The influence of family firm status and family involvement on Research and Development expenses within a firm

Bachelor Thesis research by Nick Castelijns

In June 2017 Nick Castelijns finished his bachelor thesis in the area of family firms. He is enrolled in the Bachelor Business Economics from the Tilburg School of Economics and Management at Tilburg University. The following text is a summary of the BSc thesis.

The area of family firms has been an interesting field of research so far. Multiple researchers have been arguing what the nature is of family firms and their Research and Development (R&D) expenses. The goal of this bachelor thesis is to find out whether being a family firm and family involvement influence R&D expenses.

One aspect of innovation is R&D intensity. Innovation is crucial for survival and prosperity (Ciabuschi, Dellestrand & Martín, 2011), but brings along risk (Kuczmarski, 1996). Findings of studies on family firms and R&D expenses are inconclusive. On the one hand results show that family firms invest less in R&D since they are in general considered as risk - and loss-averse (Chrisman & Patel, 2012), and on the other hand results show that innovation requires some degree of flexibility in the firm's structure, and firms with a more flexible structure will have higher rates of innovation, thus also higher R&D expenses than non-flexible firms. Family firms are associated with more flexible structures and decision-making processes (Craig & Dibrell, 2007). When looking at the degree of family involvement in the Board of Directors in combination with R&D expenses, Chen and Hsu (2009) and Kor (2006) mention in their research that this relationship is negative and suggests that the more family members there are in the board, the lower the amount of R&D expenses while Mõnoz-Bullón and Sanchez-Bueno (2011) found that family involvement in a firm leads to less agency problems and therefore a higher R&D intensity.

To investigate the abovementioned relations an explanatory quantitative study is conducted based on a dataset of 74 public family firms and 74 public non-family firms. The family firms are retrieved from Global Family Business Index (http://familybusinessindex.com/) and the non-family firms from the Fortune 500 index. Family involvement is measured by the percentage of the board of directors that belongs to the owning family or has a relationship with the company or related persons (dependent directors). Family firm status in measured by being either a family firm or a non-family firm based on the percentage of ownership. R&D expenses are measured as a percentage of the total operating revenues of the firm. Results confirm the risks averse nature of family firms and show that family firms invest less in R&D than their non-family counterparts. However, no differences could be found among family firms, as the relationship between family involvement and R&D investments is not supported.

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