

A Family Firm Can Be Both an Innovator and a Great Place to Work

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Photo Courtesy of Carl Schlenk AG

To thrive, family firms need to cultivate loyal, long-term employees, as they ensure a stable and reliable business. At the same time, family firms need to encourage innovation that helps them to remain competitive across generations. Yet, these two goals create tensions between stability and change. How do they get employees – both relatives and non-relatives – to feel happy, secure and “part of the family” without getting so complacent that they don’t feel they need to challenge the status quo and innovate?

A study we undertook of one fourth-generation family business in Germany, Carl Schlenk AG, provides some answers. We studied historical documents from the company and interviewed present-day and past employees. (One of our co-authors, Leopold von Schlenk-Barnsdorf, is member of the fifth generation of the owning family as well.) From studying this celebrated firm, we saw that cultivating long-term loyalty and innovation involves three interconnected elements: family business essence (including family business characteristics and a trust-based environment), a virtuous cycle (in which innovation practices promote greater employee wellbeing and vice versa) leading to third element, i.e. mutual gains for both the family firm entity (as access to and retention of tacit knowledge and planning security) and its employees (as job security and motivation).

What We Already Know About Dedication and Innovation

Past studies have shown that family businesses are often great places to work, and many employees, including non-relatives, stay with the firm for a long time even across generations (non-relative employees of the same family work for the same family business). Family firms tend to invest plenty of effort in human resources practices that nurture employees’ long-term wellbeing and encourage loyalty and commitment – but less in practices that encourage new knowledge and ideas. The tendency of families to appoint relatives to top posts can also discourage innovation, since non-relatives feel their contributions won’t get them promoted.

Yet research by Kammerlander and van Essen (2017) has shown that family firms are among the most innovative organizations in the world, introducing many new patents and new products. The key is having practices in place that not only make employees feel safe and comfortable contributing their ideas, but also help them share in the family business’s success over time – success that innovating and staying ahead of competitors make possible. Our study of Carl Schlenk AG confirms this.

A Portrait of Carl Schlenk AG

Carl Schlenk AG, which makes metal powder, pigments and foils, has thrived over four generations, through some of the most challenging periods in modern history. It is part of the German “Mittelstand,” which are private family businesses that are renowned for high quality and innovation (for details on family business innovation in the German Mittelstand see [De Massis, Audretsch, Uhlaner & Kammerlander, 2018](#) (<https://onlinelibrary.wiley.com/doi/10.1111/jpim.12373>))

). In 2019, when the firm celebrated its 140th anniversary, it employed more than 1000 workers and had revenue of 150 million euro.

To find the keys to Carl Schlenk AG's success, we analyzed historical records since the firm's founding in 1879, including special brochures developed for milestone anniversaries, and conducted interviews with present-day and past employees, both from inside and outside the family.

Carl Schlenk himself, born in 1851, started his own business in 1879 after his older brother was chosen to lead the family-owned hops trading business. While Carl struck out on his own, his brother was a willing advisor and they remained close. Carl was a hands-on founder who cared about his workers. "He made their worries his own and knew very well that wellbeing and motivation not only included a good word, but also a visible sign," noted one family archive. He built company apartments with a central water supply for his employees; organized employee bucket brigades to fight fires at his factory and in the community; and started a company fund to help employees who had fallen on hard times financially.

Because the firm was beloved by its employees, many were willing to help it grow. When the company set up a US production site in 1904, Carl had no problems attracting the company's best engineers to relocate there and get things going. In fact, the company's innovative spirit helped it survive the disruption of the Industrial Revolution. When World War I struck, Carl kept his workers employed even when production shut down.

Through the next three generations, Carl Schlenk AG expanded employee housing and training programs, built a school, improved roadways in nearby communities and created a foundation to help employees through the Great Depression, World War II and periods of inflation. The company also strengthened its pension fund. This helped them attract more employees – including foreign workers when the local labor market was tight – and equipped the company for the economic boom years of 1957-1998. Employees were encouraged to contribute their ideas, and through their deep and specific knowledge about the processes and products they provided recommendations that allowed the company to develop ultra-thin metal foil and acquire more modern equipment.

The Company Today

Under the current fourth generation, which took over in 1995, the company has a big emphasis on sustainability and respectability. It continues to invest in employee development, programs, and amenities – including a new building, a sports program and on-site childcare – that make it a great place to work.

"We are one of the most important employers in the Roth region," said one employee. "Accordingly, we have to live up to our responsibility and that is what we and the family want." Says the current family-CEO: "Our employees have a very high level of responsibility from the very beginning, but also autonomy to make decisions, so that decisions can be made very quickly, and innovations can be implemented efficiently." Therefore, family members set the innovation strategy and directly promote innovative projects, but also non-family members are deeply entrusted to develop and led innovative initiatives.

One of the aspects that has triggered our attention most is the ability of the owning family to maintain employees and innovation at its core over the generations and challenging times by renewing and adapting its practices in coherence with the current social and business environment. Such ability is cultivated in the family culture by educating new generations to care about innovation and employees since their childhood. Nowadays, Carl Schlenk AG has specific programs that incentivize and reward innovation as well as share profits via bonuses.

Takeaways for Family Firms of All Ages and Sizes

Not every family firm has the history and resources of Carl Schlenk AG, but all can learn from how the firm has survived for generations. Here are some takeaways.

Develop a trust-based environment. Your model for managing employees needs to evolve over time, and tough economic and competitive periods will challenge it. Keep a long-term orientation and try to understand the needs of your employees. This will allow you to design practices that consider their wellbeing, stimulate communication within and beyond the organizational boundaries and promote their personal and professional development, thereby engendering virtuous cycles between human resource practices and business innovation.

(Rondi, Überbacher, von Schlenk-Barnsdorf, De Massis & Hülsbeck, 2022)

Provide both security and motivation. Human resource management should emphasize employee wellbeing and satisfaction – by not just considering the professional aspects but also taking care of the family life of non-family employees – yet also provide the structures, training and autonomy that make innovation possible. Encourage both veteran and new employees to contribute ideas that will help the firm prosper. A flat hierarchy, with ample opportunity for all employees to innovate, will help. Says one Carl Schlenk AG employee: “Innovation itself is now not something that comes in a short time, but in the end is also the effect of the interaction of old and new over a longer period. And of course, it is helpful to have employees who have been involved in these processes for some time.”

Look for mutual gains. Give employees the security of knowing you support their personal goals, and the autonomy to innovate and help the company thrive. Offer them the time and space to experiment with new ideas and reward their commitment, even when it does not fully pay off in terms of innovation results. Innovation is risky and tolerating failure is a key part of the game. Encourage partnerships with universities, research centers and other firms that can broaden employees’ perspectives.

Cultivate a family culture of employee caring. Succession is challenging for family firms not only for family members but also for their employees. To retain employees in periods of transition it is important that they recognize that the next generation brings novelty, while sharing the values and respect for them that they experienced from the incumbent generation. In order to ensure such coherence, it is crucial to educate young family members about these aspects starting in childhood, so that they can speak to employees respectfully and treat them as well as their elders did. This is extremely crucial as research shows that innovativeness and proactiveness are likely to decrease over generations.

Read More

Rondi E., Überbacher R., von Schlenk-Barnsdorf L., De Massis A., Hülsbeck M. (2021). "[One for all, all for one](#)":

(<https://www.sciencedirect.com/science/article/pii/S1877858520301212>) A mutual gains perspective on HRM and innovation management practices in family firms. *Journal of Family Business Strategy*, In press.