Spotlight
by CeFEO

How can family businesses configure their innovation systems to stay competitive in a fast-moving world?

Which mix of family control, governance, and autonomy best drives innovation in family firms?

MATTHIAS WALDKIRCH · NADINE KAMMERLANDER · CONRAD WIEDELER

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For family businesses, balancing tradition with transformation is one of the most enduring and complex challenges. On one hand, these firms have deep-rooted legacies, strong value systems, and a long-term orientation. On the other, the market increasingly demands **agility**, **experimentation**, and **disruptive thinking**—traits often associated with startups and high-growth ventures.

Corporate venturing, which includes incubators, accelerators, investments in startups, and the creation of spin-offs, has become a vital strategy for firms looking to explore new business areas. But for family firms, engaging in this kind of risky, future-focused innovation raises a key question: **How can they manage innovation without compromising their core identity and governance structures?**

A recent study by Lange, Woywode, and Steininger offers some compelling answers. By investigating corporate venturing activities in both family and non-family firms, the researchers uncover not just one "winning formula," but multiple configurations that enable innovation. The findings shed light on how **ownership**, **involvement**, and **autonomy** intersect to drive innovation success—highlighting the complexity, but also the flexibility, of family firm innovation.

WHAT WE STUDIED

The research analyzed **173 corporate venture units (CVUs)** operating within large firms in Germany—a country known for its robust family business sector. The CVUs span various industries and were assessed for their **innovation output**, particularly their ability to generate novel products, services, or business models.

The researchers employed **fuzzy-set qualitative comparative analysis (fsQCA)**, a method well-suited to uncovering **complex causal relationships**. Rather than testing a single hypothesis, fsQCA identifies **combinations** (or "configurations") of conditions that jointly lead to an outcome—in this case, high innovation.

Key conditions analyzed included:

- **Family ownership** (percentage of shares held by the family)
- **Family involvement** (operational and board-level roles)
- **Corporate governance mechanisms** (performance control, goal alignment)
- **Strategic autonomy of the CVU** (freedom to act independently)

This configurational approach recognizes that **multiple routes can lead to the same outcome**, offering a much-needed alternative to simplistic "one-best-way" models.

KEY INSIGHTS

1. Innovation Is Configurational, Not Linear

There isn't a universal blueprint for innovation success in family firms. The study uncovered **four distinct configurations** that were all associated with high innovation performance in CVUs. Some emphasized

strong family involvement, others leaned on governance and control mechanisms. The message is clear: **fit matters more than form.**

2. Autonomy Is a Common Thread—but Needs Anchoring

In every successful configuration, **strategic autonomy of the CVU** was a central element. Ventures need the freedom to explore new ideas, build novel partnerships, and pivot when necessary. However, autonomy alone wasn't enough. It had to be coupled with either:

- Direct family involvement (to ensure alignment with values)
- Strong performance control systems (to maintain accountability)

Without one of these anchors, autonomy could drift into chaos.

3. Family Involvement Can Be Both a Catalyst and a Constraint

High family involvement in management or governance can **boost innovation**, especially when the family brings entrepreneurial vision and long-term thinking. But if involvement turns into micromanagement or risk aversion, it can **stifle the experimental nature** of venturing.

Interestingly, one successful configuration included **low family involvement**, but this was balanced with high performance control and autonomy—showing that effective governance can substitute for direct engagement.

4. Governance Structures Enable Delegation Without Detachment

For family firms preferring a hands-off role in venturing, the key is to **design governance systems** that communicate strategic goals, monitor performance, and provide corrective feedback. These mechanisms ensure that the CVU aligns with the broader firm's objectives without requiring constant oversight.

5. Equifinality: Many Roads to Innovation

One of the most powerful findings is the concept of **equifinality**—that **multiple, equally effective configurations** can lead to successful innovation. This is particularly important for family firms, where history, culture, and interpersonal dynamics vary widely. There's no need to mimic others; what matters is internal **coherence and strategic alignment**.

TAKEAWAYS FOR FAMILY BUSINESS LEADERS

1. Start with an Honest Assessment

Map out your current levels of **ownership**, **involvement**, and **governance structures**. Where are the decision-making bottlenecks? Where is autonomy lacking? This forms the basis for reconfiguration.

2. Decide the Role You Want to Play

Does your family want to be deeply involved in innovation, or would you prefer to empower others through structured delegation? Your answer will guide whether to emphasize family engagement or governance systems.

3. Design for Balance, Not Control

Autonomy is essential for venturing. But it needs to be balanced with **clear expectations and oversight mechanisms**, either through family involvement or formal controls.

4. Avoid Imitation

Benchmarking can help, but copying another firm's innovation model rarely works. Instead, focus on crafting a **configuration that aligns with your unique legacy, culture, and strategic vision**.

IMPACT

This research offers a **refreshing perspective** on innovation in family firms. It moves beyond the "more control vs. less control" debate and instead embraces the **rich diversity** of pathways that can lead to success. For academics, it opens new ground for studying configurational logic in entrepreneurial settings. For practitioners, it offers a flexible, evidence-based framework for designing innovation strategies that fit their context.

At a time when technological disruption and market shifts are accelerating, this study equips family businesses with a **sophisticated playbook** for engaging in bold, strategic innovation—without losing sight of their core identity.

RECOMMENDATIONS

- **Establish a Configuration Review**: Periodically revisit the roles of family, management, and governance in your innovation efforts.
- **Train for Delegation**: Equip both family and non-family leaders with tools to delegate innovation responsibilities while maintaining alignment.
- **Experiment with Structure**: Use pilot programs or sandbox environments to test different configurations before scaling.
- **Invest in Governance Innovation**: Just as product innovation matters, so does **governance innovation**—especially when venturing beyond your core business.

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CEFEO AUTHORS



Matthias Waldkirch

Affiliated Researcher

EBS University

matthias.waldkirch@ju.se

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