NUARY 2017

FAMILY-DRIVEN INNOVATION AT DELTA CAFÉS

a best-practices investigative case into the monolith of Portuguese coffee

Author: DAN SHALEV
dan.shalev.2015@novasbe.pt

Student ID: 24957 / 2843

A Work Project carried out as part of the Master in Management Program at the New University of Lisbon, Faculty of Business and Economics, under the supervision of:
Alexandre Dias da Cunha (Ms.c)

ABSTRACT

The presence of family businesses in global markets is undeniable and their role as job providers, innovators, and, at times, market leaders, is paramount to the development of local economies around the world. Employing 50% of the workforce in Portugal and accounting for 70% of private-sector businesses,[i] the gravity pull of family-controlled businesses in Portugal is robust.

The following case presents, analyzes, and outlines proposed best contemporaneous practices that, when in effect, drive innovation within family businesses. This case will argue the aforementioned in the context of Delta Cafés, a Portuguese family business specializing in coffee and its ecosystem of products and services. Family-driven innovation as defined by A.De Massis is "the internally consistent set of strategic decisions that allow a family firm to resolve the innovation paradox by ensuring a close fit between these decisions and the idiosyncratic characteristics of the family firm"[ii]. Management scholars have long studied the intricate nature of innovation and its relationship with businesses' long-term viability and market-presence. However, such studies have, for the most part, involved non-family controlled firms as the research subjects, which explicates the limited literature available on family-controlled firms. With that being said, to bridge such scarcity of literature this paper will draw upon E. J. Poza who examines, in his adaptation of R. Tagiuri and J. Davis's three-circles model, the trilateral relationship between the business, family, and ownership business elements in a Venn diagram that seeks to clarify the complex nature of a family business.

The inherent overlaps pose challenges to the family firm that non-family controlled firms are largely exempt from. While such challenges would on the surface rightfully suggest that family-controlled firms are at a natural disadvantage, it has not immobilized such firms from fostering innovation. In fact, contrary to such hypothetical disadvantage, family firms can, as this paper will posit, be better positioned to agilely convert innovation inputs into outputs and shorten innovation cycles due to their family-driven nature.

***Keywords**:* Family Business, Grupo Nabeiro, Delta Cafés, Family-driven Innovation, Best Practices

Acknowledgments

- I wish to sincerely thank Alexandre Dias da Cunha for supervising my thesis and guiding me through this laborious process. His guidance has made this paper possible.
- I wish to wholeheartedly thank Mr. Carlos Bhatt of Delta Cafés for his time, resources, and support invested in this paper, without which it would not be as insightful.
- I wish to extend my gratitude to the NOVA SBE library and staff for their support and kindness.

INTRODUCTION: IMMINENT CHANGE

'*The Coffee of your Life'* and '*a brand with a human face'* bywords have been the driving forces behind Delta Cafés operations in Portugal since the 1960's when Rui Nabeiro, the Nabeiro Group founder and locally revered entrepreneurial figure, founded the coffee processing and retailing colossus it has grown to be today. Abundantly awarded for his philanthropy and contribution to the Portuguese economy, Rui Nabeiro has managed to not only embed Delta Cafés within the local economy and coffee consumers' lives, but effectively transform the brand into an inseparable element of the Portuguese 'saudade' market [1]. Commanding a considerable share of the local B2B HORECA[2] coffee market, Delta Cafés has seen both its social and financial stock rise exponentially[3], until 2003 when Swiss giant Nestlé entered the local market with its innovative, George Clooney-endorsed Nespresso capsuled coffee, effectively changing the game. Establishing Nespresso as a more elitist and premium capsuled coffee purchased exclusively from Nespresso's bespoke points of sale, Nestlé has challenged Delta Cafés to a duel of innovation that would decide the future of the Portuguese coffee market, and redefine coffee consumption habits internationally. Identifying the financial effect of failing to innovate in response to Nestlé's threat and consumers' changing consumption habits sooner rather than later, Delta Cafés has embarked on a four-year journey to generate a response to Nespresso and fight for command of the market. Stressing their commitment to innovation and willingness to enter the capsuled market, Delta Cafés acquired

---

[1] 'Saudade'- an untranslatable Portuguese vernacular for longing, in this case to culturally-significant products like coffee. 'Saudade' market is a marketing term referring to the collection of Recognizably-Portuguese products that Portuguese communities living abroad normally purchase when feeling homesick.

[2] Business acronym standing for Hotels, Restaurants, and Cafés

[3] 57% of Portuguese consumers have presented Delta Cafés with the Confidence award for 'most trusted brand' for seven consecutive years

Diverge and begun R&D on its own coffee machines, a brand officially titled DeltaQ in 2007 with its market-entrance and lead by Rui Nabeiro's grandson Rui Miguel Nabeiro[iii]. Since its penetration, the brand has sold over 1 million coffee machines and a staggering 1 billion coffee capsules. Eyeing the corporate world, DeltaQ has also begun marketing directly to businesses, acquiring clients in excess of 2,700 - 60% of which are the company's storied partners, HORECA[iv].

THEORETICAL FRAMEWORKS AND METHODOLOGY

This paper takes a best practices approach to family-driven innovation, using Delta Cafés as its research subject. To provide a detailed synopsis of Delta Cafés' relationship with and promotion of innovation, the firm will be reviewed across firm-specific, resource-specific, and family-specific theoretical lenses. Recommended best practices including organizational ambidexterity and agility, commitment to innovation embodied by research and development, and lastly, family-driven innovation, will thus be examined. Given that academic management literature on family businesses is scarce relative to their non-family counterparts, family-driven innovation and subsequent research on the topic is emerging, as scholars begin to take interest in the field and recognize the impact family-controlled firms exert on global economies. Nevertheless, as suggested in their paper about resolving the paradox in family firms, A. De Massis and F. Frattini highlight the possible academic avenues for further research in family-driven innovation, notably the fit between the family firm's willingness – or its goals -, and its innovation strategy, and how the two coincide and affect each other[v]. This paper aims at researching and discussing such a fit in the case of Delta Cafés. Additionally, this paper examines family-driven innovation at Delta Cafés qualitatively, relying on international management journals, family-business literature, Delta Cafés internal publications, and interviews with the company's Innovation & strategy coordinator, Director of international markets, Innovation manager, and Family-CEO.

I: THE NABEIRO FAMILY AND THE PORTUGUESE COFFEE MARKET

Coffee has irrevocably established itself as an integral component of Portuguese lifestyle since its arrival in the 18th century and has since become one of the country's most cherished imports. Although Portugal's and southern Europe's thirst for coffee is seemingly voracious, Portuguese per capita consumption of coffee, capping at 4.8kg in 2015, is almost half of Finland's, and the country's importation of 824,000 60kg bags' worth of coffee is, although formidable, insufficient to position the country amongst the world's top 10 coffee consumers[vi]. Intriguingly, however, Portugal ranks 3rd on the list of the top 6 coffee-importing countries that pay the highest prices for the commoditized beans, surpassed only by Italy and Japan, with the Japanese coming in first thanks to government-imposed coffee tax whose main purposes is to protect the traditional domestic tea industry. With the Industrial and Commercial Coffee Association *(AICC)*'s estimation that 2.2 espressos are consumed by every Portuguese on a daily basis[vii], coffee's importance and its subsequent role in the Portuguese economy and culture comes to light. Recognizing and capitalizing on his country's deeply-rooted affection for coffee in the early 1960's, Portuguese entrepreneur Rui Nabeiro founded Delta Cafés, a family business specializing in the importation and roasting of coffee, with the intention of dominating the domestic coffee market and operating competitively in the international one. Nabeiro's vision has arguably materialized given that, as of 2016, Delta Cafés commands a strong commercial presence in Portugal where it controls 48% of the coffee market[viii].

Rui Nabeiro's substantial and continued philanthropy, strong business acumen, and robust ties to the Portuguese economic sphere have earned him numerous honorary titles, including the coveted Grand Collar of the Order of Prince Henry the Navigator, awarded to him by the then President of the Portuguese Republic Jorge Sampaio[ix]. Successor of Rui Nabeiro Senior and now DeltaQ CEO, Rui Miguel Nabeiro is "a clear, innovative person who thinks innovation plays a crucial role in the development of the business" stated Carlos Bhatt, coordinator of innovation and strategy at the firm's innovation center Diverge, praising the successor for his presence and endorsement of the company's innovation agenda[4]. "Rui Miguel Nabeiro dreamed to have a team with the right capabilities and resources to think and anticipate the company's future. The Diverge Team supports his strategic vision", says Diverge's Innovation director Claudia Figueira. The company's acquisition of Diverge in 2006 and the startup's subsequent transformation into a center for innovation further highlights the organizational embeddedness of innovation at Delta Cafés[x]. Lastly, such embeddedness has arguably etched itself within Delta Cafés, as Diverge's Carlos Bhatt asserts, thanks to consumers' strong sentiments towards and high expectations of the brand, thus positioning the firm at an advantageous spot during product launches, capitalizing on what he defines as consumers' curiosity and inherent interest in the company's offering.

II: A FOREWORD ON DELTA CAFÉS

Much like its founder's prowess and engrained zeal for the Portuguese economic and social spheres, Delta Cafés has proven itself to be at the forefront of innovation and corporate responsibility, with the firm being the first Portuguese company to win the *Social Responsibility Award.* Delta Cafés boasted 55,000 direct clients, 280 million Euros in sales, and more than 6 million Delta coffees consumed daily in Portugal alone in 2011, which given the company's control over a sizeable portion of the market, was certainly feasible. "Since its launch, DeltaQ introduced ample technology and increased turnover. This year [2016] we will

[4] Master thesis survey conducted as part of this research. Available in full upon request.

make around 55M EUR in Portugal alone, and around another 20~30M EUR abroad. So, for a product that's only been around for 9 years, DeltaQ already adds a lot of value to the company.", says Rui Miguel Nabeiro. Identifying the trend of companies investing exponentially larger sums in R&D, and approaching their acquisition of Diverge, Delta Cafés has begun allocating greater resources to the development of its internal innovation mechanism. These days, with up to 10% of their net profits currently allocated to research and development as well as innovation, Delta Cafés positions itself in an advantageous front to pursue its sustainable, innovative ambitions.

In continuation, a long-term orientation is a recurring characteristic of family-controlled firms, mostly due to the alignment of management and family's interests. More specifically, the archetypical family manager's interest in preserving the business and its financial viability is aligned with his inherent, involuntary desire to secure a future for his descendants in what is essentially embodied by the family firm. Such long-term viability is at the heart of family business strategy, as suggested by J. Marchs' paper Exploration and Exploitation in Organizational Learning which advocates organizational ambidexterity as a fundamental component[xi]. Such ambidextrous organizational behavior, as analyzed by J. Astrachan and T. Pieper's The Family Business Casebook, requires that a family enterprise capitalize on existing value-creating opportunities while simultaneously setting its eyes on future innovations and business opportunities[xii]. Furthermore, a key success benchmark in family businesses' adoption of such ambidexterity, as this paper argues, is such families' culture of and relationship with innovation and change management. That is, a family's historic adoption of new technologies and acceptance and implementation of change, factor into the ambidexterity formula as variables influencing such a family's likelihood to long-term strategize. In their paper Organizational Ambidexterity: IBM and Emerging Business

Opportunities, C. O'Reilly, J.B. Harreld, and M.L. Tushman express the aforementioned organizational ambidexterity as a firm's "ability to simultaneously pursue emerging and mature strategies" as being "key elements of long-term success"[xiii]. Such an example of ambidexterity in play, as this paper argues, can be found in Delta Cafés' venture into the capsuled coffee market with DeltaQ, which would satisfy the pursuit of an emerging market factor of the abovementioned formula, while its simultaneous and continued HORECA-focused strategy satisfying the company's pursuit of a rather mature strategy. Furthermore, Delta Cafés' acquisition of Diverge is arguably a further testament to the company's ambidextrous nature, given family-controlled firms' reluctance to pursue large mergers and acquisitions. In sum, Delta Cafés' ability to pursue emerging technologies and innovations while maintaining adequate focus on its rather mature strategies has proven in the firm's best interest.

III: NESTLÉ, A NON-FAMILY CONTROLLED 'FAMILY' BUSINESS?

Family businesses often possess what the resource-based theory defines as VRIO assets – a business acronym standing for Valuable, Rare, Inimitable, and Organizationally-embedded, coined by Wernerfelt, B. in 'The Resource Based View of the Firm' - which lay the base for their competitive advantage in the market, adoption and integration of innovation, and long-term viability. The concentrated ownership structure most commonly cultivated by family businesses tends to reflect said companies' long-term strategic interests which include, yet are not limited to, the professional development of their workforce and commitment to innovation. Furthermore, family members employed by their family's businesses are habitually assigned the role of stewards to their family's brand – an assignment which leans heavily on the innate desire to safeguard the family name[xiv]. Such approach to business breeds higher quality, more focused products and services, as in the case of Delta Cafés where the Rui Nabeiro's – and company's by extension- commitment to his employees and cultivation of innovation have crowned the company market leader in Portugal. Additionally, the concept of Ownership Commitment has etched itself in the stone of family businesses that nurture Patient Capital, or the long-term, calculating approach to investments and new ventures that are not threatened by short-term liquidity[xv]. Notwithstanding their cultivation of organic growth, family businesses have been following a trend of expansion into international markets, with a recent analysis showing 49% of their sales revenues coming from outside their native market, as opposed to non-family controlled firms' 45%[xvi].

Concurrently, although Delta's DNA has always served the basis for the firm's affinity for expansion into new international markets, revenues from the company's international outlets stood at a 12% low some years ago, as suggested by Alberto Pinto, the firm's director of international markets, only to grow to as much as 32% in 2016 with the brand's entrance to lucrative new markets including China, Switzerland, and Brazil. Such dramatic increase, says Pinto, has forced the firm to restructure its approach to new markets and innovation, and to challenge both themselves and the organization to reassess how Delta touches the lives of people all over the markets in which its present. In sum, courage, vision, and an entrepreneurial spirit are not only the qualities that drive family businesses into new markets, but are also the ones that contribute to said businesses' cultivation of innovation and are at the heart of their strategic, long-term governance style. In concurrence, embracing business structures most commonly affiliated with family businesses vis-à-vis its strategy and operations, Nestlé has seen 67% of its sales revenues originating from outside its native market, compared with 56% for its largest competitors[xvii]. Furthermore, Nestlé's capsuled Nespresso coffee and corresponding machine debuted in the Portuguese market in 2003, introducing the inkling of capsuled coffee to the market and thus gaining first-mover advantage into a then 'blue ocean'. Recognizing and capitalizing on the declining trend of outdoor coffee consumption, Nestlé sought to revolutionize the manner in which coffee was consumed indoors, namely at home. Such disruptive innovation, or one that essentially forces competitors and market actors to question their offering and value-creation in the face of new technology or consumption paradigm, has challenged local competitors like Delta to innovate or lose ground. This can be exemplified by America's AT&T's rapid response to MCI's entry into the long-distance collect calling market and subsequent retention of market share[xviii]. Moreover, Christensen and Bower published their observation of a pattern where such disruptive innovations, titled discontinuous in their work, tend to be introduced to a market by new market entrants, forcing incumbent players to essentially fight or flight.[xix] In analyzing the effects that the aggressiveness and temporal factors impose on the adoption of discontinuous technologies by market-incumbent firms, and how the 'family' element in family-controlled firms influences such factors, Konig, Kammerlander, and Enders advance the study of innovation in family firms. Furthermore, their research highlights the concept that sustained and committed investment in such disruptive innovations by incumbent firms is essential for such innovations to embed themselves in the firm's DNA and add value.

Nevertheless, the temporal factor examines the length of time between a firm's introduction to the disruptive innovation and its subsequent adoption of it, which in the analysis of Nestlé's entrance to the Portuguese coffee market, illustrates the importance of Delta Cafés' necessity for a swift, focused response[xx]. Given that some family-controlled firms possess a less rigid mindset and thus are more adept at welcoming new innovations, and do not suffer from management entrenchment in existing technologies and methodologies, it is inevitable that such firms will exhibit a higher propensity to out-invest their less innovation-welcoming counterparts. Essentially, monetary, top-management-endorsed commitment – academically described as the firm's aggressiveness - is at the heart of innovation's successful embeddedness in a family-controlled firm, and can be found in both Delta Cafés and their rival, Nestlé. Such dynamic and adherence to the abovementioned pattern is observed in Delta Cafés and Nestlé's competitive relationship, with the latter introducing the disruptive innovation to the local market and the local incumbent and largest market share holder responding to such a challenge. Shadowed by DeltaQ's 2007 entrance into the capsuled coffee market and unable to attain market dominance, Nestlé was dethroned by Delta Cafés[5]. This demonstrates that despite the multinational's strong efforts and cultivation of a selection of family business 'golden rules', Delta Cafés – with Diverge spearheading innovation- has managed to, agilely and through the shortening of its innovation cycles, regain its market leadership. Additionally, CEO Rui Miguel Nabeiro indicated that DeltaQ's capsule venture contributed greatly to Delta Cafés' bottom line [xxi]. The increase in their productive capacity brought about by the firm's large investment in technologies and the refitting of its factories helps explicate DeltaQ's subsequent accountability for 14% of the company's global turnover, and Delta Cafés current uncontested market leadership.

IV: FAMILY CEO PERSPECTIVE ON INNOVATION

"If we really want to innovate we need to add value to customers - that is the only way we will be successful. If you make a product people want and that adds value to their lives, you can innovate. That is the sort of innovation I believe in", says Rui Miguel Nabeiro, CEO of DeltaQ [6]. The pivotal role CEOs play in advancing and endorsing innovation cannot be understated considering their inherent leadership duties, which are arguably heightened when examined in the context of family businesses, as analyzed in Duran, Kammerlander, Van

[5] In terms of market share, 48% of which is currently held by Delta Cafés

[6] Master thesis survey conducted as part of this research. Available in full upon request.

Essen, and Zellweger's research into innovation input and output in family firms. In the proposed simplified formula for innovation, the input variable normally consists of the firm's monetary and intellectual investment in research and development of new products and services while the output variable consists of the materialization of such investments, normally in the form of new products and services that create and add value to the firm. Tasked with the distribution and supervision of resources, CEOs and the innovation-cultivating routines they implement are arguably as imperative as the necessity to pursue innovation. "The fact it's a family business helps tremendously. I have worked in international companies and the chain of command is huge. At Delta the decisions are made easier and more quickly, and it allows us to have the agility that large companies do not enjoy. If the boss believes in our projects, we can invest more intensely, or do things a multinational would not be doing due to its size and strong focus on numbers and performance", says Alberto Pinto, Delta Cafés' director of international markets. Such agility can be exemplified by DeltaQ's 1-year time-to-market launch cycle, as asserted by Rui Miguel Nabeiro.

Furthermore, the abovementioned proximity is especially true in Diverge's case where monthly and sometimes weekly status meetings with Rui Miguel are customary, as well as the CEO's close monitoring of the center's work – courtesy originating from the alignment of his interests both as a business leader and member of the Nabeiro family. "Delta has a proximity management style so this allows us to reach the market, the consumers, the employees, the partners, faster and easier than our competitors.", says Diverge's Claudia Figueira. With the help of what Duran, Kammerlander, Van Essen, and Zellweger define as specific monitoring mechanisms and resource planning, family-CEOs – and their firms by extension – enjoy a more prolific innovation output, usually in the form of new product development. One such innovation and major Web Summit 2016 success is Delta Cafés' new QoffeeQar - a motionactivated mobile robot with a mounted coffee machine that can autonomously move about and serve coffee. Intriguingly, however, an additional finding from said authors' research points to a tendency of family-CEOs to underinvest in innovation and yet, due to the monitoring mechanisms and resource orchestration defined above, induce greater innovation output.[xxii] This is further exemplified in Delta Cafés' case, where Rui Miguel Naberio emphasized innovation's key role in the company's growth, with as much as 60% of the growth in Delta Cafés' originating from new innovation as calculated based on products introduced in the past 3 years.

V: FAMILY-DRIVEN INNOVATION

Discovering a challenging paradox in the family business sphere concerning innovation within such firms, A. De Massis and F. Frattini compare family businesses' assumed risk-aversion, limited inclusion of non-family managers, and a generally-avoided reliance on external financing with their inherently enhanced ability to out-innovate non-family firms thanks to their diminished bureaucracy, patient capital, and long-term strategic thinking. Rightfully observing the paradox in play, A. De Massis and F. Frattini conclude that despite the fact family businesses are better suited to innovate they, on the surface, innovate less[xxiii]. Such paradoxical, challenging conclusions stand in contrast to Delta Cafés innovative reality and Diverge's ambitions. In concurrence, the family firm's current research into the potential repurposing of coffee dregs has proven fruitful as well as opportunity-filled, with the company indicating the currently-useless dregs' future potential as, quite surprisingly, fuel. Acknowledging the environmental impact of failing to recycle the massive amounts of capsules it produces, Delta has begun installing repositories in its cafés and bars, encouraging its customers to recycle their capsules and thus actively participate in the mutual effort to protect the environment[xxiv]. Hence, it should therefore come as no surprise that, in 2011, Delta Cafés was awarded the *Superbrands'* Mark of Excellence for its operations in Portugal, Angola, and Spain[xxv].

In addition, agency theorists Jensen and Meckling have studied and published extensively about the agency perspective applied to family businesses, and have suggested that such family-driven firms benefit from an advantageous governance structure thanks to the inherent alignment of ownership and management interests[xxvi]. Such alignment, they posit, rewards family businesses with minimized agency-costs, yet appropriately recognizing that family firms are not entirely exempt from such costs. Although Delta Cafés has been shown to invest proportionately greater sums in research and development than is customary in their respective economy, the firm does in fact enjoy a greater innovation output, whether technologically in the form of coffee machines or environmentally in the form of sustainability research. In their analysis of product innovation in family versus nonfamily firms, E. Pizzurno and L. Cassia expand on Jensen and Meckling's insights[xxvii] by highlighting differentiation mechanism that exist in family businesses that potentially position such firms in place to gain a competitive, product innovation edge. Monetary prudency titled parsimony and *Personalism* - the engrained authority and legitimacy that family managers command within the firm that allows for long term strategic thinking and pursuit of firm value maximization - they claim, enable family firms to reduce their product innovation process costs and, as this paper further suggests, shorten innovation cycles[xxviii]. As seen in Delta Cafés' case, the strong command and engaging influence of Rui Miguel Nabeiro over the business and its employees, the storied culture of innovation, and strategic long-term strategy have, in line with Pizzurno and Cassia's argument, enabled the firm to pursue innovation that serves the business's long-term interests. In addition, such managerial audacity coupled with reduced bureaucracy cultivated by Rui

Miguel Nabeiro's close-proximity management style[7] and evident in Delta Cafés culture, has enabled the family firm to configure its innovation processes in what in turn yields smarter product development (see annexed exhibit no.1). Expanding on Delta Café's advantageous prospect to convert innovation inputs into outputs, the role of information in-and-out flow between management and employees calls for further research. Diverge's close proximity to the seat of power diminishes information asymmetry, in the sense that both the innovation team and Rui Miguel are privy to market, financial, and technological information that can be key to research and development, and are thus better positioned to incur lower agency costs that would have otherwise been higher if such asymmetry prevailed. Moreover, Rui Miguel Nabeiro's rational, risk-neutral approach to innovation and new ventures is driven by data and centered around industry and risk analyses provided to him by Delta Cafés' business units including Marketing, R&D, and International Markets. With strong employee devotion to the firm, long-term research and development horizons, and a top management commitment to innovation, Delta Cafés also counters the moral hazard phenomenon where, out of fear of short-term performance goals, managers are more likely to pass up innovation opportunities otherwise crucial to the firm's development[xxix]. This is further highlighted by C. Bhatt's assertion that projects of varying magnitudes have to be justified to top management, explained by Grupo Nabeiro's - Delta Cafés' parent company - risk-taking disposition and close monitoring of the firm's performance.

Exploring the 'Three-Circle Model' in his book Family Business, E. J. Poza adapts and highlights the trilateral relationship that exists between the management, owners, and family

[7] "We look not only into meritocracy, but also to soft skills. It is part of Delta's DNA – employees are family for us. We treat employees with proximity, which is part of our value chain. I know everyone's face and most people's names. Proximity is an important way to get closer to our employees" – Rui Miguel Nabeiro, 2016

elements and the ensuing blurred boundaries caused by the inevitable overlaps of these elements. Such blurred boundaries and 'specificity' may serve as inhibitors to innovation as a result of increased bureaucracy and latent agency costs. The aforementioned trilateral nature leads to differing perspectives on both the family and the business, and thus a 'systems theory' was established as an analysis tool to position each business in a category so as to determine its characteristics and possible weaknesses. Poza establishes 'profiles' and 'properties' commonly associated with each of the three systems by identifying three categories, which include the *management-first* category where meritocracy and productivity are key, the *ownership-first* category characterized by a mindset of shorter-time horizons and higher risk taking, and *family-first* category where employment in the business is a birthright and meritocracy is at times secondary. [xxx] In order to further dissect innovation's storied organizational embeddedness in Delta Cafés, an analysis of the firm's position within the aforementioned trilateral system was necessary as part of this study's challenge to uncover the family-driven innovation nature of the firm. Assessing whether Delta Cafés was a '*family-first*' or '*management-first*' firm, Carlos Bhatt, the firm's non-family strategy and innovation coordinator has attested that the firm exhibits somewhat of a 'perfect' mix[8]. Such mix, he says, is at the heart of the firm's unique DNA and agility, and as this paper argues, one of the driving forces behind family-driven innovation.

As per Carlos Bhatt's analysis of Delta Cafés, the firm's *management-first* mindset professionalizes and makes processes and innovation consequently more efficient, in tandem with the *family-first* mindset which holds top family managers accountable and habitually attached to the firm's daily operations. Encouraged by his grandfather to pursue higher

[8] Titled, in J. Poza's analysis of the Systems Theory, 'Joint Optimization'

education and industry experience outside the family firm, Rui Miguel Nabeiro developed an 'affective commitment' to the business and, upon his joining the firm, has climbed the ranks in "spite of the fact we are a family business"[xxxi]. Such 'affective commitment' where next generation family managers desire to become part of and eventually lead the company backs the agility of innovation processes within Delta Cafés, and shortens innovation cycles as a byproduct (see annexed exhibit no.2).

Finally, a brand with a human face, says Carlos Bhatt, lies at the heart of Delta Cafés' operations and represents the firm's vision for its products and services. In their study of innovation in family firms, Duran, Kammerlander, Van Essen, and Zellweger adapt Berrone, Cruz, & Gomez-Mejia's[xxxii] work to suggest that the development of long-term, trust-based relationships with external stakeholders are endeavors key to what Carlos Bhatt defines as an ecosystem of research and development[xxxiii]. Priding himself on his ability to establish long-standing and durable relationships with his suppliers as well as his customers, founder Rui Nabeiro has exemplified the abovementioned external stakeholder relationship posited by Berrone, Cruz & Gomez-Meija. Speaking about his grandfather's recent 85th birthday, Rui Miguel Nabeiro attested that many of the firm's long-time suppliers and customers were in attendance, natural only, he said, given the fact they are family, too[xxxiv]. Such largely non-financial endeavors play a key role in family firms' ability to acquire innovation-related competencies that in turn allow them to pursue new products and services development at a cost that does not jeopardize their socio-emotional wealth. This type of non-economic social-emotional wealth, as examined by Gomez Mejia, constitutes the emotional value an owner of a firm derives from his ownership and role as an owner. In the context of family-controlled firms where ownership interests are most commonly and at times inherently aligned with the business's interests, such social-emotional objectives exist congruently with economic objectives, so as to satisfy the abovementioned alignment of interests[xxxv]. In the case of Delta Café's and their branding as a firm with 'a human face' and the coffee of one's life, the ownership family's relationship with its market, customers, and firm constitute the well from which the owners draw social-emotional value. Additionally, the safe-guarding of the family's name and roles as innovators and environmental activists, this paper argues, ensures the abovementioned interest alignment remains intact. Finally, considering the fact that a large number of the business families' personal wealth is invested in the business and their subsequent risk-aversion associated with the fear of sacrificing the aforementioned wealth, it can be assumed that family businesses are inherently inferiorly-positioned to pursue innovation as opposed to their non-family controlled counterparts. However, the subject of this paper's research points to a different reality.

VI: DIVERGE: AN ECOSYSTEM OF INNOVATION

From interviews with Delta Cafés' innovation and strategy coordinator, innovation manager, and director of international markets it was revealed that the company's acquisition of Diverge, triggered by Nespresso's market entrance, effectively enabled Delta Cafés to become more agile when conceptualizing, developing, and realizing innovation, arguably in part due to the familial component of the business which, as the aforementioned Delta executives affirmed, allows the innovation department to develop close ties to the seat of power. Such proximity to and 'hands-on' approach of Rui Miguel Nabeiro has resulted in the shortening of the company's innovation cycles, a strategy which serves as the company's main advantage in its turf battle. Generally shying away from M&As and exhibiting a propensity to develop strategic partnerships, a conduct in line with a global trend popular amongst family businesses[xxxvi], Delta Cafés was revealed to have established local partnerships to further its product development and innovation projects that are partially financed by government incentives for R&D &Innovation, such as Portugal 2020. As a matter of fact, Kachaner, Stalk, and Bloch's research reveals that, "On average, we found, family businesses made acquisitions worth just 2% of revenues each year, while nonfamily businesses made acquisitions worth 3.7%"[xxxvii].

With the aforementioned strategic partnerships and subsequent agility serving as the basis for his department's – and Delta Cafés by extension – unique advantage, Carlos Bhatt posits that Delta Cafés invests more smartly in innovation. Such partnerships and collaborations, he says, are key to creating an ecosystem for research and shortening of innovation cycles. Furthermore, attentive to its diverse and competent workforce - mindfulness commonly associated with family businesses characterized by the owners' proximity and enhanced attachment to his workforce - Delta Cafés has set out to both structure and institutionalize its innovation process with the creation of MIND – a subset of the company's existing, larger internal online platform. With its Facebook-esque user interface and multifaceted offer, the platform is designed with the intention of engaging innovation and collaborating on new developments through an adoption of an 'innovation mind-set' on a company-wide scale. Rui Miguel Nabeiro, an active MIND member, participates in discussions and tries to facilitate honest and open discussions on the platform. Challenges are posed on the platform by the innovation committee composed of Diverge and Rui Miguel Nabeiro, ideas are shared and collected across the board, and the innovation train fires on all cylinders. By requiring that all MIND members are MIND trained, Diverge ensures that content and participation fed to the platform remain relevant, thus reducing the need for oversight that would incur additional costs. To engage employees and make MIND more compelling, a reward system based on peer-recognition has been introduced to boost participation and popularity. One of the platform's most innovation-inducing features is its idea repository where members present, discuss, and optimize new ideas, thus ensuring that innovation would not strictly emanate from the top. Concurrently, to ensure viable and keen ideas do not go unheard in what is part of Delta Cafés' 'proximity culture', Diverge hosts 'offline events' that aim at boosting MIND participation as well as establishing accord across the different business units that contribute to the innovation process. Lastly, identifying the reoccurring correlations between science and innovation as well as the human driving force behind disruptive innovation, Delta Cafés has begun to structure a scientific, R&D-oriented approach to coffee with a mission to identify and develop the possible links that exist between chemical, sensory, and human analyses. Such complex, triangular relationship is, to innovation, deemed crucial and at the base for Delta Cafés' future success and allows for the development of new coffee related products.

VII: DELTA CAFÉS ENGAGING IN INNOVATION – WHY?

Innovation has long been deemed essential to growth and increased performance of firms, and as this paper suggests, been rather avoided by family firms that, although are positioned to pursue innovation more intensely, innovate less than their non-family controlled counterparts. Nonetheless, what family firms lack in quantitative innovation outputs they may make up in qualitative innovation, as posited by Carlos Bhatt who holds that Delta Cafés, this case's family business subject, innovates more smartly and makes a more prolific use of its internal resources – a factor contributing to its organizational ambidexterity and source of such 'smart' innovation. In line with family-businesses proven desire-turned-mission to produce proprietary products that contribute to the firm's growth[xxxviii]. Bhatt states Delta Cafés' sole means of differentiating from its competition and sustaining its economic and social growth is by such intense pursuit of innovation. The Nabeiro 'family protocol is one which Carlos Bhatt posits ensures a structured approach to both the identification and adoption of disruptive innovation, with family members[9] working closely with the firm's technical, business, and marketing units to identify and define realistic innovation objectives. By closely monitoring their market as well as innovation conceived in other sectors, Delta Cafés is able to remain attractive to its customers and retain its market leadership. Such vigilant, intimate relationship with both the internal business units as well as the market, coupled with the Delta's ability to advance from the drawing board to prototype speedily - as evident in the firm's 1 year 'concept-to-market' launch of DeltaQ -, is key to the firm's conversion of innovation inputs into outputs.

Furthermore, as affirmed by N. Kammerlander and M. Ganter [xxxix], academic research on innovation inputs and outputs is extensive. With that being said, this paper aims at contributing to such progressive database by proposing that, as seen in annexed exhibit no.3, in addition to investment in R&D, innovation inputs may include CEO and top-management commitment to innovation and new product development as well as a structured approach to innovation that is cultivated by a 'routine' of innovation, as exemplified by the case of Delta Cafés. Nevertheless, research on the underlying reasons that drive family-controlled businesses to engage in innovation remain largely unexplored, and could only be passed as educated speculations prior to further conclusive research. Concurrently, the undeniable economic requisite to remain viable and competitive, Carlos Bhatt asserts, is the underlying catalyst to Delta Cafés' entrance to new markets and creation of DeltaQ. Additionally, as is evident in the company's grassroots culture and consumer-centric mindset, the owners' social-emotional wealth and role in the local social sphere, this paper has argued, aid in unraveling the remainder of the elusive reason behind Delta Cafés' innovation. Enhanced by the sole-family composition of the board of directors, the family-driven nature of Delta Cafés' innovation is made clearer.

[9] The Nabeiro family members solely compose the company's board of directors

VIII: FAMILY BUSINESS AND INNOVATION: PROPOSED BEST PRACTICES FRAMEWORKS

Following the exposition and analysis of numerous value-adding business practices and their contribution to and fostering of innovation in the context of family-controlled firms in the previous sections, this final section of the paper aims at synthesizing two separate frameworks of best practices which, in the context of family firms, promote family-driven innovation and, subsequently, the agile conversion of innovation inputs into outputs and shortening of innovation cycles. The learnings presented in this final section, extracted from the observation and study of Delta Cafés' internal practices and culture and supported by family business literature, while aimed at (and are ultimately a product of) family businesses, are also relevant to non-family controlled firms that seek to increase their agility and shorten their innovation cycles, as exemplified by Nestlé's adoption of business practices normally affiliated with family businesses. Thus, a social-centric framework and a resource-centric framework are proposed as references for both family and non-family-controlled firms to enhance their innovation mindset and increase their agility. The two proposed frameworks each respectively exist within a different domain, and thus cover innovation-driving practices that differ based on their relationship with the organization.

Firstly, abbreviated RPM, the social-centric framework (see annexed exhibit no.4) combines the practices of Parsimony and Personalism, durable relationships with external stakeholders and suppliers, and the optimized mix of family and business mindsets. The RPM framework assesses the human factor of the business and its effect on the firm as well as the cultivation of innovation. As the subject of this paper's research and key reference-point, Delta Cafés has shown rather prototypically that the combination of the aforementioned social-centric characteristics promotes internal agility and the shortening of the firm's innovation cycles. By intriguingly investing larger-than-most sums in R&D while adhering to parsimony under Rui Miguel Nabeiro's 'personalistic' leadership – e.g. his engrained authority and legitimacy that allows for long term strategic thinking -, Delta Cafés has, as Carlos Bhatt posited, been able to produce smarter innovation that materializes, in part, in the form of advanced coffee machines and other coffee-related products. By maintaining durable relationships with key external stakeholders and suppliers as well as creating an in-house team dedicated to innovation and R&D, Delta Cafés has increased its agility and ability to shorten innovation cycles, notably with the firm's experimentation with in-house advanced 3D printing of prototypes – on par with larger firms that have vastly superior access to resources. Lastly, while appropriately drawing the line between the family and the business in what is titled an optimized mix of family and business mindsets, the Delta Cafés' leadership has been able to comfortably position itself within the 'Three Circles Model' previously mentioned and thus pursue frictionless business and family goals, congruently. Such separation, this paper argues, contributes to the firm's agility in the sense that top leadership is freed to pursue innovation more closely and professionally.

Secondly, abbreviated PRIIO, the resource-centric framework (see annexed exhibit no.5) combines the practices of patient capital and long-term thinking, substantial investment in research and development, the diminishing of information asymmetry, organizational ambidexterity, and reduced bureaucracy in an assessment of the firm's cognitive and material assets and their effect on the firm's ability to innovate more smartly and agilely. Moreover, the proposed combination of the aforementioned 'best practices' lies at the heart of Delta Cafés' family-driven innovation and embodies the apparent advantage family firms have in pursuing innovation, as long-term strategic thinking and the diminishing of information asymmetry, among the others, exist more intensely in family-controlled firms due to their unique, overlapping nature and flatter hierarchies. Moreover, organizational ambidexterity, or the firm's acquired ability to congruently pursue mature as well as emerging strategies, as exemplified by Delta Cafés' mature and emerging endeavors, enables the family firm to convert innovation inputs into outputs more smartly, as the innovation pipeline, instead of being truncated, is stretched to channel greater amounts of inputs.

IX: CONCLUSION

In final summation, family businesses' overlapping, inimitable nature enables them to not only engage in innovation, but to correspondingly tap into a family-driven dynamism that increases their agility, which normally is atypical to their non-family counterparts. Advantages including a flatter hierarchical structure that empowers information symmetry, proximity to and personal accountability to the owners, procedural agility, and top management monetary commitment to innovation are key to appraising family firms' relationship with innovation, and to appreciating the edge family firms have in pursuing innovation despite being shown to do so relatively less than their non-family counterparts. With Delta Cafés as the subject of this paper's qualitative research, both recent and more mature family business theories and patterns have been corroborated, namely family businesses' ostensible responsiveness, parsimony and Personalism, and diminished information asymmetry, to name but a few. Delta, a family business leading in its native market and a paragon of social responsibility, is but one example of a successful firm from which valuable business practices can be extracted, namely the firm's structured approach to innovation, top-management commitment to change, and a clearly-stated vision to give back to the communities that render it the firm it is today. In conclusion, such practices, among others presented beforehand in this paper, are both essential and strategic to family-driven innovation, and ought to be adopted by firms that seek to enhance their ability to convert innovation inputs into outputs, and to pursue smarter, more agile innovation.

APPENDIX

EXHIBIT 1: SMARTER PRODUCT DEVELOPMENT MIX IN FAMILY FIRMS

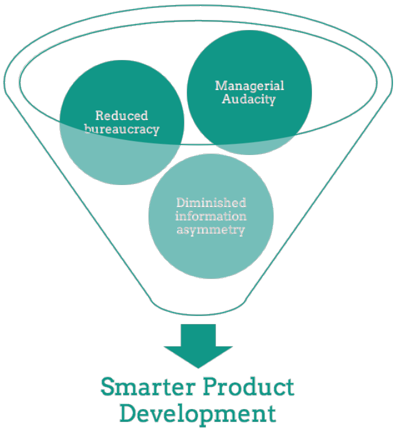


EXHIBIT 2: SHORTENING INNOVATION CYCLES WITH FAMILY-DRIVEN INNOVATION

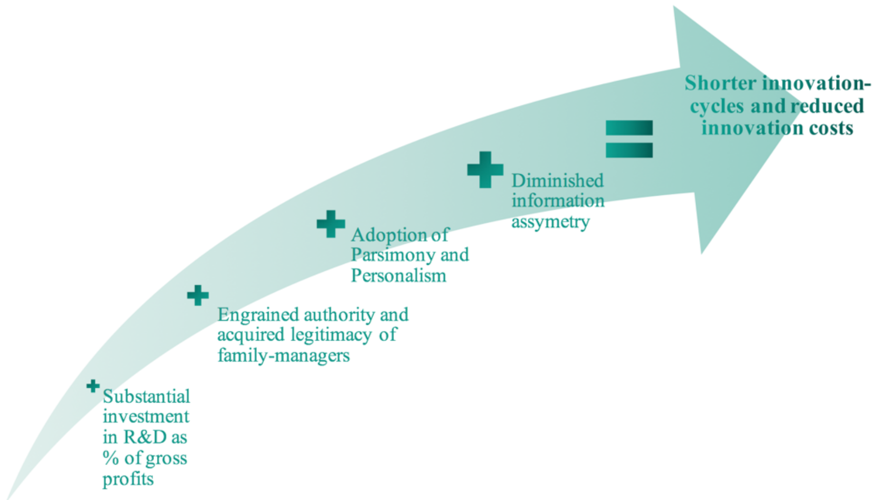


EXHIBIT 3: TYPICAL INNOVATION INPUTS AND OUTPUTS

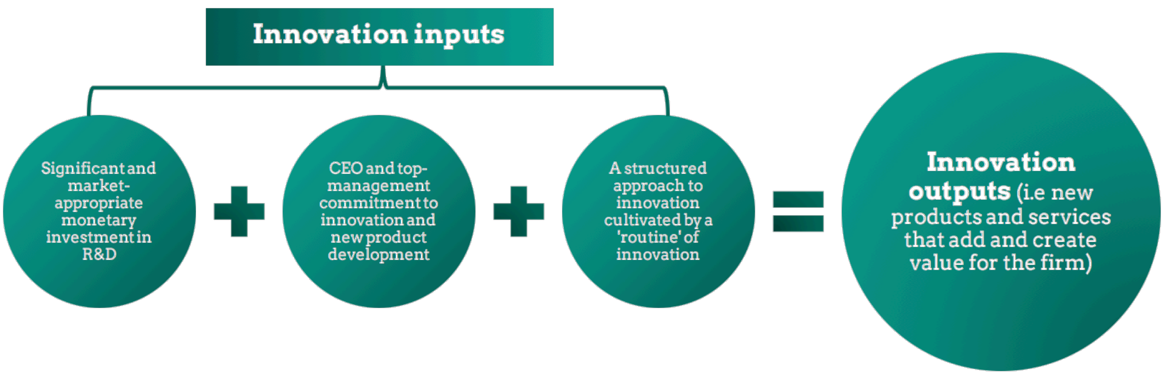


EXHIBIT 4: PROPOSED RPM FRAMEWORK

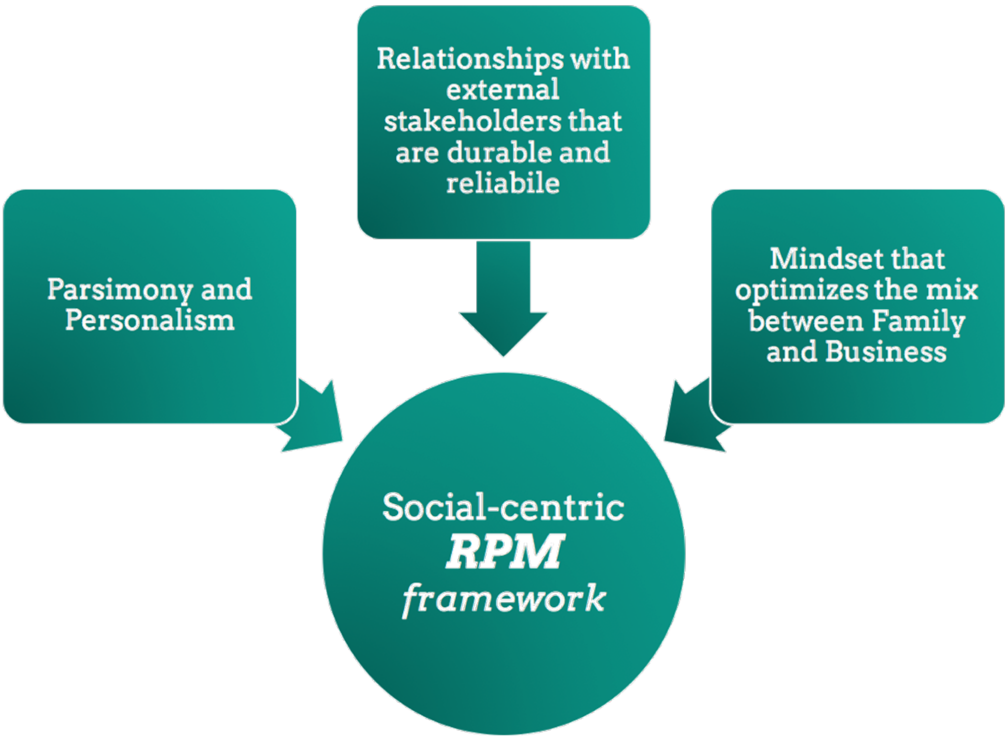
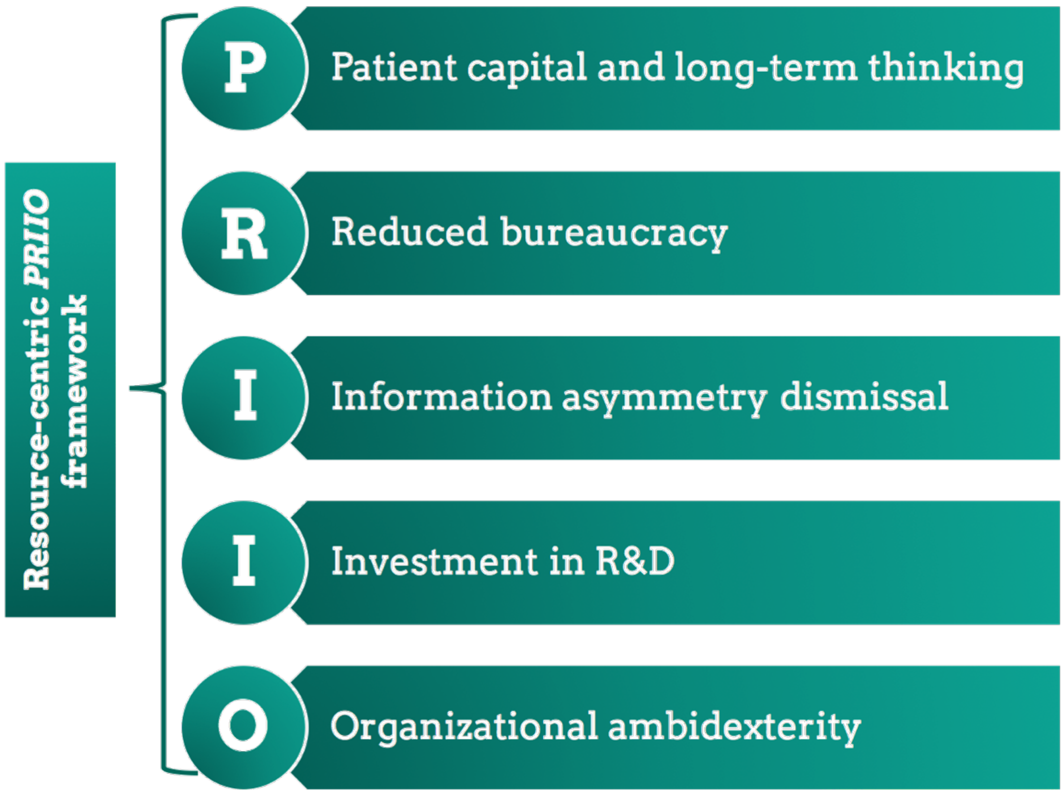


EXHIBIT 5: PROPOSED PRIIO FRAMEWORK



ENDNOTES

[i] (T. Magazine 2016)
[ii] (Frattini and Massis 2016)
[iii] (Delta Cafés 2011)
[iv] (Delta Cafés 2016)
[v] (Frattini and Massis 2016)
[vi] (Simpson 2014)
[vii] (Berchtold, Alexandre, and Marcos 2013)
[viii] (Levy and Canedo 2016)
[ix] Delta (Cafés 2011)
[x] (Executive Digest, 2016)
[xi] (March 1991)
[xii] (Astrachan and Pieper, n.d.)
[xiii] (Reilly, Harreld, and Tushman 2009)
[xiv] (Poza 2007)
[xv] (Sirmon and Hitt 2003)
[xvi] (Kachaner, Stalk, and Bloch 2012)
[xvii] (Kachaner, Stalk, and Bloch 2012)
[xviii] (Gatignon, Robertson, and Fein 1997)
[xix] (Christensen And Bower 1996)
[xx] (Kammerlander and Enders 2013)
[xxi] Delta (Cafés 2011)
[xxii] (Duran et al. 2015)
[xxiii] (Frattini and Massis 2016)
[xxiv] (Awards 2011)
[xxv] Delta (Cafés 2011)
[xxvi] (Jensen and Meckling 1976)
[xxvii] (Jensen and Meckling 1976)
[xxviii] (Cassia, De Massis, and Pizzurno 2011)
[xxix] (Block 2012)

[xxx] (Poza 2007)
[xxxi] (C. Magazine 2016)
[xxxii] (Berrone, Cruz, and Gomez-Mejia 2012)
[xxxiii] (Duran et al. 2015)
[xxxiv] (C. Magazine 2016)
[xxxv] (Gómez-mejía et al. 2007)
[xxxvi] (Kachaner, Stalk, and Bloch 2012)

[xxxvii] (Kachaner, Stalk, and Bloch 2012)
[xxxviii] (Cassia, De Massis, and Pizzurno 2011)
[xxxix] (Kammerlander and Ganter 2014)

BIBLIOGRAPHY

Astrachan, Joseph H., and Torsten M. Pieper. n.d. *Family Business Casebook*. Cox Family Enterprise Center.

Awards, European Business. 2011. Country Representative European Business Awards 2011 Delta Cafés Brewing Up a New Brand this successful brand.

Berchtold, Matthias, Paulo Alexandre, and Gonçalves Marcos. 2013. "MASTER THESIS To Tea or Not To Tea Professor João Borges de Assunção." Catolica Lisbon School of Business and Economics.

Berrone, P., C. Cruz, and L. R. Gomez-Mejia. 2012. "Socioemotional Wealth in Family Firms: Theoretical Dimensions, Assessment Approaches, and Agenda for Future Research." *Family Business Review* 25 (3): 258–79. doi:10.1177/0894486511435355.

Block, Joern H. 2012. "R&D Investments in Family and Founder Firms: An Agency Perspective." *Journal of Business Venturing* 27 (2): 248–65. doi:10.1016/j.jbusvent.2010.09.003.

Cafés, Delta. 2011. "Relatório Sustentabilidade 2011." *Delta Cafes Internal Publication*.

Cassia, Lucio, Alfredo De Massis, and Emanuele Pizzurno. 2011. "An Exploratory Investigation on NPD in Small Family Businesses from Northern Italy." *International Journal of Business, Management and Social Sciences* 2 (2): 1–14.

Christensen, Clayton M., and Joseph L. Bower. 1996. "Customer Power, Strategic Investment, and the Failure of Leading Firms." *Strategic Management Journal* 17 (3): 197–218. doi:10.1002/(SICI)1097-0266(199603)17:3<197::AID-SMJ804>3.0.CO;2-U.

Duran, Patricio, Nadine Kammerlander, Marc van Essen, and Thomas Zellweger. 2015. "Doing More With Less: Innovation Input and Output in Family Firms." *Academy of Management Journal*, no. 1: 76. doi:10.1007/s13398-014-0173-7.2.

Frattini, Federico, and Alfredo De Massis. 2016. "Family-Driven Innovation: Resolving the Ability and Willingness Paradox to Unlock the Innovation Potential of Family Firms." *European Business Review*.

Gatignon, Hubert, Thomas S. Robertson, and Adam J. Fein. 1997. "Incumbent Defense Strategies against New Product Entry." *International Journal of Research in Marketing* 14 (2): 163–76. doi:10.1016/S0167-8116(96)00035-3.

Gómez-mejía, Luis R, Katalin Takács, Manuel Núñez-nickel, Universidad Carlos, and Jose Moyana-fuentes. 2007. "Socioemotional Wealth and Business Risks in Family-Controlled Firms: Evidence from Spanish Olive Oil Mills." *Administrative Science Quarterly*, no. 52: 106–37.

Jensen, Michael C., and William H. Meckling. 1976. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." *Journal of Financial Economics* 3 (4): 305–60. doi:10.1016/0304-405X(76)90026-X.

Kachaner, Nicholas, George Stalk, and Alain Bloch. 2012. "What You Can Learn From Family Business." *Harvard Business Review*, no. November.

Kammerlander, Nadine, and Albrecht Enders. 2013. "The Family Innovator's Dilemma : How Family Influence Affects The Adoption Of Discontinuous Technologies By Incumbent Firms." *Academy of Management Review* 38 (3): 418–41. http://dx.doi.org/10.5465/amr.2011.0162.

Kammerlander, Nadine, and Melanie Ganter. 2014. "An Attention-Based View of Family Firm Adaptation to Discontinuous Technological Change: Exploring the Role of Family CEOs' Non-Economic Goals." *Journal of Product Innovation Management*.

Levy, João, and Varandas Canedo. 2016. "Delta Cafés - Going to China : Choosing Who to Target and Where to Sell." Universidade Católica Portuguesa.

Magazine, CEO. 2016. "Breaking New Ground." *The CEO Magazine*, September. http://www.lewisriver.com/giffordpinchot/newsletters/2009/spring.pdf.

Magazine, Tharawat. 2016. "Studying the Economic Impact of Family Businesses: A Compilation of Facts." http://www.tharawat-magazine.com/economic-impact-family-businesses/economic-impact-family-businesses-2/#gs.rwyPavI.

March, James G. 1991. "March (1991) OS, Exploration and Exploitation in Org Learn.pdf." *JSTOR*. INFORMS, 19.

Partilha, Criação E, D E Valor Com, and O S Stakeholders. 2016. "Visão de Partilha." *Executive Digest Portugal*, February.

Poza, Ernesto J. 2007. *Family Business*. 3rded. South-Western, a part of Cengage Learning.

Reilly, Charles O, J Bruce Harreld, and Michael L Tushman. 2009. "Organizational Ambidexterity: IBM and Emerging Business Opportunities." 53.

Simpson, Kelli. 2014. "The Countries That Drink The Most Coffee And Pay The Highest Prices For It."

Sirmon, David G, and Michal A. Hitt. 2003. "Managing Resources: Linking Unique Resources, Management, and Wealth Creation in Family Firms." *ET&P*, 339–58. http://ssrn.com/abstract=1341636.