

The influence of family involvement on Research & Development investments

Bachelor Thesis research by Koen Aarns

In June 2017 Koen Aarns graduated from the Tilburg School of Economics and Management at Tilburg University. Koen followed the bachelor International Business Administration and wrote his bachelor thesis in the area of family firms. The following text is a summary of the BSc thesis.

Nowadays, firms are in a constant need to stay competitive and to keep ahead of competition and one of the most important ways to achieve this is investing in Research & Development (R&D) projects. Family firms account for a large percentage of all firms across the world and across industries. The goal of this bachelor thesis is to explain the relationship between family involvement and R&D investments. Previous research found contradicting results and provided several explanations for the relationship between family involvement and R&D investments, including the age of the CEO. Based on theory, higher levels of family involvement lead to lower levels of R&D investments and this effect is moderated by the age of the CEO.

To investigate the relationship an explanatory quantitative study is conducted based on a dataset of 72 public firms of the largest family firms around the world mentioned in the Global Family Business Index (<http://familybusinessindex.com/>). Family involvement is measured by the percentage of the shares of the company that the founding family owns. For a firm to be considered as a family firm, the Global Family Index uses a minimal amount of ownership of 31%. Investments in R&D are measured as a percentage of the operating revenue. CEO age is measured in number of years.

Results show that there is a moderating effect of CEO age on the relationship between family involvement and R&D investments, meaning that having an older CEO in a family firm could lead to fewer investments in R&D. No empirical evidence is found for a relationship between family involvement and R&D investments. This study contributes to the existing literature in the sense that it is the first to explain the relationship between family involvement and R&D investments by CEO age as moderator. This study is relevant for managers since it provides interesting results. It could make managers aware that an older CEO in a family firm could lead to fewer investments in R&D, which in the long-run can be detrimental for the firm performance. In addition, family managers gain knowledge on possible behavior of family managers towards risky investments as it provides a clear overview of arguments why family managers could invest more or less in R&D investments compared to non-family managers.

If you are interested in the bachelor thesis, you could contact the Tilburg Institute for Family Business via tifb@tilburguniversity.edu and request the pdf file.