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Governance Structure, Social Emotional Wealth and Family Firm Innovation

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Abstract. Innovation is important to the sustainable development of family firm. From the subjective and objective perspectives, this paper uses multiple regression model to analyze the impact of family involvement and social emotional wealth (SEW) on family firm innovation. This is an attempt and breakthrough in the research on the theory crossover and heterogeneity in the field of family firm innovative.

1. Introduction

Family firm faces the challenge of intergenerational inheritance, governance improvement and fierce competition in the market. Innovation is important to the sustainable development of family firm. Governance structure is an important source of heterogeneity of family firm[1], and it is also a key objective factor that influences family firm innovation. Socio emotional Wealth (SEW) pursues family-centered non-economic goals and is an important reference for family firm to make strategic decisions and manage their operations.[2]. It is an important subjective influencing factor that affects family firm innovation. This article tries to study how the governance structure (objective factor) and social emotional wealth(subjective factor) act together and influence family firm innovation.

2. Theoretical Analysis and Research Hypothesis

The governance structure has an impact on the family firm innovation mainly through family involvement, and its influence is heterogeneous[2]. 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; Family involvement in the board of directors helps to reduce the agency problem between the family firm and the senior management team. It plays an active role in promoting high-risk and high-return research activities while ensuring the rational use of external resources through external directors. This governance mechanism has enhanced the effectiveness of R&D investment. Management involvement seizes the innovative input capital by grabbing the enterprise resources, and the inclusion of family management will bring the cronyism and nepotism. Suppressing the sharing of internal knowledge resources will often inhibit the innovation investment of family firm. In summary, this paper proposes the research hypothesis:

H1: Family involvement has a heterogeneous impact on family firm innovation.

H1a: The degree of family equity involvement is negatively related to family firm innovation.

H1b: The degree of family board involvement is positively related to family firm innovation.

H1c: The degree of family management involvement is negatively related to family firm innovation.

The social emotional wealth (SEW) is a combination of various family emotional benefits obtained from the firm. It is a complex multidimensional concept that needs to be analyzed heterogeneously to explain the difference in the role of different social emotional wealth in innovation. Gomez Mejia et al. introduced the Mixed Gamble model[4]. They dispelled the conflicts of different social emotional wealth (SEW) in the trade-off between policy makers. Different type of social emotional wealth (SEW) tends to lead to different strategic decisions. Miller and Le Breton-Miller (2014) Conducted a heterogeneous analysis of SEW intentions[4]. They categorized SEW into two dichotomous types: restricted SEW and extended SEW. The controlling family with a restricted SEW intention is characterized as having a narrow, short-term perspective of noneconomic benefits and always lack of innovation. On the other hand, the family with an extended SEW intention employs a broad and enduring perspective of benefits always tends to innovate. In summary, this paper proposes the research hypothesis:

Hypothesis 2: Different type of SEW has different impact on family firm innovative.

Hypothesis 2a: The degree of restricted SEW is negatively related to family firm innovation.

Hypothesis 2c: The degree of extended SEW is positively related to family firm innovation.

3. Research Design

3.1 Data Selection and Variable Settings

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 takes the R&D intensity as dependent variable, and takes family involvement and SEW as independent variable. Family involvement variables include family equity involvement, family board involvement and family management involvement variables. SEW variables include restricted SEW and extended SEW.

Table 1. variable definition

Types of	name	variable	Code	Measurement indicators and coding
Dependent variable	R&D intensity	R&D intensity	RD	The ratio of R&D investment and owner's equity
Independent variable	Governance structure	Family equity involvement	FO	The proportion of family owners' equity
		Family board involvement	FB	The proportion of family members in the board
		Family management involvement	FM	Family members as president, general manager, etc., recorded as 1, otherwise 0
	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
Control variables	Entrepreneurial characteristics	Age	AGE	Age of entrepreneurs
		Gender	GENDER	The gender of the entrepreneur, 1 for men and 0 for women
		Education level	EDU	Entrepreneurship education, from elementary school to graduate school and above, code 1-6 in order
	Firm characteristics	Years	F_AGE	From before 1989 to after 2005, code 1-5 in order
		Size	SIZE	0 to more than 100 million, code 1-7 in order
		Asset liability ratio	LEV	0 to 50% or more, code 1-5 in order
		Diversification	DIVER	Number of industries entered
		Net profit	NT	Net profit of the year
		Industry dummy variables	IND	Industry type, with dummy variables to represent

3.2 Model Settings

According to the research hypothesis, the article set up a multiple regression model as follows:

$$RD_{it} = \alpha + \beta_1 AGE_{it} + \beta_2 GENDER_{it} + \beta_3 EDU_{it} + \beta_4 F\_AGE_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + \beta_7 DIVER_{it} + \beta_8 NT_{it} + \beta_9 FO_{it} + \beta_{10} FB_{it} + \beta_{11} FM_{it} + \sum IND\_dummy + \varepsilon_{it} \quad (1)$$

$$RD_{it} = \alpha + \beta_1 AGE_{it} + \beta_2 GENDER_{it} + \beta_3 EDU_{it} + \beta_4 F\_AGE_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + \beta_7 DIVER_{it} + \beta_8 NT_{it} + \beta_9 FO_{it} + \beta_{10} FB_{it} + \beta_{11} FM_{it} + \beta_{12} FT_{it} + \beta_{13} FCI_{it} + \beta_{14} FSI_{it} + \sum IND\_dummy + \varepsilon_{it} \quad (2)$$

4. Empirical Results

The results of Model 1 show that the impact of family involvement is heterogeneous. There is a significant negative correlation between family equity involvement and R&D intensity (coefficient -0.001, P <0.01), indicating that a high family equity involvement would increase the risk aversion and reduce innovation. There is a positive correlation between the family board involvement and R&D intensity (R = 0.023, P <0.1), indicating that the higher the proportion of family members in the board, the more conducive to innovation; the relationship between family management involvement and innovation is not Significant. Therefore, Hypothesis 1, Hypothesis 1a, Hypothesis 1b are validated, and Hypothesis 1c is not verified.

The results of model 2 show that restricted SEW is negatively correlated with innovation (coefficient -0.002, P <0.1), indicating that the family firm holding restricted SEW pay more attention to short-term losses caused by innovative and tend to evade innovation. However, extended SEW is positively correlated with innovation (coefficient 0.026, P <0.1), indicating that the family firm holding extended SEW pay more attention to the win-win between the family and the stakeholders. They are more tolerant of short-term losses caused by R&D and tend to innovate. Hypothesis 2, Hypothesis 2a and Hypothesis 2b are verified.

Table 2. regression analysis results

variable	**Model 1**	**Model 2**
FO	-.001***(-3.221)	-.001*(-0.953)
FB	.023*(1.52)	.024*(0.589)
FM	-0.005(-0.356)	0.016(0.459)
FRI		-.002*(-1.306)
FEI		.026*(1.187)
AGE	.003*(2.17)	.002*(1.477)
GENDER	-0.009(-0.342)	-0.013(-0.515)
EDU	.017***(1.771)	.011***(1.141)
F_AGE	0.002(0.169)	0.002(0.151)
SIZE	-0.017(-1.882)	-0.017(-1.876)
LEV	.019***(3.274)	.016***(2.686)
DIVER	-0.018(-1.616)	-0.019(-1.713)
NT	-0.001(-0.513)	-0.001(-0.064)
constant	0.185(1.296)	0.051(-0.335)
R side	0.227	0.284
Adjust R side	0.122	0.159
F	2.173	2.269

Note: *** P <0.01, ** P <0.05, * P <0.1, the numbers in parentheses are t values.

5. Conclusion

This paper studies the influential factors of family firm innovation, and explores the impact of subjective and objective factors on the innovation from the perspectives of family governance structure and social emotional wealth (SEW). Through data analysis, most of the hypotheses have been verified in this paper, but the impact of family management involvement on innovation is not significant. This may be because the impact of family management involvement on innovation is more complex than the study of the paper. Judging from the theoretical deduction, family management involvement has a restraining effect on innovation. At the same time, the duality can innovate more rapidly and thoroughly and achieve good results. The duality structure belongs to one kind of family involvement, so different kind of family management involvement have different effects. In the future research, we should further study the heterogeneity of family management involvement and truly explore the mechanism in family firm innovation.

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