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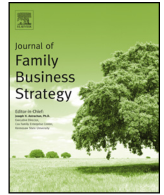

Family involvement in business and financial performance: A set-theoretic cross-national inquiry

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ABSTRACT

Prior empirical research finds positive, negative and neutral relationships between family involvement in business and firm performance. We argue that some of the challenges that have plagued empirical research in this field are related to the measurement of family involvement in business. Real-world family firms are not binary entities. Rather, they can be better characterized by heterogeneous configurations formed by different components of family involvement in the enterprise. These alternative configurations can be systematically captured using set-theoretic methods. Applying this methodology to a cross-national sample of 6592 companies, we identify which particular configurations are associated with superior financial performance. Our results lend support to the configurational hypothesis, which posits that the impact of family involvement in business is not the product of the components of family involvement in isolation but that it is subject to substantial complementarity and substitution effects.

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1. Introduction

What is the relationship between family involvement in business (FIB) and a firm's financial performance (FP)?[1] Over the last three decades, family business researchers have tried to provide an answer to this recurrent question. The results of previous studies on the relationship between FIB and either market- or accounting-based measures of FP have been mixed, with researchers finding positive, negative and neutral relationships (Dyer, 2006; Mazzi, 2011; Rutherford, Kuratko, & Holt, 2008; Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholz, 2001).

These contradictory empirical findings may be related to methodological issues. While previous research typically includes four common FIB components related to *ownership, governance, management* and *succession* (Astrachan, Klein, & Smyrnios, 2002; Klein, Astrachan, & Smyrnios, 2005; Villalonga & Amit, 2006; Westhead & Cowling, 1998),[2] scholars have frequently used quite different operational measures of FIB to characterize family firms, creating a gap in the literature regarding the ways in which the different components of family involvement are connected to FP. In most of these empirical studies, researchers rely on simple dichotomous categorisations of FIB – e.g., whether family ownership in a firm exceeds the 5% threshold – which may overlook more complex categorisations of FIB; see Aguilera and Crespi-Cladera (2012) for a discussion of the current challenges in the conceptualisation of family business. While there is vast empirical literature comparing the performance of family vs. non-family firms (Rutherford et al., 2008), the question of the specific impact that different levels of family involvement exerts on the performance of family firms has been relatively less researched in a systematic way. There are, however, some notable exceptions (e.g., Braun & Sharma, 2007; Chrisman, Chua, & Litz, 2004; Gomez-Mejia, Nuñez-Nickel, & Gutierrez, 2001; Minichilli, Corbetta, & MacMillan, 2010; Sciascia & Mazzola, 2008; Schulze et al., 2001; Villalonga & Amit, 2006). For instance, Villalonga and Amit (2006: 413) uncover that whether family firms are more or less valuable than non-family firms critically depends on how ownership, control and management enter the definition of a family firm.

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[1] While recent theorizing on family business strategy argues that family firms may pursue financial as well as non-financial goals (see, for example, Astrachan, 2010; Basco & Perez-Rodriguez, 2011; Berrone, Cruz, & Gomez Mejia, 2012; Chrisman, Chua, Pearson, & Barnett, 2012; Zellweger et al., 2013), in this article, we investigate the relationship between FIB and financial performance exclusively.

[2] In addition to these four common FIB components, some researchers include other dimensions of family involvement – see Chua, Chrisman, and Sharma (1999) and Basco (2013a). For instance, the F-PEC (Astrachan et al., 2002; Klein et al., 2005) is one of the few empirically validated approaches to assess family influence along several dimensions including power, experience and culture, thereby allowing for more fine-grained distinctions and analyses of family businesses.

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The challenges derived from the multidimensional nature of FIB are arguably aggravated by the research methods used. Previous research has relied to a large extent on regression analysis (Rutherford et al., 2008), which presents some well-known limitations when dealing with complex configurations – e.g., heterogeneous combinations of FIB components – and does not fully allow the systematic exploration of conditions of complementarity and substitutability (Fiss, 2007; Ragin, 2008). In this empirical study, we seek to advance the FIB empirical research by investigating the FIB–FP relationship in a novel manner. First, we argue that the presence or absence of different FIB components leads to several types of family firms characterized by different combinations of these components, each of which is likely to have an impact on FP. Thus, our study addresses recent calls to take the heterogeneity of family firms more fully into account (Chrisman & Patel, 2012). Second, we use set-theoretic rather than correlational methods. Set-theoretic methods have been applied in mainstream management research for quite a while (e.g., Fiss, 2011; Kogut, Macduffie, & Ragin, 2004) and are starting to be used in family business research as well (Garcia-Castro & Casasola, 2011). These methods allow researchers to determine how the presence or absence of FIB components influences firm performance, identifying the main complementarities and substitution effects among them. By doing so, we empirically determine some bounds to the levels of FIB most likely to lead to superior performance among family firms. Lastly, we use a cross-national sample of 6592 large international family and non-family firms to empirically identify the different levels of FIB in each company and to investigate the relationship between these levels and FP.

2. Research on the link between family involvement and firm performance

A review of the past research on the FIB–FP link reveals heterogeneous findings, with authors reporting positive, negative and neutral relationships (Rutherford et al., 2008). In Table 1, we provide a summary of 59 empirical works on the FIB–FP relationship published over the last three decades. While Table 1 is not intended to be exhaustive, it illustrates that previous studies have reported quite different results, although most of them use the same four basic FIB components: ownership, governance, management and succession. These studies predominantly use regression and other econometric techniques (Dyer, 2006; Rutherford et al., 2008). In terms of sampling methodology, researchers typically compare family to non-family firms or compare firms according to their degrees of FIB. Family involvement in the business is defined in these studies in terms of ownership (e.g., percentage of family stock), governance (e.g., family members on the board of directors), management (e.g., a CEO that is a family member), and succession (e.g., how many generations of family members are involved in the firm). In recent years, there has been an increasing number of studies using the F-PEC instrument developed by Astrachan et al. (2002) – see also Klein et al. (2005) – to measure FIB, as well as self-perception questionnaires and other ad-hoc questionnaires (Rutherford et al., 2008).

There are several theoretical arguments supporting the various empirical findings. Advocates of a *positive link* state that family firms generally outperform non-family firms because ownership concentration alleviates the conflicts of interest between owners and managers (Berle & Means, 1932), reducing agency costs (Jensen & Meckling, 1976). This positive link is also associated with potential competitive advantages gained through family-based management (Burkart, Panunzi, & Shleifer, 2003), a family firm's socio-emotional wealth (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010) and the long-term perspective that family involvement encourages (Anderson & Reeb, 2003).

On the other hand, advocates of a *negative link* between FIB and FP posit that because these firms are unprofessionally managed, practice nepotism, and are vulnerable to entrenchment, family firms will underperform on average relative to non-family firms (Lansberg, Perrow, & Rogolsky, 1988). In addition, Villalonga and Amit (2006: 387) suggest that a second type of agency conflict (referred to as type II agency conflict) appears in family-owned firms: large family shareholders may use their controlling position in the firm to extract private benefits at the expense of the small shareholders. This agency conflict II, if severe, may negatively affect the capacity of family firms to deliver high performance.

Between these two extremes, we find a group of scholars who argue that the effect of FIB on FP may follow non-linear – e.g., inverted U-shaped – relationships, or that this effect is contingent upon a number of factors, such as governance structures, firm strategy, industry, size, and other firm-specific features (Anderson & Reeb, 2003; Dyer, 2006; Mazzi, 2011; Sciascia & Mazzola, 2008). For example, Braun and Sharma (2007) demonstrate that the relationship between CEO duality – CEO and chairperson positions being held by the same person – and performance is contingent on the family's ownership stake in the firm. The authors uncover that performance is inversely related to family ownership level in non-dual firms, while dual firms did not exhibit any changes in performance dependent on family ownership levels. Other authors report that the relationship between FIB and FP is contingent on other factors such as ownership, control features and other firm-specific characteristics (Randøy, Dibrell, & Craig, 2009; Silva & Majluf, 2008; Westhead & Howorth, 2006). Finally, within the group of mixed results, there are a set of studies more recently exploring more directly the effect of type of family firm (e.g., family vs. founder-owned firms) as the core driver of firm performance (Block, Jaskiewicz, & Miller, 2011; Le Breton-Miller, Miller, & Lester, 2011; Miller, Minichilli, & Corbetta, 2013).

In light of all of this empirical evidence, the question arises: How is it possible to reconcile the mixed empirical findings on the relationship between FIB and FP? One possibility is that these inconsistent results are driven by methodological problems that often arise in this research stream, such as measurement issues, sampling issues, the lack of relevant control variables, reverse causality problems or endogeneity (Miller, Le Breton-Miller, Lester, & Cannella, 2007). However, these methodological challenges are not unique to family business research; they plague most research in the management field (Hamilton & Nickerson, 2003).

The problems associated with measurement incongruity (construct validity) and the ill-defined concept of "FIB" are, however, specific to family business research (Basco, 2013b; Lansberg et al., 1988; Litz, 1997; Rutherford et al., 2008). While the measurement of FP is reasonably developed in these studies – see, however, Carsrud (1994: 40) – the measurement of FIB is not (Chrisman, Chua, & Sharma, 2005; Chua, Chrisman, & Sharma, 1999; Westhead & Cowling, 1998). In general, researchers tend to use binary categorisations of FIB – e.g., whether family ownership in a firm exceeds a certain threshold – with the empirical results being sensitive to such categorisations (Villalonga & Amit, 2006). If different researchers use different definitions of FIB based on ownership, governance, management or succession criteria, then it is not surprising that empirical studies end up demonstrating, in turn, contradictory results.

One first step to overcome some of the aforementioned limitations, we argue, is to systematically identify the different types or degrees of FIB and then empirically explore the relationship between each type and FP, taking into account some main contingencies that may arise. We posit in the next section that set-theoretic methods have the potential to better identify

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