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Article in *Journal of Business Research* · July 2022

DOI: 10.1016/j.jbusres.2022.07.014

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# Does familial decision control affect the entrepreneurial orientation of family firms? The moderating role of family relationships

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## ARTICLE INFO

### Keywords:

Socioemotional wealth  
Family decision  
Family relationship  
Entrepreneurial orientation

## ABSTRACT

Drawing on the theory of socioemotional wealth (SEW), we propose that family relationships have implications for entrepreneurial orientation (EO) through enhancing energy and reducing stress, and that this is especially important when family decision-making is not inclined towards EO. Survey data from 528 family firms, collected from across China, generally supports our model, which in turn explains the heterogeneity behind family firms' priorities and routines. The results indicated that family decision control negatively affects a firm's EO, while family cohesion and adaptability play a negative moderating role in this relationship. Our findings help explain how family provides a powerful source of motivation that can boost EO in the family business, offering meaningful implications for research on entrepreneurship.

## 1. Introduction

The topic of socioemotional wealth (SEW) has facilitated efforts to understand how the pursuit of non-economic goals influences the strategic decision-making of family businesses (Berrone et al., 2012), which differentiates family firms (Chrisman et al., 2012; Hernández-Linares et al., 2020). Family firms share a superior foundation of bonding social capital that predicts longevity (Ciravegna et al., 2020). For family firms, moving away from a cost-driven strategy toward an innovation-driven strategy is important in order to attain competitive advantage (Kosmidou & Ahuja, 2019). However, such transformations are complicated by the need of family firms to court speculative opportunities that offer short-term profitability, which precludes an interest in entrepreneurial innovation (Zellweger & Sieger, 2012; Ramírez-Pasillas et al., 2021). The well-recognized importance of the nexus between family systems and organizational behaviors (Kano et al., 2021) has led researchers to increase their efforts in examining how such family firms make decisions and what drives their ventures (Zahra, 2005; Zellweger et al., 2012; Wang & Zhang, 2021).

The entrepreneurial orientation (EO) construct was built in order to allow an evaluation of a family business's entrepreneurial attitude to strategic renewal, growth, and good performance (Covin & Wales, 2012; Kallmuenzer et al., 2018). Currently, this has increasingly focused

attention on the mechanism operating between family heterogeneity, EO, and performance (Chen et al., 2016; Stanley et al., 2019; Minola et al., 2021). Families operate their own firms in order to obtain not only economic benefits, but also SEW (Gómez-Mejía et al., 2007; Gómez-Mejía et al., 2011). Moreover, family control of the firm becomes a business goal adopted for the purpose of acquiring SEW (Cruz & Nordqvist, 2012; Gómez-Mejía et al., 2007; Kallmuenzer et al., 2018; Swab et al., 2020). Several scholars have aligned EO with certain features, such as the uncertainty of results, and aggressive and innovative approaches (Kosmidou & Ahuja, 2019; Neubaum et al., 2019). These characteristics imply a behavioral requirement to break conventions, take risks, and be open to cooperation—factors that suggest conflict with a family's emotional need for control (Jaskiewicz et al., 2017; Wang & Zhang, 2021). This has prompted investigation into the contradictions between the economic logic of EO and the emotional logic of family control (Williams et al., 2019).

However, two gaps in the existing knowledge base have prevented a comprehensive understanding of EO in family businesses. The first is that it has been acknowledged that family firms are unique (Mustakallio et al., 2002; Koropp et al., 2014), yet it is not clear why some are more entrepreneurial than others (Chen et al., 2016; Aloulou, 2018; Minola et al., 2021). In recent years, the number of studies investigating this phenomenon has grown, providing the insights that EO in a family firm

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comes from their social ties and family embeddedness (Ciravegna et al., 2020; Weimann et al., 2021), the influences of perceived family relationship (Chen et al., 2016; Wang & Zhang, 2021), resource combination (Chrisman et al., 2013; Kano et al., 2021), and also family firm variety and contingencies (Combs et al., 2020; Minola et al., 2021). However, the principal research focus has been to explain differences between family and non-family businesses in corporate entrepreneurship (Randolph et al., 2019; Chirico et al., 2021). There is an incomplete understanding of the heterogeneity and scope of difference that exists among family firms (Daspit et al., 2021). Therefore, family has been embraced as a domain perspective from which to explore its impacts of energy enhancement and stress reduction on entrepreneurship (Aldrich et al., 2003; Menges et al., 2016; Combs et al., 2020).

The second research gap concerns our understanding of the peculiarities of Chinese family firms (Chen et al., 2018), with there being significant differences in how families control their businesses (Chua et al., 1999), especially in terms of formal and substantive control (Chen et al., 2016; Dou et al., 2020). Existing studies have focused on the influence of family involvement in certain aspects, including equity control, management rights (management positions), and board governance structure (e.g., Salvato, 2004; Zahra, 2005). However, for Chinese family businesses demonstrating a “defensive business characteristic” (Redding, 1990), in the context of a transitional economy with institutional vulnerabilities (Luo & Chung, 2013; Chen et al., 2018), substantive family control manifests mainly in control over key decisions (Chen et al., 2016). Scholars have confirmed the relative importance of this level of substantive control (Chen et al., 2016, 2018), recognizing it as the means and purpose of a family-run business (Chen et al., 2020). Accordingly, this indispensable requirement for theoretical study can promote the analysis of family control by allowing comparisons between levels of different types of control, from formal to substantive (Chen et al., 2016, 2018).

Although some studies have indicated that the differences between family businesses are greater than the differences between non-family businesses (Chrisman & Patel, 2012), there is a need to pay closer attention to the underlying processes—the unique goals, behaviors, and outcomes of family businesses (De Massis et al., 2014; Daspit et al., 2021). The present study aimed to increase our understanding of this by exploring the relationship between family decision-making and their business approach, as well as considering the moderating effect of family relationships on the relationship between decision control and EO. Differences in structure, value, and interaction patterns mean that different families adopt different approaches in terms of non-economic targets (Cabrera-Suárez et al., 2014), such as inheritance attitude, impromptu and discretionary spaces for family decision-making, and employment guarantees for family members (Ramírez-Pasillas et al., 2021). When families control the key business decisions, there are more ways to achieve these non-economic goals, and differences between families can be observed in their decision-making preferences (Sharma & Chua, 2013), which, in turn, influence corporate behavior. This study used the findings from family research by Lansberg and Astrachan (1994), Aldrich and Cliff (2003), and Olson (2000) in order to adopt family relationship as an important variable for measuring family status in the business context. For certain families, the desire to grow SEW can produce significant differences (Hernández et al., 2020), which lead to corresponding differences in EO (Cabrera-Suárez et al., 2014; Wu, 2016). Accordingly, the influence of family control on corporate decision-making reflects changes in strength, which allowed the current study to, ultimately, compensate for the lack of understanding of situational family factors in the existing research (Breton-Miller et al., 2004; Chen et al., 2020).

The purpose of this study was to deepen our understanding of the impact of family on EO. Our guiding research questions were: does family decision-making influence the EO of the family business; and what moderating effect does the family relationship have? According to the findings, the business–family relationship can be described as a

micro-environment in which the family firm achieves entrepreneurial activity. They do this through reducing stress, enhancing energy, and aligning their family goals with their firm’s goals, thereby augmenting their emotional investment in the family firm (Menges et al., 2016; Williams et al., 2019). Because our focus was on the role of micro-level practices in EO, we drew on the moderating-effect model, using Stata 14.0 software to analyze the results and validate the hypotheses. We prove the moderating effect of family relationships on their businesses, and explain how family firms use decision-making to adapt their family environment and achieve firm-level entrepreneurial efficiency.

The remainder of this paper continues as follows. We start by summarizing the previous research on the EO of family firms and provide a brief review of core SEW arguments in the context of family firms. Next, we develop our conceptual model and explain the influence of family decision-making on the EO of family businesses and the moderating effect of the family relationship. We conclude by summarizing our findings and discussing the implications for future research. While this was a deductive, theory-driven study, our ultimate goal was to attain an in-depth understanding of the drivers of EO in family firms.

## 2. Literature review

As the business environment becomes increasingly dynamic and competitive, it is vital for family businesses to be able to initiate new ventures from within (Aldrich et al., 2003; Minola et al., 2021). The management literature has recently been giving growing conceptual and empirical attention to the peculiarity (Minola et al., 2021) and relevance of EO in family firms (Kallmuenzer et al., 2018; Swab et al., 2020).

Entrepreneurial orientation describes an imperative towards developing new market entries, business practices, and decision-making approaches (Lumpkin & Dess, 1996), and includes dimensions such as initiative, innovation, and risk-taking (Covin & Slevin, 1989). The level of EO is dynamically adapted over time (Zellweger & Sieger, 2012). It promotes the identification of new opportunities and strategic renewals in the start-up stage (Dess & Lumpkin, 2005), which can significantly impact business performance in the rapid-growth stage (Kallmuenzer et al., 2018), especially in highly competitive and dynamic environments (Lumpkin & Dess, 1996). Accordingly, extensive research has been conducted on identifying factors promoting or hindering the degree of EO in family businesses, such as recombining non-family resources to create firm-specific advantages (Kano et al., 2021), balancing work-family conflicts (Chen et al., 2018), and recognizing bonding social capital (Ciravegna et al., 2020). These factors have been categorized at the individual, organization, and family levels, with this study focusing on factors at the family level.

When considering entrepreneurship in family firms, the SEW perspective highlights that the preservation of non-financial goals is a potential point of departure from non-family firms (Cennamo et al., 2012). In SEW, it is assumed that the identity overlap between the family and the firm is sufficient to influence decision-making, and that the preference is often given to SEW in order to acquire utility and preserve emotional investment (Swab et al., 2020). For example, transgenerational involvement (Ramírez-Pasillas et al., 2021), family equity (Zahra, 2018), and family goals (Williams et al., 2019) have been shown to exert an influence on family dynamics, all coming into play in the relationship between the EO and family business performance. Studies have shown that family brings new ideas, values, and perspectives, which enhance a firm’s ability to recognize entrepreneurial opportunities and take risks (Zellweger et al., 2012; Weimann et al., 2021). Zahra (2005) found that the longer the tenure of the founder, the more conservative the firm, with a timely involvement of the next generation in the company controlling the promotion of entrepreneurship. Kellermanns et al. (2008) reached a similar conclusion. However, according to McCann et al. (2001), transgenerational involvement does not directly improve a firm’s innovation ability.

Still, it is likely that a firm’s development and implementation of a

strategic plan would allow a positive transgenerational effect on the firm's entrepreneurial capabilities (Kellermanns & Eddleston, 2006; Ramírez-Pasillas et al., 2021). However, there is no consensus in the literature on the basis of the relationship between equity involvement and EO with respect to intergenerational involvement (Kellermanns et al., 2012). Scholars who believe that equity involvement enhances entrepreneurship have emphasized that family control over ownership can reduce agency costs and this is compatible with long-term benefits for owners and operators, and can consequently increase risk-taking (Zahra, 2005). Other scholars believe that equity involvement reduces the level of corporate risk-taking, assuming that the family is reluctant to share the control with outsiders, which restricts the inflow of external funds, consequently limiting the firm's development and innovation (Gudmundson et al., 2003; Kosmidou & Ahuja, 2019) prospects. Meanwhile, other scholars have examined the impact of family on EO in terms of family-first or business-first ideologies, suggesting that the family-first firms pursue safety, stability, tradition, and loyalty to the detriment of EO (Gudmundson et al., 2003).

These studies on the relationship between family factors and a firm's entrepreneurial drive have provided a useful basis for developing entrepreneurial theories regarding family-controlled businesses (Jaskiewicz et al., 2017; Combs et al., 2020; Weimann et al., 2021). It has been widely acknowledged in the literature that family firms integrate two systems—the family and the firm (Olson, 2000). Some scholars have argued that these are inextricably intertwined (Aldrich & Cliff, 2003). Menges et al. (2014) proposed that family motivation increases job performance by enhancing energy and reducing stress, which is especially important when intrinsic motivation is lacking. Notably, the influence of family factors on EO likely differs in terms of both direction and degree (López-Fernández et al., 2016; Swab et al., 2020).

Scholars have contested the formative or reflective nature of the relationship between initiative, innovation, risk-taking, and EO (George & Marino, 2011; Anderson et al., 2015), with studies mostly having considered implicit or explicit formative relationships using a certain dimension as the object of investigation (Jaskiewicz et al., 2017). For these studies, although the three dimensions of EO intersect, each dimension features unique fields, making the idea of a formative relationship appropriate (Anderson et al., 2015). By contrast, George and Marino (2011) found EO to be a reflective construct more consistent with conceptual definitions and more conducive to the accumulation and development of knowledge. This suggests that the relationship between family factors and EO largely depends on a researcher's understanding of the concept of EO (López-Fernández et al., 2016).

The management of SEW goals provides opportunities for further exploitation of the antecedents and consequences of EO (Kallmuenzer et al., 2018; Swab et al., 2020). Another flaw in the available research, as noted by Chua et al. (1999), is that, given the wide variety of family types, a certain degree of family involvement does not necessarily promote identical corporate behavior. Given the broad range of family dynamics, a family's positive or negative effect on their firms is essentially an empirical problem (Chrisman et al., 2004). Consequently, research on family businesses should consider the specifics of family dynamics (Debellis et al., 2021).

Meanwhile, family sociology research has found that Chinese families differ significantly from foreign families in terms of relationships, structures, and functions (Chen et al., 2018, 2020). As such, for Chinese family firms with distinctively defensive operating characteristics (Redding, 1990), the influence of family factors on the firm's EO needs to be understood.

To align the different views of family-to-business relations, Gómez-Mejía et al. (2007) proposed that research should consider family risk aversion through the SEW lens of loss aversion. That is, maintaining SEW—in the form of family control, identity, job security, and company–community relations—is the primary goal of the family operating the firm, and is the primary consideration of the family with regard to controlling key decisions (Brigham & Payne, 2019; Neubaum et al.,

2019). That is, regardless of whether the decision is risky or conservative, it will be favored if it is beneficial to maintaining or strengthening SEW goals, and vice versa (Hernández-Linares et al., 2020). This perspective combines the potential for families to advance or obstruct their firm's EO, and embraces different perceptions of SEW by heterogeneous families (Randolph et al., 2019). This new theoretical perspective has substantial potential to explain operations activities, including research and development innovations and cooperative memberships (Chrisman & Patel, 2012; Gómez-Mejía et al., 2007).

Given this perspective, this study comprehensively considered the different goals of maintaining SEW through family control, and offers an explanation for the relationship between the family system and EO.

### 3. Theoretical hypotheses

#### 3.1. Family decision control and entrepreneurial orientation

In recent years, growing attention has been devoted to understanding how family businesses pursue their non-economic goals and how this influences their strategic decision-making and performance (Ciravegna et al., 2020; Chirico et al., 2021). Research on pursuing and retaining SEW is built upon a tradition of examining how concern for the family can affect a firm's strategic positioning and behavior (Gómez-Mejía et al., 2007; Kano et al., 2021), whereas other studies have examined how some of the SEW components may concurrently be either positively and/or negatively related to financial performance (Gómez-Mejía et al., 2011; Berrone et al., 2012; Kallmuenzer et al., 2018). Thus, we addressed family decision control as an important factor on EO.

We define “family decision control” as the family's desire to control the behavior and strategy of the firm. Considering the blurred boundary between family and business, emotions can flow back and forth, ultimately affecting how the firm conducts its activities (Baron, 2008). The family owners are likely to see the potential gains or losses in SEW as their primary frame of reference in the management of the firm (Gómez-Mejía et al., 2011). Additionally, SEW includes both narrow, short-term, and non-economic family benefits, as well as long-term non-economic benefits for various stakeholders (Miller & Le Breton-Miller, 2014). The diversity of families and types of SEW promote differences in the internal behaviors of family enterprises (Chrisman & Patel, 2012; Kosmidou & Ahuja, 2019). The inherent uncertainty of entrepreneurial practices leads families to carefully consider how an entrepreneurial-oriented approach is likely to impact SEW, producing significant differences in EO for different family businesses (Chrisman & Patel, 2012; Swab et al., 2020).

An unfavorable result can undermine a family's intention of retaining SEW (Gómez-Mejía et al., 2011). Entrepreneurial activities require a firm's decision-makers to take risks and to have the ambition to actively shape the corporate environment and its opportunities, as well as to have the ability to develop innovative activities (Koenig et al., 2013; Minola et al., 2021). When family control takes on an entrepreneurial oriented character, it must bear the risks that come with searching for new opportunities (Zahra, 2018), such as asset loss and even bankruptcy. Shaping the corporate environment and entrepreneurial opportunities requires an enterprise to actively break with conventional behavior and reconstruct the relationship between itself and the local business ecosystem, which can both encourage new entrepreneurial opportunities and consume scarce management and capital resources (Gomez-Mejía et al., 2014; Hernández-Perlines et al., 2021). When relying on professionals and external funds to create and transform business models, the decision-maker needs to absorb the development-track control rights of the firm (Gómez-Mejía et al., 2010). These factors indicate that there is not only an immediate requirement for changing the controlling status quo, but also the possibility of damaging the reputations of the family and the firm, should the entrepreneurial drive fail.

In terms of SEW, families regard their firm's success as their own



success and the firm's tradition as the family's tradition. Maintaining family control of the firm is the most fundamental (lower-order) goal in the goal hierarchy (Dou et al., 2020). The influx of new ideas may promote the reform of processes—for example, management and marketing processes—leading to a break with the original business tradition, leaving the family feeling a loss of control (König et al., 2013). For families controlling decision-making, this threatens the capacity of the emotional benefits to frame decision-making, leading some scholars to contend that family businesses are conservative and closed organizations (Naldi et al., 2007). This representation of family firms likely stems from their control over decision-making, with concerns about relinquishing the control of decision-making prompting family-based decision-makers to be especially prudent when considering conducting any business that involves risk, innovation, or initiative, and even being willing to sacrifice potential economic gains in order to maintain decision-making control (De Massis et al., 2013; Chen et al., 2016). Accordingly, the following hypothesis was proposed:

**H1:** Family decision control was negatively related to the firm's entrepreneurial orientation.

### 3.2. Moderating role of the family relationship

Family situations constantly influence individual members, and even the basic tendency of members, to become self-interested or self-fulfilling, as Breton-Miller et al. (2011) termed it. Ultimately, different individual personality types characterize a family's original relationship, with the subsequent relationship dynamic accompanying the introduction of new family members into the firm (Neubaum et al., 2019). The behavioral patterns of family members and their value orientations likely produce imperceptible effects in a firm's decision-making processes and have a non-negligible impact on the means, goals, and even results of business behaviors (Corbetta & Salvato, 2004).

In accordance with previous research (Menges et al., 2016), we predicted that, during the entrepreneurial process, family adaptability was likely to reduce the feeling of stress, and family cohesion was likely to enhance energy. According to family sociology studies, cohesiveness and adaptability are core elements of family relationships, regulating the values and behaviors of members and substantially impacting the possibility of family functions being realized normally (Olson, 2000). As such, the roles played by family members in their firms reflect differential characteristics that can further impact the magnitude of the relationship between family decision-making and EO.

**Moderating role of family adaptability.** Change can be considered the true meaning of entrepreneurship, and change can bring stress to a family (Chen et al., 2020). Although families that exert control over their firm can hinder entrepreneurship, they can also adapt to the feeling of stress and even promote change (Menges et al., 2016). The nature of their influence depends largely on the capacity of the family to adapt to external changes (Daspit et al., 2021; Debellis et al., 2021).

There is a wealth of evidence for highly adaptable families being able to provide a sense of meaning to internal and external changes to their firms and for them to view these as opportunities rather than threats (Chen et al., 2018; Ramírez-Pasilla et al., 2021; Wang & Zhang, 2021). In this context, decision-makers are likely more drawn to improving SEW through entrepreneurial outcomes rather than possibly losing SEW, thus enhancing the entrepreneurial impulse (Hernández-Perlines et al., 2021). Highly adaptable families can optimize their business models in the face of changing conditions, recognizing opportunities while quickly responding to their impact on maintaining existing decision-making control and SEW (Chen et al., 2016). This substantially reduces aversion to this impact and the broader hostility towards EO. Meanwhile, such firms also demonstrate the ability to utilize opportunities, with their business focusing not on retaining existing economic and non-economic benefits, but on proactively creating greater and more numerous future benefits (Hernández-Linares et al., 2020). This shifts

the emphasis on retaining SEW to an emphasis on future earnings, enabling firms to launch further entrepreneurial activities.

Contrastingly, if a family's adaptability is weak, they may find it difficult to adapt to internal and external changes in the firm, tending to interpret such changes as unfavorable shocks and perceiving change as a serious threat to decision-making control and retaining SEW. Consequently, such families consider all EO—potentially promoting change—as a threat to their existing SEW, including their control of the firm, thus weakening their support for EO. Based on this, the following hypothesis was proposed:

**H2a:** Family adaptability weakens the negative relationship between family decision control and a firm's entrepreneurial orientation.

**Moderating role of family cohesion.** Energy is a form of heightened animation that exerts a positive effect on a family. Family cohesion can enhance energy in the intersected system and improve a firm's corporate sustainability and growth profile (Menges et al., 2016). When family members are energized, they tend to be more effective. Strong cohesion makes family members prone to consensus on existing values and behavioral norms. More intimate relationships can simplify communication and decision-making processes, avoiding the pitfalls of shortsightedness and allowing a balanced inter-temporal decision-making mechanism to take shape (Chen et al., 2016). Accordingly, decision-making in such families demonstrates long-term orientation compared to families characterized by weak cohesion (Olson, 1988). When decision-making families have a long-term perspective on decision-making, their desire to maintain family decision-making control can be located within a relatively broad temporal background. Such families focus on not only current decision-making control, but also long-term goals and SEW benefits (Zellweger & Sieger, 2012). That is, for highly cohesive families, EO is a corporate behavior that can promote long-term economic and SEW benefits, with the threat to current decision-making mitigated by the potential for a long-term competitive edge and the conduciveness to increase SEW (Gomez-Mejia et al., 2014). Consequently, such family businesses are more likely to reduce their aversion to EO, and even promote it.

However, when cohesion is weak, family members fail to maintain intimate relationships and continuous communication (Björnberg & Nicholson, 2007), resulting in information asymmetry and adverse selection. Such families cannot achieve equivalent returns through altruistic, family-oriented behavior, instead focusing on individual interests, allowing personal short-term economic benefits, nepotism, and preferential treatment to become priorities (Chen et al., 2018). Business owners adopt a negative attitude towards the areas they already control, viewing corporate actions that may weaken their decision-making power—such as entrepreneurship—as undesirable decision-making options. This is a further negation of the potential for a positive relationship between family control and EO. Accordingly, the following hypothesis was proposed:

**H2b:** Family cohesion weakens the negative relationship between family decision control and a firm's entrepreneurial orientation.

## 4. Methods

### 4.1. Data source

We used secondary cross-sectional survey data collected from China's private enterprises in 2014–2015. This survey was conducted through a collaborative effort involving the All-China Federation of Industry and Commerce and Zhejiang University. It has been used in family business research and governmental reporting, such as Dou et al. (2020) and Chen et al. (2016). Such surveys are conducted every 3 years. Each year's survey has the same set of basic questions; however, the theme of each year is different. The theme for the 2014 survey was the

“Health Status of China’s Non-Public Economy,” which covered many aspects of family firms, including entrepreneur beliefs, family relationship, family commitment, organizational structure, decision-making, transgenerational succession, market performance, charitable giving, and taxation, as well as the basic statistical facts normally included in questionnaires.

Questionnaires were distributed to the 12 provinces of China by the provincial industrial and commercial union using stratified sampling. According to Dou et al. (2014), data collection followed four steps: (1) the sample size was identified at the national level; (2) the cities from each province that were included in the survey by random sampling were grouped according to their economic status; (3) selected counties/towns of each city, chosen by random sampling, were grouped according to their economic status; and (4) firms were randomly sampled from each of these county/towns. The operational definition of a family business was one where there was more than a 50 % family shareholding, which resulted in 1,076 responses. Following the removal of samples with incomplete relevant indicators, our sample included 528 family-run firms. A comparison between those 528 firms and the total pool of 1,076 family firms indicated no significant differences in terms of indices such as age, size, and industry category, demonstrating that the final sample was as representative as the initial sample.

Of the entrepreneurs surveyed, 88 % were male (12 % female). Their ages ranged from 25 to 74 years, with the average age being 47. The firms were divided into three size groups, 49.44 % being small (<100 employees), 37.78 % being medium-sized (100 to 500 employees), and 12.78 % being large (more than 500 employees). Comparably, 43.79 % of the firms responded that their annual revenues ranged from RMB 10 million to 0.1 billion, 22.22 % less than RMB 10 million, 27.67 % between RMB 0.1 billion and 1 billion, and 6.32 % more than RMB 1 billion.

Although we detected the existence of a multicollinearity problem with the variance inflation factor, we found that the largest variance inflation factor was 1.35, meaning there was no substantial multicollinearity problem in the data (Aiken & West, 1991). To avoid discrepancies within the same information source, one questionnaire was designed for entrepreneurs (Questionnaire A), and one questionnaire was designed for vice-presidents of finance (Questionnaire B). Responses to Questionnaire A were received to items concerning family decision-making control, cohesiveness, adaptability, and background, while the vice-presidents of finance responded to items concerning EO, past performance, and industry competition. Additionally, we conducted principal component analyses on all the variables and found that the largest eigenvalue was 12.4 % variation, indicating that there was no substantial common method deviation. To control for possible heteroscedasticity, we used the robust Stata software for regression analysis.

#### 4.2. Measuring variables

This study employed a seven-point Likert scale, where 1 indicated “totally disagree” and 7 indicated “totally agree.” The interviewees were asked to respond to items that considered practical situations.

**Entrepreneurial Orientation.** Entrepreneurial orientation was measured using the nine-item scale employed by Covin and Wales (2012) and Miller (1983). Representative items included the following: “Our company thinks highly of products or service development, a leading position and persistence of technology”; “Our company usually takes a competitive position to defeat rivals”; and “Under uncertain circumstances, our company tends to take bold and aggressive positions to explore potential opportunities.” The research adopted confirmatory factor analysis to obtain a principal component with a reliability coefficient of 0.80.

**Decision Control.** This tested whether administration authority was concentrated with one or several family members (Eddleston & Kellermanns, 2007), with respondents answering the question “Who makes important decisions in your company?” with either “The business owner himself/herself” (recorded as 1) or “The business owner discusses the

decision with the family” (recorded as 0).

**Family Adaptability.** This measurement was adopted from the five-item scale from the Family Adaptability and Cohesion Evaluation Scale (FACES) questionnaire (Olson, 1988; Lansberg & Astrachan, 1994) and was used to measure the ability of the family to adjust to the external environment. Example items included “Our family members can express their opinions without scruples” and “Every-one in our family takes part in major family decisions.” The reliability coefficient for this factor was 0.88.

**Family Cohesion.** This measurement was adopted from the eight-item scale employed by the FACES questionnaire (Olson, 1988; Lansberg & Astrachan, 1994) and was used to measure the intimacy of the family relationship. Example items included “All of our family members comply with group decisions” and “Our family members like to share their interests and hobbies.” The reliability coefficient for this factor was 0.89.

**Control Variables.** The research controlled for firm age, firm size, industry category, firm performance, educational background and age of firm owner, competitive dynamics, industry dynamics, technology dynamics, and duality. Firm age, size, and performance impact the resources required to start a business. Competitive dynamics vary between industries. Each of these factors can influence EO and are the three most common control variables in empirical studies of EO (Covin & Wales, 2012; Anderson et al., 2015). The age of the business owner can influence their attitude towards risk, with their education level indicating their ability to recognize and control entrepreneurial activity (Boling et al., 2016).

The environment dynamics of a business can affect its strategic positioning and EO. According to Casillas et al. (2011), environment dimensionality, as an important situational variable that can affect EO, can be divided into environment dynamics and environment hostility (Covin & Slevin, 1989), with environment dynamics referring to rapidly changing market dynamics (e.g., demand and growth rate) and technology dynamics (development speed, trends, and uncertainty). The constant transformation of technology-intensive industries with high levels of customer growth and uncertainty produces substantial quantities of information requiring timely processing (Eisenhardt, 1989), with the development of new products, applications, and production processes certainly breaking current norms (Hufnagel, 1990) and forcing businesses to either actively or passively adjust their EO.

Given the practical concerns of Chinese businesses, two dimensions of environment dynamics were measured—industry prospects and technology dynamics. Competition dynamics substantially indicate environment hostility, which refers to fierce market competition, a lack of resources, and exploitable opportunities; enterprises tend towards taking a more active strategic position in more competitive situations (Covin & Slevin, 1989).

Finally, duality is the combined position of the chairperson and the general manager. A general manager with the position of chairperson is invested with broad powers to recognize, implement, and reject entrepreneurial activity, thereby impacting EO (Boling et al., 2016).

#### 4.3. Reliability and validity test

To ensure the validity of the constructs, we conducted convergent and discrimination validity analyses. The Cronbach alphas for the three constructs were 0.80, 0.89, and 0.88, respectively. All of these were above the experience threshold value of 0.70, explaining why the convergent validity of the measurement was higher. We used two methods to detect discrimination validity of the three constructs. First, the measurement items were derived from previous studies, all of which had been tested in the Chinese context, ensuring the relevance of the measured constructs. Second, a correlation analysis was conducted for all options, and indicated that all item loading was higher than cross-loading. Then, we compared the correlation coefficient between the average variance extracted (AVE) square root of each construct (the AVE

square root was 0.69 for EO, 0.70 for family cohesion, and 0.698 for family adaptability) and the square roots of the other constructs (see Table 1). Each AVE square root was found to be higher than the correlation coefficient for both it and the other constructs. This fit the Fornell–Larker law, with all three constructs demonstrating considerable discrimination validity.

4.4. Endogeneity control

Family decision-making may be endogenous to EO. To control for this, we used agency theory, taking the infringement of shareholder benefit as the instrumental variable and responses to the item “The company may sometimes infringe the shareholder’s benefit” as options. The responses varied between “strongly disagree” (recorded as 1) and “strongly agree” (recorded as 7). Usually, if a shareholder benefit was adversely affected, the shareholder would take the necessary measures to intervene in the business operations to prevent possible damage. For a family business, control of the business decision-making is the main means of achieving the family’s intentions. Accordingly, if an enterprise regularly infringed on shareholder benefits, it was likely that a family group would directly control key decisions. However, this behavior did not affect EO, with the Wu–Hausman test finding that the family decisions were endogenous. That is, for the instrumental variable of benefit infringement, the correlation coefficient for the instrumental variable and EO was not obvious ( $r = -0.062$ ,  $p$  greater than 0.1), and the regression coefficient of the endogenous variable was obvious (see module M1 in Table 2;  $r = 0.141$ ,  $p < 0.001$ ,  $F = 14.57$ ), meaning that both the theory and the statistical testing demonstrated that the instrumental variable was appropriate.

5. Results

5.1. Descriptive analysis

Table 1 summarizes the average values, variances, and correlation coefficients of the variables, showing that the average firm age was 13.11 years, the average education level of the firm owners was above junior college, and that 33 % of the general managers also occupied the post of chairperson.

5.2. Hypothesis testing

Table 2 summarizes the results of the regression analysis. Hypothesis 1 proposed that family decision control negatively impacted a firm’s EO. To test this hypothesis, control variables were added to the regression equation, followed by the independent variable (decision control). As Table 2 indicates, decision control ( $M2$ ,  $\beta = -2.006$ ,  $p < 0.01$ ) had a significant negative effect on EO, thus supporting H1.

According to Models M3 and M4, the interactions between both decision control and adaptability ( $\beta = 0.146$ ,  $p < 0.1$ ) and decision control and cohesion ( $\beta = 0.267$ ,  $p < 0.001$ ) positively affected EO. This demonstrated that the negative effect of family decision control on a firm’s EO was weakened by family adaptability and cohesion, thus supporting H2a and H2b.

5.3. Robustness test

When processing the samples, we excluded from the regression analysis those samples that used the original questionnaire variables as missing values. To test the robustness of the research findings, the frequently used unconditional mean value completion method was applied to the dependent variables, independent variables, and regulated variables. This allowed the missing values to be filled in and the data obtained to be analyzed, thus enabling a determination of whether the results were the same as for the previous test. Table 3 provides the

Table 1  
Mean, Standard Deviation, and Correlation Coefficients of the Variables.

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. EO	0.09	1.34	1.00													
2. Decision control	0.34	0.47	-0.18**	1.00												
3. Firm adaptability	5.23	1.05	0.19**	-0.16**	1.00											
4. Firm cohesion	5.41	1.06	0.20**	-0.15**	0.60**	1.00										
5. Firm age	13.11	6.38	0.02	-0.02	0.02	0.02	1.00									
6. Firm size	4.81	1.37	0.15**	-0.22**	0.07*	0.05	0.27**	1.00								
7. Owner’s education	4.20	1.10	0.06	-0.17**	0.08*	0.06	-0.05	0.15**	1.00							
8. Owner’s age	48.16	8.74	-0.07	0.01	0.04	0.02	0.32**	0.19**	-0.27**	1.00						
9. Industry category	0.55	0.50	0.12**	-0.05	0.07	0.01	0.18**	0.32**	-0.01	0.07*	1.00					
10. Competitive dynamics	5.10	1.14	0.29**	0.00	0.15**	0.17**	0.02	0.03	0.03	0.00	0.08*	1.00				
11. Industry prospects	4.89	1.18	0.38**	-0.01	0.13**	0.17**	-0.02	0.01	0.08*	-0.11**	0.01	0.48**	1.00			
12. Technology dynamics	4.92	1.19	0.30**	0.03	0.03	0.11**	0.04	0.01	-0.02	0.02	0.09**	0.60**	0.59**	1.00		
13. Duality	0.33	0.47	0.04	-0.17**	0.02	0.06	-0.06	0.10**	0.11**	-0.14**	-0.05	-0.01	0.03	-0.01	1.00	
14. Firm performance	0.34	4.36	-0.03	-0.02	0.06	0.04	-0.04	-0.05	-0.04	-0.04	-0.05	0.01	-0.07	0.04	-0.03	1

Note: \*  $p < 0.05$ , \*\*  $p < 0.01$ ,  $N = 528$ .

**Table 2**  
Regression Analysis.

Variable		M1 Decision control	M2 EO	M3 EO	M4 EO
<b>Control variables</b>	Firm age	0.004	0.002	-0.001	-0.001
	Firm size	-0.213***	0.001	0.101**	0.099**
	Owner's education	-0.139**	-0.108	-0.038	-0.034
	Owner's age	-0.003	-0.010	-0.012*	-0.012*
	Industry category	0.033	0.156	0.158	0.182*
	Competitive dynamics	-0.037	0.120*	0.108*	0.104*
	Industry prospects	-0.029	0.297***	0.296***	0.296***
	Technology dynamics	0.057	0.100	0.091	0.073
	Duality	-0.390***	-0.205	-0.012	-0.032
	Firm performance	-0.016**	-0.010**	-0.006**	-0.004*
	Benefit infringement	0.141***			
<b>Independent variable</b>	Decision control		-2.006**	-1.149**	-1.828***
<b>Moderator variables</b>	Adaptability			0.098	
	Cohesion				0.041
<b>Interaction variables</b>	Decision control *Adaptability			0.146 <sup>+</sup>	
	Decision control *Cohesion				0.267***
<b>Constant</b>		1.016*	-0.922	-2.535***	-2.147***
	adj. R-sq		0.181**	0.209*	0.214***
	pseudo R-sq	0.097			

Note: <sup>+</sup> p < 0.1, \* p < 0.05, \*\* p < 0.01, \*\*\* p < 0.001, N = 528.

**Table 3**  
Regression Analysis Using Unconditional Mean Values to Fill Missing Values.

Variable		M1 Family decision	M2 EO	M3 EO	M4 EO
<b>Control variables</b>	Firm age	0.001***	0.000	-0.000	-0.000
	Firm size	-0.194***	0.106	0.161***	0.153***
	Owner's education	-0.218***	-0.042	0.029	0.024
	Owner's age	0.000*	-0.000	-0.000***	-0.000***
	Industry category	-0.041	0.186**	0.204**	0.228***
	Competitive dynamics	0.017	0.096*	0.076*	0.071
	Industry prospects	-0.037	0.337***	0.339***	0.330***
	Technology dynamics	0.030	0.080*	0.085**	0.079*
	Firm duality	-0.499***	-0.136	-0.001	0.006
	Firm performance	0.000	0.002	0.002*	0.002*
	Benefit infringement	0.071***			
<b>Independent variable</b>	Decision control		-1.196	-0.948**	-0.383
<b>Moderator variables</b>	Adaptability			0.068	
	Cohesion				0.182***
<b>Interaction variables</b>	Decision control *Adaptability			0.143*	
	Decision control *Cohesion				0.033
<b>Constant</b>		1.322***	-2.469**	-3.732***	-4.218***
	adj. R-sq		0.081	0.188	0.201
	pseudo R-sq	0.095			

Note: \* p < 0.05, \*\* p < 0.01, \*\*\* p < 0.001, N = 1076.

results of the regression analysis after using the unconditional mean values to fill in for the missing values. The valid samples increased from 528 to 1,076, and a direct and moderating effect could be observed, indicating that the results of this study are consistent with previous results in terms of significance level and coefficient symbols, and that this study was robust to a certain degree.

#### 5.4. Discussion

This approach revealed that the EO of family firms in China is reduced when family members control key decisions. However, high levels of family relationship may decrease the negative effect of family decision control on EO. The data underlines that when a family had the desire to grow SEW, this would lead to corresponding differences in EO. The findings also prove that family relationship has an impact on EO by enhancing energy and reducing stress. Overall, the article addresses repeated calls by scholars to expand the research agenda on family firm heterogeneity, beyond the focus on difference between family firm and non-family firms.

First, our findings mainly concern the impact of family on decision-

making and setting the boundaries for SEW. From the existing SEW perspective, family firms are risking success in order to preserve their endorsement, while their reference point is mostly changed by financial crisis (Brigham & Payne, 2019; Swab et al., 2020). Recalling Chen et al. (2016) —if the business family has a high level of cohesion and adaptability, the family firm will tend to take risks on venture creation, while their reference point will be changed due to energy enhancement and stress reduction rather than financial issues. On contradictory to the SEW researches, this findings proves the unique non-economic reason to explain why the impact of family decision-making on economic behavior may change. This also recalls the findings of Kano et al. (2021) and Minola et al. (2021), that managing SEW and using family attributes can provide opportunities for a more efficient exploitation of EO.

Second, our findings offers several counter-intuitive deviations from how family factors is conceptualized for entrepreneurial orientation. It allows family-business researchers to move beyond the single-family dimension, such as family involvement, to succession, as it is called in Jaskiewicz et al. (2020). The data underlines that family members interact with one another across multiple dimensions and, in turn, they can influence others as well as the family on decision-making regarding



firm issues. This findings strengthen the findings of Jaskiewicz et al. (2017).

Consistent with the literature (Lansberg & Astrachan, 1994; Chirico et al., 2021; Minola et al., 2021), we have investigated the links between the family relationship and EO, addressed the family-level antecedents of EO, and recalled the need to leverage family science in entrepreneurship (López-Fernández et al., 2016; Combs et al., 2020). Thus, this study aligns with the proposals of Olson (2000), Chrisman et al. (2007), and Sharma and Chua (2013) to explore real family factors that influence the enterprise system in order to enhance our understanding of family business imperatives and to further explore the still-mysterious family–business relationship.

Third, our findings have demonstrated that the heterogeneity of the controlling family fundamentally drives the heterogeneity of the family firm. Previous research has considered the behavioral differences between family businesses to be greater than those between non-family businesses (Chua et al., 1999; Chrisman & Patel, 2012). However, few studies have focused on which factors produce such differences in behavior, with existing studies often considering formal family involvement factors, such as family equity and status on the board of directors (De Massis et al., 2013, 2014). This cannot fully explain family business behaviors in transitioning countries like China, which features systematic holes, especially in property rights protection (Chen et al., 2016). Family firms, in terms of different levels of control—from formal to substantive—may not only partially bridge existing theoretical disputes, but may also promote a deeper understanding of the notion (Chen et al., 2016; Daspit et al., 2021). As Weimann et al. (2021) put it, family plays the role of binding social ties for EO in family firms. This has roots in historical culture and the institutional environment. Importantly, given that “family first” in Chinese family businesses, our data underlines that balanced family relationships help to ease insecurities related to the emotional and financial losses that correspond with this “defensive” characteristic.

## 6. Conclusion

This study makes two main theoretical contributions. First, it has allowed the development of an integrated theoretical framework concerned with the family aspects of EO. This recalls Jaskiewicz et al. (2017), who enabled a more comprehensive investigation of the family system, especially the influence of family involvement on the firm system, with the findings indicating that decision-makers in the family system are deeply influenced by family group relationships, which are mainly impacted by trade-offs between non-economic goals and economic goals for decision-makers. This further illustrates the diversity and variability of family SEW goals (Miller & Le Breton-Miller, 2014), filling a theoretical gap in the previous research.

Second, the findings of this study contribute to determining the boundaries of SEW, and promote the study of different levels of family control, ranging from formal to substantive. Studies of the strategic behaviors of family firms, based on a developed economic entity, usually use stock equity and management rights as the agency indicator of family involvement (De Massis et al., 2014). For Chinese family businesses with “defensive” operations characteristics (Redding, 1990), such formal control factors usually cannot explain the strategic behavior of Chinese family businesses due to institutional gaps in the transitional economy (Luo & Chung, 2013). Instead, empirical studies have found that being able to control key decisions is the main guarantee for achieving the intentions of a family business (Wu, 2016). Accordingly, we consider the substantive control of decision-making to be a major representation of family involvement, potentially better explaining the EO of family businesses in transitioning economies, where systematic gaps in property rights protection remain.

The practical implications for family businesses are manifold. We found that the family relationship is an important source of family business heterogeneity. From the SEW perspective, taking the

substantial family involvement in key decisions as the entry point, we recognized that family control of key decisions impacts the EO of family businesses, with family relationships having a positive adjustment impact on both key decisions and EO. This finding provides significant insight into Chinese family business heterogeneity, and can act as a useful reference for relevant future research. Finally, we suggest that family-firm management and consultants alike refocus on, and exploit, their family relationships in order to leverage entrepreneurial activities, while maintaining their competitive advantages from family decision-making.

Although this research partially reveals the direction and degree of variation of the influence of important family stakeholders on the entrepreneurial orientation of family businesses, the study features several limitations. First, the cross-section of the data complicates direct reflection of the causal relationship between concepts given time lag. Longitudinal designs should be adopted to investigate how the transformation of family heterogeneity impacts the strategies of family businesses. Second, familial decision-making is a relatively new indicator of family influence on a family business. The range of applicability and theoretical boundaries require further testing in future research. Furthermore, given measurements of family relationships and family decision-making are based on personal perceptions, social procedures may affect the objectivity of the conclusions.

## Funding

This work was supported by the Ministry of Education of Humanities and Social Science project of China (18YJC630008; 17YJC630170); the National Natural Science Foundation of China (71802114; 71972042), the Zhejiang Provincial Natural Science Foundation of China (LR20G030003), China State Scholarship Fund (202008330058; 201906655022) and the Teaching-research project of Ningbo University (JYXMYB201903).

## CRedit authorship contribution statement

**Shihui Chen:** Writing – original draft. **Bingde Wu:** Supervision, Software. **Zhongju Liao:** Methodology, Conceptualization. **Ling Chen:** Project administration, Data curation.

## Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

## Data availability

Data will be made available on request.

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