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When does family involvement produce superior performance in SME family business?☆

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ABSTRACT

This study analyzes how family involvement leads to high performance in SME-family businesses (SME-FB). This research considers family involvement in management and firm governance, development of family governance, firm size, generations in FB, and ownership concentration. Results show three combinations that lead to high performance: 1) a large-enough SME-FB with a family CEO and a board with significant presence of non-family directors; 2) a large-enough SME-FB in its first generation, without family government structures, and that a non-familial top managerial team runs; 3) a large-enough SME-FB with low ownership concentration and family governance structures.

1. Introduction

Recent contributions analyze the effect of family involvement (FI) over family business (FB) performance. This vein of research relies on different theoretical frameworks, mainly agency theory and stewardship theory, but also resource-based view and socio-emotional wealth, and considers financial, non-financial performance, and self-reported performance. Results are ambivalent, and doubts remain about whether FI is an advantage or a liability (Miller & Breton-Miller, 2006). In fact, some authors report a "dark" and a "bright" side of FI (Chirico & Bau, 2014; Minichilli, Corbetta, & Mac Millan, 2010). Current research tries to reconcile different theories and disparate results (Mazzola, Sciascia, & Kellermanns, 2013; Miller, Le Breton-Miller, & Lester, 2013; Miller, Minichilli, & Corbetta, 2013). These contributions report non-linear relationships between FI and performance (De Massis, Kotlar, Campopiano, & Cassia, 2013, 2014; Miller & Breton-Miller, 2006; Sciascia & Mazzola, 2008). That is, FI is beneficial up to a certain point. Likewise, recent research considers mediating variables like firm size, ownership dispersion, and generations in FB. Results show that firm complexity requires non-family presence in boards and top managerial teams (TMT) and that family complexity increases the drawbacks that associate to FI. However, no study considers that diminishing FI and proper structures of family governance can counterbalance the effects of family complexity (Lambrecht & Lievens, 2008).

Despite impressive progress, research still has some drawbacks that can lead to inconclusive results: the use of different samples, different requirements when defining FB, different control variables, and particularly insufficient consideration of mediating and moderating factors (Chrisman, Chua, Pearson, & Barnett, 2012).

Thus, as Basco (2014) suggests, no solid evidence exists to justify why, how, and in what direction the specific family variables affect family firm performance. To gain a deep understanding of how and in which circumstances FI contributes to FB's performance, this study analyses which conditions contribute to superior performance for the case of SME private FB (SME-FB). Following prior research, this study considers the familial nature of the CEO, the level of family involvement in board (FIB) and TMT (FIM), firm size, generations in FB, and ownership concentration. This is the first study that considers the existence of norms and devices for family governance. The main research goal is identifying the combination of conditions that lead to superior performance for the case of SME-FB.

Up until now, research on the relationship between FI and FB's performance relies on multiple regression analysis. This method is suitable when analyzing relationships between one dependent variable and an independent variable. However, in real life, success usually depends on a combination of factors that occur in a specific context. Alternative methods like fuzzy-set qualitative comparative analysis (FsQCA) offers an alternative and complementary research strategy, proper to find out combinations of independent variables that yield the dependent variable (Woodside, 2013). Through the application of fsQCA, this study shows alternative and equifinal combinations of family involvement in management and firm's government, as well as family government that lead up to high performance.

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This study has the following structure: Section 2 presents a literature review on the relationship between FI and FB performance, particularly research that analyses SME private FB. Section 3 details the method for empirical study and the contribution of this method to the field. Section 4 presents results. Section 5 contains conclusions and implications for academics and professionals.

2. Theoretical framework: The influence of family on firm performance

Recent research analyzing the effect of FI upon FB performance shows that FI is beneficial because family provides the advantages that stewardship theory predicts, and naturally reduces the classical agency cost (Chirico & Bau, 2014). However, inappropriate levels of FI increases embeddedness (Le Breton-Miller, Miller, & Lester, 2011), which causes the reduction of stewardship behavior and increases the risk of familial agency costs, (Schulze, Lubatkin, & Dino, 2002; Schulze, Lubatkin, Dino, & Buchholtz, 2001). Thus, family presence in FB is no good or bad in itself; what is relevant is how the owner family manages the positive and negative effects of FI (Basco, 2014; Miller, Le Breton-Miller et al., 2013; Miller, Minichilli et al., 2013).

The remainder of this section presents a concise summary of recent research about the consequences of FI over firm performance, paying special attention to those studies that analyze the case of SME private FB.

2.1. Presence of a family CEO and FB's performance

CEOs are relevant because they act as the face of the firm; they are the leaders of the TMT and allocate resources, power, and responsibility inside the organization (Fanelli & Misangyi, 2006). For FB, a familial CEO is prone to behave altruistically (Schulze, Lubatkin, & Dino, 2003; Schulze et al., 2001, 2002), making decisions that increase FB performance and family wealth (Eddleston, Kellermanns, & Sarathy, 2008; Eddleston, Otondo, & Kellermanns, 2008; Le Breton-Miller et al., 2011). Similarly, a family CEO needs to have long-sight perspective to undertake long-term investments (Le Breton-Miller & Miller, 2006). Finally, if the CEO belongs to the owner family, managers and owners' interest are common, reducing traditional agency cost (Jensen & Meckling, 1976; McConaughy, 2000).

Research provides consistent support around the idea that a family CEO associates with superior performance (Anderson & Reeb, 2003; Minichilli et al., 2010; Villalonga & Amit, 2006). Recently, Miller, Le Breton-Miller et al. (2013) and Miller,Minichilli et al. (2013b) further argue that in large FB with low ownership concentration, a non-family CEO associates with superior financial performance, but for SME FB, a family CEO associates with better financial performance.

Proposition 1. *SME-FBs that have a familial CEO belong to the group of FB of higher performance.*

2.2. Family involvement in board and FB performance

The board of directors (BoD) plays a key role in giving strategic direction and focus to the firm. The BoD also reduces managerial opportunism by deploying proper control and accountability devices, and for the case of FB, they are also responsible for balancing business and family goals (Addae-Boateng, Xiao, & Brew, 2014).

Research on FB recognizes that BoD plays specific and different roles in comparison with non-family business (Jaskiewicz & Klein, 2007). The relevance of these roles is different depending on the type of FB (Brenes, Madrigal, & Requena, 2011). Specialized literature pleads for introducing independent directors from outside the family and the firm (Addae-Boateng et al., 2014; Anderson & Reeb, 2004) so that such directors may contribute with expertise and objectivity, provide alternative perspectives, and bring information and relational capital that the family could not reach (Addae-Boateng et al., 2014; Johannisson & Huse, 2000). Non-family directors, and especially outside directors, can also serve as more objective monitors of family executives, help in locating and hiring new managers, improve resource-allocation decisions, and avoid that family members expropriate the firm's wealth (Bammens, Voordeckers, & Van Gils, 2011; Brenes et al., 2011; Lai, Chen, & Chen, 2014; Voordeckers, Van Gils, & Van den Heuvel, 2007).

Proposition 2. *SME-FBs that give room to significant presence of non-family directors belong to the group of FB of higher performance.*

2.3. Family involvement in TMT and performance

Family involvement in TMT (FIM) is an FI ratio that receives extensive attention in recent FB literature, which reports conflicting results. Mazzola et al. (2013) find that, for the case of small FB, FIM presents a positive relationship with performance; however, Sciascia and Mazzola (2008), when analyzing a sample of Italian SME-FB, report a quadratic and negative relationship between FIM and performance.

On the one hand, Minichilli et al. (2010) analyze a sample of listed and unlisted Italian FB and find a U-shape relationship and conclude that the FB should choose between a familial TMT or a non-family TMT, "because conflict emerges when family and non-family managers coexist in the same decision-making arena" (p. 217). On the other hand, De Massis et al. (2013) and Chirico and Bau (2014) analyze private SME-FB and report an inverted U-shape relationship between FIM and performance. Those results suggest that for the case of SME-FB, an equal mix of family and non-family managers bring all the benefits of low agency cost, high and healthy stewardship behavior, and managerial competences.

Proposition 3. *SME-FBs that have a TMT with a significant presence of non-family managers belong to the group of FB of higher performance.*

2.4. Generations involved in FB and performance

Previous literature agrees that members of the second and later generations have fewer emotional ties to the business and sometimes lack the necessary competences to make the business grow (Lubatkin, Ling, & Schulze, 2007; Pérez-González, 2006; Villalonga & Amit, 2006). Similarly, when the number of generations in the business increases, the risk of conflict grows because of disparity of identities and intents (Ashforth & Johnson, 2002; Bertrand & Schoar, 2006).

As additional generations join the FB, family issues arise, and consequently, familial agency problems and stewardship drawbacks arise (Le Breton-Miller et al., 2011). Similarly, stagnation and harvest strategies prevail (Le Breton-Miller & Miller, 2008; Miller, Le Breton-Miller, & Scholnick, 2008).

Recently, Mazzola et al. (2013) analyze the effect of the number of generations in FB and reports a negative relationship. They conclude that the presence of family members of later generations, and not the mere presence of family, is what impairs the performance of an FB.

Proposition 4. *SME-FBs in their early generations belong to the group of FB of higher performance.*

2.5. Ownership concentration and FB's performance

Ownership concentration has important consequences for both corporate governance and decision-making processes in FB (Eddleston, Kellermanns et al., 2008; Eddleston,Otondo et al., 2008; Goel, He, & Karri, 2011; Schulze et al., 2003). As ownership moves from a few close relatives to a bigger family, conflicts arise (Le Breton-Miller et al., 2011). Different family branches show different and legitimate, but conflicting, interests. Under such conditions, familial agency risk and harmful stewardship behaviors emerge (e.g., inordinate dividends, hiring or keeping