knowledge resources, administrative intensity, slack resources, and external and internal communication all related positively associated with innovation. In other words, organic, rather than mechanistic (Morgan, 1986) organizational structures tend to be more conducive to producing innovation.

However, it has been noted that one mid-level grouping not explicitly considered is the family unit. This gap in innovation research on the family enterprise has been highlighted by Litz (2000). At the same time, most authors also recognize the interactive quality of innovation between levels (Kanter, 1988). While significant advances have been made in understanding individual level innovative cognition and behaviour, work at the group level

is by comparison underdeveloped (Anderson, 1992). Besides this, researchers have also called for more process level theories of innovation (King, 1990).

INNOVATION IN FAMILY FIRMS

There exists very little empirical research on family firm innovation, whilst there is also no consensus among scholars whether these firms are innovative. This may be due to family firms having to deal with three dualities between opposite poles (Nordqvist et al., 2008) (see Chapter 2).

Generally, the key observations and issues of family firm innovation (found) in the literature, and in public reports are, as follows:

- *The importance of innovation in terms of a family firm's competitive market position particularly, in established firms.* McCann et al. (2001) pointed out that innovation was important to a family firm's competitive market position, particularly in established firms.
- *Innovation, family firm's competitiveness and performance, and financial performance.* Another observation concerns the relationships between innovation and family firm's competitiveness, and between innovation and performance, and financial performance. Scholars have suggested that innovation or a firm's innovativeness is the basis for firms finding competitive advantage (Gudmundson et al., 2003; Hult et al., 2004). Whilst others have claimed that pursuing innovation and aggressively pursuing entrepreneurial activity, is a prescription for profitability and growth, particularly for family firms who are committed to the long-term (Zahra et al., 2004). Competitiveness literature also links advantage or dominance and a firm's ability to compete over time to their innovation capabilities (Zahra et al., 1988; Schumann, 1994; Hult et al., 2004). However, the relationship between innovation and performance has a number of peculiarities in small and family firms (Hadjimanolis, 2000; Gudmundson et al., 2003), having been described as both advantages and disadvantages (Verbees and Meulenbergh, 2004).

- *How successful family firms thrive using innovative initiatives.* Litz and Kleysen (2001) suggested that in successful family firms, premeditated creativities made it easy for appropriate capabilities to be formed which are indispensable for innovation from one generation to another.

Drawing from the literature, the remaining questions regarding innovation in family firms are as follows:

- *Link of innovation to future growth and survival of family businesses.* As pointed out before, no consensus was found in terms of whether family firms were innovative or not. Thus, it remains to be known to what extent family businesses are innovative, and whether innovation is linked to their future survival or lack of innovation, being one of the causes of nine out of ten family businesses failing to make into second generation ownership (Family Business Institute). Thus, it is important to examine to what extent innovation impacts on small family business performance.
- *How do family firms build and preserve innovative capacity?* The studies conducted by McCann et al. (2001) on established or generational firms, and Litz and Kleysen (2001) on intergenerational innovation have raised the issue of how family firms build and preserve their innovative capacity over time. In addition, Hage (1999) raised the issue that shifting leadership in organizations had been overlooked, and also applies in the case of family succession; where a change in leadership occurs how would that affect innovation?
- *How do family firms innovate over the business life cycle?* The stage in the company's life cycle plays an important role in determining the strategic behaviour of family firms (Kreiser et al., 2006). Competitive pressures over time may affect family firms to take different business postures. Family business life cycle may also affect the structure and interrelationships, both externally and internally. Family social capital play different roles in facilitating, or at times hindering, strategic adaptation and value creation, depending on the specific needs of the family-controlled business at different stages of their life cycle. Sometimes they cannot adapt their strategies to respond to dynamic environments (Aronoff, 2004). In the current

literature, it is also recognized that firms adjust their strategic posture, or behaviour and innovation, according to their environment, and over their life cycle (for example, Craig and Moores, 2006). This implies that the business life cycle could have an impact on innovation in family firms. Therefore, the impact of innovation at different stages of the business development also requires investigation.

- *Are family firms likely to take unusual market risks that publicly held companies cannot necessarily take?* Another issue that has reached no consensus in the literature concerns family firms' risk-taking (which can be considered as an antecedent of innovation). Some authors maintained that family companies take risks which non-family companies would not ordinarily take (McCann et al., 2001). However, other scholars claimed that family firms are risk-averse.
- *How do family firms carry out the innovation process?* Generally, SMEs are said to be unable to internalize all stages or aspects of the entire innovation process (Maillat, 1991), which lead them to seek help or co-operation from external organizations (Allocca and Kessler, 2006; Freel, 2005; Hoffman et al., 1998; Nieto and Santamaria, 2010; Van de Vrande et al., 2009). It remains to be known who are involved in the innovation process in family firms, although Litz and Kleysen (2001) suggested some level of non-family stakeholder involvement in the innovation process.
- *To what extent are family firms different compared to non-family firms?* Rössl et al. (2010) found differences in innovative behaviour between family and non-family firms in terms of the role of human, social capital and marketing. Furthermore, family firms are known to possess a specific set of resources and capabilities (Dyer, 2006; Sirmon and Hitt, 2003) (also refer to their duality nature), which may promote and/or constrain entrepreneurial activities (Habbershon et al., 2003; Nordqvist et al., 2008; Zellweger et al., 2011). The issue is how, or to what extent these would reflect on innovation?
- *To what extent do culture, structure and external relationships affect innovation in family firms referring to external resources and/or information acquisition?* Successful innovation is often related to organizational culture (Blumentritt, 2004; Pullen et

al., 2009; Martins and Terblanche, 2003). Litz and Kleysen (2001) raised the issue that their study did not cover, which concerned the relationship between a family's dynamics and the firm's innovative behaviour – as such which family culture facilitates, and which frustrates innovation in family firms? There is contradiction regarding whether centralization or decentralization facilitates innovation. For example, Damanpour (1991) conceded that centralization inhibited innovation. In contrast, Ettlie et al. (1984) found that centralization is more conducive to radical innovation. Organization development, life cycle, and learning perspectives within firms are equally important. Capability in innovation management develops over time and must involve a process of continual learning and adjustment. Technical resources and managerial capabilities are acquired and accumulated by successful innovators over time. Thus, the issue remains to what extent company structure, and external resources or information acquisition, affect innovation in family firms?

MICRO AND SMALL ENTERPRISES (MSES)

Existing literature tends to concentrate on medium or large companies. However, most recent studies on the evolution of multinationals towards new forms (Foss and Foss, 2002; Malnight, 2001; Pettigrew, 2003; Pettigrew and Whittington, 2001; Whittington et al., 1999) show how these companies are currently assuming characteristics similar to those of small firms (Daft and Lewin, 1993). They do this to exploit the advantages of cellular forms (Miles et al., 1997) such as flexibility, entrepreneurship and efficiency. Thus, MSEs are an interesting model for research on new organizational forms (Comacchio et al., 2007).

Although research on the organizational development of SMEs in Europe and in the UK has provided significant theoretical models and empirical results, the literature has normally focused on firms with more than 49 employees (the European Commission's definition for medium enterprises). Note that the European Commission (2005) defined micro firms as those with 0–9 employees, small enterprises with up to 49 employees, and medium size firms with up to 250 employees.

Few studies have dealt specifically with the organizational choices of micro (0–9 employees) or small (10–49) enterprises, which represent 93 per cent (20.5 million) of European firms. Thus, MSEs are still a neglected area of research despite the fact that recent surveys of the Observatory of European SMEs recommend that they should raise the level of their investment.

The Observatory of European SMEs' survey also points out that, under the most recent competitive pressures, MSEs need to foster their traditional competitive basis, namely individual competences, and flexibility by growth strategies, which bring about innovations of a technological and organizational nature (European Commission, 2002).

Being able to adapt and change to the external environment is particularly crucial to small business survival (Jennings and Beaver, 1997) and can be done through innovation, as innovation should enable businesses to adapt and change. Therefore, this constitutes a further plausible reason for focusing on MSEs or SEs' innovation.

AIMS AND OUTLINE OF THE BOOK

The book focuses on small family-owned businesses or MSEs, that is, those that have 0 to 49 employees. As mentioned earlier, to be qualified as a family firm in this book, the family must own 50 per cent or more of the firm, and the company directors are also the company shareholders. Additionally, at least two family members must be involved in the day-to-day running of the company. Throughout the book, non-family firms normally refer to those companies of the same size as stated above, but which are not majority owned and are not run by family members. However, it should be noted that if any comparison is made between family and non-family firms, this comparison is made between small family firms and non-family owned small-and-medium-sized enterprises (SMEs) or SMEs in general, as few research focus on small firms or MSEs, and SMEs still dominate thoughts in the innovation literature.

The book aims to uncover, based on empirical investigations, to what extent small family-owned businesses are innovative, how they innovate, what processes they use, who is involved, and what drives innovation in these firms, as well as identifying what the barriers to innovation in small family-owned businesses are. It also

explores and discusses how innovation can be fostered and sustained in these firms; what the government can do to help facilitate innovation, and thus help small family businesses grow and sustain their business.

There are many reasons/motivations for focusing on small sized firms, as discussed above. The first reason relates to MSEs requiring an increase in their levels of competitiveness and competences to bring about innovations of a technological and organizational nature, and/or other innovations under the current highly intense competitive environment. The second is because 10 per cent of UK start-up businesses (whether family, or non-family) that survive have more than ten employees ten years later, and fewer than 5 per cent have more than 20 employees (NESTA). Besides finding out why they fail to expand, which is outside the scope of this book, it is important to understand how small firms adapt and change. Thus this constitutes another plausible motivation for studying small firm innovation, as it is often through innovation that firms can adapt and change to their environment, as mentioned above. Thirdly, most family-owned businesses are small (Astrachan and Allen, 2003). A last motivation is concerned with fulfilling a theoretical gap: whilst organizational development of SMEs is well developed, little attention is paid to MSEs or the small size firm of 0–49 employees. Furthermore, linkages between small family firms and innovation have been rarely empirically investigated before.

The book focuses on three important factors to innovation: organization type, age and size. As Damanpour (1991) highlighted, it is important to consider the organization type for innovation research, and type of innovation and stage of adoption as secondary contingencies. Family businesses have alternative organizational typology across industry sectors, structures and strategies (Craig and Moores, 2006). Also, refer to Kanter (1988), Anderson (1992), and Litz (2000) who highlighted the gap in family firms' innovation. This book also addresses the issue of innovation at different family business life stages; as mentioned above – refer to Kreiser et al. (2006), Aronoff (2004), and Craig and Moores (2006), and answers the call for more process level theories (see King, 1990).

Thus, the *main thrust of the book* is the study of the integrated management process of innovation in small family-owned businesses, known in this book, as 'organizational process of innovation' and factors underpinning it. It positions itself amongst the

work of Tidd (2001) who viewed innovation as a process that can be 'managed in an integrated manner', and Schumpeter's (1934) first construct of innovation, which he claimed required the whole organization to be able to overcome inertia and develop new routines to appreciate the benefits of new innovations; and within the innovation research in SMEs, the process refers to the stages from ideas generation to product launch, outlined by Knight (1967). Social capital and social network theories are used to discuss the role of non-family employees in the process of innovation of small family-owned businesses.

The book examines the factors affecting innovation in small family-owned firms by focusing on the firm's internal aspects and external environment. The firm's internal aspects relate to culture, structure and leadership as well as strategic or business orientation. Here the work by Blumentritt (2004), Hoy and Verser (1994) and Kepner (1991) on family culture are referred to, amongst others. Regarding structure and climate for creativity and innovation, and leadership, work by Ekvall (1996) and Cooper and Kleinschmidt (1995) are referred to, and for structure and horizontal leadership style, the work by Rothwell (1992) is reviewed and discussed.

In terms of business orientation, the book refers to McCann et al.'s (2001) research that discusses the importance of business goals rather than family goals in innovative family firms. As for the external environment, the literature on business environment hostility of entrepreneurial firms (studies by Smith, 1967; Lafuente and Salas, 1989; Gómez-Mejía et al., 2001; Ucbasaran et al., 2003) and strategic management literature, work by distinguished academics such as Miles and Snow (1978) in particular, are referred to.

It also investigates to what extent small family-owned businesses are innovative, and infers whether innovation is linked to their future survival or lack of innovation, being one of the causes of nine out of ten family businesses failing to make it into second generation ownership. Thus, it will examine to what extent innovation impacts on small family business performance and growth.

Finally, as mentioned above, the book also explores the issue of sustained innovation in small family-owned businesses, and innovation at the early stage versus the later stage of the business by examining innovation in young and old firms. This investigation is prompted by McCann et al.'s (2001) research on the relationship between innovation and established family firms,

and Avermaete et al.'s (2003) research on company age and innovativeness.

The following is an outline of the book. The book contains five chapters, including this introductory chapter. Chapter 2 examines how organizational culture affects innovation in small family firms; it discusses the issue of an innovative culture in family firms (versus non-family firms), which culture enhances, which inhibits innovation in small family firms and the issue of developing a culture of innovation in small family firms; it examines the differences in structure (that is, centralization versus decentralization), management leadership between family and non-family firms and how these affect innovation in the former; it discusses business goal and orientation in family firms, based on empirical findings, and concludes that these will drive or have a large impact on innovation in family firms.

Chapter 3 investigates characteristics of innovation in small family firms; factors driving innovation; innovation level and impact on business financial performance; as well as to what extent knowledge acquisition, learning, and family involvement affect innovation in small family firms – in light of this, social capital and social network theories are discussed and extended. It also shows how innovation differs in the early and later stage of the business, and explores the issue of sustained innovation in generational firms.

Chapter 4 focuses on a conceptualization of the process of innovation in small family firms, and the organizational factors underpinning this process rather than focusing on any single aspect such as culture, climate or organizational structure. It also refers to organizational processes of innovation, based on survey findings. Thus, for the first time in innovation literature, this book examines the process of innovation in firms as a whole. It also makes recommendations in terms of ways of fostering innovation in small family-owned businesses; the barriers to innovation in these firms are also highlighted. Additionally, it discusses and compares innovation practices in family firms versus non-family firms. The last chapter of the book, Chapter 5, discusses the implications of innovation in family businesses and its impact on the world of business; and the impact of structure on innovation; it concludes on the differences in innovation in family firms compared with that of non-family firms and recommends the specific help for small family firms. Areas for future research are also identified.

KEY QUESTIONS INVESTIGATED IN THIS BOOK

- To what extent are small family-owned businesses innovative?
- What is the relationship between innovation and small family business financial performance?
- What is the relationship between innovation, growth and survival of small family businesses?
- What are the factors driving innovation in small family businesses?
- What is the relationship between external environment and innovation in small family businesses?
- What is the relationship between organizational culture, including business orientation, structure, leadership and innovation in small family-owned businesses?
- Which culture facilitates, and which frustrates innovation in small family-owned businesses?
- How to foster vision and a culture of innovation in small family businesses?
- What is the relationship between learning, information acquisition and innovation in small family-owned businesses?
- How can small family firms build and preserve innovative capacity?
- How does innovation differ between young and old small family businesses or, in the early and later stage of the family business life cycle?
- How do small family firms carry out the innovation process? What is the relationship between family involvement and innovation in small family businesses?
- To what extent are family firms different compared with non-family firms?

CONTRIBUTION OF THE BOOK

This book contributes to the theoretical development of small family business innovation aforementioned. It also contributes to practice and several current debates, as mentioned before: firstly, with regard to new organizational forms, innovation and

performance in small family-owned businesses. Secondly, the book addresses the UK government's emphasis on the importance of entrepreneurship as crucial to the recovery of the economy that has been stuck in either recession, or weak growth during the last three years. Vince Cable, the secretary of state for business, innovation and skills in the coalition government, said in a foreword to the IFB research that: "The government is firmly on the side of enterprising family businesses and enterprise more generally." Cable, speaking at an event hosted by the Institute for Family Business at the Houses of Parliament, believes that family businesses have the wherewithal to be the backbone of what he called "responsible capitalism". "Their (family businesses) emphasis on long-term planning needs to be encouraged" he said (Bain, 2011). The book also responds to the Observatory of European SMEs' remark on the issue of MSEs requiring improvement of their traditional competitive basis which bring about innovations of a technological and organizational nature.

The main contribution of the book is the conceptualization of how innovation is carried out in small family-owned businesses and the factors underpinning it, referred to as organizational innovation process in small family firms. The book also aims to identify (key features of) small family-owned businesses, strengths and weaknesses, as well as discuss and clarify the dual nature of family firms, based on the stewardship and stagnation perspectives. Additionally, the book offers advice on how innovation can be fostered and sustained in small family-owned businesses, and discusses the government's role in this.

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APPENDIX

Table A1.1 Summary of research strands in family business research and innovation

Family Business Research	Entrepreneurship	e.g. Cunningham and Lischeron (1991); Hall et al. (2001); Zahra et al. (2004); Kellermanns and Eddleston (2006)
	Entrepreneurial management and governance	Rogoff and Heck (2003)
	Venture financing of new family firms	e.g. Chua et al. (2003)
	Succession issues	e.g. Sharma et al. (2003); Miller et al. (2003)
	Sustainability and survival of small family firms	e.g. Olson et al. (2003)
Family Business Theory	Resource Based View	e.g. Habbershon and Williams (1999)
	Agency and Stewardship theory	e.g. Miller et al. (2008)
	Social capital theory	e.g. Arregle et al. (2007)
	Systems theory	e.g. Tagiuri and Davis (1996); Gersick et al. (1997); Sharma (2004)
	Succession	e.g. de Massis et al. (2008); Stavrou (1999)

Innovation Research	Innovation is a process that can be managed in an integrated way Innovation type Adoption of innovation Management of innovation Scope of innovation	e.g. Tidd (2001) e.g. Kanter (1988) e.g. Collins et al. (1988) e.g. Christensen (1997) e.g. Cooper (1999)
Innovation in SMEs Research	The process (ideas – launch) Involvement of the owner/manager in the process and managerial style Lack of resources and marketing skills Flexibility and informal strategies Acquiring information and utilizing information (internal or external) Organizational culture and structure	e.g. Knight (1967) e.g. Rothwell (1992) e.g. Bos-Brouwers (2009) e.g. Pullen et al. (2009) Freel (2005) Laforet and Tann (2006); Blumentritt (2004)
Innovation in Family Business Research	Intergenerational and intra organizational innovation must be preceded by deliberate initiatives; Parental relinquishment; Responsibility for family firm innovation sits with the younger generation Creativity of one generation is stimulated by creativity of previous generations; due to family/non-family mentoring role, modelling and exposure to numerous adults in early life. The importance of innovation; importance of business goals rather than family goals Family firms controlled by heirs are less active in R&D than non-family firms Breadth of information and speed of information acquisition; The relationship between innovation and established firms Strategic orientation and innovation performance; Family SMEs are less innovative than non-family SMEs.	Litz and Kleysen (2001) Simonton (1984) McCann et al. (2001) Morek et al. (2000) Craig and Moores (2006) Smyrniotis et al. (2003)

Table A1.1 (continued)

Innovation in Family Business Research	Company age and innovativeness; Young firms tend to introduce innovations that have a larger impact on the firm's turnover	Avermaete et al. (2003)
	The influence of organizational culture, ownership structure (family vs. non-family firms) and of customer types on the initiation and implementation of innovative processes	Gudmundson et al. (2003)
	The drivers of innovations in family firms, i.e. why innovative projects are initiated; whether innovations in family firms emerge incrementally rather than radically; if product or process innovations prevail; and how organizational culture, management style or the choice between family members as CEO or the use of an external CEO influence the innovative process	Leenen (2005)
	Differences with regard to the role of human, social and marketing capital for innovation when comparing family and non-family firms	Llach and Nordqvist (2010)
	Comparison between family and non-family 'dynasties' of family firms. Successful dynastic families define innovation as the ability to constantly address new markets and technologies based on a clear long-term strategy	Bergfeld and Weber (2011)
	Young SMEs more innovative than old SMEs; Adopt radical innovation and win innovation awards	Laforet (forthcoming)