

What stops some family firms from innovating, even when they know they should?

Four case studies reveal how a family's own past quietly blocks innovation in the present.

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Family firms run a large share of the world economy – by some estimates, more than a third of S&P 500 companies still carry meaningful family influence. That makes a long-standing puzzle in the research all the more striking. Family firms often hold exactly the assets that should make them strong innovators: patient capital, long time horizons, deep knowledge passed between generations. Yet many of them innovate less than they easily could. Scholars have a name for the gap between capacity and appetite – the ability-willingness paradox.

Most earlier work answered the puzzle by sorting family firms into two camps, good for innovation or bad for it, or by cataloguing the factors that push them to innovate more. This study takes a more practical angle. It asks what specifically gets in the way, and where those obstacles come from. The answer is uncomfortable for anyone who assumes innovation is mainly a matter of budgets and markets: the barriers are largely self-made, laid down in the firm's own past, and frequently shaped by the founder.

WHAT THE RESEARCHERS STUDIED

The analysis rests on **path dependence theory** – the idea that early choices narrow a firm's later options. A decision that made sense at the founding becomes a routine, the routine becomes the default, and eventually the organisation keeps reproducing it even when better alternatives are on the table. Applied to family firms, the theory predicts that the founder's early footprint can quietly govern what successors are able to do decades later.

To build theory where little existed, the authors ran an inductive, multiple-case study of four family businesses – three in Spain and one in Uruguay, the latter founded by a Spanish couple, so Spanish cultural values run through all four. They chose *polar* cases on purpose: two firms that are markedly innovative (labelled RKAM and UNO) and two that are markedly less so (HOST and CHIL). Comparing extremes makes the contrasting patterns easier to read.

Across the four firms they conducted 16 interviews – with general managers, founders, potential successors, and non-family managers – and added factory visits, company documents, and direct observation. Transcripts were validated by interviewees and cross-checked by the research team, then coded down to 26 first-order concepts, ten themes, and finally four aggregate dimensions. The firms differ sharply in shape, and that contrast carries much of the argument: HOST, founded in 1916, now spans the second and third generations with more than ten shareholders, while RKAM is a lean father-and-son business with clearly divided roles.

KEY INSIGHTS

Four families of barriers emerged from the cases. What ties them together is that each can be traced to how the family relates to its own history. Across the board, the two innovative firms had kept their family systems clear and open; the two laggards had let theirs cloud over.

The manager's room to manoeuvre shrinks

The first dimension is a **reduction of managerial discretion**. As founder-era routines settle in, the

manager's freedom to choose narrows. Three forces drive it. Weak communication inside the family means the signals that innovation is needed never travel far enough – in HOST, separate branches of the family had effectively stopped discussing where the company was heading. Role confusion blurs the line between acting as a relative and acting as an executive; HOST kept the widows of deceased owners on its board for emotional reasons rather than business fit, leaving its youngest director over 70. And generational conflict, where the older cohort will not step aside, saps the appetite for change. The innovative firms showed the reverse: RKAM's founder simply delegated decisions to his son, so the conflict never took hold.

The firm gets locked in

The second dimension, **family lock-in**, is the point at which a firm cannot move to a new state even though everyone involved would prefer to. Interest conflicts – family logic pulling one way, business logic the other – were a primary trigger. RKAM defused one early by buying out a more conservative partner, which cleared the way for a bolder direction; the less innovative firms let such tensions fester. Emotional conflict between relatives compounded the problem, with one firm's owners avoiding sensitive subjects entirely while the family matriarch was alive. Nepotism added a third layer: when relatives are appointed for who they are rather than what they can do, non-family employees lose motivation and new initiatives stall.

The family prefers things as they are

The third dimension is a **conservative attitude**. It surfaces as a standardised view, where the founder's approach hardens into the only acceptable one and alternatives stop being weighed, and as a plain fear of change driven less by financial risk than by the worry of disturbing family status and harmony. Both HOST and CHIL admitted that decisions were sometimes ducked simply to keep the peace. There is an important nuance here. The founder's shadow is not always a drag – in RKAM and CHIL the founders' influence still powered innovation. It becomes a barrier only when the next generation cannot translate the founder's instinct into something that fits new conditions.

The firm keeps walking inefficient paths

The fourth dimension, **inefficient paths**, describes a firm that has lost its flexibility and keeps recycling solutions that no longer fit. Two things feed it: too little training and outside experience among family managers, and an absence of clear leadership. HOST said outright that thin training and limited external experience were braking its innovation. Where leadership was clear and shared – RKAM's founder grooming his successor, UNO's eldest sibling steering with family backing – the firms moved. Where

succession stayed undefined and an ageing generation lingered, innovation stalled.

The most underappreciated point in the paper is that none of these barriers is really about innovation as a technical task. They are about relationships and history. A family firm rarely fails to innovate because it lacks an R&D line in the budget. It fails because a conversation never happened, a role was never clarified, or a founding-era habit was never questioned.

TAKEAWAYS FOR FAMILY BUSINESS LEADERS

For owners and advisers, the most useful takeaway is that innovation trouble in family firms is often misdiagnosed. The reflex is to examine strategy, technology, or the market. This research points somewhere less comfortable and more productive: look first at the family system. The firms that innovated were not the ones with the most resources – they were the ones whose families had kept communication open, roles clear, and leadership settled.

A few signals are worth watching for in practice:

- Decisions made the way they have always been made, with no one able to say why the original logic still holds.
- Board or management seats filled on the basis of family standing rather than the skills the business actually needs.
- Whole topics that go undiscussed across branches or generations because raising them feels too risky.
- A successor generation that has never worked or trained outside the firm.

WHY IT MATTERS

The framework lands as a ready-made diagnostic. Rather than asking whether a family firm is innately good or bad at innovation, it lets owners and advisers locate *which* barrier is biting and trace it to its source in the firm's history. Its contribution to path dependence theory is to make concrete something earlier work had only gestured at – how a founding-era footprint becomes a present-day constraint on the capacity to innovate.

The limits are clear, and the authors state them plainly. Four cases cannot settle the matter; the ten propositions they derive are meant as a foundation for larger quantitative testing, not as proven law. The cultural setting is narrow too, drawn entirely from Spanish-rooted firms. Even so, the diagnostic value is immediate, and the central claim travels well: a family's relationship with its own past is one of the strongest forces shaping whether it can change.

RECOMMENDATIONS

1. Audit innovation decisions for patterns that trace back to the founding years, and ask honestly whether each one still serves the business today.
2. Separate family roles from executive roles in explicit terms, putting the right people in the right seats regardless of surname or branch.
3. Build and protect channels for discussing the firm's direction across generations and branches, before conflict closes them off.
4. Invest in training and outside experience for the next generation, so successors arrive equipped to lead change rather than only to inherit it.
5. Settle leadership and succession early; ambiguity at the top was among the clearest brakes on innovation the study found.

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