Family Firms' Governance Structure: Family Involvement, SEW and Innovation Strategy Framework

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Abstract. The influence of family firms' organizational governance structure on innovation is complex and affected by multiple factors. This paper selects the representative factors of family firm governance structure--family involvement and introduces the unique factors of family firm--social emotional wealth (SEW). Then the paper constructs a family firm innovation strategy framework through multi-dimensional configuration, which makes a beneficial attempt to study the theory and heterogeneity of family firm organization governance.

1. Introduction

The organizational governance factors of family firms have an important influence on their innovative decision-making and are also an important subject in current research field. Family involvement becomes the key governance factor to influence family firm innovation [1]. Social emotional wealth (SEW) is an important trait of family firm, it pursues family-centric non-economic goals and plays a decisive role in strategic decision- making [2]. This paper constructs a family firm innovation strategy framework through multi-dimensional configuration.

2. Innovation Strategy Framework

Family equity involvement is an important kind of family involvement. Previous studies have shown that family equity involvement has a certain inhibitory effect on family firm innovation. Agency theory believes that the family will invest in family firm, and highly single ownership involved will increase the risk aversion of family firm owners [3]. The social emotional wealth (SEW) is a combination of various family emotional benefits obtained from the firm and has the heterogeneity effect to the family firm innovation [4]. Different type of social emotional wealth (SEW) tends to lead to different strategic decisions. The restrained social emotional wealth (restricted SEW) is inhibitive to family firm innovation while the desire of extended social emotional wealth (extended SEW) can make the family firms more inclined to make innovative decisions.

This paper combines family involvement and the social emotional wealth to create the family firm innovation strategy framework. From two dimensions the framework intends to explore the influence of different factors and different innovation strategy for family firm innovation. Under the dual role of family equity involvement and two kinds of social emotional wealth intention, family firms are different in terms of innovation, goal orientation, knowledge of risk diversification, and thus have an impact on innovation.

The family firm innovation strategy framework is divided into four quadrants, representing four types of family firms with different innovation strategies (figure 1).
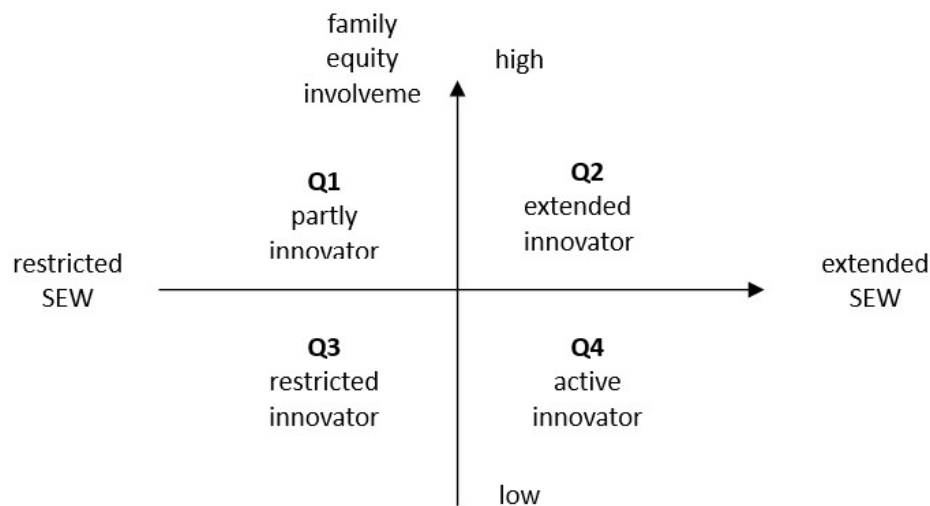
Figure 1. family firm innovation strategy framework

Four types of family firm innovation strategy belong to four quadrants, have different degree of family equity involvement and different types of SEW. They differ in risk orientation, innovation goals and knowledge diversity, and these differences also influence the family firm innovation.

2.1 Partly Innovator (Q1)

Partly innovator has a high degree of family equity involvement and holds restricted SEW. Study shows that family equity involvement level and restricted SEW are negatively related with family firm innovation. So, high equity involvement level and restricted SEW will have inhibitory effect on innovation. This type family firms will take limited innovation strategy, limited innovation investment and tends to short-term incremental innovation project, risk aversion of knowledge innovation and limited diversification. Therefore, the partly innovator has the lowest level on innovation among the four types.

2.2 Extended Innovator (Q2)

Extended innovator has a high level of family equity involvement and family control ability and holds extended SEW. The negative role of high equity involvement in innovation and the positive role of extended intention to innovation are eliminated. This type family firms tend to long-term return family pursuit of innovation activities, while lack of diversity of knowledge, lack of professional knowledge of non-family talent. So, extended innovator has modest level on innovation.

2.3 Restricted Innovator (Q3)

Restricted innovator has a low level of family equity involvement and restricted SEW. The positive role of low equity involvement in innovation and the negative role of restricted intention to innovation are eliminated. With a weak risk aversion, this type family firms can acquire diversified knowledge resources but lack of knowledge integration ability due to the dislocation. Therefore, they have a moderate level of innovation and incremental innovation preference.

2.4 Active Innovator (Q4)

Active innovator has a low level of family equity involvement and holds extended SEW. This type family firms have long-term risk preference, pursue long-term innovation goals and possess diverse knowledge resources and have strong long-term innovative investment intention. Therefore, active innovator has highest level on innovation.

Therefore, family firm innovation strategy framework for data support should be: active innovator (Q4) has highest level on innovation, partly innovator (Q1) has lowest level, extended innovator (Q2) and restricted innovator (Q3) have moderate level.

3. Data Validation

The research data mainly comes from the national private enterprises sampling survey database (2012). According to the definition of family firm, this paper screened the family firm data and finally obtained 893 data observations. According to the above theoretical research, this paper calculates the R&D intensity (the ratio of R&D investment and owner's equity).

Table 1. variable definition

name	variable	Code	Measurement indicators and coding
Innovation intensity	R&D intensity	RD	The ratio of R&D investment and owner's equity
Governance structure	Family equity involvement	FO	The proportion of family owners' equity
Social emotional wealth (SEW)	Restricted SEW	FCI	"Do you agree with the family should have more than 50% stake " and other six items , code value and sum
	Extended SEW	FSI	"Have you considered the issue of child succession" and "Your child has no intention of succession" two items, code value and sum

In order to verify the above framework theory, this paper will group the family firms in different matrix quadrant and calculate the corresponding innovation intensity (RD). Due to the differences in the number of firms in each group, the mean innovation intensity (RD) of each group was compared. In terms of the median of family equity involvement (FO=93.4%), the median of restricted SEW (FRI=21), and the median of extended SEW (FEI=2), the data of the family firms are grouped by the cut-off point. Therefore, the partly innovators (Q1) are the firms which are involved in FO$\geq$93.4% of the family equity and the restricted SEW of FRI$\geq$21; the restricted innovators (Q3) are the firms which are involved in FO<93.4% of the family equity and the restricted SEW of FRI$\geq$21; the extended innovators (Q2) are the firms which are involved in FO$\geq$93.4% of the family equity and the extended SEW of FEI$\geq$2; the active innovators (Q4) are the firms which are involved in FO<93.4% of the family equity and the extended SEW of FEI$\geq$2. The specific results are shown in table 2.

Table 2. Grouping results

	partly innovators (Q1)	extended innovators (Q2)	restricted innovators (Q3)	active innovators (Q4)
Innovation intensity (%)	2.54%	4.25%	2.64%	6.83%

Data shows that active innovator (Q4) has highest level (6.83%) on innovation, partly innovator (Q1) has lowest level (2.54%), extended innovator (Q2) and restricted innovator (Q3) have moderate level, the results respectively are 4.25% and 2.64%.

Therefore, hold the effect of different innovation strategy on the strength of innovation of family firm is different, this part again confirmed the influence of subjective factors and objective factors from the perspective of multi-dimensional configuration. The data result is consistent with the previous theoretical analysis, and the innovation strategy framework theory is verified by preliminary data.

4. Conclusion

This article is a beneficial attempt to the family firm organization governance theory. In this paper, the organizational governance factor family involvement is combined with social emotional wealth (SEW), which establishes the family firm innovation strategy framework and conducts data validation. The research shows that family involvement and social emotional wealth(SEW) have heterogeneity effects on family firm innovation. Based on the multi-dimensional configuration, this paper analyzes the common influence mechanism of family involvement and social emotional wealth, which is an attempt to study the cross and heterogeneity of family firm governance theory. In future research, the scope of research can be further expanded, and further exploration is made in the field of family firm governance.

Acknowledgments

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