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# Diversification decisions among family firms: The role of family involvement and generational stage

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**Abstract** While prior literature has focused on whether family firms are more or less inclined to diversification than non-family firms, the examination of differences in diversification among family firms has received much less attention. We analyze how family involvement (in ownership, control, and management) and the generational stage in the company (first versus later generations) influence diversification among family firms. The empirical evidence is provided by a sample of publicly listed family firms from the EU. Our results show that larger levels of family involvement in the firm are associated with lower diversification. Furthermore, first-generation family firms are found to be less diversified than their later-generation counterparts.
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## Introduction

Recent decades have witnessed an increase in research into the field of family business (e.g., Anglin et al., 2017; Basco, 2017; Carney et al., 2015). Prior literature confirms there are differences between family and non-family firms in terms of major strategic decisions (e.g., Boellis et al., 2016; Defrancq et al., 2016; Gomez-Mejia et al., 2011; Muñoz-Bullón and Sanchez-Bueno, 2011; Strike et al., 2015). As a result, some empirical studies have specifically analyzed whether there are differences in the propensity to diversify in family firms compared to non-family firms (e.g., Anderson and Reeb, 2003; Ducassy and Prevot, 2010; Gomez-Mejia et al., 2010; Schmid et al., 2015; Hernandez-Trasobares and Galve-Gorriz, 2016). In this sense, business diversification may be a controversial decision across family firms because it highlights the potential mismatch among their multiple objectives. On the one hand, certain factors such as low performance, uncertainty of expected cashflows, and the desire for risk reduction may create internal incentives for diversification (Hoskisson and Hitt, 1990). In these circumstances, diversification offers the potential to enhance long-term value by increasing a firm's viability through entry into new product markets. On the other hand, diversification is perceived by family owners as a threat to the aim of

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preserving their affective endowment—known as socioemotional wealth (SEW) (Gomez-Mejia et al., 2007). Thus, over and above financial considerations, family owners will be averse to embracing diversification strategies because such a strategy poses an immediate threat to their control over the firm (Gomez-Mejia et al., 2010).

SEW preservation is a key reference point for all family businesses, to the extent that this may lead them to make strategic decisions that favor non-economic goals (Gomez-Mejia et al., 2010). However, the impact these emotional concerns have on their preferences toward diversification may also vary among family firms and throughout their organizational life (Berrone et al., 2012; Strike et al., 2015). A growing body of literature has emphasized the heterogeneity among family firms, and highlighted their diversity in various ambits, including family involvement in ownership, control, and management (Berrone et al., 2012; Chrisman et al., 2012; Chua et al., 2012; Nordqvist et al., 2014). Heterogeneity among family firms also stems from their unique and potentially varied set of family goals. Recognizing that family firms are a heterogeneous group of companies renders it important to understand the factors that may increase or reduce SEW aspirations (or change the relative importance of their different dimensions), and hence affect their diversification decisions.

In line with this stream of research, the objective of this study is to explore differences in the diversification decision among family firms. We thus intend to extend the present understanding of strategic decisions within the family business context by considering family firm heterogeneity. Specifically, we contend that heterogeneity among family firms derives from both family involvement in the business (in terms of ownership, control and/or management) and the generational stage (first generation in charge versus later generations). These three core business characteristics, which are dimensions that can be shaped by the controlling family, will allow higher levels of family participation in the business, and may thus be a factor that contributes to higher concerns over preserving SEW (Gomez-Mejia et al., 2010; Berrone et al., 2012). Furthermore, the generational stage may influence SEW preservation because emotional attachment in first-generation family firms is expected to be an important goal for family members (Sciascia et al., 2014). We therefore contend that the characteristics of family firms mentioned above reveal differences not only between family and non-family firms, but also within family firms, which means these factors may be important determinants of SEW aspirations and lead to different choices for engaging in diversification. We thus emphasize the role the family plays as a source of firm heterogeneity that may influence the desire to maintain their SEW, and therefore their level of diversification.

The empirical evidence is based on a dataset of publicly listed firms in 27 EU countries over the 2005–2009 period. We find that a high level of family involvement and the presence of first-generation family members impact negatively on family firms' levels of diversification. Our results are consistent with the SEW perspective's line of reasoning. Furthermore, family firms' emphasis on maintaining their SEW is sensitive to the degree of family involvement in the company. SEW aspirations increase in firms with a high presence of family members in management and in early generational stages. Such a goal will determine their strategic behavior by reinforcing their reluctance to engage in extensive diversification. By contrast, family firms in later generational stages seem to be more prone to diversification, showing how family priorities may change throughout the different stages in an organization's life.

This study contributes to the existing literature on family firms and diversification in several ways. First, this work enriches the idea that heterogeneity within family firms must be taken into account. We therefore contribute both theoretically and empirically to a better understanding of this relevant issue. Our paper thus falls in line with a number of significant works that have highlighted the relevance of advancing our knowledge in this field (e.g., Berrone et al., 2012; Boellis et al., 2016; Chua et al., 2012; Strike et al., 2015). As Jaskiewicz and Dyer (2017, p. 111) have recently reported, ''ignoring differences among families in family business research is problematic because the results of our work may be misleading''. Accordingly, we emphasize how family involvement in the company and also the generational stage (family firm run by the first generation) may affect diversification decisions among family firms. The consideration of family involvement is, for example, in line with Berrone et al. (2010, p. 86), who have recently reported that ''family business research has long stressed the unique characteristics and peculiarities of family ownership''.

Likewise, there have been several recent calls encouraging family business scholars to provide new empirical evidence on the effect that generation has on family-firm decisions (e.g., Cruz and Nordqvist, 2012; Duller, 2013; Sciascia et al., 2013; Sciascia et al., 2014; Sonfield and Lussier, 2004). Family members' emphasis on protecting their SEW might be sensitive to the generation in charge. In short, we posit that the aforementioned characteristic affect the emphasis given to SEW preservation (and its different dimensions), and that this helps explain the differences in diversification decisions among family firms. We thus provide an avenue for further developing the SEW approach in the field of diversification among family firms.

Second, we provide a fine-grained theoretical explanation on diversification decisions in family firms by developing several empirical tests and using a broad sample of European family firms. Thus, the paper provides new evidence on a significant issue regarding family firms that has been the subject of little empirical research (e.g., Anderson and Reeb, 2003; Ducassy and Prevot, 2010; Gomez-Mejia et al., 2010; Hautz et al., 2013; Schmid et al., 2015; Hernandez-Trasobares and Galve-Gorriz, 2016). Prior literature has found that lower levels of diversification provide particular advantages in terms of preserving SEW in family firms (e.g., Anderson and Reeb, 2003; Gomez-Mejia et al., 2010). However, other contributions have shown that family firms are not averse to pursuing a diversification strategy (e.g., Ducassy and Prevot, 2010; Miller et al., 2010). We understand that the consideration of different dimensions of family influence in terms of family-firm heterogeneity may help to integrate and explain these inconsistent past empirical results.

The paper is organized as follows. The second section sets out the theoretical framework in order to test our hypotheses. The third section describes the data and methodology used in the empirical analyses. The fourth section presents

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