

# The Influence of Intergenerational-inheritance' Evolution on Innovation Investment

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**Abstract:** Since the reform and opening-up, private economic entities have always been an important force to promote China's economic development. Family enterprises as the main form of private economic entities, after decades of hard work, are facing the dual challenges of intergenerational inheritance and innovation upgrading. How the innovation level of enterprises changes during the intergenerational inheritance stage is a topic worthy of attention.

**Keywords:** Intergenerational inheritance evolution; Innovation investment; Family firm

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## 1. Introduction

The continuity of family governance determines that intergenerational inheritance is a necessary stage for the sustainable development of most family businesses. However, intergenerational inheritance is often a "barrier" for family businesses that is difficult to cross smoothly. The development of family businesses in China is at the peak of intergenerational inheritance and the trend led by innovation, How to smoothly cross the "barrier" of intergenerational inheritance and ensure the sustainable and healthy development of enterprises is very important for family enterprises. Therefore, it is of great significance to study how to maintain the sustainable growth of the family business during the intergenerational inheritance period. Innovation is the backbone to ensure the sustainable survival of family businesses and promote the prosperity and development of family businesses. What will happen to the innovation level of enterprises in the intergenerational inheritance stage of family businesses? Or is there any change in the innovation level of enterprises at different stages of power transfer? These problems are worth discussing.

As for the impact of intergenerational inheritance on the innovation level of enterprises, previous studies have not reached a consensus conclusion on this issue. Based on the resource-based theory and the principal-agent theory, some scholars believe that the entry of successors into the enterprise will add fresh blood to the enterprise, help reduce the internal decision-making conflict and reduce the agency cost. Therefore, intergenerational inheritance will promote the innovation level of the enterprise<sup>[1-2]</sup>. Some scholars, from the perspective of social emotional wealth and short-sightedness, think that after the successor enters the enterprise, the internal and external environment of the enterprise is not clear. For the purpose of protecting the social emotional wealth of family enterprises, the successor may have short-sighted behavior and reduce long-term and risky R & D investment, Therefore, intergenerational inheritance will inhibit the innovation level of enterprises<sup>[3-4]</sup>. However, intergenerational inheritance is not achieved overnight. It has a strong periodicity. It often takes a long time for family enterprises to successfully complete intergenerational inheritance. Previous studies have rarely studied the relationship between intergenerational inheritance and innovation after dividing the stages of intergenerational inheritance.

## 2. Literature review and Theoretical analysis

Under the dual background of family enterprise inheritance and enterprise digital transformation, family enterprises often choose to improve their innovation ability to ensure the rapid and stable development and smooth inheritance of enterprises. In recent years, the development of family enterprises in China has entered the wave of inheritance, and a large number of studies on Inheritance and innovation of family enterprises have emerged.

The innovation activities of family enterprises play a very important role in their long-term development and prosperity, and intergenerational inheritance can directly affect the innovation level of family enterprises. Zellweger et al. believe that the innovation

level of family businesses will change over time, and intergenerational inheritance will promote the improvement of the innovation level of family businesses<sup>[5]</sup>. Social emotional wealth theory (SEW) has been an important theoretical basis for family business research since it was proposed by Gomez Mejia et al. in 2007<sup>[6]</sup>. Miller et al. divided it into constrained SEW and extended SEW, and pointed out that the attention to extended SEW will guide the long-term orientation of decision makers<sup>[7]</sup>. Intergenerational inheritance is considered as a clear expression of the long-term development aspirations of the enterprise, which will attract attention to the long-term survival of the enterprise. Therefore, family businesses with intergenerational inheritance pay more attention to the long-term survival and development of enterprises, which will increase the innovation investment beneficial to improving the long-term benefits and competitiveness of enterprises.

However, the existing studies pay less attention to the phased characteristics of the innovation investment of family enterprises in the intergenerational inheritance period. The innovation investment intensity of family enterprises in different stages of intergenerational inheritance must be different<sup>[8]</sup>. This paper uses the intergenerational inheritance stage division standard of to divide the intergenerational inheritance period of family enterprises into three stages: participation management, joint management and reception management. From the perspective of principal-agent theory, the successor's participation in the enterprise's operation and management activities can reduce the agency cost of hiring professional managers and the agency conflict between family controllers and professional managers<sup>[9]</sup>, so as to reduce the cost of innovation decision-making and improve the efficiency of innovation decision-making. At the same time, the unique "fatherhood helping doctrine" of the new generation to its successors has prompted them not only to teach by example, but also to help them<sup>[10]</sup>, help them make innovative decisions, and at the same time, taking risks together will also stimulate the successors' willingness to innovate. Finally, after the successor successfully takes over the enterprise, its goal is no longer the smooth intergenerational inheritance, but the goal that the family business can become a permanent enterprise, which will enable it to make some investment decisions conducive to the long-term development of the enterprise, thus enhancing the innovation investment level of the enterprise.

The reason why family enterprises carry out intergenerational inheritance is to hope that the enterprise can continue for generations in the family control. Therefore, throughout the inheritance period, the creators and successors will work hard for this goal. The first generation will increase innovation investment to prepare for the long-term development of the enterprise, and the successor will seize the innovation wave in order for the family business to "go to a higher level" under its own leadership, and actively promote the improvement of the innovation level of the enterprise.

### **3. Research conclusion and Enlightenment**

At present, China's private enterprises are entering or about to enter the period of intergenerational inheritance. The situation of intergenerational inheritance is complex. Intergenerational inheritance can not only inject fresh blood into enterprises, but also bring arduous challenges to enterprises. The successor and the founder have very different era background and individual background characteristics. Whether this is beneficial to the innovative development of family enterprises remains to be studied. At the same time, in today's fierce market competition, innovation is undoubtedly the "lifeline" of enterprises. Only by standing in the forefront of innovation can family enterprises maintain their vigorous vitality and thriving development in the competition. Therefore, it is an important topic for family enterprises to maintain the steady improvement of their innovation level during and after the intergenerational inheritance period.

So as to provide useful enlightenment for enterprises to maintain or improve their innovation level under the background of intergenerational inheritance. With the deepening of the intergenerational inheritance stage of family enterprises, the innovation investment of enterprises is gradually increasing. The successor's entry into the corporate governance level can reduce the principal-agent cost of the enterprise and reduce the agency conflict. Out of the paternal help doctrine, the founder also tends to increase the innovation investment of the enterprise during the intergenerational inheritance period to "pave the way" for the successor. Therefore, family enterprises facing the dilemma of intergenerational inheritance can boldly accept the inheritance of enterprises, find effective inheritance models, select qualified enterprise successors, and treat the intergenerational inheritance of family enterprises with a positive attitude. This has a certain reference significance for the family business in the training and selection of business successors, and also provides a reference for the family business candidate successors who have the will to inherit their own development planning. In a word, founder and successor need to treat the inheritance of enterprises with a positive attitude. While leading the successors to govern the enterprise, it also provides them with a certain development space and encourages them to actively try innovation; The successor needs to base himself on the long-term, cultivate the self-quality required by the enterprise, improve their own innovation consciousness, and ensure the family business is evergreen.

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