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DRIVING FACTORS OF INNOVATION IN FAMILY AND NON-FAMILY FIRMS (SUMMARY)

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DRIVING FACTORS OF INNOVATION IN FAMILY AND NON-FAMILY FIRMS

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Principal Topic

Prior findings are inconclusive concerning the innovation activities of family SMEs when compared to non-family counterparts. This study overcomes some of these shortcomings by providing a theoretical and empirical analysis of differences between family and non-family SMEs with regard to product and process innovation outcomes as well as R&D Partnerships. Using data of 1.870 SMEs located in Germany in 2011, we argue that the main characteristic of family SMEs is the unity of ownership and leadership when compared to their non-family counterparts. Deriving a set of hypotheses from this assumption, we explore how lower agency costs, local embeddedness, long-term orientation and effective corporate governance structures influence the ability to generate product and process innovations in family firms compared to their non-family counterparts.

Method

The empirical part of the study follows a quantitative approach, mainly multivariate analysis with focus on mediator effects. The estimation sample includes firms from all sectors (i.e., manufacturing, construction, retail and the service sector). Overall, we obtained detailed information on firm’s age and size, family ownership, management structures, market strategies, research and development cooperation’s, past intra-family successions, employee fluctuation as well as on the product and process innovation output of each firm.

Results and Implications

We show that small family firms benefit from low transaction costs which results in higher innovation activities. However, this effect seems to disappear as family firms become larger. In addition, we find that older family firms conduct more research and development activities with local partners due to emergent regional networks. Third, the data show that family firms seem to be better able to build up specific knowledge through the long tenure and lower employee fluctuation which, in turn, leads to a higher level of innovation output. Finally, we can show that innovation output continuously falls from generation to generation reflecting a more conservative innovation strategy next generations of family firm leaders. In sum, we see our results as an important contribution for future policy implications as they give answers to the question why family firms in Germany increase or decrease their innovation activities.

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