

6-10-2017

FAMILY EMPLOYEES AND INNOVATION BEHAVIOR OF START-UPS: A FAMILY EMBEDDEDNESS PERSPECTIVE OF ENTREPRENEURSHIP (INTERACTIVE PAPER)

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Recommended Citation

Kato, Masatoshi and Zhou, Haibo (2017) "FAMILY EMPLOYEES AND INNOVATION BEHAVIOR OF START-UPS: A FAMILY EMBEDDEDNESS PERSPECTIVE OF ENTREPRENEURSHIP (INTERACTIVE PAPER)," *Frontiers of Entrepreneurship Research*: Vol. 37 : Iss. 10 , Article 4.

Available at: <https://digitalknowledge.babson.edu/fer/vol37/iss10/4>

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≈ INTERACTIVE PAPER ≈

**FAMILY EMPLOYEES AND INNOVATION BEHAVIOR
OF START-UPS: A FAMILY EMBEDDEDNESS
PERSPECTIVE OF ENTREPRENEURSHIP**

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Principal Topic

Family embeddedness is often used to explain the different innovation behaviors and entrepreneurial outcomes in family versus non-family businesses (Chrisman et al., 2015, Powell & Eddleston, 2016). While previous studies have examined established firms such as publicly listed family firms (e.g. Block, 2012) or family SMEs (e.g. Classen et al., 2014), there has been limited evidence on the start-up phase of the firm. However, family members are often an important resource for start-up firms with scarce resource and experience (Chrisman et al., 2003). Family employees are willing to accept lower wages in return for the emotional value that they derive from working in the firms of their own families (Block et al., 2015). Moreover, family employees might influence the decision and behavior of the entrepreneur, which consequently affects firm performance, by providing their social supports and relational resources to the entrepreneur. Using the family embeddedness perspective of entrepreneurship (Aldrich & Cliff, 2003), this paper investigates the relationship between the involvement of family employees and innovation behaviors (i.e. innovation input and output) of start-up firms.

Method

Our empirical analysis is based on an original panel dataset of Japanese start-ups that started their businesses during 2007 and 2008 in the Japanese manufacturing and software industries. The panel dataset covers four waves in the period of 2008 to 2011. We obtained an unbalanced panel of 538 firms (1,006 observations). Regarding innovation input, we estimate a Tobit model on the effects of presence of family member on R&D intensity (R&D expenditures per employee). As regards innovation output, we estimate a Probit model on the effects of family employees on the relationship between R&D intensity and innovation performance, measured as the probabilities of product innovations and patent applications.

Results

Descriptive statistics indicates that 28% of sample firms uses family employees. With respect to innovation input, empirical results suggest that start-ups making use of family employees invest less in R&D activities. Robustness check, using the share of family employees in total employment, indicates fairly similar result. Regarding innovation output, we find that start-up firms with family employees are more likely to transform innovation input into new product and into patent applications.

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