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Lone founders, types of private family businesses and firm performance☆

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ABSTRACT

Although previous research focused on private firms has revealed that family involvement generally has an insignificant or negative effect on performance, the effects of family on the performance of non-listed firms has not been tested based on a clearly defined relationship. This study considers the limited evidence regarding the performance of private family firms and the debate about whether lone founder and family firms perform differently. It replicates and provides a deeper examination of the Miller et al. (2007) study for private family firms. Therefore, our contribution is mainly empirical. Our results indicate that lone-founder firms perform better than family businesses (FBs) in a private firm context. Our findings also reveal that firms with family involvement do not significantly outperform other firms. Nevertheless, when FBs are characterized by ownership concentration and non-family management, their performance is significantly lower than other firms.

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Introduction

Performance is an essential indicator of firms' organizational success and competitive advantage. If a company is able to identify the factors that determine improved performance, it will be able to make the most of its specific features. Recent research on corporate governance has focused on the impact of family influence on performance (Anderson & Reeb, 2003; Bennedsen, Nielsen, Perez-Gonzalez, & Wolfenzon, 2007; Maury, 2006; Villalonga & Amit, 2006, among others). The findings of this research have not been conclusive. Several recent literature reviews on the financial performance of family businesses (Amit & Villalonga, 2014; Bertrand & Schoar, 2006; Mazzi, 2011; Stewart & Hitt, 2012) have posited that particular factors (such as the various definitions of a family business) may affect these research findings. These different empirical definitions of family involvement have led to contradictory results in the literature regarding the links between private family businesses and organizational performance (James, 1999), and calls for additional studies have been made (Steier, Chrisman, & Chua, 2004). Miller, Le Breton-Miller, Lester, and Cannella (2007) addressed the puzzling evidence on the performance of family businesses through a mainly methodological contribution and concluded that the outperformance of family businesses in public firm samples is indeed sensitive to the definition of a family firm, such as defining lone-founder businesses as family businesses.

Existing studies on the effect of family influence on firm performance have mainly used data collected from public firms. However, we do not know much about lone-founder versus family firms in the particular context of private firms mainly as a result of the difficulty of obtaining reliable data. Previous research that focuses on private firms has revealed that family involvement generally has an insignificant or negative effect on performance, as confirmed by the work of Stewart and Hitt (2012). However, additional research is required on the effects of family on the performance of non-listed firms because these firms have not been tested based on a clearly defined relationship, and the results are less clear than the results for public firms (Sciascia & Mazzola, 2008). Although private firms play a crucial role in the economic development of industrialized areas and the great majority of family firms are private, studies devoted to corporate governance issues in private firms located outside the US context remain scant (Huse, 2000), and there is limited available evidence that pertains to the performance of privately held firms (Sharma & Carney, 2012). This particular context is important because some scholars have considered that traditional assumptions and governance mechanisms may work differently between private and public firms and between family and lone-founder firms

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(Lubatkin, Schulze, Ling, & Dino, 2005; Schulze, Lubatkin, Dino, & Buchholtz, 2001).

We define a family business as one in which multiple members of the same family are involved as owners, managers or members of the board and a lone-founder firm as one in which there are no other family members in the business beyond the founder (Miller et al., 2007). Considering other private firms that are not family or lone-founder firms, the first question we raise is as follows: Does the positive lone-founder effect exist in private firms? The second question we consider is whether the degree of family involvement, measured through the family ownership concentration and the presence of family management, increases or decreases firm performance. In this regard, if *Lone founders* and different types of family businesses with different degrees of family involvement are analyzed as a uniform entity, the findings are likely to be inconclusive. Below, we outline what is essentially an empirical study, as it aims to assess whether the presence of a lone founder and family involvement impact private firms' performance differently rather than analyzing the possible causes of these potential differences.

We aim to answer the former research questions using a sample of 3890 private firms in Spain. First, we assess the sensitivity of the performance results to the removal of *Lone founders* from the family business category. We determine whether the performance of private *Lone-founder* firms differs from that of private family businesses. Second, we illustrate five types of private family businesses based on the family's involvement in the ownership, management or governance of the firm as well as the firm's ownership concentration, and we observe differences in performance. We utilize both univariate and multivariate as well as both parametric and non-parametric techniques to empirically validate the expected behavior of lone founders and to explore the types of family businesses under consideration.

In this study, we approach the limited evidence on the performance of private family firms and the debate over whether lone-founder and family businesses are different. The contribution of our study lies in a replication and deeper examination of Miller et al.'s (2007) article for private family businesses. Therefore, our contribution is mainly empirical. Our results indicate that lone-founder firms perform better than family businesses in a private firm context. Our findings also suggest that firms with family involvement do not significantly outperform *Other private firms*. Nevertheless, when family businesses are marked by ownership concentration and non-family management, they significantly underperform *Other private firms*.

The study is organized as follows. In sections 'The effects of lone-founder and family involvement on performance in a private firm context' and 'Governance mechanisms in a private firm context', we summarize the studies about the lone-founder effect and family involvement on performance and governance mechanisms, respectively, in a private firm context. We devote section 'What is a private family firm?' to a review of the definitions of family firm that have been used in the private firm literature. The method and data are addressed in section 'What is a private family firm?'. The results of univariate and multivariate tests will be present in section 'Findings'. Finally, a discussion of the results and our main conclusions are presented in sections 'Discussion' and 'Conclusions', respectively.

The effects of lone-founder and family involvement on performance in a private firm context

Many studies have considered family businesses to be firms that only involve a lone founder, with no involvement by any of the founder's relatives as owners, managers or directors. The studies that classify family businesses in this way thus could not demonstrate whether the effects on firm performance stemmed from a lone founder's influence or family members' influence. Some of these studies have suggested that lone founders achieve higher performance than other family businesses when considering public firms (Anderson & Reeb, 2003; Barontini & Caprio, 2006; Chu, 2011; Le Breton-Miller, Miller, & Lester, 2011; Villalonga & Amit, 2006). However, McConaughy and Phillips (1999) observed that descendant-controlled firms are more profitable than founder-controlled firms. By removing lone-founder firms from the family business classification, Miller et al. (2007) were able to separate lone-founder and family effects, and they concluded that although family businesses did not outperform in terms of their market valuations, lone-founder businesses did. Likewise, Diéguez-Soto, López-Delgado, and Rojo-Ramírez (2014) approved of making a distinction between lone-founder firms and family-involved firms. To the best of our knowledge and beliefs, no study has investigated whether lone founders contribute to the improvement or diminishment of performance when private family and lone-founder firms are classified into a single category. Therefore, we examine the impact of lone-founder involvement on firm performance, addressing a specific issue: does the lone-founder effect also exist in private firms?

Most of the research on the relationship between family involvement and performance has been realized on listed companies (Stewart & Hitt, 2012). Some of these studies have confirmed that public family-owned firms exhibit superior performance (Martínez, Stöhr, & Quiroga, 2007; Maury, 2006) and that the relationship between performance and ownership is not linear. In particular, Anderson and Reeb (2003) and Le Breton-Miller et al. (2011) suggest that family ownership positively affects firm performance, exhibiting an inverted U-shaped relationship. However, several scholars have found a negative influence of family ownership on performance (Morck, Strangeland, & Yeung, 2000), and others have indicated very few differences between family and non-family businesses (Chrisman, Chua, & Litz, 2004). Sraer and Thesmar (2007) have even confirmed that non-family businesses performed better than family-owned firms. With regard to the relationship between family involvement in management and performance in public firms, the results are also mixed. Whereas Anderson and Reeb (2003) and Maury (2006) propose that family management has a positive effect on profitability, other authors, such as Barth, Gulbrandsen, and Schone (2005), Filatotchev, Zhang, and Piesse (2011), Perez-Gonzalez (2006) and Villalonga and Amit (2006), noticed that firms with family members who serve as managers underperform firms that employ managers from outside the family. In spite of prior contradictory findings, it is confirmed that the previous research has focused mainly on public firms, and it has highlighted the concept that family involvement generally has a positive effect on performance (Stewart & Hitt, 2012).

Nevertheless, there are studies that have addressed private firms. Specifically, with respect to family involvement in ownership, Arosa, Iturralde, and Maseda (2010), Castillo and Wakefield (2006), Sciascia and Mazzola (2008) and Westhead and Howorth (2006) were not able to confirm a relationship between ownership concentration and firm profitability. However, Sirmon, Arrègle, Hitt, and Webb (2008) found that family-influenced firms maintain higher levels of R&D investment and internationalization and thus enjoy higher performance. However, this positive influence is lost when higher levels of ownership are held by family members. Regarding family involvement in management, Daily and Dollinger (1991), Westhead and Howorth (2006) and Blanco-Mazagatos, de Quevedo-Puente, and Castrillo (2007) did not observe significant differences in the financial performance measures between family-managed and non-family managed firms, whereas Sciascia and Mazzola (2008) found a negative relationship between family

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