

# Innovation Management in Family Owned Businesses: Challenges and Opportunities

Fetiana Pristianti<sup>1</sup>

<sup>1</sup> Universitas Esa Unggul, Jakarta, Indonesia

## Abstract

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Family owned businesses are among the most dominant organizational forms worldwide and play a major role in economic development. However, their innovation outcomes often differ from those of non-family enterprises due to the need to balance financial objectives with family centered priorities such as legacy, identity, control, and long term continuity. This study examines the challenges and opportunities of innovation management in family owned firms through a systematic literature review approach. Peer reviewed articles were selected from major academic databases using keywords related to family business innovation, governance, succession, ambidexterity, crisis adaptation, and digital transformation. The findings highlight that socioemotional priorities strongly shape strategic innovation decisions, influencing both risk taking and resource allocation. Governance structures, family involvement in leadership, and succession processes emerge as critical factors that can either constrain or stimulate innovation. Additionally, external collaboration, board social capital, and crisis driven resilience support innovative renewal. Digital transformation further offers opportunities for competitiveness while intensifying tensions regarding family control. These insights contribute to understanding innovation dynamics across generations.

\*Corresponding author:  
(Fetiana Pristianti)

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## **1. Introduction**

Family owned businesses represent one of the most dominant organizational forms worldwide and contribute significantly to economic growth, employment, and regional development. Despite their importance, innovation outcomes in family firms are often inconsistent compared to non-family enterprises. This inconsistency is not necessarily due to limited capabilities, but rather to the distinctive way family firms balance economic objectives with non-economic priorities such as family legacy, identity, control, and long-term continuity. These priorities are commonly explained through the socioemotional wealth (SEW) perspective, which highlights how family centered goals influence strategic decision making, including innovation investments and risk taking behavior (Reina et al., 2022).

Innovation management extends beyond the development of new products or services; it encompasses the entire process of opportunity recognition, resource allocation, knowledge coordination, and implementation of innovative practices. In family owned businesses, innovation management is strongly shaped by governance structures and the level of family involvement in ownership and leadership. For instance, succession processes may disrupt innovation activities due to uncertainty and risk aversion during generational transitions. At the same time, succession can also provide opportunities for strategic renewal, modernization, and the introduction of new competencies (Baltazar et al., 2023).

A major challenge in family business innovation lies in the paradox between tradition and change. Family firms often prioritize stability and preservation of control under normal conditions, yet they must remain adaptable in response to

environmental disruptions. Research during crisis contexts shows that family firms can demonstrate strong innovation potential when pressured by external shocks, leveraging long-term orientation and accumulated resources to support renewal and business model adaptation (Leppäaho & Ritala, 2021). However, managing innovation in such firms requires balancing competing demands such as exploration versus exploitation, professionalization versus family harmony, and continuity versus transformation. These paradoxical tensions significantly influence innovation ambidexterity in family enterprises.

Alongside these challenges, family owned businesses also possess unique opportunities for innovation. Their patient capital, strong stakeholder relationships, and deep internal trust can create a supportive environment for long term innovative initiatives. Moreover, the rise of digitalization and open innovation has enabled family firms to expand beyond internal knowledge boundaries by collaborating with external partners, accelerating innovation processes, and enhancing competitiveness (Nieto et al., 2023). Inter organizational cooperation has also been found to reduce perceived socioemotional risks and strengthen innovation outcomes, helping family firms navigate the strategic uncertainties associated with innovation investments (Kronke & Laulitz, 2022).

Given these complexities, innovation management in family-owned businesses has become an increasingly relevant area of scholarly inquiry. Understanding how family influence shapes opportunity recognition, governance mechanisms, and strategic innovation decisions is essential for explaining why some family firms resist change while others successfully innovate across generations.

Therefore, this article examines the key challenges and opportunities in managing innovation within family owned enterprises, providing insights that contribute to both academic research and managerial practice.

## **2. Literature Review**

Family owned businesses represent one of the most prevalent organizational forms globally and play a crucial role in economic development. However, innovation outcomes in family firms remain inconsistent compared to non-family enterprises. Recent scholarship suggests that this variation is not necessarily caused by limited innovative capability, but rather by the unique strategic logic of family firms, which must balance financial goals with non-economic priorities such as family legacy, identity, control, and long-term continuity. In this context, socioemotional wealth considerations shape innovation decisions indirectly through internal social mechanisms and relational resources that may either encourage or constrain innovative behavior depending on the firm's governance configuration (Stasa & Machek, 2023).

Innovation management in family firms extends beyond product development and includes opportunity recognition, resource allocation, and knowledge coordination. Governance structures and family involvement in leadership strongly influence how innovation is pursued. Research emphasizes the importance of managing the tension between exploration and exploitation, often referred to as innovation ambidexterity. Family involvement in top management can strengthen exploitative innovation by leveraging existing competencies, yet it may

also reduce exploratory innovation when risk aversion and the desire to preserve family control dominate strategic decision making (Kammerlander et al., 2020).

Furthermore, innovation outcomes in family enterprises are shaped by relational resources at the board level. Evidence from technology oriented contexts shows that while family involvement may reduce the quantity of inventions, it can enhance the market relevance and value of innovation. This relationship is significantly moderated by board social capital, indicating that professional governance structures and external networks can help family firms overcome conservative tendencies and support higher quality innovation performance (Bendig et al., 2020).

Crisis contexts provide additional insights into the innovation potential of family owned businesses. During periods of disruption, the “business family” itself can become a critical source of resilience and continuity. Family firms often rely on long term orientation and accumulated resources to transform external shocks into opportunities for strategic renewal and innovation. This challenges the common assumption that family enterprises are inherently resistant to change, highlighting instead their capacity for adaptive innovation under pressure (Calabrò et al., 2021).

Finally, digital transformation has intensified the paradox of innovation in family firms. While digitalization creates new opportunities for competitiveness, it also increases uncertainty and perceived threats to family control. Studies on Internet of Things innovations show that family managed firms tend to be more selective, favoring exploitative innovations close to existing technological capabilities over more exploratory innovations that require greater diversification. This suggests that

effective innovation management in family businesses requires balancing digital transformation with governance mechanisms that reduce perceived risks while maintaining strategic flexibility (Ceipek et al., 2020).

Overall, the literature highlights that innovation management in family owned enterprises is shaped by the interaction of socioemotional priorities, governance structures, ambidexterity challenges, crisis driven adaptation, and digital transformation pressures. Understanding these dynamics is essential for explaining why some family firms resist change while others successfully innovate across generations.

### **3. Methods**

This study employs a Systematic Literature Review (SLR) method to examine the key challenges and opportunities in managing innovation within family owned businesses. The review process was conducted in a structured and transparent manner to ensure the reliability and validity of the findings. Relevant academic articles were identified through searches in major scholarly databases such as Scopus, Web of Science, and Google Scholar, using keywords including “family business innovation,” “innovation management,” “socioemotional wealth,” “governance,” “succession,” “ambidexterity,” and “digital transformation.” The selection criteria focused on peer-reviewed journal publications written in English and directly addressing innovation-related strategies, processes, and outcomes in family enterprises. After removing duplicates and screening titles, abstracts, and full texts, the final set of studies was analyzed thematically. The analysis emphasized recurring

themes such as socioemotional wealth priorities, governance structures, innovation ambidexterity, crisis driven adaptation, and the role of digitalization and external collaboration. By synthesizing existing research systematically, this SLR provides an integrated understanding of how family influence shapes innovation management and highlights directions for future scholarly and managerial implications.

#### **4. Results & Discussion**

The results of this systematic literature review reveal that innovation management in family owned businesses is shaped by a complex interaction between family-centered priorities and strategic business demands. One of the most prominent findings is the influence of socioemotional wealth (SEW), which explains why family firms often approach innovation differently from non family enterprises. Family owners tend to prioritize long-term legacy, identity, and control, which can lead to cautious innovation investments. This supports the argument that innovation inconsistency in family firms is not due to a lack of resources, but rather to the need to balance economic goals with non-economic family objectives (Reina et al., 2022; Stasa & Machek, 2023). These socioemotional considerations can both constrain risk-taking and, at the same time, encourage innovation when aligned with the preservation of family continuity.

Another key theme identified is the role of governance structures and family involvement in leadership. The findings suggest that innovation outcomes depend strongly on how family participation shapes strategic decision making. Family involvement can enhance exploitative innovation by leveraging established

knowledge and routines, yet it may reduce exploratory innovation when families become more risk-averse in order to protect control and harmony (Kammerlander et al., 2020). In addition, succession processes represent a critical turning point for innovation. While generational transitions may disrupt innovation activities due to uncertainty, they can also create opportunities for renewal and modernization through the introduction of new competencies (Baltazar et al., 2023). This highlights succession as both a challenge and an innovation catalyst within family enterprises.

The review also emphasizes that relational and social resources significantly affect innovation performance. Evidence shows that family involvement may decrease the quantity of inventions but improve their market relevance and value, particularly when supported by strong board social capital and external networks (Bendig et al., 2020). This indicates that professionalization and inter organizational collaboration can help family firms overcome conservative tendencies while maintaining family influence. Supporting this, cooperation with external partners has been found to reduce perceived socioemotional risks and strengthen innovation outcomes, allowing family firms to navigate strategic uncertainty more effectively (Kronke & Laulitz, 2022).

Crisis and disruption contexts further demonstrate the adaptive innovation capacity of family businesses. Although family firms often emphasize stability during normal conditions, external shocks can trigger innovation and strategic renewal. Family firms are able to leverage long term orientation and accumulated resources to support business model adaptation under pressure (Leppäaho & Ritala, 2021). Similarly, the “business family” itself becomes a source of resilience and continuity,

enabling innovation driven responses during turbulent periods (Calabrò et al., 2021). These findings challenge the traditional assumption that family firms are inherently resistant to change.

Finally, digital transformation emerges as an increasingly important opportunity and challenge for innovation management in family enterprises. While digitalization expands access to new technologies and open innovation practices, it also introduces uncertainty and potential threats to family control. Family managed firms tend to favor innovations closely related to existing capabilities rather than highly exploratory technological diversification, reflecting a selective innovation strategy (Ceipek et al., 2020). At the same time, digital collaboration and open innovation practices provide pathways for family firms to expand beyond internal knowledge boundaries and enhance competitiveness (Nieto et al., 2023).

Overall, the discussion highlights that innovation management in family owned businesses is influenced by socioemotional priorities, governance dynamics, ambidexterity tensions, succession challenges, crisis driven adaptation, and digital transformation pressures. Understanding how these factors interact is essential for explaining why some family firms resist innovation while others successfully innovate and remain competitive across generations.

## **5. Conclusion**

This study concludes that innovation management in family owned businesses is a multifaceted process shaped by the unique interplay between family centered priorities and strategic business demands. Unlike non-family firms, family

enterprises must continuously balance economic objectives with non-economic goals such as preserving family legacy, identity, and long term control. The socioemotional wealth perspective provides a key explanation for why innovation outcomes in family firms often vary, as family owners may simultaneously constrain risk taking while supporting innovation when it aligns with continuity across generations.

The findings also highlight the critical role of governance structures and family involvement in leadership. Family participation can strengthen exploitative innovation through the use of established routines and resources, yet it may limit exploratory innovation when risk aversion dominates decision making. Succession emerges as both a disruptive challenge and an opportunity for renewal, as generational transitions can introduce new competencies and modernization pathways.

Moreover, the review emphasizes that relational resources, such as board social capital and external collaboration, are essential for enhancing innovation performance. Partnerships with external actors can reduce perceived socioemotional risks and help family firms navigate uncertainty, particularly in innovation intensive environments. Crisis contexts further demonstrate that family businesses possess strong adaptive potential, leveraging long term orientation and accumulated resources to respond innovatively to external disruptions.

Finally, digital transformation represents an increasingly significant driver of innovation opportunities, although it also intensifies tensions related to control and uncertainty. Family firms often adopt selective digital innovation strategies, favoring

incremental developments while gradually engaging with more exploratory transformation through open innovation practices.

Overall, this systematic literature review demonstrates that innovation in family owned businesses is influenced by socioemotional priorities, governance dynamics, ambidexterity tensions, succession processes, crisis driven adaptation, and digital transformation pressures. Understanding these interconnected factors is essential for both scholars and practitioners seeking to support sustainable innovation and competitiveness in family enterprises across generations.

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