

Family Business Innovativeness: A Tool for Successful Succession?

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Abstract

Family businesses are founded with a vision of long-term sustainability and longevity over generations. Therefore, succession in a family business is an important prerequisite for achieving this goal, representing one of the greatest challenges for contemporary family businesses. We are now in an era in which the millennial generation, which is known for their interest in innovation and technology, is among the potential successors. However, the relationship between family business innovation as a potential motivating factor and the next generation's intention to take over the family business has not been sufficiently investigated. This study examines the relationship between family businesses' innovativeness and potential successors' intention to take over the family business. On a sample of 18,000 responses from university students in the role of a potential successor to a family business, we demonstrate a positive correlation between the intention to take over a family business and the innovativeness of that business. Although the Cramér's V coefficient indicates weak association, it is evident that the relative number of potential successors of family businesses increases with a higher rating of innovativeness. We also show that this trend has not changed over the last five years. The innovativeness of the family business plays an important role in the next generation's decision whether to continue with the business and ensure the longevity of the family business over generations. Our findings may therefore be relevant for owners of family businesses in addressing potential succession issues.

Key Words

family firms, succession intention, potential successor, innovation, millennials

JEL Classification: O30, M21, J53

Introduction

Family businesses typically intend to pass on the business and specific knowledge, experience and capabilities of the family to the next generations in the long term (Nwuke, 2020). Family succession, i.e. the transfer of control in terms of ownership and management, is a critical prerequisite for achieving the goal of transgenerational sustainability of a family business; however, it is also one of the biggest challenges for the continued survival of family businesses (Basco & Calabrò, 2017). Only 30% of family businesses survive into the second generation of family ownership and only 15% into the third generation (Hidayati et al., 2020). Given the global social and economic importance of family businesses (Shanker & Astrachan, 1996), it is vital to examine the circumstances that motivate students with a family business background to become successors, as opposed to founders or employees of another business. Although many studies have examined the behavioural patterns of intentional founders, entrepreneurship research lacks studies that examine the career decisions of intentional successors (Zellweger et al., 2011).

Scherer et al. (1989) were among the first to investigate the relationship between the presence of a parental entrepreneurial role and children's preferences for entrepreneurial careers. Other studies that examined the succession intentions of students with entrepreneurial parents have primarily done so from the perspective of career choice intention (i.e. analysing the factors that determine the career choice intention to become an employee, successor or entrepreneur)(Cieřlik & Stel, 2017; Zellweger et al., 2011). Moreover, related studies have almost invariably relied on the theory of planned behaviour (Jebsen & Boyd, 2023; Romaní et al., 2022) and examined the relationship between individual personal characteristics and internal motivation (push and pull factors) and succession intention (Hidayati et al., 2020). However, young people's motivations change over time and generations. Today, the current workforce and the potential successors are millennial (born 1982–2004) (Holmberg-Wright et al., 2017), who are known to have a strong interest in technology and innovation (Hidayati et al., 2020). Therefore, in the digital age, today's family business owners should consider what new motivational factors could influence their millennial children's intention to take over the business. As Hidayati et al. (2020) and Spiezia and Vivarelli (2000) asserted, family businesses' innovation performance could be one of these factors.

Innovativeness refers to the ability and ingenuity to create new things. It is associated with novelty and creativity (Kunz et al., 2011), both of which are highly valued and appreciated by millennials when evaluating a potential workplace (Holmberg-Wright et al., 2017). McGrath (2001) defines innovativeness as the extent to which a company strives for new approaches to business, technology, processes or products. Innovativeness is also understood as an integral aspect of strategy and is a specific organisational characteristic. Innovativeness also refers to a company's ability to remain open to new ideas and work on new solutions that are not geared towards a one-off success but a lasting one (Kunz et al., 2011). The innovative approach is also very important for potential successors when they evaluate their family's business. The perceived innovativeness of a company is a subjective perception and attribute based on one's own information, knowledge and experience (Holmberg-Wright et al., 2017). Organisations are considered innovative if they exhibit behaviour and practices that are stable over time and help to ensure longevity (Covin et al., 2000), which is crucial for family businesses.

Many studies have indicated that family businesses that are more innovative are more likely to survive than those that are less innovative (Cefis & Marsili, 2006; Ballal & Bapat, 2019; Chan et al., 2019). However, there are two opposing views regarding whether family firms are innovative. The first view on family businesses' innovativeness is based on the theory that family businesses feel more responsibility for their success because of their direct connexion to the family, which motivates them to develop new ideas (Zellweger et al., 2012). In contrast, this responsibility may hamper innovativeness due to an increased sense of risk when implementing innovations. Family businesses are more reluctant towards implementing new ideas than non-family businesses. In addition, family businesses feel compelled to consider altruism toward children and extended family members and to accommodate different attitudes within the family. Simply put, the business must also resolve family conflicts (Anderson & Reeb, 2003). However, according to Eddleston et al. (2008), altruism combined with innovativeness is the right approach for enhancing family businesses' performance and also seems to be lucrative for potential employees (Spiezia & Vivarelli, 2000).

Hidayati et al. (2020) found that millennial successors who are now at the age to take over the family business prefer innovative strategies compared to the others. Therefore, the innovativeness of a business is a condition that attracts young people to work in such businesses (Setiyani et al., 2020). The relationship between family business innovativeness and the participation of young, well-educated family members was examined by Antlová et al. (2020); however, the authors concluded that it is the young family members who drive the innovativeness. On the other hand, Zellweger et al. (2011) found that students who place a high value on innovativeness "*are more likely to prefer the founding intention to the succession intention*" (Zellweger et al., 2011, p. 522). This could be due to the fact that older members of family businesses are generally not open and enthusiastic when it comes to changes in their existing businesses (Soni, 2019). The question arises whether, in the case of family businesses that are considered highly innovative by potential successors, potential successors intend to take over the respective business. Therefore, this study examines the relationship between family business innovativeness and entrepreneurial intention, i.e. the intention to become a successor in the family business right after graduation and five years after graduation. To do so, we propose the following hypotheses:

H1: The variables of family business innovativeness and the intention to become a successor right after graduation are independent.

H2: The variables of family business innovativeness and the intention to become a successor five years after graduation are independent.

Following this introduction, this paper includes four further sections. In the next section, we describe the research methodology. We then present the results of the study, including the related statistics, followed by the interpretation and discussion of the results. The final section of the study presents our conclusions.

1. Research Methods

The data for this study are obtained from the Global University Entrepreneurial Spirit Student Survey (GUESSS). The survey is based on quantitative data collection via questionnaire among university students around the world. The survey focuses on presenting a unique and new perspective on students' relationship with entrepreneurship in several ways. It explores students' entrepreneurial intentions, nascent entrepreneurship, new venture growth and performance and family business succession. The project has gradually expanded to many countries and universities around the world since it began in 2003 (GUESSS, 2022). A responsible country team leader is appointed to coordinate data

collection in each participating country. The author's research team participated as country team leaders for the last three survey years—2016, 2018 and 2021.

The sample of respondents from the 2021 GUESSS survey was selected for this study based on four criteria:

1. At least one of the students' parents was self-employed and/or owned most shares in a business.
2. The student considered the parental business to be a family business.

3. The student had not yet worked in the family business.
4. The student answered the question, 'How do you rate the innovativeness of your parents' business compared to its competitors over the last three years in the following dimensions?' (1=much worse, 7=much better)

Using the above criteria, we obtained 18,011 responses from the 2021 survey to test our hypotheses. To support our findings and determine whether changes occurred over time, we also referenced data from the 2018 and 2016 surveys for illustration (see Fig. 1).

The selected respondents in the 2021 sample included 80.7% undergraduates and 12.3% graduate students. The remaining respondents were in doctoral studies (2.7%) or other programmes (4.3%). Most students study engineering (including architecture) (18.2%) and business/management (18.1%), followed by social sciences (13.8%), human medicine/health sciences (13.1%), arts/humanities (6.4%), economics (6.3%) and law (6.3%). The remaining students studied natural sciences (4.6%), computer sciences/IT (4.4%), science of art (1.4%), mathematics (1.0%) or other sciences (6.3%). All of these students indicated that at least one parent is self-employed and/or the majority owner of a business and that they consider this business to be a family business. A total of 22.7% of the students are already trying to start their own business, but none of them actually runs their own business.

Analytical approach

We used the chi-square test for independence (1) to test our hypotheses. Our two hypotheses examined the existence of a dependency between the values of innovativeness and entrepreneurial intention to become a successor directly after graduation (H1) and five years graduation (H2), respectively.

$$\chi_c^2 = \sum \frac{(O_i - E_i)^2}{E_i} \quad (1)$$

where χ^2 denotes chi-square test of independence; c degree of freedom; O observed value(s) and E expected value(s).

To test these two hypotheses, students were given the opportunity to choose one of 10 options about what they would most like to do right after graduation and five years after graduation. We then merged the responses into respondents with the intention of becoming a successor in a family business and those without the intention of becoming a successor in a family business.

The variable innovativeness was assessed by asking university students with the potential to become successors in a family business 'How do you rate the innovativeness of your parents' business compared to its competitors over the last three years in the following dimensions?' (1=much worse, 7=much better) We considered the subjective measurement proposed by Kellermanns et al. (2012) to be the most appropriate instrument for our research. This type of subjective measurement of the innovativeness of one's own family business has been used in many studies as the ratings are highly correlated with objective measures of business innovativeness (Kellermanns et al., 2012).

Both hypotheses were tested in IBM SPSS Statistics 26 Programme at the 5% significance level.

The study subsequently used Cramér's V-test to determine the strength of the relationship between the variables (2).

$$\phi_c = \sqrt{\frac{\chi^2}{N(k-1)}} \quad (2)$$

where ϕ_c denotes Cramér's V; χ^2 is the chi-square test of independence from the aforementioned test; N is the sample size involved in the test and k is the lesser number of categories of either variable.

2. Results

The variables for H1 are presented in Table 1. Overall, only 2.45% of the respondents plan to become successors in a family business immediately after graduation. The results of the chi-square independence test between the variables innovativeness and intention to become a successor right after graduation are as follows: $N = 18011$, Z-statistic = 130.450; Df = 6, p-value = 0.0000. The p-value is less than 0.5, which indicates that we can **reject the H1 hypothesis** that the variables innovativeness and intention to become a successor right after graduation are independent with a confidence level of 95% and **accept the alternative hypothesis** of their **dependence**. The mean value of the assessment of family business innovativeness was 4.15 for the students who did not intend to become successors in a family business right after graduation. The mean value for the students who answered 'yes' to their intention to become a successor in a family business right after graduation was 5.13.

Tab.1: Innovativeness and intention to become a successor right after graduation

	Innovativeness							Total
Intention to become a successor in 5 years after graduation	1	2	3	4	5	6	7	
Yes	11	13	42	82	90	99	104	441
	2.5%	2.9%	9.5%	18.6%	20.4%	22.4%	23.6%	100.0%
No	2025	1632	2200	4101	3096	2431	2085	17570
	11.5%	9.3%	12.5%	23.3%	17.6%	13.8%	11.9%	100.0%

Source: authors' own

The results in Table 1 indicate that the decision to become a successor in a family business increases with students' higher rating of the firms' innovativeness. We used Cramér's V-test to determine the strength of the relationship between the variables. The strength of dependence between the variables in this case was 0.085, indicating a less strong relationship.

The variables for H2 are presented in Table 2. Overall, only 2.7% of the respondents plan to become a successor in a family business five years after graduation. The results of the chi-square independence test between the variables innovativeness and intention to

become a successor in five years after graduation are as follows: $N = 18,011$, Z -statistic = 106,119; $Df = 6$, p -value = 0.0000. The p -value is less than 0.5, which means that we can **reject the H2 hypothesis** that the variables innovativeness and intention to become a successor five years after graduation are independent with a confidence level of 95.0% and **accept the alternative hypothesis** of their **dependence**.

Tab.2: Innovativeness and intention to become a successor five years after graduation

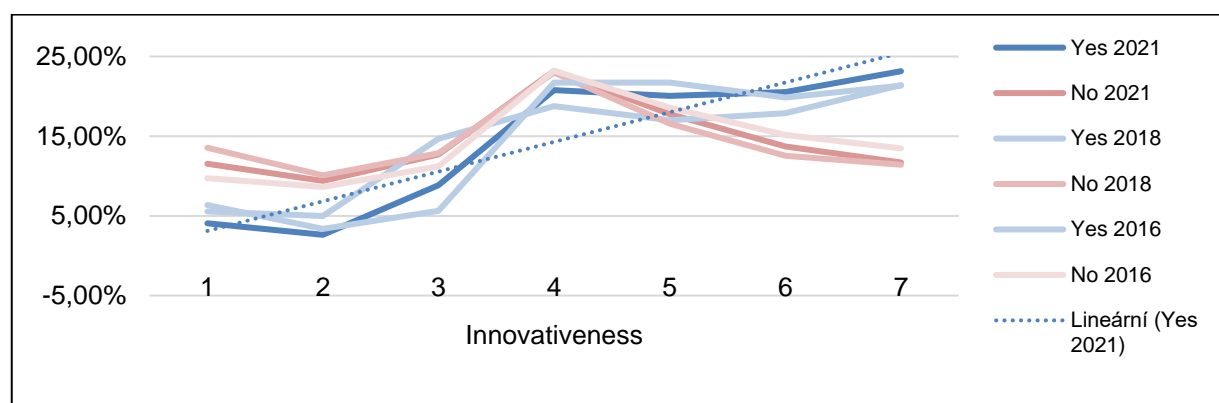
Intention to become a successor in 5 years after graduation	Innovativeness							Total
	1	2	3	4	5	6	7	
Yes	20 4.2%	13 2.7%	45 9.4%	99 20.8%	99 20.8%	93 19.5%	108 22.6%	477 100.0%
No	2016 11.5%	1632 9.3%	2197 12.5%	4084 23.3%	3087 17.6%	2437 13.9%	2081 11.9%	17534 100.0%

Source: authors' own

The mean score for the business innovativeness rating was 4.15 for students who did not consider becoming a successor in a family business right after graduation and 5.00 for students who considered becoming a successor in a family business right after graduation. We used Cramér's V -test to determine the strength of the relationship between the variables. The strength of dependence between the variables in this case is 0.077, indicating a less strong relationship.

An illustration of the results from Table 2 examining the relative changes is shown in Fig. 1. We also added data from the 2016 and 2018 surveys to our graph to determine whether there are changes over time, revealing that the data from all years follow the same trajectory. In addition, there is no difference in the shape of the curve between the two groups (with and without the intention to take over a family business) in all three surveys measured up to point 4 of innovativeness. Furthermore, a higher proportion of students preferred options other than succession when assessing innovativeness from 1 to 4. However, from point 5 onwards, there are differences in the decision to become a successor in a family business. From points 5 to 7, the tendency to become a family successor continues to rise, while the proportion of students who do not intend to become a successor decreases.

Fig. 1: Plan to become a successor family business in five years after graduation



Source: authors' own

3. Discussion

This study was designed to answer our research question of whether, in the case of family businesses that are considered highly innovative by potential successors, potential successors intend to take over the respective business. Although many studies have emerged in recent years on the topic of the influence of certain factors on the intention to take over a family business, most of them have examined factors related to entrepreneurial orientation and personal characteristics (Romaní et al., 2022; Zellweger et al., 2011). However, the next generations to take over family businesses are the millennials, who are known for a keen interest in technology (Holmberg-Wright et al., 2017). Therefore, family businesses confront a situation in which potential successors from the millennial cohort have two career options, either continue the business built by their predecessor or choose a career that is more aligned with their personal interests, such as building a technology start-up (Hidayati et al., 2020). Our results demonstrate the correlation between family business innovativeness and entrepreneurial intention, i.e. the intention to become a successor in the family business.

A novel contribution of this study is the investigation of the intention to take over the family business based on the self-assessment of the innovativeness of the respective parent business. First, we examined the correlation between innovativeness and students' intention to become a successor in a family business right after graduation. Second, we examined the correlation between innovativeness and students' intention to become a successor in a family business five years after graduation. Our results show that the observed value for the intention to become a successor is related to the value of innovativeness in both cases. Although the strength of the dependence between the variables in both cases indicates a weak relationship, our results are supported by Ballal and Bapat (2019). They found that more innovative family firms are more likely to survive than less innovative ones. Our findings may therefore be relevant for owners of family businesses in addressing potential succession issues. If the actual owners start to be more open and enthusiastic to changes and new ideas in their existing businesses, they can motivate their children, potential successors to become a part of their business. To support our findings and show that this trend has not changed, we examined data from three independent GUESSS surveys. Based on our findings, we can conclude that the innovativeness of family businesses is a significant motivation for well-educated men and women and their intention to take over the family business and become successors and thus help the business to achieve its goal of transgenerational sustainability (Basco & Calabrò, 2017).

This study, however, has some limitations similar to all survey-based research. First, the evaluation of innovativeness compared with competition is based on respondents' perception. Here we assume that the evaluated phenomenon is correlated with the objective state. Second, respondents' higher education also has a role, as it can influence their attitude toward innovation. And third, we did not consider any other specifications of our respondents as their gender, age, field of study or personal interests, which could be considered in future research.

Conclusion

Family businesses are founded with the aim of achieving long-term sustainability by passing them on to the next generation; however, many businesses fail during the succession process. Therefore, this study shows the relationship between family business innovativeness and the intention of well-educated family members with university degrees to become successors in the family business. In summary, family businesses should strive to innovate in the context of sustainability to encourage the next educated generation to become entrepreneurial and subsequently take over the family business. Since the next generation are millennials, who are typically attracted to innovation and technology, family business innovativeness could have an important influence on this decision. Although this study has some limitations that should be considered, a deeper understanding of innovativeness in relation to the intention to succeed in a family business was obtained.

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