Spotlight
by CeFEO

Can spreading your financial roots help your family firm innovate more?

When family wealth is concentrated in the business, R&D intensity drops—diversified families invest more boldly

SALVATORE SCIASCIA · MATTIAS NORDQVIST · PIETRO MAZZOLA · ALFREDO DE MASSIS

Published on March 18, 2015 *https://doi.org/10.68623/spotlight.2025.6t3*

Family firms are often cast as cautious innovators. The standard explanation points to emotional attachment and risk aversion. But this framing treats all family ownership as equivalent, ignoring a decisive variable: how much of the family's total wealth is concentrated in the business.

This study examines the relationship between family ownership and R&D intensity in **240 Italian small and medium-sized enterprises**, tracked over seven years. The central finding is that family ownership alone does not predict R&D investment. The effect depends on the degree of **wealth overlap**—the proportion of the family's total assets represented by their equity in the firm. When the business is the family's primary financial asset, innovation spending falls. When the family holds diversified wealth, the same ownership stake is associated with higher R&D intensity.

WHAT WE STUDIED

The researchers surveyed CEOs of Italian SMEs and paired their responses with seven years of financial data (2000–2006). R&D intensity was measured as R&D expenditure as a percentage of sales. Family ownership was measured conventionally (percentage of equity held by the family). The novel variable was wealth overlap: families reported whether the firm represented less than 25%, up to 50%, up to 75%, or more than 75% of their total household wealth. This variable captures something ownership percentage alone cannot: the financial risk the family faces if the business underperforms.

The theoretical framework combines **behavioral agency theory** with the **socioemotional wealth (SEW)** perspective. Families with high wealth overlap face a dual threat from innovation failure: financial loss and socioemotional loss. This double exposure amplifies risk aversion. Diversified families face only the socioemotional dimension, which alone is insufficient to suppress innovation.

KEY INSIGHTS

Family ownership is not inherently anti-innovation

The baseline relationship between family ownership and R&D intensity is not negative. In fact, when wealth overlap is low, higher family ownership is associated with greater R&D spending. The long-term orientation and patient capital that family ownership provides can be a genuine asset for innovation—but only when the family can afford the downside risk. The stereotype of the conservative family firm applies to a specific financial configuration, not to family ownership in general.

Wealth concentration is the suppressor

When the family's financial wellbeing depends almost entirely on the firm, innovation becomes existentially threatening. An R&D project that fails does not just reduce profitability—it jeopardizes the family's savings, retirement security, and economic independence. Under these conditions, even growth-oriented families pull back from risky investment. The wealth overlap variable captures this mechanism with precision: the higher the overlap, the lower the R&D intensity, controlling for ownership level and other firm characteristics.

Emotional and financial risks compound each other

Financial risk and socioemotional risk compound each other. A family with both its money and its identity in the firm is more cautious than one with only its

identity at stake. Diversifying the wealth portfolio reduces this compounding and liberates the family's long-term orientation for innovation.

TAKEAWAYS

Diversify family wealth to unlock innovation capacity

Families that hold significant personal wealth outside the business can afford to take innovation risks that financially concentrated families cannot. This is not about reducing commitment to the firm. It is about creating the financial conditions under which the family's long-term orientation can translate into strategic R&D investment rather than defensive caution.

Assess wealth overlap before diagnosing innovation problems

Advisors who observe low R&D spending in a family firm should ask not just about ownership structure but about the family's overall financial position. A firm that looks conservative may simply be reflecting a rational response to financial concentration rather than a cultural aversion to innovation.

Separate financial and emotional risk in governance discussions

Financial risk can be managed through wealth diversification. Socioemotional risk requires governance mechanisms that protect identity while enabling change. Treating them as one problem produces interventions that address neither.

IMPACT

This study advances the theoretical understanding of family firm innovation by showing that the ownership-innovation relationship is conditional on a variable most research ignores: how much of the family's total wealth is at stake. The finding resolves a persistent contradiction in the literature—some studies find family ownership promotes innovation, others find it suppresses innovation—by identifying the moderating condition that determines which outcome prevails. For practitioners, the contribution is direct: the path to higher innovation in family firms may run through the family's personal financial planning, not through the firm's R&D budget.

RECOMMENDATIONS

1. **Conduct a family wealth audit.** Assess what proportion of total family assets is concentrated in the business. If the overlap exceeds 75%, recognize that this creates a structural bias against risky innovation.
2. **Build a diversification plan alongside the business strategy.** Personal financial planning for the owning family is not separate from corporate strategy—it shapes the risk appetite that drives strategic choices.
3. **Introduce governance mechanisms that protect identity while enabling risk.** Advisory boards, innovation committees, and staged investment processes can reduce the emotional stakes of individual R&D decisions without threatening the family's sense of ownership.
4. **Reframe R&D as legacy investment.** For families where socioemotional wealth is paramount, positioning innovation as a way to strengthen the firm's long-term legacy—rather than as a gamble—can reduce resistance.

Spotlight by CeFEO, Can spreading your financial roots help your family firm innovate more? When family wealth is concentrated in the business, R&D intensity drops—diversified families invest more boldly. Downloaded on 27 November 2026 from https://doi.org/10.68623/spotlight.2025.6t3

CEFEO AUTHORS



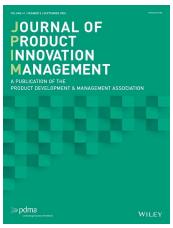
Mattias Nordqvist

Professor

Jönköping International Business School

mattias.nordqvist@ju.se

PUBLISHED IN



Sciascia, S., Nordqvist, M., Mazzola, P., & De Massis, A. (2015). Family ownership and R&D intensity in small- and medium-sized firms. Journal of Product Innovation Management, 32(3), 349–360.

https://doi.org/10.1111/jpim.12204

Spotlight is an online magazine that translates research from the Centre for Family Entrepreneurship and Ownership (CeFEO) at Jönköping International Business School, Jönköping University, into accessible insights for family business owners, practitioners, and policymakers.

Spotlight is supported by the WIFU Foundation. This partnership advances dialogue and education in responsible family entrepreneurship and ownership.

JÖNKÖPING UNIVERSITY
Jönköping International Business School

CeFEO
Centre for Family Entrepreneurship and Ownership

WIFU FOUNDATION