

CHAPTER 7

DIGITAL INNOVATIVENESS OF SUCCESSORS IN SMALLER FAMILY BUSINESS

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ABSTRACT

Family businesses represent the majority of companies in Slovenia and as well in the EU. Their contribution to GDP and employment is very important - in Slovenia, they create up to 69 % of total sales revenues and to 70 % of all employment (EY, 2015). Most smaller family businesses are still owned by the generation of their founders and are facing the transition of management and/or ownership to the next generation. Succession is one of the most researched fields of family business while innovativeness of family businesses, or of founders or successors remains unexplored. In order for the succession process to lead to longterm sustainability of family businesses, the succession process must be timely and well planned, the potential successor(s) must be carefully selected and prepared for taking the baton from their predecessor. The successors taking responsibility for managing further operations and growth of family businesses must understand the importance of innovation for ensuring long-term competitiveness and sustaining a competitive edge for their companies and products. It is not enough that the founders were innovative, nowadays it is important that their successors are also innovative and consequently their companies are innovative as well. Facing the challenges of digitization, smaller family firms have to adopt digital solutions into their daily practice. Are the successors ready for it?

Keywords: Family business, succession, innovativeness, digital innovation

1. Family Business and its Importance for the Economy

What is a family business (FB)? There is no uniform definition of a family business which would be widely applicable in all possible areas from public to political debates, legal regulations, as a benchmark for support services, to obtain statistical data and academic research, which is confirmed by many different authors, also by Mandl (2008). The absence of a uniform FB definition also leads to other problems, with the exception of the lack of reliable FB data in national economies. For this reason, the European Union (EU) Expert Commission has developed a FB definition that would allow statistics by sector (eg. FB contribution to employment, total FB revenues), comparable between countries, and recommendations for its application in all EU Member States (Mandl, 2008): “most decision making rights belong to the natural person who set up the company or they belong to a natural person who has acquired a share of the capital in a company, or it belongs to their spouses, parents, children or direct heirs of children; most of the decision-making rights are direct or indirect; at least one member of the family is formally involved in the management and leadership of the company; if a company is listed at the stock exchange, it meets the FB definition, if the person who founded or acquired the company or their families or descendants own 25% of the decision-making rights from their participation in the company’s capital.”

Glas (2003), Vadnjal (2005), Lovšin Kozina (2006) and Llach and Nordquist (2010) identified FB on the basis of an entrepreneur’s statement that the company is a family business, thus following Birley (2001). This definition is also used in our contribution.

The FBs have some advantages over non-family businesses (Morris, Williams, Allen, & Avila, 1997): a long-term perspective, a strong commitment to the company, a personal and positive motivational work environment, dedicated employees. Pistrui, Welsh and Roberts (1997) note that FBs in the socio-economic transition scenarios have the following obvious advantages: they have the support of the family network, which represents a source of key support services, including funding sources, business contacts, personal relationships, and human resources; they are better equipped to take risks, which is essential in transitional environments and are flexible. Morris et al. (1997) identify weaknesses of the FBs, such as nepotism, family conflicts, succession problems, and overlapping of family and business interests. According to Howorth, Rose and Hamilton (2006, as cited in Letonja, 2016), a variety of FBs and their behavior are opening up important and diverse areas of research that overlap with research on entrepreneurship.

It is meaningful and necessary to deepen the knowledge about smaller FBs in Slovenia, which as a former socialist state, is one of the most developed European transition states. In Slovenia there were specific conditions of transition from socialist to market economy; the tradition of FBs existed mainly in the craft sector (Duh, 2003), even before the 1st and 2nd World War; social and economic changes since its independence enabled the re-birth of entrepreneurship and the development of FBs (European Commission, 2010); now the legal basis for the development of private FBs is in the Companies Law (2009) and Craft Law (2004). FBs are not only important because of their role in the economy, but especially because of their attitude towards local communities, the long-term stability they bring to these environments, the responsibilities that they feel as owners and their values. The economic crisis may be the right moment for the FBs to prove the significance of values they have always betrayed (Mandl, 2008).

FBs in Slovenia are mainly micro and small companies with less than 50 employees (95%), total yearly revenues of €4 million or less (87%), are more than 20 years old (74%) and operate in various industries. The most important of these are retail and wholesale trade (19%), construction (19%) and the manufacturing of industrial goods (17%), with other industries also well- represented (EY, 2015).

FBs are typically led by the first (58%) or second (37%) generation, and only 5% are led by a third or younger generation. Since privately owned businesses have been a possibility only since the market economy was introduced in the early 1990s, this makes the third or younger generation owners much less common. Interestingly, this is in line with the average for Western Europe and North America, where usually less than 10% of FBs survive through a third generation. From the 1950s until the end of communism, however, entrepreneurial craftsmanship was allowed. Many craft manufacturers grew into modern industrial middle-sized companies with more than 30 years of operation (EY, 2015).

FBs represent a significant contribution to sales, added value, and employment to the Slovenian economy. The average family business had €2.54 million revenues, €0.77 million added value, and 20 employees (EY, 2015).

2. Successors in Family Businesses and Long-term Survival

FB's success depends on the successful transfer of management, leadership, and ownership (Duh, Tominc, & Rebernik, 2007). Several studies find that only 30% of FBs survive the transfer to the next generation, and many companies fail quickly after it is taken over by the

second generation (Morris et al., 1997; Sharma, Chrisman, & Chua, 2003). Unsuccessful succession is a serious problem for the FBs, their employees, and for advancement of the economy. Intergenerational succession is crucial in a FB's life cycle and as such is at the heart of research interest. Howorth et al. (2006, as cited in Letonja, 2016) argue that transfer of entrepreneurial learning among family members and revitalization of the entrepreneurial spirit through transfer of ownership, management, and leadership enable valuable lessons in entrepreneurial research.

For long term survival of FBs it is crucial that succeeding generations do not take only a managerial role in the company but that they absorb the tacit knowledge of their predecessors as well as develop the necessary entrepreneurialism, entrepreneurial skills, and understand the importance of a continuous innovation process for longevity of the FB.

3. Innovativeness

Innovativeness refers to the ability of the company to innovate; it introduces new processes or ideas into an organization. Innovativeness is often used alternately with the term "innovation" (Wang & Ahmed, 2004) and "Innovation Orientation" (Siguaw, Simpson, & Enz, 2006). This is despite the general agreement in the literature that innovativeness is not the same as innovation, but is the precursor of innovation and represents the ability of the company to innovate (Hult, Hurley, & Knight, 2004). According to Lynch, Walsh and Harrington (2010), innovativeness can be viewed as a strategic and competitive innovation orientation of the company, and innovation as a rudder used by the company in order to exploit its competitive advantages. Such a way of perceiving allows a vigorous mental image of the input state (innovativeness) and output (innovation) (Manu, 1992). In other words, unlike innovations, innovativeness is not the end, but a means to get to the end and is an "idiosyncratic view that captures the important difference between innovativeness and innovation" (Menguc & Auch, 2006, p. 65, summarized by Lynch et al., 2010).

According to Lynch et al. (2010), in the literature on innovation, the authors Siguaw et al. (2006) and Avlonitis, Papastathopoulou and Gounaris (2001) argue that the confusion surrounding the construct of innovativeness is contributed to the fact that many authors combine predecessors that help shape innovativeness with the concept of innovativeness of the company as such. Midgley and Dowling (1978, as cited in Letonja, 2016) wrote that most researchers failed to recognize that innovativeness is a self-contained construct, which should not be used as a synonym for innovation or as preliminary elements that are necessary for the innovativeness of the company. The absence of a clear and uniform definition of concept and

theory leads to serious operational problems and measurement problems (eg. one-dimensional versus multi-dimensional).

In continuation, we summarize Lynch et al. (2010), who reviewed and compiled various publications and definitions of innovativeness: “Willingness to change” (Hurt, Joseph, & Cook, 1977, as cited in Letonja, 2016); “Inborn personality traits” (Midgley & Dowling, 1978, as cited in Letonja, 2016); “Relationship and behavior” (Goldsmith & Hofacker, 1991, as cited in Letonja, 2016); “Innovativeness reflects a behavioral change in response to an impulse” (Stamboulis & Skyannis, 2003; Hjalager, 1997, as cited in Letonja, 2016); “Openness of the mind, entrepreneurship, readiness to change, the ability to innovate or to be creative” (Zaltman, Duncan, & Holbek, 1973; Bethon et al., 1999, as cited in Letonja, 2016); “The purpose of the company is to be innovative” (Kundu & Katz, 2003, as cited in Letonja, 2016); “The ability of the company to introduce new processes, products, or ideas into a company” (Hult et al., 2004); “Innovativeness consists of a technological and behavioral dimension that identifies both the technological capacity and the behavioral readiness and dedication of the company to innovate” (Avlonitis et al., 2001); “Concept of company’s creativity” (Amabile, 1997; as cited in Letonja, 2016); “Inclination, responsiveness, and acceptance of ideas deriving from a general approach to business” (Menguc & Auch, 2006, p. 66, as cited in Letonja, 2016); “Generalized readiness to follow new paths and be creative” (Marcati et al., 2008, as cited in Letonja, 2016); “Is related to the concept of risk” (Cowart et al., 2007, as cited in Letonja, 2016). In the literature, we also found the following definitions of innovativeness: “Purposefull introduction and use within the function, group or organization of ideas, processes, products, or processes, new to relevant acquired units designed to significantly improve the function of a function, group, organization, or wider community” (West & Farr, 1989, as cited in Letonja, 2016); “The company’s aspiration to new ideas, novelties, experiments and creative processes that can be realized in new products, services, technological processes; although innovation can vary in the degree of radicality, innovativeness reflects, in essence, willingness to rise above the existing level of technologies and practices” (Lumpkin & Dess, 1996, as cited in Letonja, 2016); “Take advantage of opportunities and new ideas in a way that benefits the company or organization; can mean a purely new and radical idea, a further improvement of a product, service or process, a new way of using an existing product, service or process” (Tidd, Bessant, & Pavitt, 2005, as cited in Letonja, 2016); “Innovativeness is reflected in creative processes, testing new ideas, technologies that can lead to new production processes and result in the development of new products and services for existing and new markets” (Keh, Nguyen, & Ng, 2007, summarized by Vidic and cited in Letonja, 2016).

All these definitions of innovativeness have something in common; at least five key dimensions stand out (Lynch et al., 2010): creativity, openness to new ideas, the purpose to innovate, risk readiness, and technological innovation capability.

3.1. Innovation Capacity of an Individual

Innovation capacity can be measured at the individual and corporate level (Angehrn, Nabeth, & Roda, 2001; Raava, 2007, summarized by Aulawi, Suryadi, & Rajesri, 2009, as cited in Letonja, 2016). The concept of innovation capacity was introduced by Suárez-Villa (1990, summarized by Natario, Couto, Tiago, & Braga, 2011) in order to measure the importance of inventions and the potential for innovation (of the nation). It emerged as a meta concept to recognize the real and potential ability of the system to convert knowledge into innovation, which influences long-term economic growth and the creation of well-being (Schiuma & Lerro, 2008, summarized by Natario et al., 2011).

The individual's innovative capacity is the ability to develop new products that can meet market needs; to use better technical and technological processes for these products; develop and adapt new products and technological processes in the future; and respond to unpredictable activities in the field of technical and technological changes and the unpredictable opportunities created by competitors (Ussahawanitchahit, 2007, summarized by Aulawi et al., 2009, as cited in Letonja, 2016). Tang (1999, as cited in Letonja, 2016) believes that knowledge and skills form the basis of the ability to innovate - knowledge related to domain and skills related to creativity.

Lin (2007), Liao, Fei and Chen (2007) and Liebowitz (2002) (summarized by Aulawi et al., 2009, as cited in Letonja, 2016) emphasize the importance of sharing knowledge for the development of an individual's innovation capacity. A company that encourages its employees to contribute knowledge has more opportunities for employees to develop new ideas, which supports innovation ability. Therefore, willingness to share and accept knowledge increases the individual's ability to innovate.

In FBs, founders have important tacit and experiential knowledge and skills, which they transfer in different ways to their successors as well as (limited) to other employees. This influences the development of the innovation capacity of successors, as well as the development of the innovative capacity of employees in the smaller FBs (note by the author).

3.2. Innovation Capacity of the Company/Corporate Innovation Capacity

The ability to innovate is one of the most important factors affecting a company's business operations (eg. Hurley & Hult, 1998; Schumpeter, 1934). The innovation capacity of a company is its ability to mobilize the knowledge that employees have in the company (Kogut & Zander, 1992) and combine it with new knowledge that results in a product and/or a process innovation (Cakar & Ertuerk, 2010). According to a Resource Based View (RBV), innovation capacities as a source of competitive advantage are deeply rooted in the context of an organization, and it is difficult to accurately define and imitate them (Nonaka, 1994, as cited in Vidic, 2012).

A lot of research on a company's innovation capacities was published in literature on the diffusion of innovation (Rogers, 1995). A company must be innovative to survive in a volatile environment (Johnson, Meyer, Berkowitz, Ethington, & Miller, 1997). Innovation capacity is the most important determinant of a company's business operations (Mone, McKinley, & Barker, 1998; Cooper & Kleinschmidt 1987, summarized by Cavusgil, Tarner, Calantone, & Zhao, 2003) and a company must be innovative to gain competitive advantage and survive (Li & Calantone, 1998). This finding is supported by several empirical studies (Cooper, 2000; Gatignon, & Xuereb, 1997, summarized by Cavusgil et al., 2003; Cooper & Kleinschmidt, 1987; Rogers, 1983; 1995). Avlonitis and co-authors (1994) argue that it is not enough for a company to demonstrate behavioral readiness, commitment, and strategic intention to innovate and take on risk (i.e., willingness and dedication); a company must have the necessary skills to innovate. Hurley and Hult (1998, p. 4) understand innovation capacity as "the ability of a company to successfully adopt or realize new ideas, processes, or products". Later, Hurley, Hult and Knight (2004) deal with innovation capacity as a "cultural predecessor" that provides social capital and thus facilitates innovative behavior. The ability to innovate can be defined as a company's strategic flexibility for innovation at a company level; this requires the necessary technological and managerial capabilities for a flexible market response (Gilbert, 2007, as cited in Letonja, 2016). Utterback (1979) estimates that more flexible companies (having a more flattering organizational structure) are better innovators than rigidly structured companies. Paleo and Wijnberg (2008) note that by presenting innovativeness in terms of innovation capacity, researchers essentially offer a method for understanding how to create innovative companies (eg. Hurley et al., 2004). Lynch et al. (2010) note that it is best to understand the innovation capacity of a company as its ability to potentially produce innovation; this dimension is influenced by the

organizational structure of the company. Innovativeness is therefore composed of the ability to innovate, with skills and knowledge needed to readily take advantage of competitors, offered by market opportunities.

Innovation skills are critical to achieving better innovation performance of a company (Drucker, 1990, summarized by Cavusgil et al., 2003). A company with a high level of innovation is usually using a knowledge transfer method of learning by doing, which prevents competitors from accessing this knowledge in the market and imitation of knowledge is more difficult. Problems with imitation of knowledge impair the tacit R & D component; namely, the (tacit - note of the author) characteristics of a company's developmental and research capabilities enable it to have a better R & D capability and success in innovation programs (Cavusgil et al., 2003). Tacit knowledge and its transfer is critical to the innovation capacity of a company, especially of smaller FBs (note by the author).

4. Innovativeness of family business

4.1. Inovativeness of the Company/Corporate Innovativeness

Lynch et al. (2010) defined a company's innovativeness with the following words: "Innovativeness of the company is in the company expanded mindset and the attitude to innovation that all companies have to a certain extent; it consists of a culture of readiness, inclination, acceptance, market responsiveness, dedication, purpose, and technical and technological capabilities to deal with risky behavior and quickly incorporate changes in business practices through (early) creation and/or accepting of new ideas, making it innovate easier and brings competitive advantages".

An innovative company has many features that can be classified into two main categories of skills (EU, 1995):

- strategic skills: long-term orientation; ability to identify and predict market trends; readiness and ability to collect, process and assimilate technological and economic information;
- organizational skills: a sense of and risk management; internal cooperation between different departments in the company, and external cooperation in public research, consulting, with customers and suppliers; integrating the entire company into the processes of change and investment in human resources.

Innovativeness is the ability of a company or an individual to innovate (Hult et al., 2004), is the result of innovation capacity and is reflected in innovation (Keh et al., 2007; Manu, 1992). At the same time, we find that when we study the innovativeness of an individual, for example, an entrepreneur, this refers only to him, to his engagement in a company and can be understood as an input to that company. On the contrary, when we study the innovativeness of a company, it relates to the whole company, its products, processes, and services. Innovativeness of an entrepreneur plays an important role in a company, but they are not necessary - for example, an entrepreneur is not innovative, but is open to innovation; therefore, for example, employees in a company are innovative and consequently the company is innovative. Innovativeness is understood in this case as a company's output.

5. Innovativeness of Successors

5.1. Innovativeness of an Individual

Innovativeness is based on knowledge; a new way of doing things must be based on a new way of looking at things (Marcati, Guido, & Peluso, 2008). Hurt et al. (1977) wrote the definition of innovation, which refers to an individual, rather than a company; Hurt in Teigen (1977) understand innovativeness as a level to which an individual, in comparison with others in the social system, adopts relatively early something new. Kim (1997, as cited in Letonja, 2016) and Lall (1992, as cited in Letonja, 2016) defined innovativeness as "the skills and knowledge needed to effectively absorb, master and improve existing and create new technologies, products and processes", which we understand as a definition, also referring to the level of an individual. Innovativeness is also considered a component of human personality. There are two different constructs - general and specific innovativeness (Kirton, 2003; Midgley & Dowling, 1993, summarized by Marcati et al., 2008, as cited in Letonja, 2016). General innovativeness refers to the openness and creativity of an individual, to their readiness to follow new paths and a specific level of creativity in cognitive style - that is the way in which individuals are mentally processing information, deciding, and solving problems. Specific innovativeness, however, refers to the premise of being the first to adapt innovations in a specific field (Goldsmith & Hofacker, 1991, summarized by Marcati et al., 2008). Verhees and Meulenber (2004, as cited in Grundstroem, Oeberg, & Roennbaeck, 2011) interpret innovativeness as a willingness of the owner of a company to obtain information on innovations and adapt them both to suppliers' and customers' markets, thus portraying innovativeness as a personal characteristic of creativity and conscious decisions about the level of openness to new ideas. The authors also derive from the findings of Kirton (1976,

as cited in Verhees & Meulenber, 2004) that the kind of creativity and decision-making is very individual and varies from adaptive to innovative. Adapters do things better within the accepted (given) frames of thinking, and innovators prefer to do things differently because they redefine the problem and they move from established patterns and frames.

6. Innovation

The word innovation comes from the Latin term *innovātiōn*, meaning novelty or changing existing (Dictionary, 2016, as cited in Letonja, 2016). An innovation or novelty, a new phenomenon, can be a new idea, a new manufacturing or technological process, a new product or an object with new features. Innovation differs from invention in commercialization. The innovation is therefore successfully adopted on the market. Innovation brings new, greater usefulness in the form of quality raising, lowering costs, raising company's reputation, limiting competition, etc. (Wikipedia, 2015, as cited in Letonja, 2016). In 1971, the OECD published its broad and fairly realistic definition of innovation, but there are still attempts to limit the notion of innovation to technical and technological innovations, including international statistics. The definition of the OECD is: "Innovation is any novelty for which users feel it is useful in practice" (Mulej, 2011). In the Green Paper on Innovations (EU, 1995), innovation is defined as "synonymous for the successful production, assimilation and exploitation of innovations in the economic and social sphere." It offers new solutions to problems and thus covers the needs of individuals as well as society.

Innovation is (EU, 1995):

- "Renovation and increase of the selection of products and services and related markets;
- Establishing new methods of production, procurement and distribution;
- Introduction of changes to management, work organization and
- Working conditions and skills of the workforce.

The official international definition of innovation does not cover only technology, but statistical guidelines in the Oslo manual - unlike its definition - cover only technologies: "Innovation is the renewal and expansion of a range of products and services and related markets; the establishment of new methods of production, procurement and distribution; introduction of changes in management, working organization and working conditions and labor capabilities" (EU, 2000, as cited in Letonja, 2016).

Innovation is a new benefit from a new idea, which is created (commercially) comprehensively. According to other related concepts, creativity and entrepreneurship are an element of the innovation process (Amabile, 1988; Anderson & King, 1993; Kanter, 1988, as cited in Letonja, 2016), while innovation invention, and diffusion processes are placed under the umbrella of organizational and cultural change (King & Anderson, 1995); the concept of “change” is too broad, since innovation is only a useful part of the changes, and should be taken as such into account by users.

In continuation, we list a number of different definitions of innovation. Thompson (1965, as cited in Letonja, 2016) defines innovation as “generating, accepting and implementing new ideas, processes, products, or services”. Zaltman et al. (1973, as cited in Letonja, 2016) and Rogers (1983; 1995; 2003, as cited in Letonja, 2016) define innovation as an “idea, practice, or something that the user perceives as a novelty”. Drucker (1985) defines innovation as a “tool of entrepreneurs to exploit the change as an opportunity”; it is a “specific instrument of entrepreneurship”; “by innovation we gain and make resources”; Trommsdorff and Schneider (1990, as cited in Letonja, 2016) define innovation as “the development of an invention into a commercial product”; Kings and Anderson (1995, as cited in Letonja, 2016) write that something is labeled as an innovation, “it must be a novelty, it must have tangible quality, the result of a deliberate rather than a random operation, it must be directed towards profit generation and different from routine changes.” Further definitions of innovation are: “successful use of creative ideas in the organization” (Schaper & Volery, 2004, as cited in Letonja, 2016); “to be more than an idea, it is a potential solver of a problem that immediately responds to the demands of the user” (Kuratko & Hodgets, 2004, as cited in Letonja, 2016); “innovation arises from an invention when it is developed to its usefulness, and when it is also accepted by customers, purchased and used, and enables the author, the manufacturer and the seller to earn a profit, because it is considered useful” (Mulej & Ženko, 2004); “the process through which businesses identify new opportunities for change, turn them into reality and create value from them” (Tidd & Bessant, 2009); according to Shahid (2009, as cited in Letonja, 2016), innovation derives from the creative use of knowledge and has two important components: creativity (artistic, scientific and other) and stock of knowledge.

The central element of innovation definitions is “novelty”, but the scope of “novelties” in the literature was treated inconsistently. As already noted, by definition, the EU in the Green Paper on Innovations (EU, 1995) defines innovation as the novelty that at least one user, in his experience, considers a useful novelty. Whether innovation is new from the point of view of authorship for someone who, as a user, takes it over and adapts it (“innovation adopter”)

or it is something new for one organization, for most organizations in a total number of organizations, or for the whole world - this reflects significantly different ranges of “novelty”. It is not clear in the literature whether “novelty” refers to one or more of these dimensions, or it is assumed that “novelty” for an organization is equivalent of “new to the world” (Damanpour, 1991; Damanpour & Gopalakrishnan, 1998; Kimberly & Evanisko, 1981; Knight, 1967; Li & Atuahene-Gima, 2001, as cited in Letonja, 2016). Rogers (2003, as cited in Letonja, 2016) says that new in innovation does not necessarily involve new knowledge. Someone may have been acquainted with an innovation for some time, but had not taken a position on it, or had not accepted or rejected it. A novelty in innovation can be expressed in terms of knowledge, a belief or decision to accept innovation.

The notion of innovation is ambiguous: in everyday language, both are marked - the process and its result (EU, 1995). According to a definition proposed by the OECD in the Frascati Manual, it involves transforming an idea into a market product or service, a new or improved production or distribution process, or a new social service method. The term refers to the point of view of the process. On the other hand, when the concept of innovation refers to a new or improved product, equipment, or service that is successful on the market, focus is on the outcome of the process. This ambiguity can lead to confusion: when we talk about dissemination of innovation, are we talking about dissemination of the process, i.e. methods and practices that enable innovation, or are we talking about dissemination of results, i.e. new products? In the first case, dealing with the notion (innovation process), the emphasis is on the way in which the different stages lead to it (creativity, marketing, R & D, design, production and distribution) innovations are formed and produced. In the second case (the result of innovation), emphasis is placed on a new product, process, or service. We distinguish between radical innovations or breakthroughs and progressive innovations that change products, processes, or services through successive improvements (EU, 1995).

Opinions are therefore very diverse. We will remain by the definition of the OECD and the EU: “innovation is the novelty of any content that users consider to be the source of their new benefits”; it is therefore up to users, not authors, to decide what innovation is and what is an unsuccessful invention innovation diffusion process.

6.1. Digital Innovation

Innovation allows an organization or a company to maintain a competitive advantage. By combining different skills, an extensive and active search for opportunities creates new opportunities (Tidd et al., 2005). Innovation is a key competitive activity in the

knowledge-based global economy (Ganzaroli, Fiscato, & Pilotti, 2006). The development of new products, the introduction of improvements, is very important for the survival of companies in the global competitive world. More than production and the ability to produce at the lowest cost, it is important that the next generation of entrepreneurs in smaller FBs have an entrepreneurial education, sufficient knowledge and values, culture, ethics, and norms for the innovation invention diffusion processes. The relationship between the next generation and innovation in FB is very interesting (Ganzaroli et al., 2006).

Talking about innovation and especially digital innovation we have to mention the concept of Industry 4.0. The fourth industrial revolution refers to a bundle of partly related digital technologies that will bring major disruptions to manufacturing industries enabling major business improvements in productivity and shaping current business models (Kagermann, Wahlster, & Helbig, 2013, as cited in Letonja, 2016). Which industries are within the scope of Industry 4.0? Technologies such as the industrial internet of things, cloud computing, cybersecurity, Big data and analytics, simulation, horizontal and vertical integration, additive manufacturing, advanced manufacturing solutions, and augmented and virtual reality are within its scope.

Most smaller companies in most economies are family businesses. They represent the backbone of these economies. These FBs need support in dealing with the challenges that Industry 4.0 introduces. They have to exploit digital technologies in products and/or in processes in order not to be driven out of markets by more advanced competitors, their products becoming commoditized or being relegated to the role of OEM (original equipment manufacturer) supplier, with system integrators or who manage the data platform in control (Porter & Heppelmann, 2014). The key challenges that smaller FBs are exposed to in the context of industry 4.0 are existing low digitalization levels, limited financial resources, and limited managerial resources (Ricci, Battaglia, & Neirotti, 2019).

According to Lund (2015) digitization, i.e. the adoption and socio-technical organization of digitized artifacts has a profound impact on today's society. Even if digitization of analogue artifacts, i.e. when physical products are equipped with digital capabilities, has been a cumulative trend for a decade or more, the impact is truly evident today. Some examples of digitized artifacts aimed at consumer markets are the "connected" car, the digitized television set, and in the near future, digitized IKEA furniture. These digital innovations provide new features such as media on demand and ubiquitous services available on multiple platforms.

We can put digital innovation in context with the help of the following cases that we summarized by Nylen and Holmstrom (2015): "Looking back, the first online shopping

websites were often poor translations of printed mail order catalogues. E-commerce has since evolved, expanding the frontiers of digital service innovation. Now, online retailers such as Amazon and Zappos offer more than convenience and cheaper products; by offering recommender systems as well as products at the far end of the long tail, they provide truly novel retail goods consumption. Online digital service innovation investments have also enabled traditional firms such as cab companies and grocery store chains to gain strategic competitive advantage. A new family of products is currently emerging as digital components are embedded in traditional products such as toothbrushes and heat pumps. Frequently referred to as ‘smart products,’ the embedded digital components enable firms to complement physical goods with online and mobile services that utilize the data generated. While the promises of smart products and ‘the Internet of things’ is hotly contested, it is predominantly discussed in the context of home appliances. However, smart products are also emerging in the context of industrial manufacturing equipment. Here, embedded digital capabilities enable real-time monitoring and service forecasting instead of scheduled servicing. The effects of digital innovation are particularly pervasive for firms that engage in information-based products that can be fully digitized. While the mainstream media industry is currently in the midst of such a restructuring process, it seems that the music industry has somewhat stabilized after a transformation that was ignited at the turn of the millennium: record labels had optimized their operations for selling one product—music records/CDs. To this end, pressing sound onto vinyl albums (later CDs) and then distributing copies was an efficient means of delivering music artists’ recorded work to the public from the 1940s onward. In the late 1990s, the emergence of peer-to-peer networks such as Napster and Kazaa confronted the music industry with unexpected challenges. When the audience wanted to listen to new music in novel ways, the industry’s somewhat closed approach to innovation was exposed. Although customers were moving in another direction, many major record labels continued to consider their core business the production and sale of music CDs. Historically, labels controlled their own value chain from end to end: from signing a new artist to distributing his or her music to record stores. Unwillingness to challenge this definition, along with certain insensitivity toward customers’ interest in MP3 files, hampered digital innovation. While the music industry effectively illustrates an information-based sector that failed to manage digital innovation, other, more firm-specific examples include the bankruptcy of book retailer Borders in 2011 and Kodak’s failure to re-orient its business as digital cameras emerged. We have, however, also seen how digital innovation can enable established firms to move into new domains. A classic case of such digital portfolio expansion is IBM’s shift in focus from hardware to software and services as PC diffusion accelerated in the early 1990s. Another example of

digital portfolio expansion is Apple effectively becoming a music distributor with iTunes. Along with new entrant Spotify, Apple contributed to energizing the business ecosystem in the music industry through digital service innovation. Although the Internet once seemed hopeless as an arena for paid content, Netflix rebutted such notions while invigorating the film and television industries. To this end, Netflix took digital service innovation a step further by not only distributing digital content, but also producing it. Going back to the music industry, additional links in the value chain were eventually reconfigured due to digital innovation; for example, software such as Garageband enables cheaper and highly mobile music production, while free-of-charge alternatives such as Soundcloud illustrate that iTunes and Spotify are not the only gateways”.

“Digital innovation is enabled by digital technology and digitization (Yoo, Lyytinen, & Boland, 2009, as cited in Lund, 2015) and refers to the embedding of digital computer and communication technology into a traditionally non-digital product” (Henfridsson, Yoo, & Svahn, 2009, as cited in Lund, 2015, p. 8).

“Digital innovation differs from other forms of innovation primarily due to the architecture and the generativity of digital technology (Yoo, Boland, Lyytinen, & Majchrzak, 2012; Yoo, Henfridsson, & Lyytinen, 2010a; Tilon, Lyytinen, & Sorensen, 2010, as cited in Lund, 2015). The architecture is modular and multilayered and due to standardized interfaces between the layers, it is possible to combine and reconfigure components to create digital innovations (Kallinikos, Aaltonen, & Marton, 2013, as cited in Lund, 2015). Layered characteristic of digital technology enables generativity which creates unbounded opportunities and features for digital innovations (Yoo et al., 2012, as cited in Lund, 2015). The architecture and the generativity also create challenges for how to organize digital innovation processes” (Svahn & Henfridsson, 2012, as cited in Lund, 2015, p. 8).

Digitization, i.e. the adoption and socio-technical organization of digitized artifacts must be introduced in the practice and daily operations of family businesses, as well smaller FBs in order for them to remain competitive in the long run.

Many smaller FBs in Slovenia are facing succession and the younger generation is taking over the management and/or ownership of smaller FBs and the question is: “do the successors of smaller FBs understand the importance of introducing digitalization in the processes in their companies in order they remain competitive and survive on the long run?” It is not enough that successors are innovative – it is more and more important that they and their FBs become digital innovators.

The research question is: “Are the successors in smaller FBs introducing digital innovation in their companies and to what extent?”

7. Research Method

For the purpose of our contribution to the book *Digital Siege*, a qualitative research study was conducted. This approach was a suitable research approach due to the nature of the research question and field development level of the topic researched. A case study research methodology was used (e.g., Yin, 2003), which has been widely accepted in family business research (e.g., Chirico, 2008). We applied a multiple-case study approach since multiple cases “... permit replication logic where each case is viewed as an independent experiment that either confirms or does not the theoretical background and the new emerging insights” (Chirico, 2008, p. 435). There is no general agreement on the ideal number of cases so ten out of 30 cases were selected from the database of FBs which were involved in the research study in spring 2019. Case studies’ analysis was used to identify themes emerging from the data in relation to digital innovativeness of successors in smaller FBs.

The case studies included in the research are in three classes of micro, small, and medium-sized FBs, which employed from 0 to 249 employees. To avoid the danger that the sample would not be relevant, the first question asked was if the successors consider their company as a family business (Birley, 2001). Limitations of the sample were: founder of the FB is employed in a firm or is still active in the firm although already being retired; founder still owns a firm; next generation is involved in a firm. The author conducted personal interviews with successors on the researched question via Skype. Only hand-written minutes were taken and replies were transcribed immediately after the interview. Research was geographically limited to Slovenia.

8. Findings

The selected ten cases of smaller FBs were from typical sectors in the Slovenian SME landscape: production of metrology products and services, production of plastic products, production of joinery products, trading and machine building, personal services and trade, tourism, goldsmith, real estate agency, farmer’s tourism, and health tourism.

Case 1: Production of metrology products and services. They developed an innovative solution in the field of measurement systems. The system is the result of the knowledge and development of a team of experts from an accredited metrology laboratory that enables

measuring of various parameters. It enables automatic monitoring of temperature, relative humidity, pressure, pressure difference, air velocity and air flow, illumination, CO₂ and volatile organic materials, pH and other parameters according to a user's needs. It automatically protects processes and products and helps meet the regulations and standards in laboratories, industry, healthcare, warehouses, greenhouses, galleries, and transport. The main advantages of this innovative system solution are a continuous measurement and remote monitoring capability, which provides access to results of measurements collected in one place, and monitoring of real-time measurements. Using the system saves time, money, and excludes the possibility of human error that is always present in manual entries. In digitization, they see numerous advantages for metrology. Data is more accurate and quicker to access, since it is now stored in the cloud instead of "folders". Digitization is present in the process of implementing their services. The confirmation of the latter represents an information system for the digitization and automation of a metrology laboratory, through which this company achieved a breakthrough to foreign markets. The introduction of an electronic certificate, which results in a paperless business, should also be pointed out. Upon completion of the procedure, the client receives a certificate in a PDF format, which is electronically signed within 24 hours. The image of the certificate is uniform in all countries. It is published in two languages, and the second language is adjusted to the partner's voice field. In exceptional cases, an entire version with an additional third language on the certificate may be used. In the last ten years the company has, thanks to digitization, increased the number of metrological reviews 7.2 times (720%). Digital innovation for this FB was a result of the innovative work of the founder and one of his successors.

Case 2: Production of plastic products. Digitization in this FB is understood as a wider transformation of business based on a range of technologies, such as the Internet of Things (IoT), cloud, big data analysis, and process automation. This transformation, in itself, generates new business changes - new market relationships and business models are in place. Digitization in this FB was started by digitalizing the mindset of all employees through comprehensive training. In addition to business processes that were directly related to production, they digitized other processes, including marketing, using all modern tools, which also meant social networks. The successor of this FB introduced digital innovation in the company and was also an active blogger. Digital innovations in the company are based on the successor's ideas and developed as a team effort.

Case 3: Production of joinery. In the last five years, a paperless system was introduced at all levels of the company's business, thus saving time and organization of the production process.

The paperless system was present at all levels, from production planning, to procurement processes, order confirmation, and delivery to customers. Digitization reduced the purchasing department to only two employees, inventories decreased, delivery deadlines were shortened, automatic data flow between the company and suppliers was achieved, as well as between applications. Digital innovations in the FB's processes were a result of innovative decisions and actions of the successor.

Case 4: Trading and machine building. In this FB they emphasized that one of their priorities was digitization of business processes, which resulted in the reorganization of a trading company into a production-oriented company. They believed if communication at all levels (within the company, to customers and suppliers) took place without errors, procedures could be simplified, and processes could be accelerated. Since the successor actively entered the FB two years ago, they succeeded in getting a subsidy for introducing digitization into their business processes. Their latest achievement was an entirely online supported procurement system. Digital innovations in the FB were the result of a joint effort between one of the founders and the successor.

Case 5: Personal services and trade. Since the next generation took over management of this FB, digitization has made the organization of work and all processes much more transparent and easier to reach for their customers. The entire reservation system for personal services was digitized and this has contributed to the decrease of costs of personnel and other administrative costs. An online store for well known cosmetic brands was developed and introduced, thus increasing revenues from sales of cosmetics. All digital innovations were the result of one of the two successors.

Case 6: Tourism. Due to an economic crisis the number of overnight stays has decreased. The FB had to direct its operations to foreign markets. To do so, they had to make qualitative web page and promotional materials and connect with tourist agencies selling to tourists in foreign markets and already providing services entirely online. The results of going online and developing cooperation with tourist agencies has shown a higher number of foreign tourists replacing the decreasing number of domestic tourists. The digital innovation of processes in this FB were initiated by the successor of the family and implemented together with the founders.

Case 7: Goldsmith. This FB is unique in making jewelry with lace details. They have modernized their production process by introducing digital machines for engraving, making diamond effects, and casting but in spite of this modernization, they strongly believe that

creativity and art can not be replaced by any machine. This is why they employ more young and talented designers, who with their creativity and hand-made jewelry, will continue to offer customers the values that the founders have transferred to their successors - this is the details, originality and attention to customers. The successor of this FB was responsible for innovating the production technologies.

Case 8: A real estate agency. The company constantly finds new ways to reach new business solutions and success. The successors of this FB were constantly thinking ahead and looking for new ways to improve business operations and processes. They were aware of the need for digitalisation and implemented use of a new IKT, which can help them better in managing and improving the company's business. This company was in the process of changing their internet page, which resulted in a number of significant improvements with several new programs, which will greatly help the FB in advertising, as well as in organizing working time, task allocation, and company management.

Case 9: Farmers tourism. This FB strived to be in line with trends, especially with regard to internet advertising. They were active on social networks, and the official web site was modern, enabling online booking, a voucher booklet, and the latest - virtual walks. The entrepreneur and his sons - successors were developing innovations to introduce simpler solutions into their organization. The company strived to make new, functional things from old things, which lead to cheaper solutions. Digital innovation was the result of joint efforts between the founder and successors.

Case 10: The founder of this FB was an innovator in the field of health tourism development; he and his partners were developing various types of joint advertising and market launch, they innovate based on monitoring technological development trends, investing in service improvement technologies. The successor is an innovator because as a younger generation he has brought many innovations related to digital and technological advancement. He introduced a passport scan instead of manual into the system, then carried out technical and security surveillance over all premises in and out of the business building to increase the safety of night-shift employees. He introduced a digital employee registration system for the purpose of working time records and a number of other innovations that facilitated employees' work processes and accelerated total business. The founder knew how technological changes could affect a fundamental market transformation. The successor was more focused on products that ultimately bring higher profits to the existing services, and was aware that technological changes in existing services affects competitiveness.

These ten cases demonstrate that smaller FBs in Slovenia paid attention to the introduction of digitization into their processes. The smaller FBs in Slovenia are aware that not introducing digital technologies into daily practice means they could disappear from the market.

The scope of digitization and digital innovation in smaller FBs depends on their financial and managerial capacities. Many of the smaller FBs participate in calls for the acquisition of funds for the introduction of digitization into their business as they do not have enough financial resources.

In many cases we can see that companies believe that they are digitized through their presence on internet via their web pages. But in other cases, we can see that smaller FBs understand what it means to be in line with the challenges of Industry 4.0 and having digital technologies introduced and implemented in their organizations and processes.

Digital transformation in smaller FBs starts with changing a mindset and a lot of training is needed for the successful implementation of digital innovation and of a complete digital transformation.

In the case studies presented in this chapter we can recognize a pattern, that digital innovations are linked to the presence of active successors in FBs. The younger generation is flexible, understands new technologies and their mindset is different from the mindset of the founding generation. They are more ready to take the risks connected with digital transformation as well as the adoption of digital technologies. But we learned that digital innovation is, in many cases, not only the result of digital innovativeness of the successors but it is the joint effort of the founders and their successors and even of employees in smaller FBs.

Based on the findings of our research we can develop the following proposition:

“The successors in smaller FBs are introducing digital innovation in the FBs’ processes with regard to the financial capacities of their companies”.

9. Conclusions

The Deloitte survey on the next generation of FB leaders (Drevenšek, 2018) shows that many FBs in Slovenia do not have a fully-fledged digital strategy at this time; only 26% of respondents have a solid digital transformation strategy, a quarter have a strategy for the use of digital technologies, while 35% of respondents said that they adopted the digital strategy only recently. Almost 40% of respondents still lack a digital strategy or are only introducing or working on it. However, digital awareness of the next-generation family leaders is high,

“but other family members may not be so aware of the digitalization and opportunities that digital technologies bring.”

We can conclude on the basis of our qualitative research findings, the results of Deloitte’s survey in Slovenia are still valid. In most smaller FBs the successors understand the meaning of digital transformation and importance of introducing digital technologies into different areas of business operations to remain on the geographical maps of certain industries. In some of the cases digitization is already deeply rooted and in others only the first steps have been undertaken.

Adoption of digital technologies through digital innovation is a challenge which is faced by all smaller FBs and is a “must” in their struggle to survive in the highly competitive environments. Younger generations will face these challenges easier and with more flexibility and readiness for risk taking than older generations.

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