Spotlight
by CeFEO

Can multiple families and generations work together to drive breakthrough innovations?

Harnessing family dynamics for radical innovation: how multifamily ownership and generational involvement shape family firms

FRANCESCO CHIRICO · R. DUANE IRELAND · DANIEL PITTINO · VALERIANO SANCHEZ-FAMOSO

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In today's fast-paced market, innovation is key to survival, and for family businesses, achieving radical innovation can be particularly challenging yet rewarding. These companies not only strive for financial success but also place immense value on socioemotional wealth (SEW), which encompasses family control, emotional ties, and legacy preservation. However, the dynamics of multifamily ownership and the number of generations actively involved in top management create unique challenges and opportunities. This article explores how multifamily ownership and generational involvement influence the capacity of family businesses to drive radical innovation, positioning them for lasting impact.

WHAT WE STUDIED

This research focuses on Spanish family firms, leveraging data from the SABI (Iberian Balance Sheet Analysis System) database to understand how multifamily ownership and generational involvement affect radical innovation. Researchers used surveys directed at senior-level executives from over 1,300 Spanish family firms, including 236 qualifying family-owned businesses, ensuring a comprehensive sample. With attention to SEW and resource orchestration theories, the study used statistical models to assess how these factors impact radical innovation, controlling for variables such as firm age, size, and industry.

KEY INSIGHTS

1. Socioemotional Wealth as a Strategic Resource

Family firms often view SEW as a valuable resource that shapes their business goals and actions. The study found that SEW's emphasis on family control, emotional connection, and long-term continuity can significantly contribute to radical innovation by fostering a supportive environment for risk-taking and novel thinking.

2. The Influence of Multifamily Ownership

The presence of multiple owning families in a firm introduces varied perspectives and knowledge, which can enhance innovation. However, multifamily ownership can also create complexity, with potential for conflict and path-dependent thinking that may limit the firm's ability to pursue bold, new ideas. Surprisingly, the research found that, with the right conditions, multifamily ownership actually enhanced the SEW-radical innovation relationship, challenging prior assumptions about multifamily firms' limitations.

3. Generational Involvement as a Moderator

Generational involvement within family firms is key to innovation outcomes. The study highlights that when fewer generations are involved in top management, family firms—especially those with multifamily ownership—are better positioned to use SEW for radical innovation. Reduced generational diversity enables a clearer, more unified vision that supports innovative pursuits, whereas high generational involvement can sometimes dilute the innovation focus through conflicting priorities.

TAKEAWAYS

Leverage Socioemotional Wealth for Innovation

Family business leaders should recognize SEW as an asset that can drive innovation. By nurturing SEW, firms can harness family loyalty and shared vision to

propel transformative projects that lead to new market opportunities.

Embrace Diversity in Multifamily Ownership

While multifamily ownership can be challenging, it offers a diversity of insights and knowledge essential for innovative thinking. Firms should work to develop governance mechanisms that align the goals of different families, using their combined resources for radical innovation.

Streamline Generational Involvement

For family firms with multifamily ownership, limiting the number of generations involved in top management may reduce conflicts and streamline decision-making. Fewer generations in leadership positions help in establishing a cohesive strategic direction for innovation efforts.

IMPACT

The findings highlight a nuanced understanding of how family ownership structures and generational involvement affect radical innovation. As family firms strive for longevity and renewal, these insights suggest that family business leaders can strategically manage family dynamics to enhance innovation potential. Future research could delve deeper into how varying levels of family involvement across regions and industries shape innovation outcomes.

RECOMMENDATIONS

Family firms aiming for radical innovation should consider cultivating SEW, embracing the diversity within multifamily ownership, and strategically managing generational involvement in leadership. By aligning family goals and managing generational diversity, family firms can create an environment that supports breakthrough innovations while preserving family values.

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CEFEO AUTHORS



Francesco Chirico

Professor

Jönköping International Business School

francesco.chirico@ju.se



Daniel Pittino

Professor

Jönköping International Business School

daniel.pittino@ju.se

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