

A Study on the Innovation Investment of Non-Family Business Members in Chinese Family Firms

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Abstract. Innovation investment is an important factor for family firms to keep sustainable competitive advantage. This paper aims to explore how differentiated non-family business members' succession styles affect the level of innovation investment in family firms and the moderating role of family authority. The results of this study illustrated that radical non-family business members lower the innovation investment in family firms compared to progressive non-family business members. The relationship between non-family business members' succession styles and their innovation investment in family firms is moderated by family authority. The weakening effect of radical successors' innovation investment is more significant in firms with high family member authority and non-family founding member authority. Further, research shows that the negative effect of radical successors on innovation investment in family firms decreases significantly after 3 years, and that its weakening effect is more pronounced in larger firms and in firms that have been founded for a longer time.

Keywords: Family business; Non family business members; Enterprise innovation.

1. Introduction

The motivation of innovation investment is an important factor for family firms to keep sustainable competitive advantage. As Chinese family firms gradually enter the peak of succession, in order to ensure the successful power transference, this issue has attracted more and more attention among academia and industry. Mainstream studies are based on socio-emotional wealth theory emphasize that the family's willingness to pass on will prompt firms to invest more in innovation that is beneficial to the long-term development of family firms [1]. However, this theory is merely from the perspective of family member as a successor. As a result, there is still little studies consider the incorporate succession factors into family firms innovation. The research contribution of this paper is mainly in the following areas. First, it provides a new perspective for understanding the issue of differential innovation investment in family firms in the context of succession. To distinguish from existing studies based on socio-emotional wealth theory, this paper analyzes and examines the relationship between differences in second-generation managerial authority needs and family firms' innovation investment due to different succession styles, thus providing a new observation perspective for examining and understanding differences in family firms' innovation investment in the context of non-family firm membership. Second, it further enriches and expands the research on non-family firm members. Non-family firm membership differs from general corporate managerial change in that the theories and methods used by the latter to explain corporate managerial change are not applicable to predict non-family firm membership and its economic consequences. There is even less literature that explores the impact of different succession styles on firms' innovative behavior based on differentiating non-family firm membership styles. Based on this, this study provides a new addition to the analysis of non-family firm membership. Third, in practice, the findings of this paper have some reference value for how Chinese family firms, which are at the peak of succession, can prevent the lack of management authority of the successor and properly deal with the innovation input of the firm during the succession process.

2. Non-family enterprise membership and innovation input

The progressive succession style allows the second generation of a family firm to train and grow from the grassroots level and gradually enter the decision-making level of the firm with the support of the first generation [2]. This type of succession is beneficial for the first generation to pass on relevant management experience to the second generation in the long-term training process and develop the second generation's management authority, and also facilitates the long-period assessment of the second generation by the stakeholders of the firm. Based on the passage of time, it can enhance the trust of corporate stakeholders in those who are not members of the family business. At the same time, this succession style is also in line with the normal promotion mechanism of the enterprise, which helps non-family business members to acquire normative and legitimate authority and achieve a good conversion of family authority. In other words, the progressive succession method helps the second generation to smoothly transition into the decision-making level of the family business and obtain the corresponding management authority, which helps them to improve their ability to deploy corporate resources and promote them to pay more attention to the long-term development of the business.

Under the radical succession style, the sudden "parachuting" of the second generation into the management of the company increases the complexity of the succession. This style, which is against the conventional promotion mechanism, is prone to be questioned by the company's stakeholders. Moreover, the successor is subject to discomfort and dissatisfaction from the employees of the company, resulting in greater uncertainty of authority for non-family members. As well, non-family members need to quickly demonstrate their competence to stakeholders after succession in order to build their own management authority. At the same time, the lack of managerial authority of the radical successor increases the difficulty of obtaining support from employees and cooperation from the management team, which in turn affects his or her ability to deploy corporate resources and implement decision-making behaviors.

As an important corporate investment decision-making behavior, innovation investment depends on the decision maker's cognitive preferences and resource mobilization ability [4]. From the perspective of successors' rational cognition, compared with progressive successors, second-generation radical successors have a stronger demand for personal management authority, which makes them have a strong "quick win motivation", i.e., to prove themselves by obtaining excellent performance quickly after their succession. Corporate innovation investment, as an investment decision with high uncertainty and long payback cycles, increases corporate financial risk in the short term and affects short-term economic performance. If R&D fails, it can trigger strong stakeholder dissatisfaction, which runs counter to the needs of second-generation radical successors. Thus, forced by a strong short-term need for personal management authority, second-generation radical successors, as opposed to progressive successors, will avoid getting caught up in such innovative investment commitments of high uncertainties.

In terms of the successor's resource mobilization ability, non-family members have not only the power conferred by formal positions, but also the informal power conferred by society and the family. As mentioned earlier, the radical succession style tends to lead to a lack of normative management authority for non-family members of the firm, which is prone to challenge by the firm's stakeholders. Such challenge directly affects the second-generation successor's ability to mobilize corporate resources after taking over the position. On the contrary, the progressive succession style helps the second generation gain managerial authority smoothly and is less likely to be challenged by corporate stakeholders, and thus the second generation has a stronger resource mobilization capacity. Corporate innovation requires decision makers to have the power to mobilize sufficient human, financial, and material resources, as well as to obtain the assistance of important stakeholders. Insufficient resource mobilization power will, to a certain extent, weaken the commitment of second-generation radical successors to corporate innovation.

3. Influence of family authority

A significant difference between the intergenerational transmission of family businesses and non-family businesses is that family authority is an important moderating factor influencing the intergenerational transmission of family businesses. In a family business, the second generation of the family, as the legal heir of property rights, only has legitimacy in the legal sense, which does not mean that it will be recognized by the organization [5]. The reason is that the family members and the founding members of the firm are not only concerned with the legal legitimacy of the non-family members, but also with their personal management authority. The family business is a combination of two different organizational systems: family and business. It also means that non-family business members who want to establish their own management authority in the organization during the succession process need to face the challenge of authority from both family members and the founding members of the firm.

4. Influence of family members' authority

The participation of family members in the creation and operation of a business is one of the important features of family businesses. Family enterprises mainly rely on parental authority and hierarchical order to coordinate family members' relationships and allocate resources. While the first generation founders usually have high personal prestige in the family business, non-family members usually do not have the personal authority of the first generation founders, and their personal authority is largely influenced by factors such as family seniority and kinship [6]. As a result, non-family members are subject to the control of family members, especially elders in authority, in the decision-making process of the company. Psychological research indicates that organizational members usually have a strong sense of territoriality in the workplace, implying a sense of ownership of the relevant power and target objects and a sense of preventing others from approaching them. This sense of territoriality often leads individuals to show high levels of hostility when faced with the possibility of infringement of ownership and control of the target.

Family firms tend to be run by the first generation of founders who have worked hard with their family elders. They have a strong sense of territoriality over their family business and are more reluctant to delegate power or become power-hungry, which can lead to higher legitimacy requirements for non-family business members. In addition, siblings or branches of non-family members in family firms also claim their own interests and "territorial boundaries". Driven by their interests, family members will compete for family business resources and benefits to the extent possible. In particular, the presence of multiple second-generation family siblings with similar identities intensifies the competition for corporate resources and even succession power. In this case, progressive second-generation successors, who have been groomed and tested over time, build their own resource networks by gaining recognition within the organization. As a result, they face less pressure on the need for managerial authority and have a higher capacity for resource deployment. In contrast, radical second-generation successors are prone to questioning on their personal management authority due to their unconventional succession style. With higher authority of family members, their urgency and pressure to build their personal management authority is higher and their ability to deploy resources is more restricted. Therefore, a high level of authority of family members will stimulate the need of radical second-generation successors to build their own managerial authority and limit their resource allocation ability, which in turn affects their innovation input decisions.

5. Conclusion

The relationship between non-family firm members and firm innovation inputs is an important issue affecting the development of family firms. This study analyzes and tests the effect of succession style on innovation investment in family firms. It is found that radical non-family

business members weaken innovation inputs in family firms compared to progressive non-family business members, and the relationship between the two is affected by family authority. In other words, the weakening effect of radical succession on innovation inputs in family firms is more pronounced in firms with higher authority of family members and non-family founding members. As succession time passes, successors will gradually build their own legitimacy authority, which also makes the impact of different successors' individual authority needs on innovation investment in family firms due to differences in succession styles diminish. The negative effect of aggressive succession on innovation inputs in family firms decreases significantly after 3 years of non-family firm membership. At the same time, the weakening effect of radical succession on firms' innovation investment is more significant in larger firms and firms that have been in business for a longer time.

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