How the Right Mix of Employee Incentives Fosters Innovation

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Many people assume that when a family business honors its past, it can't focus on the future. But our research has found that having the right incentives in place encourages employees at family firms to innovate, regardless of whether the firm embraces the past or has broken from it.

It's true that past research has found that many family businesses tend to avoid risk, have rigid organizations and are reluctant to invest in innovative new products, processes, and services. They also face generational conflicts that can limit their willingness to innovate. However, other research has shown that family-owned firms are all different, ranging from large city-based conglomerates to small businesses serving small communities. In fact, families control more than half of the most innovative firms in Europe, which suggests that they've adopted a secret sauce to get employees to come up with great ideas. Some of these innovative firms continue to uphold the traditions of their founders, while others have moved away from those traditions and focused on being perceived as more modern.

We wanted to look at the incentives that the traditional firms (which we call "guardians") and those that have broken with their past (the "modernizers") use to encourage their employees to innovate. We looked at two kinds of incentives: calculative and collaborative. "Calculative incentives" view the employer/employee relationship as an economic exchange. They might emphasize salary and benefits, bonuses for those who innovate or achieve certain goals, and might specify a set amount of work hours. Many researchers have found that these calculative incentives can be powerful in encouraging productivity, although some have argued that they can create a competitive environment that hurts collaboration.

On the other hand, "collaborative incentives" focus on opportunities for growth in the firm, participating in the firm's decision processes, and work/life balance. With these incentives, the employer/employee relationship is viewed as a more familial, social exchange rather than an economic one.

Our research found that guardians and modernizers offered different combinations of incentives, but both types of firms valued giving employees a role in important decisions.

Our Research

We collected information over three years from 85 German-run family firms in three manufacturing sectors: motor vehicle parts and accessories; medical instruments; and measuring, testing and navigation instruments. To gauge how innovative they were, we researched how many patents they filed during those three years. We studied their public documents, such as news releases and annual reports, to determine whether they were guardians or modernizers.

Using data from Kununu, a separate platform for employees to share information about their companies, we were able to see how their staff viewed important matters such as salary, work/life balance and opportunities for career advancement. These helped us determine whether the company valued calculative or collaborative incentives. The statements included:

"Here, people really want us to be happy and they recognize that we have a life outside of the office. The point is that if our private life is good, we're more productive!"

"It's not a 9-to-5 job even if pay is exactly that. We are

expected to make ourselves available if there is work to do. It's not unusual that you see light in some offices after 9 p.m."

"There are weekly meetings, the chief executive encourages everyone to speak, and I feel he does this because he is truly interested in our opinion."

What We Found

Our study revealed that nearly two-thirds of the family firms in our sample filed at least one patent during the three-year period. But, most interestingly, we found that guardians and modernizers used different approaches to encourage their people to innovate. Guardians tended to focus more heavily on collaborative incentives that support participation, flexibility, and work/life balance. Modernizers focused heavily on pay, specified work hours, and other calculative incentives, but gave workers some decision-making privileges too.

The most successful innovators in each group also tended to embrace a particular combination of incentives. For example, 49% of the guardians gave their employees a role in decision-making and encouraged work/life balance. Among the modernizers, 43% focused on "compensated engagement," which combined higher salaries with participation in decision-making. Curiously, for modernizers adding work/life balance to the mix did not encourage more innovation. This means that guardians and modernizers tend to use different incentives to promote innovation.

Takeaways

Our research gives both tradition-bound and more modern family firms some things to think about.

- To increase innovation, make sure your incentives align with your organization's culture. Traditional "guardian" family firms should emphasize incentives that encourage collaboration, a role in key decisions, and work/life balance. In contrast, the modernizers should offer a robust salary and benefits package, and will get the best results if they also give employees some say in the firm's decisions.
- While the specific set of incentives most conducive to innovation depends on whether the family firm is more anchored to traditions and the past or focuses more on modernity and the future, both types of firms benefit from involving employees in decision-making.
- Even non-family firms can find some takeaways. Those with conservative cultures and ties to the past should encourage collaboration and work/life balance; whereas more contemporary firms with evolving strategies can benefit by giving employees a blend of great pay and some say.
- Policymakers should be wary of forcing specific human resource practices on family firms if they want to encourage innovation. Rather, each family firm should choose incentives that fit with its culture.

Explore the Research

Employee Incentives and Family Firm Innovation: A Configurational Approach (https://journals.sagepub.com/doi/abs/10.1177/01492063231157323) , Elisa Villani, Christian Linder, Alfredo De Massis and Kimberly Eddleston. Journal of Management, March 9, 2023.

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