Chapter 9

Structural, Psychological, and Socioemotional Factors That Determine Innovation Decisions in Family Firms

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ABSTRACT

This chapter explores the structural, psychological, and socioemotional factors in innovation in a funeral home in Mexico and analyzes the firm's stage in the innovation process. This qualitative study examines socioemotional wealth through the FIBER dimensions and the stage in the innovation process through the Readiness for Innovation in Family Firms (RIFF) framework. The findings suggest that socioemotional wealth has not allowed the implementation of governmental bodies. The existence of two generations in management has allowed the firm to take advantage of the knowledge and experience of the old generation and the skills of the young generation to continue innovating in products, processes, and services. The firm has the willingness and ability to adopt innovation, although SEW's accumulated endowment has limited long-term innovations as the expansion of the business to other states. This chapter addresses the Arriaga Group case study, a well-known family business firm in Hidalgo, Mexico.

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INTRODUCTION

Family firms have, implicitly and explicitly, a multiplicity of goals and sometimes are contradictory (Chua, Chrisman, De Massis, & Wang, 2018). Family firms are a combination of business and family-oriented goals (Chua, Chrisman, & Steier, 2003), so they have a broad wealth, both economic and emotional. Socio-emotional wealth (SEW) refers to the combination of non-financial and emotional values designed to meet family needs for family identification, control and harmony (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). SEW connotes the emotional value that satisfies the family's affective needs, such as reputation, continuity, and family influence. Various studies have determined that family firms are different from non-family businesses. However, socioemotional wealth (SEW) is the variable that determines heterogeneity, not only with non-family companies but also among themselves (Gómez-Mejía et al., 2007).

Family firms make choices aimed at protecting SEW's accumulated endowment within the business. The economic values can be sacrificed to safeguard the family harmony and the continuity of the family dynasty. The family would be willing to put at risk the company in order to preserve the socioemotional endowment (Berrone, Cruz, & Gómez-Mejía, 2012). Thus, SEW plays a decisive role in making strategic decisions of the company, and therefore, in innovation. Family firms are forced to innovate in order to stay in the market and to be competitive. The complexity of the family business makes it difficult for the understanding of decisions regarding innovation, where financial and emotional values are involved.

In the Global Family Business Survey (2018), in which 2,953 companies in 53 countries participated, the main challenge family firms face the need to innovate. Research in innovation in family firms is fragmented and contradictory (Duran, Kammerlander, van Essen, & Zellweger, 2015). The evidence reflects two trends, those that defend that family firms are conservative and that do not take risks, and the second current that argues that family businesses have managed to remain in the market over time, thanks to investment in innovation. In this research, innovation is understood as the process of the implementation of a new product, process, or experience that adds value to the family business.

Innovation in family firms has been studied. Literature review shows that innovation in family firms depends on the degree of involvement in governance and SEW (Li & Daspit, 2016). Diversification decisions compromise SEW goals (Saridakis, Lai, Muñoz Torres, & Mohammed, 2018). Nevertheless, there is little research that explains the variables that determine innovation as the psychological, structural, and socio-emotional variables through a qualitative methodology, and most of the research in innovation in family firms have been in manufacturing industries. However, little research has been done in the service industry. Holt & Daspit (2015) state that the influence of the family can inhibit innovation in family businesses due to emotional and inflexible attachments to existing strategies. Sometimes the company is not ready to adopt the innovation process. The adoption of innovation depends on the structural and psychological aspects of the members of the firm. Holt and Daspit (2015) proposed the Readiness for Innovation in Family Firms (RIFF) framework aimed to determine the stage in which companies are for adopting innovation. The proposed stages are initiation, decision making, and experimentation. Therefore, innovation decisions in family firms do not depend solely on financial aspects but also on socioemotional, structural, and psychological variables. Holt and Daspit's (2015) proposal has not been applied, so this is the first time that will be applied in a case study. In this context, the questions that guide our research are: *How do structural, psychological, and socio-emotional factors affect the innovation process?* and *how do structural and psychological factors define the stage of innovation in the family business?*