

# Family Firms & Innovation

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# Are Family Firms Really Bad at Innovation?

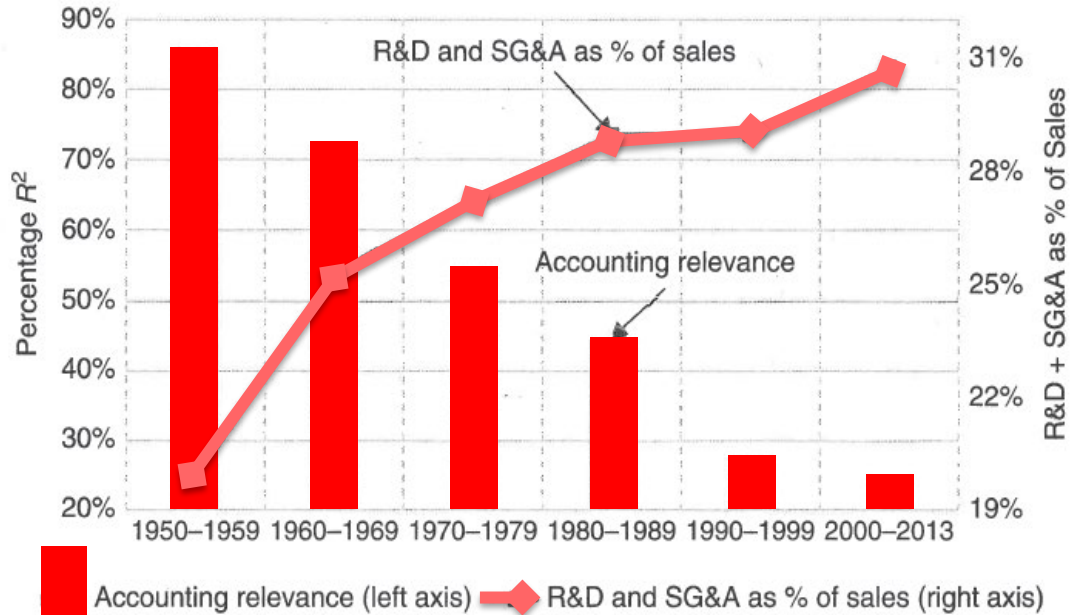
The cliché

“Family-owned firms are conservative, risk-averse, and less innovative than their non-family counterparts.”

**But is this the right way to judge family firms?**

*“Everybody is a genius. But if you judge a fish by its ability to climb a tree, it will live its whole life believing that it is stupid.” – Attr. Albert Einstein*

# Which Resources to Allocate: Importance of Intangibles?



$R^2$  of market values regressed on earnings and book values of companies entering the public market in successive decades, 1950-2013.

Source: Lev and Gu (2016)

# Setting out your Strategy takes Time

Walmart



Ryanair



“It was the worst r  
truck full of water  
had donkey rides  
watermelons bega  
do. Inside, the me  
wrote him off. It w

Cirque du Soleil



Patagonia

Sam had brought in a  
up in front of the store. He  
It was 110 degree, and the  
s began to do what donkeys  
s a nice guy [Sam] but I



# Family Firms: Which Resources to Allocate and How?

- Family Risk Preference versus Family Time Horizon
  - Longterm Investments
  - Incentive R&D versus CAPEX
  - ⇒ Less Longterm Investments and Less incentive to invest in R&D (Anderson et al. 2012; Amore et al. 2025)
- Family Firms
  - Control through Debt (Israel, 1991; Hansen & Block, 2021)
  - Liquidity through Cash
  - ⇒ More Debt, more Cash

But what does this imply for innovation by Family Firms?

- More internal commercialization of inventions (Birhanu & Gambardella, 2023)
  - ⇒ More exploration and more incentive to diversify, especially undiversified Family Firms (Hsu et al. 2025)

# Which Resources to Allocate

Case: Hilti. From Selling Power Tools to Fleet Management Service



(19) **Unite**  
(12) **Pater**  
**BÖHM**

(54) **SYSTEM**  
**COMMUNICATIONS**  
**FOR POWER**

(71) Applicant

(72) Inventors

(21) Appl. No.

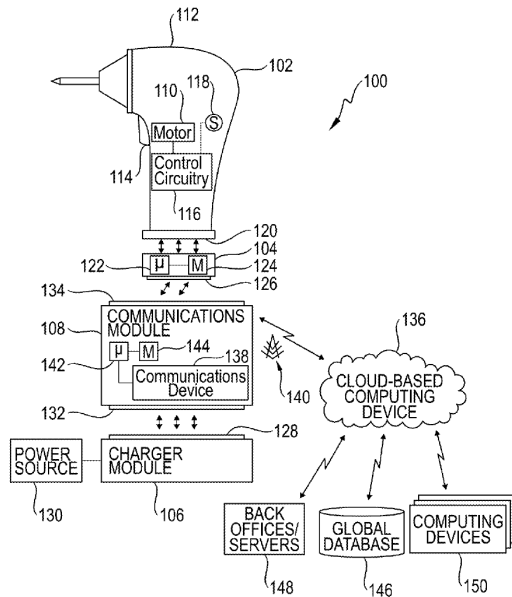
(22) Filed:

**Re**

(63) Continuation

(60) Provisional

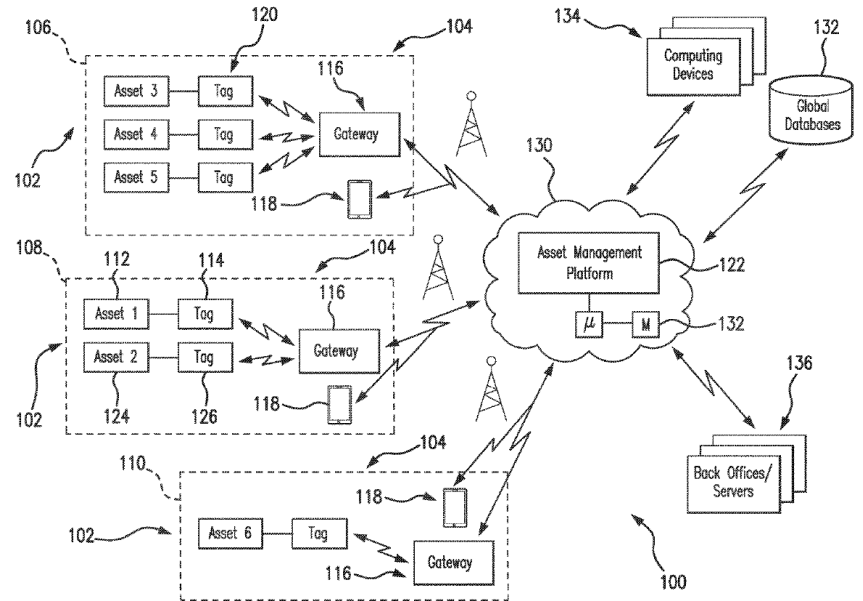
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ive power tool pack operating communications interface. The with the battery identification information module transmits computing device

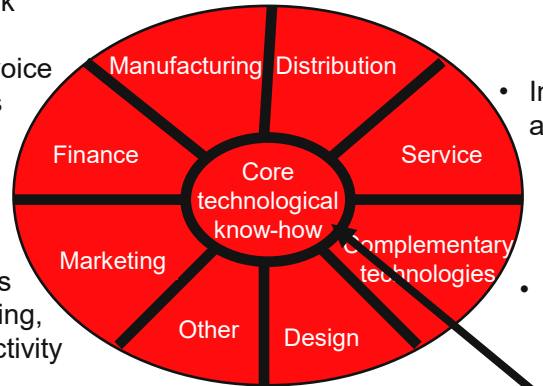


# Which Resources to Allocate

Case: Hilti. From Selling Power Tools to Fleet Management Service



- More working capital and risk management
  - Leasing versus one-time invoice
  - Compensation system sales
  - Pricing and total cost of ownership
  - Focus on hidden costs (down times, purchasing, efficiency loss, productivity loss)
  - Educate the customer
- Sell to management versus sell to construction worker
- Inventory management and repair services
  - Focus on the consumables (dowels and drill bits)
  - Faster with provision of new and improved tools

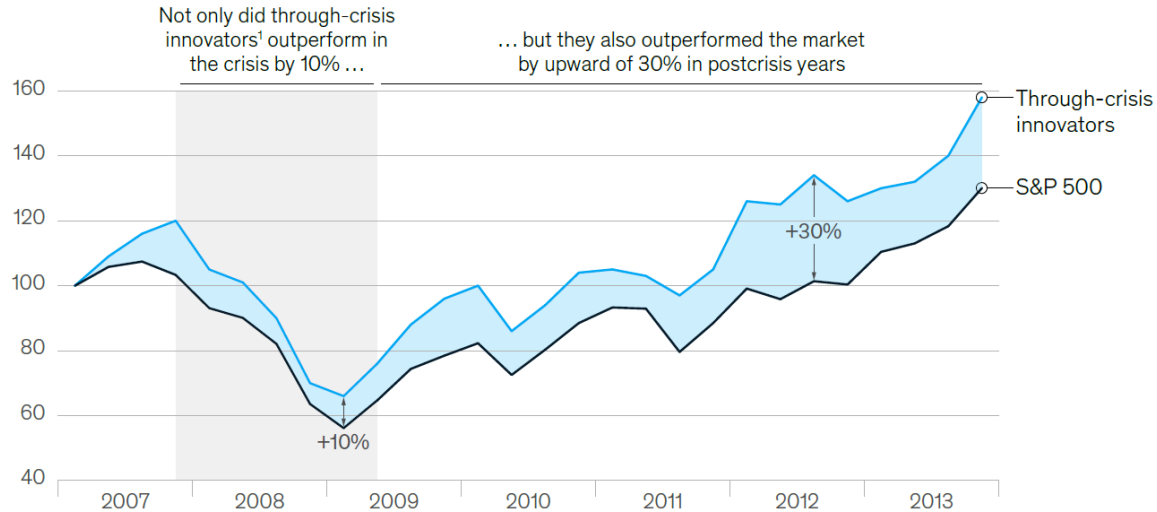


Source: Teece (1986)

# When to (re-)allocate Resources

History suggests that companies that invest in innovation through a crisis outperform peers during the recovery.

Normalized market capitalization, index (Q1 2007 = 100)

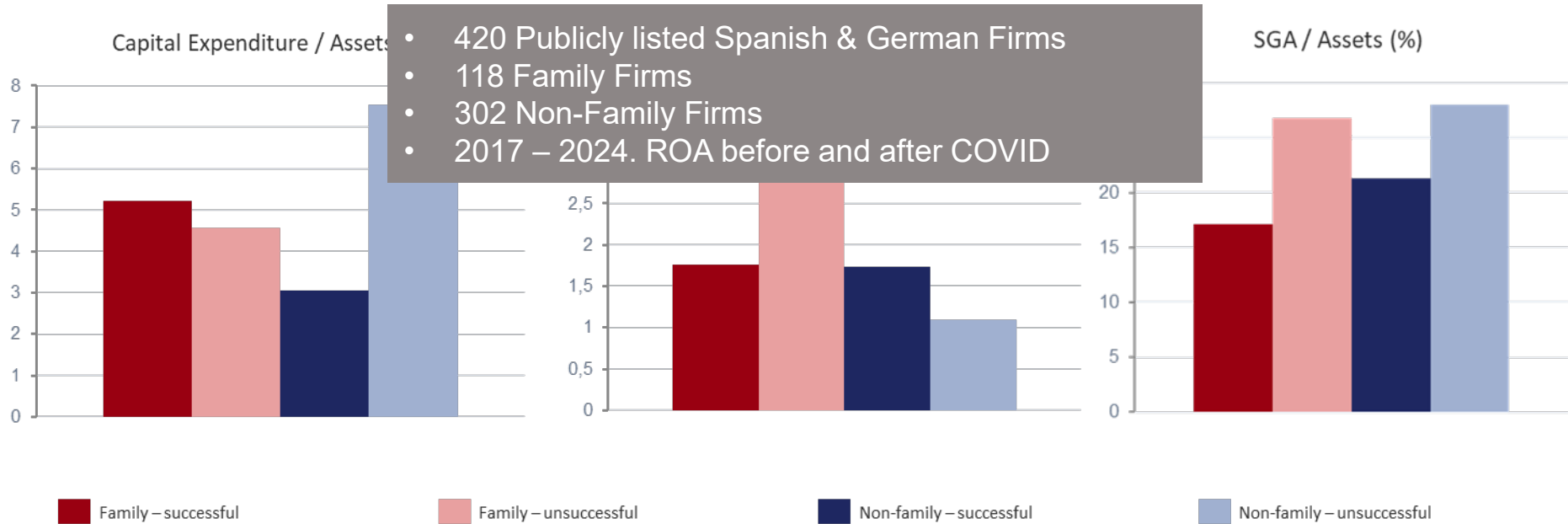


<sup>1</sup>Identified as companies on the *Fast Company* World's 50 Most Innovative Companies list for  $\geq 2$  years through a crisis, normalized to 2007.

Source: Bar Am et al. (2020)

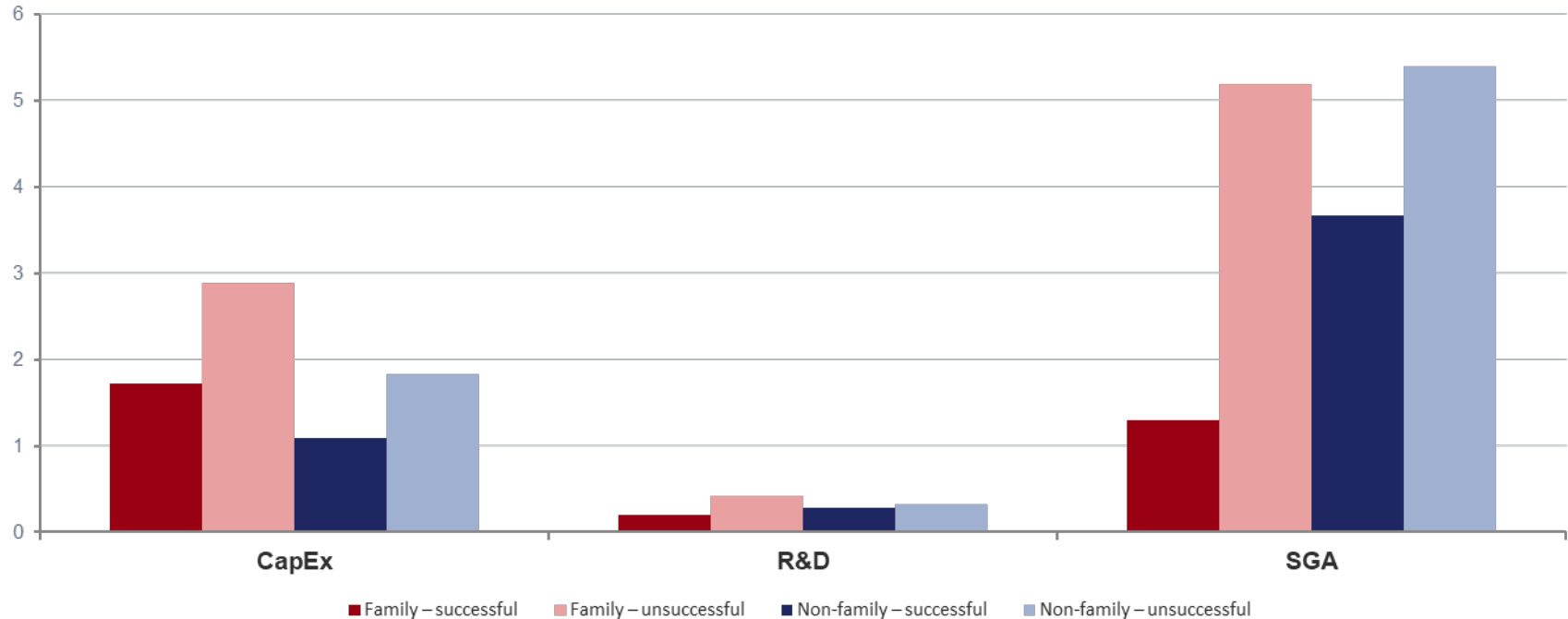
# Family Firms, Resource Allocation & Performance

Innovation is not equal to R&D spending – successful family firms invest more in CapEx, not in R&D



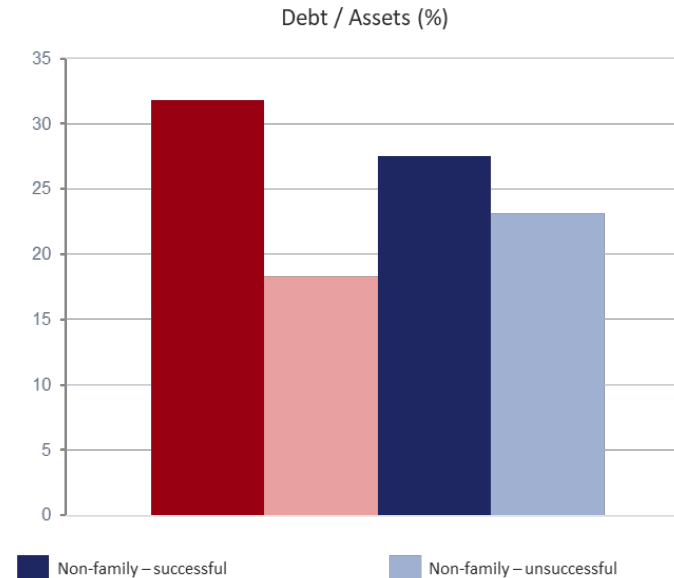
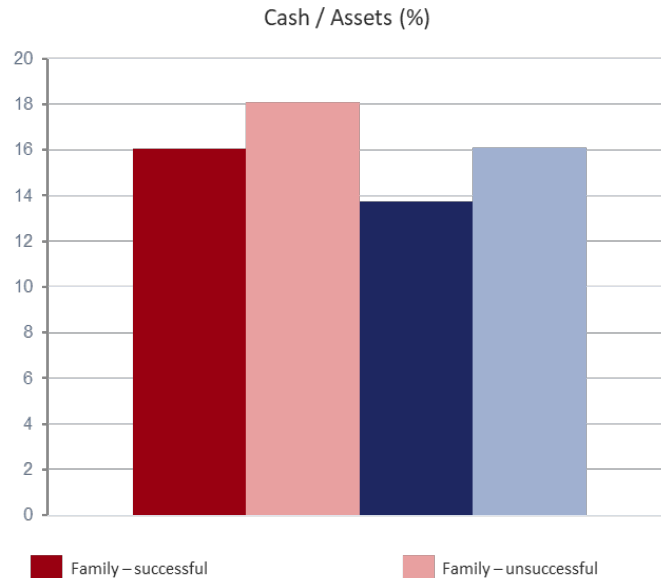
# Family Firms, Strategic Stability & Performance

Within-firm standard deviation of key variables – lower = more consistent strategy



# Family Firms: Debt, Cash & Performance

Successful family firms combined high cash reserves with higher leverage – resources and control to navigate crisis



# Family Firms & Innovation

## **1. Innovation ≠ R&D spending.**

Successful family firms invest more in CapEx, not R&D – a perception and definition problem.

## **2. Strategic transformation takes time – and family firms have time.**

Cash reserves + control + consistency enable true transformation. Staying the course matters.

## **3. Survival vs. short-term performance: a strategic trade-off.**

Strategic innovation leading to true transformation favors survival across different states of the world.

## **4. The real innovation family firms need: better communication.**

Prepare leaders who think and act strategically – and tell the story of long-term value creation.

# Thank you



A Way to **Learn** . A Mark to **Make** . A World to **Change** .