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# Value creation in family firms: A model of fit

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ABSTRACT

We propose a framework describing how family ownership can create or destroy value depending on the goals, resources, and governance of the family firm, which are each influenced by the family owners. Taking a contingency perspective, we suggest that a fit is required for all three elements – family-influenced goals, resources, and governance – for the family firm to flourish over generations. We conclude with a suggested research agenda indicating research opportunities at the nexus of these identified elements. Further we provide some guiding questions for practitioners that might stimulate fruitful discussions among family firm owners and managers about how to realize "fit."

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## Introduction

How does family ownership either create or destroy value? This is clearly one of the core questions that researchers and practitioners alike have tried to answer throughout recent decades. While several studies have argued that competitive advantages, such as patient capital and social capital, accompany family ownership (Miller & Le Breton-Miller, 2005; Pearson, Carr, & Shaw, 2008) and ultimately lead to superior financial performance (e.g., Anderson & Reeb, 2003), others have emphasized the idiosyncratic disadvantages of family firms (Cabrera-Suarez, Saa-Perez, & Garcia-Almeida, 2001; Lee & Rogoff, 1996), such as conflicts among family members and resource scarcity, which deteriorate firm performance (cf. Morck & Yeung, 2003). Despite the abundance of theoretical arguments and empirical evidence for family firms' competitive advantages and disadvantages, a comprehensive perspective of value creation in family firms is still lacking.

In this editorial, we aim to advance the current debates on value creation in family firms by taking a contingency view (Drazin & Van de Ven, 1985) and by proposing a model of fit that aims to contribute to integrating prior research and explaining value creation (or destruction) in family firms. We thereby take a broad perspective on value creation, not only focusing on the financial success of the family firm but also taking the overall utility function of family owners into account; this utility is based on both financial and non-financial aspects. In the following, we first present a model of fit and explain how the five articles published in this special issue contribute to advancing this model and to explaining value creation in family firms. In a second step, we further elucidate the nexus of the individual elements of the value creation model. In a last step, we note promising avenues for further research and highlight questions that family owners and managers might ask to identify a "fit" within their firm and to create value.

The intention of this editorial piece is to stimulate further discussion among scholars, family firm owners, and advisors about the modes how family firms can create value over time. We also aim to raise awareness about the contingency effects of value creation in family firms, thereby emphasizing the critical need to have an integrated perspective on family firms instead of only illuminating selected items and drawing overhasty conclusions based on a narrow set of information.

## Value creation in family firms—A model of fit

### *The core "ingredients" of value creation in family firms*

A multitude of different perspectives have been used in prior research to explain why family firms out- or underperform other businesses and thereby create or destroy value. In general, those studies can be classified into three categories.

One cluster of research (arrow 1 in Fig. 1) has examined the idiosyncratic *goals* in family firms, how they are influenced by

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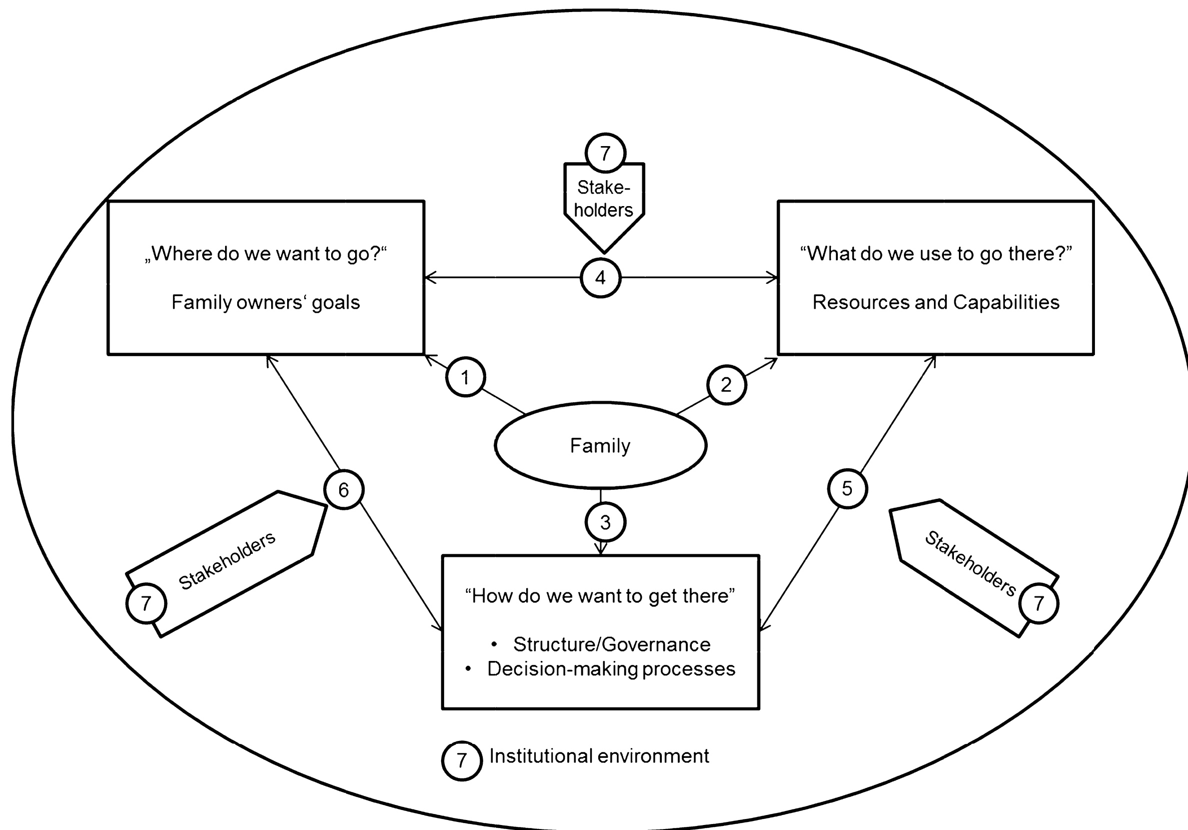


**Fig. 1.** Model of value creation in family firms.

family owners, and how they, ultimately, affect organizational behavior and value creation. Indeed, the fact that family owners influence their business by infusing their family goals and priorities has been long claimed in family business literature (Tagiuri & Davis, 1996). For instance, research on socio-emotional wealth (Berrone, Cruz, & Gómez-Mejía, 2012; Gómez-Mejía, Takács Haynes, Núnez-Nickel, Jacobson, & Moyano-Fuentes, 2007), building upon the behavioral agency model (Wiseman & Gómez-Mejía, 1998), has indicated the various socio-emotional endowments of family owners, which lead them to follow specific, non-financial goals such as maintaining control over the firm (Zellweger, Kellermanns, Chrisman, & Chua, 2012) or investing in long-lasting, trust-based bonds. This focus on non-financial goals, in turn, has been shown to affect family firm behavior such as environmental performance (Berrone, Cruz, Gómez-Mejía, & Larraza-Kintana, 2010) or adaptation to technological innovations (Kammerlander & Ganter, 2015).

A second stream (arrow 2 in Fig. 1), mostly building on the resource based view (Barney, 1991), has emphasized the role of the *resources* and capabilities that allow family firms to create value. For instance, researchers have noted the competitive advantages created through “familiness,” denoting the “bundle of resources that are distinctive to a firm as a result of family involvement” (Habbershon & Williams, 1999: 1). Examples of such beneficial resources in family firms are family-specific social capital (Pearson et al., 2008), human capital (cf. Sharma, 2008), or reputational capital (Sieger, Zellweger, Nason, & Clinton, 2011). Yet turning the focus from value creation to value destruction, a family firm-specific lack of resources, such as a scarcity of financial resources for investment in radical new technologies (König, Kammerlander, & Enders, 2013), might also destroy rather than create value.

Lastly, value creation in family firms is a function of the governance structures within and around those organizations (arrow 3 in Fig. 1). For instance, family owners likely affect organizational structures (Corbetta & Salvato, 2004) and executive compensation (Gómez-Mejía, Larraza-Kintana, & Makri, 2003), which in turn have been found to affect the efficient functioning of the organization. More specifically, the family firm's monitoring systems and incentive schemes determine the managers' leeway and motivation for pursuing activities in their own instead of the owners' interest (Chrisman, Chua, & Litz, 2004) and these structures also determine the efficiency of information processes within the firm as well as the family firm's speed of adaptation. While governance structures are determinants of value creation in any firm, family owners affect the governance structures of their firms in particular ways. For instance, family firms have been found to have idiosyncratic contracts and compensation mechanisms (Block, 2011), fewer hierarchical levels (Boyd, 2010), and in general, a different set of agency problems (Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholtz, 2001).

*How the articles of this issue advance knowledge on value creation in family firms*

The next section will elaborate on the five articles published in this special issue and will outline how they contribute to understanding value creation in family firms. One article (Hauck & Prügl, 2015) addresses the goals of family firms (arrow 1 in Fig. 1), one article (Ahrens, Landmann, & Woywode, 2015) studies the resources within family firms (arrow 2 in Fig. 1), and three articles (Engel, Hack, & Kellermanns, 2015; Lopez-Delgado & Dieguez-Soto, 2015; Sitthipongpanich & Polsiri, 2015) focus on governance in family firms (arrow 3 in Fig. 1). Table 1 provides an overview of the five articles, their theoretical backbones, empirical approaches, and core findings.

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