

## How can family businesses design new product development that actually works?

*Six family SMEs reveal how team structure, leadership roles, and incentives shape innovation outcomes*

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**F**amily businesses are frequently characterized as conservative innovators. This study challenges that by examining not whether family SMEs innovate, but how they organize innovation internally. The answer depends less on R&D spending and more on how teams, leadership, and incentives are designed to fit the governance realities of family ownership.

The researchers conducted a multi-case study of **six family-owned SMEs** across different sectors, all with active NPD programs. Three were high-performing innovators, three lower-performing. Through **49 interviews** with owners, managers, and team members, supplemented by internal documents, the study identified the design choices that separated success from underperformance.

### WHAT WE STUDIED

The analysis focused on three dimensions of NPD design: team structure, leadership and championing roles, and incentive systems. Each was examined through the lens of family firm governance—centralized authority, efficiency orientation, flexible accountability, and relational culture.

### KEY INSIGHTS

#### ***Department-based teams outperform dedicated cross-functional teams***

Conventional innovation management prescribes dedicated, cross-functional teams. In family SMEs, this backfired. Lower-performing firms that created dedicated teams generated silos, sparked resentment, and disrupted operations. High-performing firms organized NPD within existing departmental

structures, with employees contributing part-time alongside regular responsibilities. This preserved institutional knowledge, maintained continuity, and fostered the informal collaboration that family firm cultures do well.

#### ***Separating project leadership from championing produces better results***

In many organizations, the project leader also serves as internal champion. In family firms, authority and trust concentrate with family members, making this dual role problematic. High-performing firms split it: non-family professionals led day-to-day execution, while family members served as champions—clearing roadblocks, securing resources, and lending credibility. Professional management paired with family advocacy proved consistently more effective than either role alone.

#### ***Intrinsic incentives outperform monetary rewards***

Bonuses for innovation contributions proved counterproductive in the family SME context, generating rivalries and undermining relational culture. High-performing firms relied on recognition, trust, professional development, and alignment with family values. These intangible motivators strengthened commitment and reinforced the informal contracts that family businesses depend on. What motivates innovation in a family SME is not cash but belonging.

## TAKEAWAYS

### ***Leverage existing structures rather than importing corporate models***

Department-based, part-time team structures align better with family governance than dedicated teams. They avoid disruptions in smaller organizations where every person's daily contribution matters.

### ***Assign leadership and championing to different people***

Professional project leaders provide competence and discipline. Family champions provide credibility and resource access. Combining both in one role dilutes both functions.

### ***Invest in culture, not compensation***

Recognition and a sense of contributing to the family's legacy motivate more effectively than performance bonuses. Incentive systems should reinforce relational culture, not compete with it.

## IMPACT

This study demonstrates that family firm governance characteristics—often treated as constraints on innovation—can become competitive advantages when

NPD is designed to work with them. The three design principles (team structure, leadership separation, intrinsic incentives) provide an actionable framework for any family SME seeking to improve innovation without abandoning its governance logic.

## RECOMMENDATIONS

1. **Audit NPD design against your governance model.** Check whether innovation structures assume a corporate context that does not match your family firm's reality.
2. **Build flexible, department-based innovation teams.** Allow employees to contribute part-time while maintaining operational roles.
3. **Separate project leadership from family championing.** Hire project leaders for competence; assign strategic oversight to trusted family members.
4. **Replace extrinsic incentives with meaningful recognition.** Professional development, visibility, and inclusion in the family's innovation narrative motivate more sustainably than bonuses.

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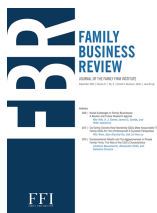
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