Entrepreneur & Innovation Exchange
Published online at FamilyBusiness.org on August 21 2025
DOI: 10.32617/1284-68a6fb99c9ea6

Family CEOs May Encourage More Innovation Than Non-Family Leaders

Mario Daniele Amore (HEC Paris)
Morten Bennedsen (University of Copenhagen)
Bordin Bordeerath (Thammasat Business School)
Nicolai Foss (Copenhagen Business School)

KEYWORDS: Succession, family business advice, Help with a family business, family business succession planning.

While professional non-family leadership may bring some advantages, the stability brought by family leaders may encourage employees to innovate without fear of failure.

Much research has focused on whether family firms led by family or professional CEOs have better financial performance. This is not surprising as the choice between the two kinds of CEOs is a classic thorny dilemma in family business. But there is more to performance than financial performance—notably innovation. Unfortunately, fewer studies have looked at whether family CEOs promote or hinder innovation.

The innovativeness of family firms is a very important issue. Family firms are everywhere, and innovation is key to helping them thrive over generations. But the importance extends beyond the individual family firms to the economies of entire countries, since family-run firms are the dominant type of firm worldwide. For example, it has been argued that one reason Italy has had a less than impressive economic growth performance over the past decades is that so much of Italian industry is controlled by families—and family-controlled firms are allegedly less innovative. If family-run firms have a problem innovating, then we have a problem.

Our review of the research literature on family firms and innovation made us realize that the results go in all directions. Some find that families and innovation are negatively related, others that they are positively related, while others find no relation. They also studied mainly correlations. They didn't tell us whether family CEOs are better or worse for innovation than non-family CEOs. The data quality was inconsistent: Innovation can be measured in many different ways, and surveys can be biased.

The goal of our research was to establish causality, using high-quality data that measured innovation in an unambiguous manner. Our approach -- which we believe is novel among researchers who studied this topic -- was to focus on the number of patents filed after a family CEO took over a family firm, as opposed to a professional outside CEO.

We expected that family CEOs would benefit innovation. Two of us (Foss and Bennedsen) in 2015 made the argument (https://www.researchgate.net/publication/284217358_Family_Assets_and_Liabilities_in_the_Innovation_Process) that family connections and other assets tied to families may help innovation. We also hypothesized that family ownership and management bring a longer planning horizon and less emphasis on short-term performance, and that this could motivate employees to engage in more innovation.

What We Studied

We measured innovation in terms of patenting by Danish family firms. Patenting is not the ideal measure but it is clean and can be compared across firms. We got our data on firms, families, employees, etc. from the very rich Danish registers held by Statistics Denmark. We looked at more than 6,000 CEO successions.

A particular challenge was to overcome the so-called "endogeneity problem." This a problem that previous research has not really been able to overcome. The basic problem is that appointing a family or a non-family CEO is (of course) not a random decision. It would have been easier if CEOs were randomly allocated across firms, because it would have let us cleanly study the effects of CEO succession (as in a randomized controlled trial). But, in reality, firms and boards seek to get right person for the job (the decision is said to be "endogenous.") This decision could be influenced by for example, the firm's past innovation performance. While this meant we were not dealing with a controlled experiment, we were able to get around this problem.

To do this, we use a particular technique invented by one of the authors of the paper (Bennedsen). Specifically, we use the gender of the CEO's first child as an "instrument" (a sort of proxy for) family succession. The gender of the first-born child is basically random, but it influences succession decisions and is not likely to be correlated with firm success. Therefore, it overcomes the problem that succession decisions are "endogenous" and it can simulate a randomized controlled trial.

What We Found

When we analyzed the data, we found that appointing a family CEO has a positive effect on innovation around succession, as measured by patent counts (how many times the firm patents a new discovery). In the 5-year period following the CEO succession, firms that appointed a family CEO experienced an increase in the number of patents and citations compared to firms that appointed a non-family CEO. These effects are driven by incoming family CEOs who hold a university degree in engineering and, to a lesser extent, business. We also saw that appointing a family CEO led to fewer job terminations, which suggests that the increase in patenting might stem from higher job stability and tolerance for failure among employees.

We also found that family CEOs are, on average, younger than professional CEOs and less likely to hold a university degree. That is, professional non-family CEOs fare better than family CEOs on educational attainment. While this might normally be seen as a hindrance to innovation (i.e., one would expect better-educated CEOs to be associated with more innovation), it seems that the benefits of family leaders outweigh the potential disadvantages of their weaker education.

Finally, we saw that the appointment of a family CEO is conducive to a more stable workforce than the appointment of a non-family CEO. This suggests that family management, which often focuses on a long-term horizon, reduces the pressure on the employees relative to family firms led by professional, non-family CEOs. This may lead to more innovation.

Takeaways

Our study is part of the growing literature on the management of family firms and, more broadly, can inform strategy research on CEO succession. We also think there are clear practice implications of what we find. Of course, because our findings are based on data from one country (Denmark), we don't know if they generalize to other countries. But owner-families everywhere may benefit from thinking about what kind of results they expect of an incoming CEO.

It's clear that the internal succession decision truly matters! Professional CEOs may matter more when it comes to the short-term financials—but family CEOs can create the conditions for long-term, strategic innovation. In particular, innovation requires that firms build stable, risk-tolerant environments—and it seems family CEOs are better at that, particularly when they have an engineering or a business degree.

Explore the Research

CEO Succession and Patenting in Family Firms (https://pubsonline.informs.org/doi/abs/10.1287/stsc.2023.0122) , Strategy Science, April 2025

FamilyBusiness.org (2025)
DOI: 10.32617/1284-68a6fb99c9ea6