



ORIGINAL ARTICLE


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Organizational, local, and global innovativeness of family-owned SMEs depending on firm-individual level characteristics: evidence from the Czech Republic

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Abstract

Research background: Comparing to larger businesses, SMEs encounter more problems in their operations. Since innovativeness enables SMEs to be more competitive against their rivals, having more innovative activities might make SMEs overcome these issues. Nevertheless, depending on businesses-founders/owners' characteristics, SMEs' innovativeness in organizational, local, and global extents might differ.

Purpose of the article: This research explores differences in family-owned SMEs' innovativeness regarding the age of their founders/entrepreneurs, legal form, and succession of these businesses.

Methods: The researchers used a questionnaire survey. Data collection process was completed in 2020. The research sample includes 343 family-owned SMEs that operate in Czechia. The normality test result directs the authors to perform an Independent sample T-test to find differences between selected variables.

Findings & value added: According to the obtained results, global innovativeness does not differ depending on firms-owners/entrepreneurs' characteristics. However, limited liability firms perform better in local innovativeness than other firms structured in different legal forms. Moreover, the organizational innovativeness of SMEs with successors is greater than firms without successors. While organizational innovativeness does not differ depending on entrepreneurs/founders' age and legal structure of businesses, local innovativeness does not differ depending on entrepreneurs/founders' age and successors' existence in these businesses. The educational level of entrepreneurs/founders, sector, and SMEs' location might be reasons for similarities and differences between SMEs' innovativeness. From the policy perspective, based on the obtained results, the authors suggest creating industrial zones. Furthermore, policymakers' collaborations with other essential players in the market might stimulate innovative attitudes among businesses. This paper's main contribution to the existing literature is to fill the gap regarding organizational, local, and global innovativeness of family-owned SMEs by providing detailed and empirical results about entrepreneurs' and firms' characteristics. Thus, this paper might draw businesses, policymakers, academicians, and international readers' attention concerning family-owned SMEs' innovativeness.

Introduction

Many firms belong to the segment of family-owned and managed enterprises, while this segment created approximately 40 to 50% of all developed economies' job opportunities. Moreover, more than 14 million family businesses in Europe provide around 50% of GDP in this region. Concerning family businesses in the Czech Republic, they account for 87% of all businesses (European Family Businesses, 2016).

Although family-owned SMEs play a crucial role in world economies, they encounter various difficulties to receive more revenues. At the same time, family-owned businesses make innovations for their organizational structure to deal with these obstacles. Local and global markets might provide efficient solutions for this enterprises' segment because innovativeness positively influences the performance (Filser *et al.*, 2018; Hadryś-Nowak, 2018), capital growth (Bilan *et al.*, 2020a) and SMEs' revenues (Hollen *et al.*, 2020; Wach, 2020). In this regard, the innovativeness of family-owned SMEs deserves more attention, and this paper aims to fill this crucial literature gap. Hence, this paper's primary focus is to analyze family-owned SMEs' innovativeness depending on firm-owner/entrepreneur characteristics such as age, legal structure, and successors' involvement.

Regarding organizational innovativeness, it is more related to firms' flexibility and adoption regarding implementation, creation, and development of new or existing products, processes, and plans (Grundström *et al.*, 2011). By engaging the regional management structures, firms can achieve

cost advantages and apply various differentiation and marketing strategies depending on their location. Except for the production of goods for local markets, businesses also aim to implement some plans or processes to make productions larger, such as for the global market (Isaac *et al.*, 2019). In this regard, apparent from previous studies, this paper analyzes family-owned SMEs' innovativeness from a widening perspective by focusing on organizational, local, and global innovativeness in detail and by including three different firm and individual levels characteristics.

All arguments mentioned above make the researchers set research questions: Do differences exist between organizational, local, and global innovativeness of family-owned SMEs depending on their founders/entrepreneurs age? Are there any significant differences between the local, global, and organizational innovativeness of family-owned SMEs depending on their legal structure? Do organizational, local, and global innovativeness of family-owned SMEs differ depending on successor involvement? A questionnaire survey was generated and shared with the survey respondents to answer these research questions. The researchers consider three survey questions to evaluate the global, local and organizational innovativeness of 343 family-owned Czech SMEs. Moreover, the questionnaire includes other questions to determine the characteristics of entrepreneurs and businesses.

The remaining part of the paper is organized as follows. The literature review gives detailed explanations of the variables. Methodological approaches, methods, and the data that the researchers have analyzed are clarified in Section 3. Section 4 remarks on the results of this paper, while section 5, called discussion, provides potential reasons for these findings by also making some suggestions. Lastly, the part called Conclusion summarizes the paper's main points and presents its limitations.

Literature review and hypotheses development

Regarding influences of entrepreneurs'/founders' age on innovativeness, empirical pieces of evidence find different results. When entrepreneurs get older, they become more experienced (Ključnikov *et al.*, 2019) in local markets and international markets. Operating in different markets makes them increase their knowledge about various conditions and be more innovative to receive leading positions in their industry (Hollen *et al.*, 2020; Bilan *et al.*, 2020b). In general, they are more efficient in financial risks management (Angelova *et al.*, 2018), implementation of advanced HRM practices (Bilan *et al.*, 2020c) and information technologies in commerce

(Hu *et al.*, 2019). Thus, they can make more radical changes in their operations (Martínez-Román & Romero, 2013), and they can be more innovative comparing to their younger counterparts.

On the other hand, some studies mention that younger company executives and entrepreneurs are more innovative than their older counterparts (Ključnikov *et al.*, 2019; Chipunza & Naong, 2020). That is because younger entrepreneurs and owners are compatibly more ambitious and risk-taking to hit the aims of their businesses (Tominc, 2019). They have fewer concerns regarding their businesses' bankruptcy compared to older entrepreneurs (Martínez-Román & Romero, 2013). They are also more prone to seize financing opportunities in the market to make investments for their innovative operations (Frešer & Tominc, 2018). Since the studies mentioned above validate differences between the innovativeness of businesses regarding the age of entrepreneurs, this paper sets the following hypotheses:

H1a,b,c: A statistically significant difference exists between the mean volumes of organizational (a), local (b), and global (c) innovativeness of family-owned SMEs with younger or older entrepreneurs/founders.

Concerning businesses' legal form, firms with a formal legal structure of limited liability company usually have more assets, revenues, and employees than sole traders or firms structured as sole proprietors (Lee, 2004). Lee (2004) also confirms that limited liability firms are more innovative than sole proprietorship firms. Similarly, Ayyagari *et al.* (2011) also find the differences between SMEs' innovativeness regarding their legal forms.

On the other hand, some studies' arguments are not consistent with the results of the studies mentioned above. For instance, Villaluz and Hechanova (2019) declare that since owners of structured businesses as sole proprietors are the only and major players in their firms' decision-making process, they can autonomously create innovative strategies quickly implement them into their operations. Thus, these owners are freer to make innovative changes for their organizations (Goel & Nelson, 2020). Moreover, the differences between innovativeness of businesses that are structured as a sole proprietorship, partnership, private limited, and public limited companies have been confirmed by the study of Kiran (2017). By considering the above mentioned empirical results, this study sets hypotheses as follows:

H2a,b,c: *A statistically significant difference exists between the mean volumes of organizational (a), local (b), and global (c) innovativeness of SMEs structured as limited liability companies or structured in different legal structures.*

Another critical factor analyzed by this study is the existence or nonexistence of successors in businesses and their influences on firms' innovativeness. According to Daszkiewicz (2019) and Filser *et al.* (2018), when family members are involved in firms' management, they can determine businesses' innovative strategies since they play a crucial role in firms' decision-making processes. Webb *et al.* (2010) corroborate that firms with successors are less likely to make innovative activities than their counterparts that have involved external parties to manage these firms. The reason is that external executives who have no family ties have more autonomy to take initiatives regarding businesses' innovative actions (Grundström *et al.*, 2011; Oberg *et al.*, 2011).

However, some studies find that firms owned by families are more innovative than other businesses (Ayyagari *et al.*, 2011; Filser *et al.*, 2018; Putri & Viverita, 2019). Since family members play a leading role in the management of businesses, they are more influential when making decisions regarding firms' innovative activities (Kellermanns *et al.*, 2012). By considering the above mentioned empirical findings, this study sets hypotheses as follows:

H3a,b,c: *A statistically significant difference exists between the mean volumes of organizational (a), local (b), and global (c) innovativeness of SMEs with or without a successor.*

Research methodology

This research purposes of finding differences in organizational, local, and global innovativeness of SMEs depending on founder/entrepreneur and firm characteristics. To fulfill this aim, the researchers include the age of founder/entrepreneur, legal form, successor's involvement, and firms' succession into the analyses. The researchers employed a questionnaire survey to collect the respondents' research data, and the data collection process was completed in 2020. The sample of the analysis consists of 343 family SMEs that are located in the Czech Republic. The researchers performed the intentional sampling method to select the sample of this research. In detail, the sample selection was based on family business theory; thus, each

of the firms in the sample has at least two people from the same family, and they work as a manager, owner, entrepreneur, or in other significant roles.

Three survey questions were selected to assess organizational, local, and global innovativeness of firms as follows; "Newness of change (innovation) for the organization," "Newness of change (innovation) for the local market," and "Newness of change (innovation) for the global market." Moreover, the researchers scale the responses to measure firms' innovativeness and code the responses as follows: "1 — Newness of change (innovation) is not new for the organization, 2 — partially new, 3 — entirely new, 4 — revolutionary for the organization." Therefore, the researchers analyze innovativeness by considering the perceived innovativeness of survey respondents who work as managers, owners, and entrepreneurs in family-owned SMEs. Since this paper does not evaluate these businesses' innovativeness by any external "objective" measurement, this is the potential limitation of this research.

The tested statistical hypotheses were grounded and presented in the literature review part. The researchers consider a 5% level of significance to support or fail to support alternative hypotheses. Null hypotheses are set as the nonexistence of the differences between the mean volumes of the analyzed variables. When p values are less than a 5% significance level, they support alternative hypotheses and fail to support null hypotheses.

On the other hand, to find the data distribution, the researchers include normality tests into the analyses and run Levene's, Skewness, and Kurtosis tests. The results of these tests are presented below, in Table 1. Skewness and Kurtosis tests' values should be between +1.5 and -1.5 (Tabachnick & Fidell, 2013) to confirm whether the data has a normal distribution or not. As shown in Table 1, Skewness and Kurtosis tests' values differ between 0,257 to 1,396. When it comes to Levene's test, the results are higher than the 5% level of significance. In this regard, the variances between the groups are not statistically significant. The results from Levene's, Skewness, and Kurtosis tests confirm that the sample meets with the normality test assumptions. For these reasons, the researchers perform an Independent Sample T-test to compare the means of innovativeness of various groups that consist of entrepreneurial-firm characteristics. To perform these analyses, the researchers run SPSS statistics. Moreover, Table 2 in the Annex illustrates details about the sample profile.

Results

Table 3 demonstrates the Independent Sample T-test results regarding the age of entrepreneurs and innovativeness of SMEs. As illustrated in Table 3, all p values (significance) are higher than the selected level of significance (organizational: $t(341) = -0.604$, $p = 0.546 > 0.05$; local: $t(341) = 0.582$, $p = 0.561 > 0.05$; global: $t(341) = -0.0022$, $p = 0.982 > 0.05$). For these reasons, this paper confirms that the mean volumes for local, global, and organizational innovativeness do not differ depending on entrepreneurs/founders' age. In this regard, this research fails to support H1a, H1b, and H1c hypotheses that assume the existence of the differences between the mean volumes of older-younger entrepreneurs.

Concerning the results of SMEs' legal structure and their innovativeness, Table 4 is presented in Annex. P-value regarding organizational innovativeness is significant at 5% level of significance (organizational: $t(341) = -2.953$, $p = 0.03 < 0.05$). Thus, there is a significant difference between the mean volumes of limited liability firms' organizational innovativeness and other businesses with different legal structures. Hence, this paper supports the H2a hypothesis, which assumes the existence of differences in the mean volumes of different groups regarding organizational innovativeness. Moreover, the mean volume of limited liability companies regarding organizational innovativeness (mean = 2.0619) is higher than the mean volume for other businesses (mean = 1.7787). Thus, SMEs structured as limited liability companies present higher organizational innovativeness than the SMEs under different legal structures.

On the other hand, the mean volumes of limited liability companies and other SMEs do not significantly differ regarding local and global innovativeness (local: $t(341) = -1.173$, $p = 0.242 > 0.05$; global: $t(341) = 0.168$, $p = 0.867 > 0.05$). Hence, this research fails to support H2b and H2c hypotheses that presume the differences in the mean volumes of SMEs' local and global innovativeness in various legal structures. For these reasons, it can be stated that local and global innovativeness do not differ regarding SMEs' legal structure.

Table 5 is illustrated in the Annex to indicate the test results regarding SMEs' successor involvement and innovativeness. As shown in the table, the only significant result is related to local innovativeness. This is because p-value for local innovativeness is less than 5% confidence level (organizational: $t(341) = -2.183$, $p = 0.030 < 0.05$). Therefore, the level of SMEs' local innovativeness differs depending on the successors' involvement in businesses' operations. This fact makes this paper support the H3b hypothesis that proposes the differences between the mean volumes of analyzed

groups. Comparing the mean volumes of both groups, SMEs that have involved successors in their businesses have more local innovativeness than their counterparts with no successor involvement (mean volume for involved: 2.1961, mean volume for not involved: 2.0722).

However, there are some insignificant results regarding organizational and global innovativeness. Since both p values are higher than the selected level of significance (organizational: $t(341) = 1.547$ $p = 0.123 > 0.05$; global: $t(341) = -1.497$, $p = 0.135 > 0.05$), SMEs' organizational and global innovativeness does not differ depending on successors' involvement. Thus, H3a and H3c hypotheses that assume the nonexistence of the differences between mean volumes of organizational and global innovativeness of SMEs depending on the successors' involvement are not supported.

Discussion

As confirmed by the analyzes, this paper does not find significant differences between SMEs' internally perceived global, local and organizational innovativeness depending on their founders/entrepreneurs' age. Regarding organizational innovativeness, this paper's result complies well with Kozubikova *et al.* (2018). According to this study, entrepreneurs' age is not a determinant factor for developing new methods technologies related to businesses' operational processes. On the other hand, this paper contradicts the findings of Martínez-Román and Romero (2013), as those researchers confirm the fact that age determines product innovations of SMEs that influence organizational innovativeness. The reason why younger and older entrepreneurs/founders' innovativeness does not differ might be related to younger entrepreneurs' education level because the entrepreneurs' and founders' education positively influences their innovativeness (Kozubikova *et al.*, 2018; Ayyagari *et al.*, 2011). In this regard, younger founders/entrepreneurs in the research data might be well educated to behave innovatively as their older counterparts do.

This paper's results regarding businesses' innovativeness depending on their legal form show that organizational innovativeness differs between limited liability firms and other types of businesses. In this regard, this paper finds similar results with Ayyagari (2011) and Kiran (2017), since both of these studies confirm the differences between SMEs' organizational innovativeness structured as a sole proprietorship, partnership, and limited liability companies. Moreover, this paper's results prove that SMEs structured as limited liability companies are more innovative than SMEs structured in other legal forms regarding organizational innovativeness. Thus,

this paper has similar results with the study of Lee (2004) because Lee (2004) proves that limited liability firms are more innovative than sole proprietorship firms. On the other hand, the results of this research regarding organizational innovativeness are not compatible with the studies of Vilaluz and Hechanova (2019) and Goel and Nelson (2020), as both of these studies substantiate the fact that firms structured as sole proprietorships are more likely to apply innovative activities in their organizations comparing with firms that have other legal forms.

The differences between businesses' organizational innovativeness depending on their legal form might stem from the industry they make their operations. For instance, Coen Rigtering *et al.* (2014) compare firms' innovativeness in the manufacturing and service sectors and confirm that service firms are more innovative than firms in the manufacturing sector. Concerning the research data, 65% of SMEs structured as limited liability firms operate in the service sector, while this percentage for firms with different legal structures is around 51%. Since service firms are more innovative and more SMEs structured as limited liability firms operate in the service sector, this might be the reasoning for the finding that organizational innovativeness is higher in limited liability firms than firms set under different legal forms.

This study confirms no statistically significant differences between organizational and global innovativeness of firms involved with the successor regarding successor involvement in innovative activities. This result is not compatible with the findings of Webb *et al.* (2010) because they highlight that key decision-making teams of nonfamily-owned enterprises are more heterogeneous, making them have well-experienced and skilled workers. Having these executives enables nonfamily controlled businesses to access diverse markets since these workers have a broader scope to make actions regarding global innovations. On the other hand, the result regarding local innovativeness of firms with successor involvement confirms differences. Compared to firms without successors, firms that have successors are more innovative regarding local innovativeness. Therefore, this fact makes this paper have compatible results with the findings of Filser *et al.* (2018), as these researchers verify that family-owned businesses are often first in their market to provide new products and services. Similarly, this paper's results are compatible with the findings of Ayyagari *et al.* (2011), as these researchers vindicate that family ownership is positively related to opening new plants.

Location of the businesses might be the reason to explain why firms with successors are more innovative than firms having no successors (Hollen *et al.*, 2020). In this regard, Kljucnikov *et al.* (2020) bear out that firms

in well-developed regions of the Czech Republic might have more innovativeness than businesses in less developed regions. According to the Czech Statistical Office (2017), Praha, Moravskoslezsky, and Jihomoravsky are examples of well-developed regions with higher income levels. According to the research data, more firms with successors operate in Praha, Moravskoslezsky, and Jihomoravsky regions comparing to the firms without successors. Therefore, the location may explain why firms' local innovativeness with successors is higher than other firms.

Conclusions

Innovations make significant contributions to the internationalization and sustainable development processes of businesses. However, owners/entrepreneurs' personal and business characteristics determine roles in adopting SMEs' innovative attitudes and actions. In this context, this paper aims to investigate whether the organizational, local, and global innovativeness of SMEs differ depending on the age of their founders/entrepreneurs, legal structure, and the existence of successors in these businesses or not. The researchers have created a questionnaire survey to collect data from family businesses located in the Czech Republic. By employing an intentional sampling method, the researchers have included 343 SMEs in their analyses. The researchers performed Levene's, Skewness, and Kurtosis tests to verify data normal distribution. The results from these tests prove the fact that the data has a normal distribution. Thus, the researchers have applied the Independent Sample T-test to find differences between SMEs' innovativeness depending on the selected variables.

According to this paper's results, the nonexistence of the differences between younger and older founders/entrepreneurs' innovativeness has been confirmed. The education level of the founders and entrepreneurs might be mounting evidence to explain this result. Concerning to legal structure of SMEs and the differences in their organizational innovativeness, limited liability firms perform better than their counterparts that have different legal forms. SMEs' industry might be strong evidence to explain the differences between firms with various legal forms. On the other hand, there are no statistically significant differences between local and global innovativeness of SMEs that operate under different legal forms. There is only a statistically significant result regarding local innovation concerning the existence of firms' successors and innovativeness. Comparing to firms without successors, firms that have successors have more local innovativeness. The location of businesses might be a reason to explain the differences between

SMEs depending on the existence of successors. However, the researchers have proved that a successor's existence does not influence SMEs' global and organizational innovativeness.

The research relates here to the policy/practical implications of the current research. Since institutional and business environments play determining roles in businesses' innovativeness, some industrial zones can be created by policymakers to provide technological and financial support for SMEs. By presenting such an opportunity, policymakers can also increase competitiveness in the market, and many businesses can gain some benefits from this competition, and the gap between firms with various characteristics might be reduced. Moreover, foreign and local businesses' innovative mutual activities can make these firms widen their operations and enable them to cross the borders; thus, local businesses can become international firms. Except for the collaboration of businesses, governments, universities, other institutions such as patent offices can also educate entrepreneurs and company executives to increase innovativeness that comes from different characteristics.

Although this paper differs from other studies by looking at the phenomenon of innovativeness from a widening perspective and presents significant results that fill the gap in the related literature, this study has some limitations. For instance, this paper does not employ any external "objective" measurement to assess innovativeness. It analyzes the innovativeness of businesses by considering internally perceived innovativeness by the survey respondents. The papers' focus on the selected aspects of the SMEs' segment and the selection of SMEs only from the Czech Republic may be a limitation of the research. Further studies can include external measurements of innovativeness, more characteristics of businesses and entrepreneurs to find differences in their innovativeness. Furthermore, the researchers might analyze SMEs and larger businesses from various countries to have more comprehensive research.

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Annex

Table 1. Test of normality

Innovativeness	Skewness	Kurtosis	Levene's Test		Levene's Test	
			Ent. Age	Legal Str.	Succ. Inv.	Succession
Organizational	.938	.524	.291	.493	.886	.058
Local	.492	1.396	.368	.054	.622	.193
Global	.862	.257	.166	.075	.504	.575

Table 2. Sample profile

		SMEs	
		<i>n</i>	Share
Firm size	microenterprises	172	50.15%
	Small&medium	171	49.85%
	Total	343	100%
Firm legal structure	sole prop.	105	30.61%
	limited liability	222	64.72%
	others	16	4.67%
	Total	343	100%
Age of Entrepreneurs /founders	40 and less	67	19.53%
	41-50	122	35.57%
	more than 50	154	44.90%
	Total	343	100%

Table 3. The results the of T-test regarding the age of entrepreneurs and organizational, local and global innovativeness of SMEs

innovativeness	<i>n</i>		Mean		T test for Equality of Means		
	younger	older	younger	older	df	t	Sig.
organizational	189	154	1.9372	1.9936	341	-.604	.546
local	189	154	2.1414	2.1083	341	.582	.561
global	189	154	1.6283	1.6266	341	.022	.982

Table 4. The results of the T-test regarding the legal structure of SMEs and their organizational, local, and global innovativeness

innovativeness	<i>n</i>	others	Mean		T test for Equality of Means		
			Limited liability	others	Limited liability	df	t
organizational	121	222	1.7787	2.0619	341	-2.953	.003
local	121	222	2.0813	2.1504	341	-1.173	.242
global	121	222	1.6371	1.6239	341	.168	.867

Table 5. The results of the T-test regarding successor involvement in SMEs and organizational, local and global innovativeness of SMEs

innovativeness	n		Mean		T test for Equality of Means		
	not involved	involved	not involved	involved	df	t	Sig.
organizational	193	150	2.0256	1.8808	341	1.547	.123
local	193	150	2.0722	2.1961	341	-2.183	.030
global	193	150	1.5795	1.6928	341	-1.497	.135