

How do emotional bonds, trust, and conflict shape innovation across generations?

Knowledge internalization within the family determines whether social capital translates into product development

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What determines innovation performance in family firms is not simply how much they invest in R&D or how creative individual family members are. It is how knowledge flows between them. This study introduces knowledge internalization—the family’s collective ability to recognize, absorb, and apply each other’s expertise—as the critical mechanism linking family dynamics to product development outcomes.

The researchers surveyed **199 Swiss family firms**, targeting CEOs and senior family executives. Using structural equation modeling, they tested how three family-level factors—social capital, affective commitment, and relationship conflict—influence product innovation, both directly and through their effect on knowledge internalization. They also examined how these dynamics shift across generational stages.

WHAT WE STUDIED

Family social capital captures the trust, closeness, and reciprocity among family members. **Affective commitment** measures the emotional attachment family members feel toward the firm. **Relationship conflict** reflects the degree of interpersonal tension and emotional friction within the family. Knowledge internalization—the mediating variable—was measured as the family’s capacity to understand, integrate, and act on each other’s knowledge in ways that produce new products or services.

KEY INSIGHTS

Knowledge internalization is the mechanism that matters

Social capital and emotional commitment do not directly produce innovation. They work through knowledge internalization. Trust and closeness create the conditions for knowledge to flow, but the flow itself—the active process of absorbing, interpreting, and applying each other’s expertise—is what drives product development. Family firms with strong relationships but weak internalization processes generate warmth without innovation.

Affective commitment has both direct and indirect effects

Emotional attachment to the firm operates through two channels. Indirectly, committed family members are more willing to share expertise and engage in collaborative learning, which enhances internalization. Directly, commitment motivates discretionary effort—the kind of voluntary, future-oriented engagement that produces new ideas and supports their implementation. This dual pathway makes affective commitment the most robust predictor of innovation in the model.

Relationship conflict suppresses the internalization process

Emotional friction between family members erodes the capacity for collaborative learning. When families are consumed by interpersonal disputes, attention shifts from strategic goals to internal grievances. Knowledge that could be shared and applied productively gets hoarded, distorted, or ignored. The study confirms that relationship conflict impedes internalization, which in turn reduces product development performance.

Generational stage moderates all three relationships

The dynamics change as firms move through generations. Later generations strengthen the positive effect of social capital on internalization—broader family networks create more knowledge channels. They weaken the impact of affective commitment, possibly because increased formalization substitutes for emotional bonds. And they reduce the negative impact of conflict, likely because more professionalized governance and communication structures contain interpersonal friction. Succession is not just a leadership event. It is a restructuring of the firm's innovation architecture.

TAKEAWAYS

Design for knowledge internalization, not just knowledge sharing

Sharing information is not enough. Family firms need structured opportunities for members to explain, challenge, and build on each other's expertise. Intergenerational learning programs, innovation roundtables, and cross-functional projects that blend experience with fresh perspective all serve this purpose.

Invest in emotional commitment early

Affective commitment is strongest in founder and second-generation stages and has the broadest impact on innovation. Building emotional ties to the firm—through involvement, shared purpose, and visible contribution—creates the motivational foundation that other mechanisms build on.

Professionalize conflict management before it costs you innovation

Relationship conflict is not just a family problem. It is an innovation problem. Family councils, mediation

protocols, and structured governance can contain emotional friction before it suppresses the collaborative learning that product development requires.

IMPACT

This study reframes innovation in family firms as a social and emotional process rather than a technical one. The contribution is the identification of knowledge internalization as the mechanism that converts family relational resources into product development outcomes—and the demonstration that this mechanism operates differently across generational stages. For practitioners, the implication is that supporting innovation in family firms requires attention to the relational infrastructure, not just R&D budgets or technology investments.

RECOMMENDATIONS

1. **Conduct innovation audits that include relational dimensions.** Assess not just R&D capacity but how effectively family members integrate and apply each other's expertise.
2. **Implement transgenerational learning programs.** Pass down collaborative mindsets alongside technical knowledge.
3. **Blend emotional engagement with governance structures.** Preserve commitment while building the professionalized systems that contain conflict in later generations.
4. **Create regular forums for knowledge exchange.** Structured interactions—from strategy retreats to intergenerational innovation sessions—keep the internalization process active.

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