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# The family's effect on family firm performance: A model testing the demographic and essence approaches

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ABSTRACT

The demographic and essence approaches have emerged as two separate streams to tackle the issue of how the family affects family firm performance. However, this debate is still open. After analyzing 80 published articles from 2007 to 2011, I conclude that the contradictions between these two approaches come from implicit assumptions that are not modeled when each approach is tested individually. Therefore, the aim of this article is to put the demographic and essence approaches to the test. To reach this objective, I developed a theoretical framework to analyze the relationship between family management involvement, family-oriented strategic decision making, and family firm performance. I conclude that contradictory conclusions may result from each model whether they are tested separately or together.



## 1. Introduction

In the last decades, the debate surrounding how the family contributes to family firm performance has received significant attention. In this sense, Chrisman, Steier, and Chua (2006) pointed out that "any useful theory of family business must include relative statements of how family firms will behave, the conditions that lead to that behavior, and the outcomes of behavior *vis-à-vis* both family and nonfamily businesses that possess different sets of fundamental characteristics" (p. 719). This issue has been long debated, and several review articles have attempted to summarize the theory building thus far (e.g. Chrisman, Chua, & Sharma, 2005; Gedajlovic, Carney, Chrisman, & Kellermanns, 2012; Heugens, van Essen, & van Oosterhout, 2009; Huybrechts, Voordeckers, Vandemaele, & Lybaert, 2011; Jiang & Peng, 2011; Mazzi, 2011; O'Boyle Jr, Pollack, & Rutherford, 2012; Pérez Rodríguez & Basco, 2011; Rutherford, Kuratko, & Holt, 2008; Siebels & zu Knyphausen-Aufseß, 2012; Stewart & Hitt, 2012; Yu, Lumpkin, Sorenson, & Brigham, 2012; Zellweger, Eddleston, & Kellermanns, 2010). The literature review shows that the family business field has evolved in two different ways to explain family firm performance as the dependent variable: the demographic approach and the essence approach.

Based on different theories, the demographic approach considers that "family involvement" (with demographic characteristics like family owned, family managed, family controlled, and generation involved) is a sufficient condition to capture family effects on the firm (Jiang & Peng, 2011; Mazzi, 2011; Essen, Carney, Gedajlovic, & Huegens, 2011). That is, this approach suggests that family involvement variables are proxies of what happens inside the firm. The demographic approach has been criticized because it makes a parsimonious interpretation regarding family effects on the firm. On the other hand, the essence approach is based on the behavioral perspective (Chrisman et al., 2005) as well as a resource-based view (Habbershon & Williams, 1999), and it has received some significant attention so far. Based on the criticism that the demographic approach "may only depict a family's potential to influence the family firm" (Zellweger et al., 2010, p. 56), the essence approach emerges as an alternative way to capture what happens inside the firm. More specifically, the essence approach argues that the family affects the way an organization is governed and managed (Dyer, 2006), which subsequently affects family firm performance (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011).

Despite the large amount of published articles, the results from studies using both the demographic approach (Dyer, 2006; Jiang & Peng, 2011; Mazzi, 2011; Rutherford et al., 2008) and the essence approach (e.g. Basco & Pérez Rodríguez, 2011; Boyle, Rutherford, & Pollack, 2010) are contradictory. Therefore, despite the theoretical and empirical advances shown by both approaches, the debate

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surrounding how the family affects family firm performance is still open. After analyzing 80 published articles from 2007 to 2011, I conclude that the contradictions come from assumptions that are not modeled when each approach is tested individually. Indeed, empirical studies comparing both approaches (with exceptions such as Rutherford et al., 2008) and modeling the approaches' implicit assumptions are scarce (with exceptions such as Memili, Eddleston, Kellermanns, Zellweger, & Barnett, 2010). Therefore, there are clear calls in the family business literature (Gomez-Mejia et al., 2011) to better understand both approaches by applying a holistic perspective (Pérez Rodríguez & Basco, 2011).

Therefore, in order to address this gap, I develop a theoretical framework to create a model that will enable a direct comparison of both approaches. The model focuses on the effect of family management involvement (i.e., the demographic variable) on family firm performance (i.e., firm and family economic-centered performance) throughout family-oriented strategic decision making (essence variable). I test the model on a privately owned family firm sample by applying structural equation modeling to simultaneously examine the direct and indirect effects the model proposes. The main conclusion is that the demographic and essence approaches complement each other. Even though each approach is able to capture different and specific aspects of the phenomenon under study, each approach has implicit assumptions that are not modeled when they are applied individually. Therefore, when both approaches are taken together, assumptions emerge because assumptions are modeled, and a holistic picture is represented. As this research shows, contradictory conclusions may result from each model whether they are tested separately or together. Take, for instance, the suppression effect that is observed in the model: when the direct effect of family management involvement on family economic-centered performance is negative, the indirect effect of family management involvement on family economic-centered performance through family-oriented strategic decision making is positive.

The present study makes several contributions to the family business field and to mainstream research. In terms of the family business field, this article first presents a better understanding of the progress related research has made so far about the way the family affects family firm performance by reviewing and classifying extant articles published since 2007 that use the demographic and essence approach lenses. Second, this article also contributes to family business research by addressing calls from Gomez-Mejia et al. (2011) and Gedajlovic et al. (2012) to examine family dynamics that affect family firm performance. Third, the article addresses the call to evaluate family firm performance measures through the goals family firms pursue (Chrisman, Kellermanns, Chan, & Liano, 2010; Chua, Chrisman, & Steier, 2003) by incorporating both firm economic-centered performance and family economic-centered performance at the firm level as independent variables. Finally, the results shed new light on the debate about the professionalization of family firms (Dekker, Lybaert, Steijvers, Depaire, & Mercken, 2012) by suggesting that family-oriented decision making and the way professionalization is measured are important dimensions of the concept.

Aside from the family business field, this article also makes important contributions to top management team research by addressing the call (e.g. Certo, Lester, Dalton, & Dalton, 2006; Pettigrew, 1992) to open the black box of top management teams to better understand their influence on firm performance. Specifically, this study extends previous research (Mazzola, Sciascia, & Kellermanns, 2012; Minichilli, Corbetta, & MacMillan, 2010) by incorporating not only the family demographic dimension (i.e., percentage of family members on the top management team) but also the family behavioral dimension (e.g., decision making) to analyze their influence on firm performance.

This article is organized as follows. First, I present a literature review to analyze the extant debate on how the family contributes to family firm performance. Second, I develop a model and hypotheses based on different theories to position the relationships under study for each approach. Third, I present the methodology and results. Finally, in the last section I discuss theoretical implications and directions for future research.

## 2. Literature review

One of the main challenges the family business field has to face is understanding how the family contributes to family firm performance. In this sense, Rutherford et al. (2008) pointed out that the family business field is moving through a great deal of confusion, and researchers have attempted to tackle this confusion by reviewing, analyzing, and organizing the theory building created so far (e.g. Gedajlovic et al., 2012; Mazzi, 2011; O'Boyle Jr et al., 2012; Sacristán-Navarro, Gómez-Ansón, & Cabeza-García, 2011a; Stewart & Hitt, 2012; Van Essen, Carney et al., 2011; Van Essen, Van Oosterhout, & Carney, 2011). In general, the literature review (Chrisman et al., 2005; Dyer, 2006) shows that the family business field has evolved into using two different ways to explain family firm performance as a dependent variable: the demographic approach and the essence approach. However, as far as I can tell, there is no research that reviews and analyzes the demographic variables and essence variables. Moreover, extant review articles have mainly focused on firm-oriented performance (e.g. Gedajlovic et al., 2012; Mazzi, 2011) instead of both dimensions of family firm performance (i.e., firm- and family-oriented performance), or they have only focused on listed firms (Sacristán-Navarro et al., 2011a) instead of listed and non-listed firms.

To address the above gaps and with the aim of finding an alternative way to understand how the knowledge has evolved so far, I performed a literature review of published empirical articles from 2007 to 2011.[1] In order to select the articles, I followed the procedure employed by Rutherford et al. (2008) and Tranfield, Denyer, and Smart (2003). I focused on empirical articles in the context of family business that use any form of family firm performance as a dependent variable. I concentrated on empirical studies in a restrictive way by considering those research articles that use quantitative data to respond to research questions or hypotheses.

The procedure I used to identify articles for review followed several steps. Firstly, I used electronic databases, such as ABI Inform and Business Source Premier, to find empirical articles by searching for the following keywords: "family firm," "family involvement," "family ownership," "family management," "familiness," "family participation," and "family influence." Secondly, as the aim of the research is to understand the family influence on family firm performance, I selected articles that considered any form of family firm performance as a dependent variable. I considered family firm performance from a multidimensional perspective (following Richard, Devinney, Yip, & Johnson, 2009) by identifying objective and subjective measures as well as economic and non-economic measures. After completing this search, I obtained a sample of 80 articles. Finally, I analyzed the resulting articles, considering the following: (1) dependent variables by differentiating family

[1] I took 2007 as the initial year because there are already two articles that present a exhaustive literature review of published papers up to 2008: Rutherford et al. (2008) and O'Boyle Jr et al. (2012). Although there are some newly published articles that take the relationship between family business and firm performance into account, such as Sacristán-Navarro et al. (2011a) or Mazzi (2011), they are only focused on the demographic approach.