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Generational Innovation Evolution in Family Businesses: An Empirical Examination of Innovation Priorities Across Successive Generations

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Albert Wee Kwan Tan[1*] and Florian Gerth[2]

School of Business, Asian Institute of Management
123 Paseo de Roxas, Legazpi Village, Makati, 1229 Metro Manila, Philippines.
[1*]*Correspondent author:* atan@aim.edu
[2]Fgerth@aim.edu

Abstract

Innovation in family businesses is shaped by generational transitions that reconfigure strategic priorities, governance structures, and organizational capabilities. While prior research recognizes heterogeneity across family firms, limited empirical work explains how innovation priorities systematically evolve across successive generations. This study examines generational differences in innovation focus across first, second, and third generation family enterprises using quantitative survey data from 50 family business leaders.

Drawing on comparative analysis of innovation domains, the findings indicate that first generation founders prioritize product and market innovation, second-generation successors emphasize strategic leadership and business-model renewal, and later generation leaders focus on process excellence and digital transformation. These results extend family business innovation research by demonstrating a patterned, generational reconfiguration of innovation priorities grounded in transgenerational entrepreneurship, socioemotional wealth preservation, and organizational capability renewal.

The study introduces an empirically derived Generational Innovation Evolution Model, which explains how innovation preferences shift from entrepreneurial exploration to strategic formalization and, subsequently, to technological reinvention as family firms progress across generations.

Keywords: Family business, governance, transformation, product innovation, process innovation, business model.

Introduction

Family businesses are a cornerstone of the global economy. As they evolve across generations, so do their innovation practices and priorities. Understanding how leadership transitions shape innovation strategies is critical for sustaining competitiveness and legacy. This study investigates the changing nature of innovation across first, second, and third generation family businesses and proposes a framework to support strategic renewal across generational stages. Their ability to survive and renew across generations is tied closely to innovation, a capability that enables family firms to adapt to market dynamics, technological changes, and intergenerational transitions (De Massis et al., 2013; Rondi et al., 2019). Yet innovation in family businesses is inherently complex because it must reconcile competing logics of continuity and change. While founders often drive entrepreneurial experimentation, successors frequently inherit the challenge of preserving legacy while transforming capabilities.

Although prior research acknowledges that generational transitions significantly affect innovation outcomes, the field still lacks empirical clarity on how innovation priorities differ across generations (Baltazar et al., 2023; Cesaroni, 2021).

This study responds to that gap by examining how innovation priorities vary across first generation (founder-led), second-generation (transitional), and third generation (modernized) family firms. Drawing on survey data, we analyze differences in product, market, business model, process, strategic leadership, digital, cultural, and governance innovation priorities across generational cohorts. Findings reveal a systematic evolution: founders emphasize entrepreneurial innovation, successors focus on strategic renewal, and third-generation leaders shift toward digital and process innovation.

The purpose of this study is therefore threefold:
(1) Identify and categorize innovation types prevalent in each generation;
(2) Analyze how innovation focus evolves across generational transitions; and
(3) Develop an empirical generational innovation evolution model that contributes to theory and practice.

Literature review

Innovation in family businesses

Innovation in family firms has been the subject of growing scholarly attention. Early work characterized family firms as conservative and risk-averse, driven by SEW preservation (Gómez-Mejía et al., 2007). However, more recent empirical studies suggest family firms often innovate efficiently, converting limited inputs into impactful outputs due to long term orientation, resource stewardship, and strong relational capital (De Massis et al., 2013; JFBM). Research also shows that innovation in family firms occurs not only through products but through processes, business models, governance systems, and digital transformation (Kraus et al., 2022; Porfírio et al., 2024).

Generational heterogeneity and innovation

Family firms are not homogeneous entities; instead, they exhibit significant heterogeneity driven by ownership dispersion, governance mechanisms, and generational identity (Scholes et al., 2020). Generational stage is a powerful determinant of innovation posture. Founders often operate with entrepreneurial orientation and informal governance, while later generations introduce formal structures, professionalization, and digital capability building (Cesaroni, 2021; Rondi et al., 2019).

Innovation typologies in family enterprises

Rondi et al. (2019) propose a typology of family business innovation comprising product, process, governance, and business-model dimensions. Kraus et al. (2022) further expand the typology by incorporating digital transformation as a core innovation domain. This literature underscores the importance of understanding how innovation categories map onto generational motivations and capabilities.

Succession, identity, and strategic renewal

Succession is not merely a leadership transfer but a transformation of strategic logic. Successors often reinterpret founder values, blending tradition with new capabilities (Cesaroni, 2021). Baltazar et al. (2023) emphasize that generational change can stimulate innovation when successors leverage inherited SEW while also introducing new strategic orientations.

Digital transformation and modern generations

Digital innovation has emerged as a defining capability in third-generation family firms. Younger leaders bring technological fluency, external experience, and openness to transformation (Porfírio et al., 2024; Ren et al., 2023).

Research gap

Despite increasing research, few models capture how innovation priorities shift over generations. This study fills that gap by proposing a generational innovation model. Baltazar et al. (2023) explicitly call for models capturing evolutionary innovation patterns. This study fills that gap by empirically mapping generational differences and proposing a Generational Innovation Evolution Model grounded in observed patterns and existing theory.

Despite growing empirical attention to innovation in family businesses, existing studies provide limited insight into how innovation priorities differ systematically across generational stages. Much of the empirical literature treats innovation as a unified outcome (e.g., overall innovation performance or R&D intensity) or focuses on single innovation domains such as product or technological innovation. As a result, prior research does not sufficiently explain how distinct forms of innovation such as product, business-model, process, governance, and digital innovation are emphasized differently as leadership transitions across generations. This gap limits our understanding of generational heterogeneity in family firm innovation

and constrains theory development regarding how innovation capabilities evolve over time.

Theoretical framework

The innovation behavior of family firms across generations is shaped by the interplay of socioemotional motives, governance configurations, resource endowments, and leadership identity. To explain the evolution of innovation priorities across generations, this study draws on three interconnected theoretical lenses: Socioemotional Wealth (SEW) theory, Transgenerational Entrepreneurship (TE), and Organizational Ambidexterity.

Socioemotional wealth (SEW) theory

SEW posits that family firms prioritize non-financial goals such as family identity, continuity, emotional attachment, and dynastic succession (Gómez-Mejía et al., 2007). These motives influence risk preferences and innovation investment patterns across generations.

First Generation.

Founders often exhibit strong identity ownership, entrepreneurial drive, and high SEW related to *legacy creation*. Their willingness to invest in product-market novelty reflects a desire to imprint their values and establish a competitive position for future generations.

Second Generation.

Successors inherit both the founder's legacy and the burden of sustaining SEW. Their innovation priorities shift toward business model renewal, governance refinement, and strategic leadership—actions that protect and extend the founder's legacy while enabling growth.

Third Generation and Beyond.

Later generations often experience diluted SEW regarding founder identity but heightened SEW related to family continuity and external legitimacy. This motivates investment in digital transformation, process standardization, sustainability, and professional systems that secure long-term competitiveness.

Thus, SEW helps explain why innovation priorities transition from entrepreneurial exploration to strategic consolidation to organizational modernization.

Transgenerational entrepreneurship (TE)

Transgenerational entrepreneurship (Habbershon & Pistrui, 2002) highlights how family firms renew entrepreneurial capabilities across generations by recombining resources, knowledge, and family values.

First Generation:

Brings founding entrepreneurial orientation towards risk-taking, opportunity recognition, and rapid experimentation.

Second Generation:

Engages in *entrepreneurial recombination*, transforming inherited resources into new strategic directions, diversifying into adjacent markets, or formalizing systems that enable scalable growth.

Third Generation and beyond:

Often returns to entrepreneurial exploration but with a modern lens in

terms of digital platforms, sustainability initiatives, new business models, and data-driven processes.

TE theory clarifies how innovation evolves due to shifting entrepreneurial identity across generations.

Organizational ambidexterity

Family firms must balance exploration (new ideas, markets) and exploitation (efficiency, systems). This balance shifts with generational succession:

- Founders prioritize exploration in product-market innovation.
- Second generation emphasizes exploitation on governance, business model, and process refinement.
- Third generation integrates exploration and exploitation on digital transformation, sustainability, and strategic agility.

Ambidexterity theory provides a structural explanation for observed innovation patterns.

Synthesis of Theoretical Framework

Combining SEW, TE, and ambidexterity, we propose that innovation evolves due to:

1. Changing family identity and SEW priorities
2. Shifts in entrepreneurial orientation across generations
3. Increasing organizational complexity and capability requirements

Beyond its theoretical contribution, this study offers practical value to multiple stakeholder groups within the family business ecosystem. In particular, the findings benefit family business founders, successor generations, family councils, boards of directors, and non-family executives seeking to align innovation strategy with generational transitions. The study also provides guidance for advisors, consultants, and policymakers supporting family-owned enterprises by demonstrating that innovation priorities evolve systematically across generational stages rather than remaining uniform over time.

Research question and objectives

Research question

The central research question guiding this study is:

How do innovation priorities differ across first-generation, second-generation, and later-generation family businesses?

By comparatively examining multiple innovation domains across generational cohorts, the study moves beyond aggregated measures of innovation to provide a more nuanced and empirically grounded understanding of how innovation evolves across the family firm lifecycle.

Research objectives

In response to the identified empirical gap in prior family business innovation research, this study pursues three interrelated and sequential objectives that are foundational, comparative, and integrative in nature.

Objective 1 (Foundational – Mapping and Categorization):

To systematically map and categorize the types of innovation emphasized by family businesses across different generational stages. This objective is classificatory in nature and establishes a structured overview of innovation domains—including product, market, business-model, process, digital, governance, cultural, and strategic leadership innovation—that form the basis for subsequent analysis.

Objective 2 (Comparative – Analysis and Interpretation):

To compare and analyze how innovation priorities differ across first-generation, second-generation, and later-generation family firms, and to interpret patterned shifts in innovation focus associated with generational transition.

Objective 3 (Integrative – Theory Development):

To integrate the observed cross-generational patterns into a Generational Innovation Evolution Model, grounded in socioemotional wealth theory, transgenerational entrepreneurship, and organizational ambidexterity. This objective represents the synthesizing outcome of the empirical analysis rather than a separate empirical test.

Theoretical contributions and practical benefits

Theoretical Contributions

This study contributes to the family business and innovation literature in three key areas. First, it extends existing innovation typology research by demonstrating that innovation domains are not uniformly emphasized across family firm generations but are systematically prioritized according to generational stage. Second, it advances socioemotional wealth theory by illustrating how SEW priorities evolve from founder-centric identity creation to successor-led legacy stewardship and, ultimately, institution-oriented continuity. Third, by integrating insights from transgenerational entrepreneurship and organizational ambidexterity, the study proposes a Generational Innovation Evolution Model that explains how innovation capabilities are reconfigured across successive generations.

Practical Benefits

From a managerial perspective, the findings provide a roadmap for aligning innovation strategy with generational leadership dynamics. Founders can use the insights to balance entrepreneurial experimentation with early governance foundations. Second-generation leaders can leverage the results to guide professionalization and strategic renewal efforts. Later-generation leaders can apply the model to prioritize digital transformation, process excellence, and sustainability initiatives. Advisors, educators, and policymakers supporting family enterprises may also use the generational framework to design targeted interventions rather than adopting one-size-fits-all innovation strategies.

Conceptual research framework

This study is guided by a conceptual framework that links generational stage to innovation priorities and integrates these relationships through established family business theories. As illustrated in Figure 1, the framework proposes that **generational stage serves as the structural context** shaping how

innovation is prioritized within family firms.

The first component of the framework, *generational stage* (first, second, and later generations), reflects shifts in leadership authority, ownership structure, governance complexity, and organizational maturity. These generational transitions alter strategic decision-making patterns and influence the firm's orientation toward different types of innovation.

The second component, *innovation priorities*, captures the specific domains of innovation emphasized at each generational stage, including product, market, strategic leadership, governance, digital, and process innovation. Rather than treating innovation as a single aggregated construct, the framework recognizes that distinct innovation domains may be differentially emphasized across generations.

The third component, *theoretical foundations*, anchors the empirical relationships in three complementary perspectives: socioemotional wealth (SEW), transgenerational entrepreneurship, and organizational ambidexterity. SEW theory explains how generational shifts reshape family identity, control preferences, and legacy concerns, thereby influencing innovation orientation. Transgenerational entrepreneurship highlights the mechanisms through which entrepreneurial intent and capabilities are transmitted or reconfigured across generations. Organizational ambidexterity provides insight into how family firms balance exploration and exploitation as they mature.

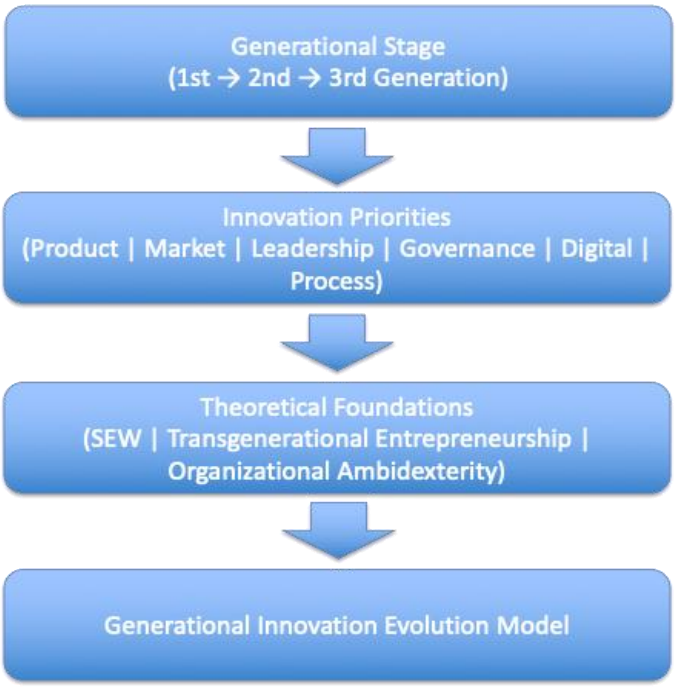


Figure 1 Conceptual Research Framework

Integrating these elements, the framework culminates in the **Generational Innovation Evolution Model**, which proposes that innovation priorities evolve systematically from founder-driven entrepreneurial exploration, to strategic formalization and governance alignment in successor generations, and ultimately to technological and process-oriented renewal in later generations. The model thus conceptualizes innovation not as a static capability, but as a generationally contingent process embedded in family and organizational dynamics.

Methodology

Research design

A quantitative survey approach was adopted to examine generational differences in innovation priorities. This design allows for systematic comparison across generational cohorts and supports empirical model development.

The study uses a cross-sectional design, appropriate for capturing variability in innovation focus among generationally distinct family firms at a single point in time.

Sampling strategy and participants

The sampling frame comprised approximately 200 students enrolled in a master's programme in Entrepreneurship at a higher education institution in Southeast Asia. All students in the programme were required to have a family business background, ensuring that respondents possessed direct exposure to family enterprise operations and intergenerational dynamics. From this defined population, 50 valid responses were collected, yielding a response rate of 25%.

Firm size varied from micro-enterprises (<10 employees) to large enterprises (>1,000 employees), supporting cross-sectional diversity.

Survey instrument

The survey instrument included:

Respondents rated the importance of various innovation types on a 5-point Likert scale, including:

- Product innovation
- Market innovation
- Process innovation
- Digital innovation
- Business-model innovation
- Strategic leadership innovation
- Cultural innovation
- Governance innovation

These categories were adapted from validated frameworks (Rondi et al., 2019; Kraus et al., 2022).

Participants indicated whether they were:

- First generation (founder-led)
- Second generation (successor-led)
- Third generation or later

The respondent profile indicates substantial representation of senior family firm leaders. More than half of the respondents belong to the **founding generation**, while the remaining

participants represent second- and third-generation family members.

In terms of organizational roles, over **65% of respondents occupy senior executive positions** with direct and ultimate decision-making authority, including founders, chief executive officers, presidents, owners, and directors or vice presidents. This suggests that the data capture insights from individuals who are actively involved in shaping strategic and innovation-related decisions within their firms.

The sample also reflects diversity in firm size. Approximately **34% of the firms are micro- or small-sized enterprises**, a further **34% are medium-sized firms**, and the remaining **32% are large organizations**, including corporations with employee counts exceeding 1,000. This variation enhances the relevance of the findings across different scales of family business operations.

Data analysis was conducted in multiple stages. First, descriptive statistics were used to summarize innovation priorities across generational cohorts. Second, cross-generational comparisons of mean scores and rank-orderings were performed to identify directional differences in innovation focus. Third, Kruskal–Wallis non-parametric tests were employed to assess whether differences in innovation priorities across generational groups were statistically significant. This test is appropriate given the ordinal nature of the Likert-scale data and the sample size. Inferential results are interpreted cautiously and used to support comparative pattern identification rather than formal hypothesis testing, in line with the exploratory and theory-building orientation of the study.

Second, a cross-generational comparative analysis was undertaken by comparing mean innovation scores and rank orderings across first-, second-, and third-generation cohorts. This comparison enabled the identification of systematic differences in innovation priorities and provided insights into how innovation focus evolves as leadership transitions across generations. Quantitative results were further interpreted thematically to highlight meaningful patterns and contrasts among generational groups.

Third, qualitative triangulation was used to enrich and contextualize the quantitative findings. Open-ended survey responses related to innovation definitions and generational challenges were analyzed thematically. These qualitative insights helped explain underlying motivations, constraints, and contextual factors influencing innovation priorities, thereby strengthening the interpretive depth of the analysis.

Fourth, model development was conducted by synthesizing patterns emerging from both quantitative and qualitative analyses. Recurring relationships between generational stage and innovation focus were integrated into the proposed *Generational Innovation Evolution Model*, which conceptually illustrates how innovation priorities shift from entrepreneurial creation to strategic renewal and digital-process transformation across generations.

Validity and reliability

As part of the statistical analysis, internal consistency reliability was assessed using Cronbach's alpha. The survey instrument comprised 21 Likert-scale items capturing respondents' perceptions of innovation

practices, leadership dynamics, governance, and generational transition in family businesses.

The results indicate a Cronbach's alpha of 0.901, which exceeds commonly accepted thresholds and suggests excellent internal consistency among the survey items. This indicates that the instrument exhibits a high degree of reliability in capturing respondents' evaluations of innovation-related practices within family firms.

As an additional robustness check, inter-item correlations were examined. Pairwise correlations ranged from 0.16 to 0.64, with more than 80% of correlations exceeding 0.30, indicating satisfactory item coherence. Furthermore, the removal of any individual item did not result in an increase in Cronbach's alpha, suggesting that no single item adversely affected scale reliability.

Given these results, the study employs composite (mean) scores to support comparative analysis and interpretation of innovation-related patterns across generational cohorts. This approach is appropriate for the exploratory and theory-building objectives of the study, which emphasize comparative consistency rather than latent construct modelling.

Results and analysis

This section presents the empirical findings of the study. In line with reviewer guidance and standard reporting conventions, the Results section is confined to descriptive and comparative empirical evidence, including mean differences, rankings, variability, and inferential statistics. Interpretation, theoretical integration, and implications are reserved for the Discussion section.

Descriptive results

Table 1 reports the mean scores of innovation priorities across first-, second-, and third-generation family businesses. Clear generational differences are observable across several innovation domains.

First-generation firms report the highest mean scores for market innovation (M = 4.46) and product innovation (M = 4.31), followed by leadership/strategic innovation (M = 4.36). In contrast, scores for governance- and process-related innovation are comparatively lower for this cohort.

Second-generation firms display the highest mean score for leadership/strategic innovation (M = 4.50), while product and process innovation exhibit lower mean values relative to first-generation firms. Business-model innovation occupies a mid-range position within this cohort.

Third generation and later family firms report comparatively higher mean scores for digital innovation (M = 3.75) and process innovation (M = 3.44). Product innovation records the lowest mean value among the three cohorts (M = 3.17).

Overall, the data suggest a shift from tangible to systemic innovation, aligning with De Massis et al. (2013) and Kraus et al. (2022), who observed a similar generational progression in innovation capability maturity.

Table 1 Innovation Priority ranking

Innovation Domain	First Gen (Mean)	Second Gen (Mean)	Third Gen (Mean)	Significant Difference (p < .05)
Product Innovation	4.31		3.17	Yes
Market Innovation	4.46			No
Strategic Leadership	4.36	4.50		Yes
Governance Innovation				No
Digital Innovation			3.75	Yes
Process Innovation			3.44	No

Table 2 summarizes key qualitative themes emerging from open-ended responses in our survey, contextualizing the quantitative findings across generational cohorts. The qualitative responses illuminate the distinct organizational challenges faced at each generational stage. First-generation firms frequently reported operational constraints, including limited financial resources, informal management systems, and founder-centered decision-making structures. These challenges reflect early-stage entrepreneurial conditions, where innovation is often driven by necessity and personal leadership rather than institutionalized processes.

In second-generation firms, challenges shift toward structural and cultural tensions. Respondents highlighted the difficulty of balancing respect for founder legacy with modernization efforts, introducing formal governance mechanisms, and overcoming internal resistance to professionalization. This transitional phase is characterized by increased organizational complexity and the need to codify previously informal practices.

Third-generation and later firms reported challenges associated with governance formalization, intergenerational coordination, regulatory compliance, and adaptation to more mature and competitive markets. At this stage, innovation-related challenges are less about resource scarcity and more about aligning diversified family interests, maintaining cohesion, and sustaining strategic agility within increasingly complex organizational structures.

Table 2 Qualitative themes across generations

Generation	Dominant Innovation Contributions	Key Organizational Challenges	Innovation Conceptualization
First Generation	Enterprise creation, product/service innovation, market establishment, brand identity formation	Resource constraints, limited formal systems, centralized decision-making	Product development, market expansion, entrepreneurial growth
Second Generation	Process modernization, digital integration, market diversification, leadership formalization	Balancing tradition and modernization, internal resistance, competitive pressure	Strategic renewal, governance development, digital transformation
Third Generation and Beyond	Operational efficiency, automation, diversification, professional management systems	Intergenerational coordination, regulatory complexity, governance formalization	Organizational transformation, digital capability building, strategic agility

Across all 21 innovation-related items, standard deviations are approximately 1, indicating moderate dispersion and suggesting relatively stable response patterns within each generational cohort. and outlines their theoretical and managerial implications.

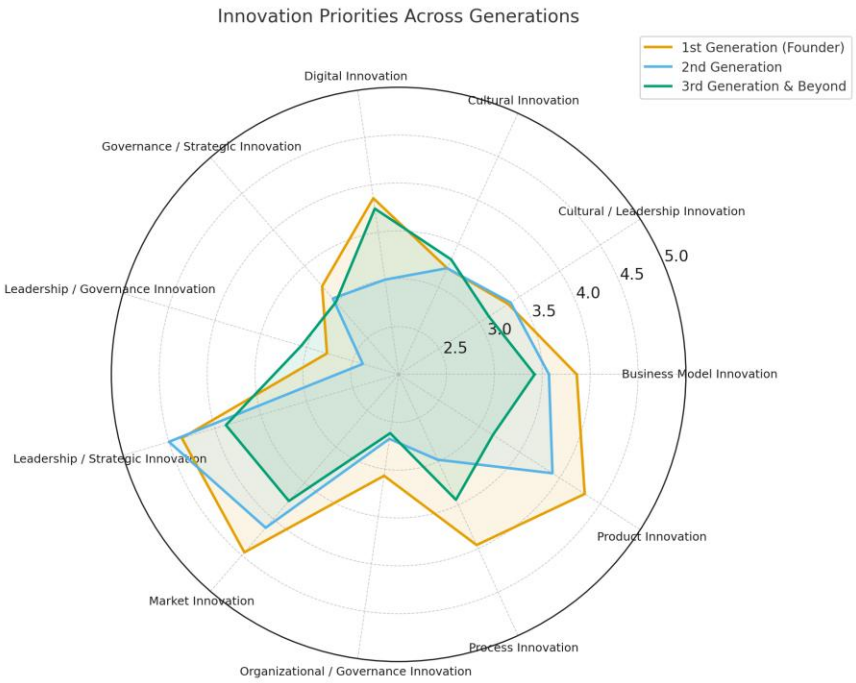


Figure 2 Comparing innovation priorities across generations.

Figure 2 illustrates the comparative innovation priorities among first-, second-, and third-generation family businesses. The radar chart reveals distinct generational orientations toward innovation, reflecting both organizational maturity and shifting strategic imperatives.

First Generation (Blue): Entrepreneurial and Market-Creation Orientation the first generation demonstrates dominant scores in *Market Innovation*, *Product Innovation*, and *Leadership/Strategic Innovation*. This pattern reflects the founder's entrepreneurial drive, emphasizing creativity, market entry, and differentiation. Founders operate in a context of survival and opportunity seeking, where innovation is highly intuitive and closely tied to personal leadership.

• Innovation is externally focused, aimed at identifying market gaps, introducing new offerings, and defining the company's strategic direction.

• Such innovation is largely vision-driven, relying on risk-taking and founder intuition rather than formalized systems or governance mechanisms.

Second Generation (Orange): Strategic Consolidation and Leadership Continuity The second generation exhibits a more balanced innovation profile but with a noticeable decline in *Product* and *Process Innovation*. Instead, *Leadership/Strategic Innovation* remains strong, while *Governance* and *Business Model Innovation* emerge moderately.

• This reflects a phase of structural renewal, where the focus shifts from creating new markets to stabilizing operations and defining strategic continuity. Innovation becomes more inward-looking, strengthening leadership structures, standardizing processes, and aligning culture with sustainability.

• The data suggests that while successors maintain the founder's entrepreneurial legacy, they struggle with operational complexity and the introduction of digital or process-driven innovations. Their innovation is managerial rather than exploratory.

Third Generation and Beyond (Green): Digital Transformation and Systemic Innovation
The third generation shows renewed growth in *Digital Innovation* and *Business Model Innovation*, coupled with moderate performance in *Leadership/Strategic* and *Market Innovation*. This generational shift marks a transition from manual to digital processes, emphasizing efficiency, scalability, and technology-driven value creation.

• Innovation is now systemic, embedded in processes, sustainability frameworks, and digital integration. The focus is less on creating new products and more on enhancing organizational agility and resilience.

• These later generations modernize legacy systems while preserving the family identity, reflecting a balance between tradition and technological advancement.

Comparative analysis

To complement the descriptive comparisons, Kruskal–Wallis non-parametric tests were conducted to assess whether observed differences in

innovation priorities across generational cohorts were statistically significant.

The results indicate statistically significant generational differences for selected innovation domains, including product innovation, strategic leadership innovation, and digital innovation ($p < 0.05$). For other innovation categories, differences across generations were not statistically significant.

These results highlight clear directional trends in how innovation priorities shift across generations and provide inferential support for the descriptive patterns reported above.

Overall, Figure 2 highlights a generational innovation trajectory, from *creation* (first generation) to *formalization* (second generation), to *transformation* (third generation). This visual trend supports the empirical findings that innovation in family firms evolves from founder-centric vision to systematized and technologically enabled renewal.

- The first generation leads with *entrepreneurial creativity*, driving product and market breakthroughs.
- The second-generation acts as a *stabilizer*, institutionalizing leadership and governance structures.
- The third generation and beyond represent *transformers*, embedding digitalization, sustainability, and process innovation as long-term competitive strategies.

Composite scores and summary patterns

Based on the reliability analysis, composite (mean) scores were calculated for the survey items to support comparative analysis across innovation and governance-related dimensions. Given the breadth of the instrument (21 variables), this section focuses on variables with the most pronounced mean values, while the full set of descriptive statistics is available upon request.

Several variables exhibit high levels of agreement, with mean scores exceeding 4. These include statements indicating that founder creativity and entrepreneurial drive shaped the company's identity, that early strategic decisions prioritized market entry over governance structures, and that initial business growth was driven by a strong founder-led vision. High mean scores are also observed for items reflecting exploration of new value-creation approaches by successor generations and the maintenance or growth of revenue and market presence.

In contrast, a subset of variables records mean scores between 2 (disagree) and 3 (neutral). These items primarily relate to the introduction of professional managers, the establishment of formal governance structures (e.g., family councils or boards), and the planning and execution of leadership succession across generations.

Across all 21 variables, standard deviations are approximately 1, indicating moderate dispersion around the mean. This suggests relatively stable response patterns, with most respondents reporting agreement levels within a one-point range of the average for each item.

Discussion

This study provides empirical evidence that innovation priorities in family businesses evolve systematically across generations. Integrating quantitative

findings with socioemotional wealth theory, transgenerational entrepreneurship, and organizational ambidexterity, the analysis reveals a patterned transition from entrepreneurial innovation in founder-led firms to strategic renewal in successor-led firms and, ultimately, to digital and process transformation in later generations. This evolution reflects shifts in family identity, governance structures, and organizational complexity as firms progress across generational stages as shown in Figure 3.

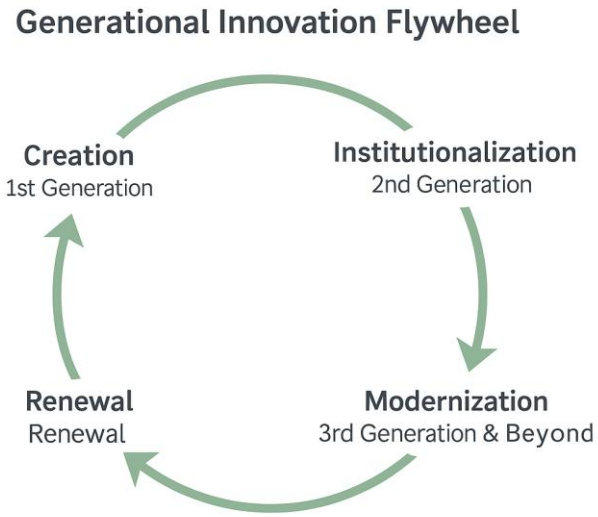


Figure 3 Innovation cycle transiting from one generation to another

Founders: Innovation as entrepreneurial creation

Consistent with early innovation research (De Massis, Frattini & Lichtenthaler, 2013) and the entrepreneurial imprinting literature (Cesaroni, 2021), first-generation leaders prioritize product, market, and strategic leadership innovation. Our findings show they have the highest mean scores for market innovation (4.46) and product innovation (4.31), reflecting a strong entrepreneurial orientation.

Founders in our sample describe their innovation contributions as:

- Creating new products and services
- Entering new markets
- Building brand identity
- Shaping business model fundamentals

This mirrors research suggesting founders engage in opportunity-motivated innovation to establish competitive identity and legacy (Zheng et al., 2021). SEW theory helps explain this pattern: founders derive emotional satisfaction from creating a firm aligned with their

vision, motivating them to invest in market expansion and product differentiation even under resource constraints.

Thus, innovation during the founding stage is exploratory, entrepreneurial, and identity driven.

Second generation: Innovation as strategic and structural renewal

Results indicate that second-generation leaders prioritize leadership/strategic innovation (4.50) and business-model innovation, aligning with literature emphasizing their role in formalizing and professionalizing the firm. Prior research (Rondi, De Massis & Kraus, 2019; Baltazar et al., 2023) suggests successors inherit a functioning enterprise but often face the challenge of shifting from intuitive founder-led systems to more formal governance and scalable structures.

Qualitative responses in our dataset further confirm that second-generation innovation involves:

- Introducing HR systems
- Formalizing governance
- Improving operational foundations
- Diversifying into adjacent markets
- Strengthening leadership capabilities

This resonates with *some* studies that show the second generation's innovation focus is shaped by dual pressures: honouring the founder's legacy while steering the organization toward sustainable long-term structure.

SEW theory again plays a central explanatory role: successors must balance preservation (family identity, tradition) with renewal (professionalization, governance), often leading to innovation that restructures rather than radically transforms.

Thus, innovation at this stage reflects strategic consolidation and controlled renewal.

Third generation and beyond: Innovation as digital and process transformation

Third-generation respondents exhibit high priorities for digital innovation, process standardization, and sustainability-oriented innovation. This aligns with research showing that later generations face more complex competitive environments and diversified family involvement, requiring greater operational efficiency and technological adoption (Kraus, 2021; Ren, Yu & Chen, 2023).

Empirical results show that third-generation leaders:

- Invest more in digital systems
- Prioritize process efficiency
- Emphasize sustainability
- Adopt modern HR and governance structures

This mirrors findings from Porfírio et al. (2024) showing that digital transformation becomes a strategic imperative for mature family firms.

Theoretically, this reflects a shift from exploitation (second gen) to reconfiguration: third-generation leaders must rebuild capabilities to remain

competitive, often through technology and process innovation. The TE perspective explains their entrepreneurial behavior not as radical innovation, but as reinvention through new digital and organizational tools. Thus, later-generation innovation is systemic, digital, and capability-driven.

An integrated generational innovation evolution pattern

Building on the empirical and qualitative findings, Table 3 synthesizes cross-generational patterns and outlines corresponding managerial implications. The table translates observed trends into strategic considerations for family business leaders and governance bodies.

Table 3 Cross-generational patterns and managerial implications

Theme	Observed Cross-Generational Pattern	Managerial Implication
Innovation Maturity	Innovation sophistication increases across generations, with later generations demonstrating more systematized approaches	Embed innovation into long-term family strategy and succession planning processes
Digital Transformation	Emerges in the second generation and becomes institutionalized in later generations	Develop digital governance capabilities and invest in data-driven systems to sustain competitiveness
Professionalization & Governance	Informal founder-driven systems gradually formalize across generations	Establish structured governance mechanisms, performance metrics, and professional management frameworks
Succession Planning	Increasing awareness but inconsistent execution across firms	Institutionalize succession planning as a formal board-level responsibility
Family Alignment	Tends to improve with generational depth but remains uneven	Strengthen family governance tools (family councils, constitutions, structured communication forums)

Managerial and practical implications

The findings provide actionable guidance for founders, successor generations, governance bodies, and professional managers operating within family-owned firms. For first-generation family businesses, the results highlight the importance of leveraging founder-driven entrepreneurial vision and market-oriented innovation while simultaneously laying early foundations for governance

and succession planning. Founders can enhance long-term innovation continuity by complementing growth-focused strategies with early leadership development and basic governance mechanisms.

For second-generation family firms, innovation priorities shift toward strategic leadership, coordination, and organizational alignment. Successor leaders are encouraged to invest in leadership capability development, clarify strategic roles, and formalize decision-making processes to balance entrepreneurial renewal with continuity. Introducing professional management selectively during this stage may support innovation scalability without eroding family influence.

For third-generation and later family firms, the findings underscore the increasing importance of digital, process, and operational innovation. Leaders at this stage may benefit from prioritizing digital transformation, process optimization, and capability standardization to sustain competitiveness in more complex organizational structures. Strengthening governance frameworks and integrating non-family expertise can further support innovation effectiveness at this stage.

Taken together, these implications suggest that innovation strategy in family businesses should be viewed as a generationally contingent process, where managerial priorities, governance choices, and innovation investments evolve in line with leadership transitions and organizational maturity.

Conclusion

This study set out to achieve three primary objectives:

(1) to map the dominant innovation domains across successive generational stages in family firms,

(2) to compare how innovation priorities differ between founder-led and successor-led generations, and

(3) to develop an integrative Generational Innovation Evolution Model grounded in established family business theory.

The findings provide empirical support for all three objectives. First, the study identifies distinct innovation domains emphasized at different generational stages, demonstrating that innovation in family firms is multidimensional rather than uniform. Second, comparative analysis reveals systematic differences in how first-, second-, and later-generation leaders prioritize product, strategic, governance, digital, and process innovation. Third, by integrating these patterns with socioemotional wealth theory, transgenerational entrepreneurship, and organizational ambidexterity, the study advances the Generational Innovation Evolution Model as a coherent explanation of how innovation priorities reconfigure over time.

Limitations and future research

While this study advances understanding of generational innovation dynamics in family firms, several limitations provide opportunities for further investigation.

First, the study adopts a cross-sectional design, which limits the ability to observe how innovation priorities evolve within the same firm over time. Although generational differences are identified across firms, longitudinal research would allow scholars to directly examine intra-firm transitions and validate the temporal assumptions embedded in the Generational Innovation Evolution Model.

Second, the sample is regionally bounded and based on self-reported survey data from family business leaders. Future studies could expand the empirical scope by incorporating cross-national comparisons to assess whether institutional environments, governance systems, and cultural norms moderate generational innovation trajectories. Multi-source data, including objective performance indicators or archival records, would further strengthen empirical robustness.

Third, the present study focuses primarily on generational stage as the structural driver of innovation reconfiguration. Future research could examine additional moderating variables, such as ownership dispersion, board composition, the presence of non-family executives, or succession quality, to refine the boundary conditions of the model.

Statements and declarations

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article. No ethical approval was required to write this article.

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Appendix

Section 1: Respondent Information

1. Which generation are you part of?

   ☐ 1st Generation (Founder)

   ☐ 2nd Generation

   ☐ 3rd Generation

   ☐ 4th Generation or Beyond

2. Industry sector: _____

3. Year company was founded: _____

4. Approximate number of employees:

   ☐ Less than 50

   ☐ 50–199

   ☐ 200–999

   ☐ 1,000 or more

5. How many family members are actively involved in the business?

   ☐ 1

   ☐ 2–3

   ☐ 4–5

   ☐ More than 5

6. Your current position in the company:

   ☐ CEO / President / Owner

   ☐ Director / Vice President

   ☐ Manager / Supervisor

   ☐ Staff / Officer

   ☐ Other: _____

Section 2: Innovation Practices

Instructions: Please indicate your agreement with each statement:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

7. Our company's early success was driven by introducing unique or differentiated products/services. _____

8. The founder's creativity and entrepreneurial drive shaped the company's identity. _____

9. Product or service design was prioritized over formal processes during the early years. _____

10. Market entry decisions were prioritized over governance structures in the early stage. _____

11. The business initially grew because of a strong founder-led vision. _____

12. The company invested in systems and processes to manage growth. _____

13. Professional managers were introduced to improve operational efficiency. _____

14. Governance structures (e.g., family council, board meetings) were established in this generation. _____

15. Technology and process standardization became critical success factors. _____

16. The company has diversified into new industries. _____

17. The company has redefined its business model. _____

18. Digital transformation (AI, data, platforms) is a current or planned strategic priority. _____

19. Sustainability, ESG, or social purpose initiatives are central to our strategy. _____

20. The next generation is exploring new ways to create value beyond traditional operations. _____

21. Leadership transition between generations has been clearly planned. _____

22. Leadership transition between generations has been effectively executed. _____

23. Successor generations are encouraged to innovate rather than maintain tradition. _____

24. The family openly discusses long-term strategy and innovation priorities. _____

25. The family has a shared vision for the company's future. _____

26. Innovation is embedded in our company culture. _____

27. Each generation has contributed unique innovations. _____

28. The business has maintained or increased revenue and market presence. _____

Section 3: Reflection

29. What do you believe was your generation's biggest innovation or contribution?
30. What challenges did your generation face in continuing or transforming the business?
31. How do you define innovation in your family business context?

(Examples: products, services, processes, business model, culture, governance, digital transformation, sustainability, etc.)

32. Name of company: _____
33. Email (if you want a copy of the analysis): _____

- End of Survey –