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A RESEARCH FRAMEWORK FOR FAMILY INFLUENCE ON INNOVATION AND BUSINESS PERFORMANCE

This study intends to examine the influence of owning family on innovation in family business performance. A research framework is established to analyze the impact of family influence on innovation and family business performance. Firstly, the study examines the relationships between family influence, as measured by the F-PEC scale and family influence upon innovation. Secondly, the study examines the mediating role of innovation on the family influence or business performance and its direct effect on performance. This research framework indicates that family influences and innovation in combination will affect the level of business performance.

Keywords: family businesses' performance, innovation, family influence.

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ДОСЛІДЖЕННЯ ВПЛИВУ СІМ'Ї НА ІННОВАЦІЇ І ВЕДЕННЯ БІЗНЕСУ

У статті вивчено вплив сім'ї, що володіє бізнесом, на інноваційний процес і показники успішності ведення бізнесу. Побудовано модель дослідження для такого аналізу. По-перше, розглянуто взаємозв'язок між впливом сім'ї, вимірюваним за шкалою F-PEC, і впливом сім'ї на інновації. По-друге, доведено посередницьку роль інновацій у впливі сім'ї або успішності ведення бізнесу та їх прямий вплив на продуктивність. Це дослідження показано, що вплив сім'ї та інновацій в поєднанні вплинуть на рівень ведення бізнесу.

Ключові слова: родинний бізнес, інновації, вплив сім'ї.

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ИССЛЕДОВАНИЕ ВЛИЯНИЯ СЕМЬИ НА ИННОВАЦИИ И ВЕДЕНИЕ БИЗНЕСА

В статье изучено влияние семьи, владеющей бизнесом, на инновационный процесс и показатели успешности ведения бизнеса. Построена модель исследования для такого анализа. Во-первых, рассмотрена взаимосвязь между влиянием семьи, измеряемым по шкале F-PEC, и влиянием семьи на инновации. Во-вторых, обосновано посредническую роль инноваций во влиянии семьи или успешности ведения бизнеса и их прямое влияние на производительность. Показано, что влияние семьи и инновации в сочетании повлияют на уровень ведения бизнеса.

Ключевые слова: семейный бизнес, инновации, влияние семьи.

Introduction. Innovation is a sine qua non for many businesses in today's competitive, complex and capricious environment (Damanpour, Walker, & Avellaneda, 2009). Although both family and non-family businesses deal with innovation and business performance, what differentiates family businesses from non-family are the

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variations in the relative importance of the factors affecting each decision, as family business must incorporate family issues into its thinking.

Family business is a natural process of adaption and development that occurs under certain conditions. Many business firms started as small and have grown into a complex family business through continuous growth. However, family business growth is not a homogeneous process (Corbetta & Salvato, 2004). The involvement and pattern of family influences varies from firm to firm. Some families exert great power over operations and organization of family business while others are passively involved as this may be due to the nature of the firm or the family.

While numerous empirical studies suggest that innovation enhances business performance, there remains little understanding of the role of innovation in a family business, however, the innovation and enterprising side of a family business is critical for its survival, prosperity and continuity.

We explore complex views on family businesses in this paper, and more specifically, the primary aim of this paper is to achieve better understanding of direct and indirect effects of family influences upon innovation that determine family business performance. This aim also aids our understanding on how the varying degrees of family influences using power, experience and culture measurement instrument (F-PEC), and how this measure reflect the description of the family firm's innovation processes.

Literature Review.

Innovation. Previous research provides innumerable definitions and usages of the term "innovation" (Jain, 2010). Although formal definitions of innovation are diverse, one common element in all definitions of innovation is novelty. Innovation is about perceptions and business activities in a new and unique ways (Drucker, 2007). While radical innovations may open up new markets, there are other forms of innovations as well. We can have progressive innovation in products and services which aim at meeting the needs of consumers more efficiently. Also, we can have process innovation which aids corporations to lower production costs and so increase consumer demand due to lower prices (Cho, Leem, & Shin, 2008). Nevertheless, innovation is beyond these simple expectations. There are innovations in management processes and work organization, and in the use of human resources, together with the capacity to anticipate future technology (Damanpour et al., 2009). For the purpose of this study, innovation is defined as "the commercially successful exploitation of new technologies, ideas or methods through the introduction of new products or processes, or through the improvement of existing ones. Innovation is a result of an interactive learning process that involves often several actors from inside and outside companies" (European Commission, 1996, p. 54).

Dimensions of family influence. Early research in the field of family business sought to determine what is a family business (Chua, Chrisman, & Sharma, 1999), and the question continues to be asked. As observed in literature, family business definitions are abounded and remain ambiguities (Astrachan, Klein & Smyrnios, 2002). Almost every family business writer has his or her own definition, nevertheless, 5 different criteria can be identified: ownership-management, family involvement, self-perception, succession and multiple conditions (Martinez, Stohr, & Quiroga, 2007).

For the purpose of this study, family business is defined by degree of family involvement. There will be "three-tier categorization ranges from broad (little direct family involvement), to middle (some family involvement), to narrow (a lot of family involvement)" (Astrachan et al., 2002, p. 46). Below, we explain how each family influence dimension is expected to influence innovation in family business.

Theory Development and Hypotheses.

The link between Power and Innovation. Power refers to the influence of a firm either directly or indirectly via ownership, governance, and participation in management (Astrachan et al. 2002). As a family's ownership, governance, and participation in management increase, business is motivated to maximize financial wealth as well as preserve the family's socioeconomic wealth (Ward, 2011).

Previous research have found that family businesses are more innovative (Beck, Janssens, Debruyne, & Lommelen, 2011) because of better alignment between owners and business. These observations suggest the following hypothesis.

Hypothesis 1: Power is positively associated with innovation.

The link between Experience and Innovation. Experience refers to the skills, knowledge and values that family businesses pass to generations within business (Astrachan et al., 2002). This dimension includes the generation in charge and number of family members associated with business. Many scholars in the family business field have considered generation as a definitional factor (Ward, 2011). Through succession, a family business can learn to influence business more efficiently and minimize potential threatening mistakes (Cabrera-Suarez et al., 2001). The interaction of family system and business system may leads to distinct resources (Habbershon et al., 1999) and behavior (Chua et al., 1999).

In family business, members are bonded with each others and business (Ward, 2011). They are bounded by informal social ties such as share common history, commitment, common languages and informal rules for decisions, communicating and interpreting knowledge. These informal social ties allow family members gather information collectively through informal discussion and coordination between family members. Information and knowledge are widely recognized as key inputs to innovation (e.g., Yuan, Soo-Hoon, Xiyao, & Yi, 2010). Hence, these informal social ties are said to benefit family business during the incubation period of an innovation. As observed, informal social ties allow and enhance family businesses to orchestrate, nurture and support promising innovations. These observations suggest the following hypothesis.

Hypothesis 2: Experience is positively associated with innovation.

The link between Culture and Innovation. Culture refers to the shared family and business values as well as family's commitment to a firm (Astrachan et al., 2002). It measures the degree to which the value system of business is influenced by the family. Both popular and academic literatures have long spread the notion that organization culture may have significant effect on innovation (e.g., Bammens, Van Gils, & Voordeckers, 2010). Nevertheless, there seems to be a paradox that organizational culture can stimulate or hinder innovation (Martins & Terblanche, 2003).

Carlock and Ward (2001) suggested that the value of the owning family has impact on the family's commitment to firm and its business performance. Indeed,

Carlock and Ward (2001) established 3 principal factors of commitment: i) a personal belief and support of firm's goals and visions; ii) a willingness to contribute to the firm; and iii) a desire for a relationship with the firm. The willingness of family to commit to business (Klein & Muhlebach, 2004) tends to lead the family firm to achieve and sustain competitive advantages over time (Jon I. Martinez et al., 2007).

Innovative family businesses have the capacity to absorb innovation into the organizational culture and management processes. As observed, flexibility, autonomy and cooperative teamwork promote innovations in family business. These observations suggest the following hypothesis.

Hypothesis 3: Culture is positively associated with innovation.

The link between Innovation and Business Performance. Innovation is a social process (Jain, 2010). As technologies change, products and consumption patterns change as well. Researchers have long stressed that innovation is important for profitability and sustainability of business organizations that operate in a rapidly and constantly changing environment (Drucker, 2007a). Therefore, there is a proposal that there are direct and indirect effects between family influence with innovation and business performance.

Hypothesis 4: The influence of owning family on business performance is mediated by innovation.

The innovation literature examines the link between innovation and firm performance. Scholars, such as Damanpour and Drucker, have asserted that innovation plays a crucial role for long-term profitability and growth in firms. Previous research (Damanpour et al., 2009; Drucker, 2007b) consistently show a positive impact of innovation on business performance. Hence, the following hypothesis is suggested:

Hypothesis 5: Innovation is positively associated with business performance.

Conceptual model. The justification of the model development (Figure 1) and its presumed relationship with other constructs are explained. The model is developed to illustrate the links between the constructs. The model comprises 3 main elements: family influence, innovation and business performance. Within the element of family influence, the model proposes 3 key constructs: power, experience and culture. A direct relationship between 3 dimensions of family influence, innovation and business performance is proposed.

Conclusion. It is generally accepted that family businesses are expected to have unique characteristics caused by their family influences (Eddleston & Kellermanns, 2007). The literature shows that one is to expect that family business characteristics affect the innovation processes. However, the effects of family influence are ambivalence. Family influence can either support or inhibit innovation, depending on the behavior of individuals and groups. This study contributes to the area that so far received relatively little attention; namely, how family influences determining innovation vary with regard to the dimensions of family influence.

Finally, the important role that family influence plays in innovation. Innovation is recognized as an important process for business' profitability and sustainability, and family influences have the unique resources to foster innovation and ensure they are successful.

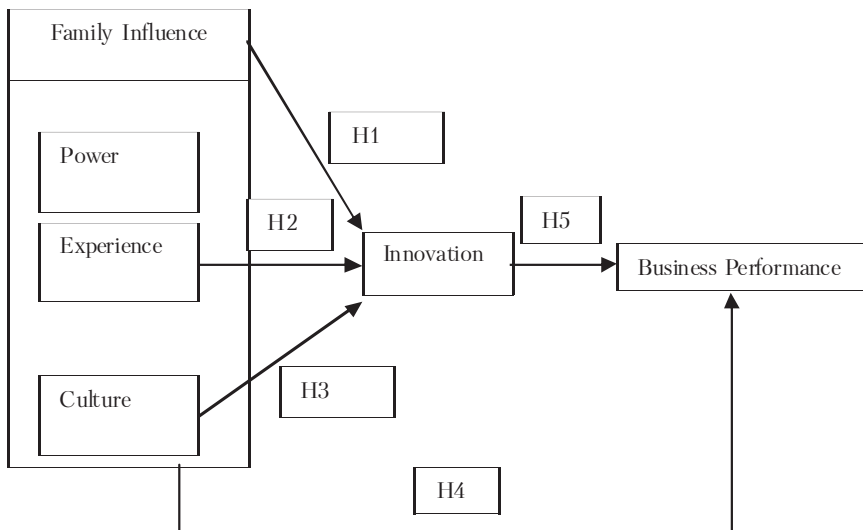


Figure 1. **Proposed Model of Family Influence, Innovation and Business Performance**

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