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Beating the recession blues: Exploring the link between family ownership, strategic marketing behavior and firm performance during recessions

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ABSTRACT

This study explores whether family firms exhibit unique marketing behavior and whether their unique behavior in turn helps them outperform non-family firms during periods of economic contraction. Findings based on a sample of 275 large publicly listed U.S. firms reveal that family firms outperform non-family firms during recessions. This superior performance is partially driven by family firms' proactive marketing behavior and their relatively strong emphasis on corporate social responsibility (CSR). During recessions, while non-family firms tend to decrease their advertising intensities and rates of new product introduction (NPI), family firms are likely to maintain relatively high levels of advertising intensity and rates of NPI. Unlike non-family firms, family firms are also likely to maintain high levels of corporate social performance (CSP) during recessions. These results underscore the benefits of proactive marketing behavior and a continued emphasis on CSR during economic downturns. The authors also add to the scant family-firm literature, demonstrating the family firm to be an effective organizational form.

1. Introduction

A family firm has been defined as a firm in which the founder or a member of his or her family by either blood or marriage is an executive officer, a director, or a blockholder, either individually or as a group (Anderson & Reeb, 2003; Villalonga & Amit, 2006).[2] Family firms play a critical role in most national economies. In the U.S., they make up approximately 35% of S&P 500 or Fortune 500 companies (Anderson & Reeb, 2003) and employ upwards of 80% of the workforce (Gomez-Mejia, Nuñez-Nickel, & Gutierrez, 2001).

Given the ubiquity and economic significance of family firms, one may wonder whether they behave and perform differently from non-family firms. Until recently, most scholars have viewed founding family ownership as a less profitable ownership structure than dispersed ownership. Some scholars have argued that combining ownership and control allows concentrated shareholders to choose non-pecuniary consumption (Demsetz, 1983; Fama & Jensen, 1983) or engage in 'tunneling', i.e., expropriation of minority shareholders (Bertrand, Mehta, & Mullainathan, 2002). Others have highlighted that founding families often limit senior management positions to their family members, potentially leading to competitive disadvantages relative to firms that obtain talent from a diverse labor pool (Morck, Strangeland, & Yeung, 2000). Recent empirical evidence, however, most notably that of Anderson and Reeb (2003) and Villalonga and Amit (2006), has challenged the perception of the family firm as an ineffective organizational form: drawing on samples of S&P 500 and Fortune 500 firms, respectively, these authors have found family firms to outperform non-family firms. Nevertheless, several research gaps remain.

First, prior researchers have explored differences in performance between family and non-family firms during non-recessionary periods, for example, during the 1992–1999 period, as investigated by Anderson and Reeb (2003), or the 1994–2000 period, as investigated by Villalonga and Amit (2006). It is not clear, then, whether family firms outperform non-family firms during periods of business contraction.

Second, the mediating mechanisms, especially those relevant to marketing researchers and practitioners, that link family ownership to firm performance have not been explored. This raises the question: Is there something unique and value-generating about family firms' marketing behavior during recessions that non-family firms can replicate?

One may wonder: Why is it important to investigate family firms' behavior and performance specifically during recessions? First, recessions

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[2] This definition has been used in several recent academic studies of family firms such as Anderson & Reeb (2003); Anderson, Mansi, and Reeb (2003); Villalonga and Amit (2006); Ali, Chen, and Radhakrishnan (2007); and Kashmiri and Mahajan (2010). Some researchers, however, have used a threshold level of family ownership to define a family firm. Cruz, Gómez-Mejia, and Becerra (2010), for example, used a threshold level of 20% firm ownership to categorize a firm as a family firm. Others, such as Miller, Le Breton-Miller, Lester, and Cannella (2007), have removed 'lone-founder' firms such as Dell, where only an individual founder is present in the firm, from their definition of family firms. As we explain later in this article, we use the less restrictive definition provided by Anderson and Reeb (2003) but conduct sensitivity analysis to analyze whether our results change as the level of family ownership changes. We also examine whether our results change if we do not classify lone founder firms as family firms.

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are events of extreme environmental duress that recur frequently in the world's major economies. The far-reaching consequences and frequency of recessions make them an important subject of study in their own right. Furthermore, the types of strategies that help firms improve their profitability during business cycle expansions are not necessarily the same as those that help firms sustain their performance during recessions (Srinivasan, Lilien, & Sridhar, 2011). On the contrary, many firms whose strategies have given them competitive advantages before the onset of recessions have fallen behind competitors during recessions, as such firms failed to alter their strategies (Baveja, Postma, & Pritzl, 2002). It is therefore important to complement our understanding of how firms behave and perform during periods of munificence with insight into how they cope during periods of crisis.

In light of these limitations, we address two questions: (1) Do family firms perform better than non-family firms during recessions? (2) If so, do family firms exhibit unique marketing behavior during recessions, which in turn mediates their superior performance?

Our central argument is that founding family executives are likely to have longer investment horizons than non-family executives. Given this long-term perspective of family executives, we expect family firms to exhibit proactive marketing behavior (higher advertising intensity and higher rates of new product introduction than non-family firms) and a relatively strong emphasis on corporate social performance (CSP) during recessions. Finally, we expect that this unique marketing behavior of family firms helps them outperform non-family firms during economic contractions. Our analyses of a sample of 275 large publicly listed U.S. firms across the years 2000–2009 provide broad empirical support for our thesis.

Next, we highlight reasons to expect firms that are proactive in their marketing behavior and that maintain strong CSP during recessions to outperform their competitors. We then discuss why founding family executives are likely to have longer investment horizons than their non-family counterparts and why this long-term perspective is in turn expected to foster behavior among family firms that more closely approximates optimal recessionary behavior. Finally, we test our hypotheses, discuss our results, and highlight our work's practical and theoretical implications.

2. Theory and hypotheses

2.1. Value of proactive marketing behavior during recessions

2.1.1. Advertising intensity

Most firms significantly decrease their advertising intensity during recessions (Frankenberger & Graham, 2003). Those that maintain or increase their advertising intensity are said to exhibit proactive marketing behavior (Srinivasan, Rangaswamy, & Lilien, 2005). We expect such competitively aggressive firms to outperform others for two main reasons.

First, recessions provide an environment of reduced media clutter, increasing the advertising effectiveness of any single firm that advertises proactively (Srinivasan et al., 2005). Indeed, Steenkamp and Fang (2011) found that increasing advertising share during recessions had a more positive effect on profit and market share than increasing advertising share during economic expansions. Furthermore, prior research shows that advertising increases a firm's salience in the minds of individual investors and that investors typically prefer to hold stocks that are well known or familiar to them (Frieder & Subrahmanyam, 2005; Grullon, Kanatas, & Weston, 2004). We therefore expect the salience of firms that are proactive with regard to advertising to increase in the minds of investors, in turn improving such firms' market performance.

Second, brand equity is a relational market-based asset that helps increase a firm's shareholder value (Srivastava, Shervani, & Fahey, 1998), as strong brands command higher revenue relative to generic unbranded products with identical physical features (Ailawadi, Lehmann, & Neslin, 2003). Brand equity depends to a large extent on sustained, consistently high levels of advertising over long periods of time (Mela, Gupta, & Lehmann, 1997; Miller, Mathisen, & McAllister, 2005). We therefore expect firms that decrease their investment in maintaining this market-based asset during recessions to experience a decrease in brand equity. Given the impact of brand equity on shareholder value, we expect investors to in turn penalize decreases in brand equity (Aaker & Jacobson, 2001; Mizik & Jacobson, 2007), driving down the market performance of firms that significantly decrease their advertising intensity.

2.1.2. New product introductions

Most firms, in addition to decreasing their advertising intensity, also decrease their rate of new product introduction (NPI) during recessions (Axarloglou, 2003; Roberts, 2003). In such conditions, maintaining or increasing one's rate of NPI is another manifestation of proactive marketing behavior. We expect firms that are proactive in their NPI during economic downturns to outperform their competitors for multiple reasons.

First, given the increased clutter of new products introduced in non-recessionary periods, it is more difficult for a firm to differentiate its newly introduced products. On the contrary, given the decreased number of NPIs in the market during recessions, not only is it relatively easy to differentiate a new product during a recession, but such a product is likely to enjoy a first mover advantage compared with similar competitors' products introduced after the recession is over. Indeed, Lamey, Deleersnyder, Steenkamp, and Dekimpe (2012) found that a reduction in NPIs by national brands during economic contractions is associated with permanent private-label market share gains.

Second, certain market conditions help firms that introduce products during recessions reduce the costs of these products while increasing their quality and profitability (Tabrizi & Chaudhuri, 1999). For example, given the increased likelihood of losing contracts, we expect a firm's suppliers and channel partners to offer the firm better value for money during recessions. Similarly, the raw material costs of some products are likely to decrease during recessions because of reduced demand, enabling proactive firms to counter consumers' increased price-sensitivity by launching products that offer superior consumer value. Furthermore, firms that launch products proactively during recessions are often able to attract exceptionally talented employees, particularly those trained in marketing and engineering, from competing non-innovative firms (Tabrizi & Chaudhuri, 1999), helping to improve the quality of their products.

Third, in an environment of economic uncertainty, NPIs are expected to send a reassuring signal to investors and customers that the proactive firm is confident in its ability to survive the recession. Reduced uncertainty regarding the proactive firm's future outlook in the minds of investors is in turn expected to help increase the firm's market value. Furthermore, as customers become more risk-averse during periods of economic crisis, they may also become reluctant to buy products of firms they believe may be approaching bankruptcy. With increased confidence in a proactive firm's ability to survive the recession, some of these customers are likely to switch from products of competing non-proactive firms to those of the proactive firm.

2.2. Value of corporate social performance during recessions

We also expect firms that maintain relatively high levels of CSP during recessions to outperform firms that exhibit a significant drop in CSP.

Prior researchers (e.g., Kashmiri and Mahajan 2010) maintain that high levels of CSP are characterized by minimal social controversy and many positive social initiatives. While social controversy has been found to decrease customer satisfaction (Rhee & Haunschild, 2006), positive social initiatives have been found to positively affect firms' brand responses (Brown, 1998), brand evaluations (Berens, van Riel, & van Bruggen, 2005), customer satisfaction (Luo & Bhattacharya, 2006), customer loyalty, and customer advocacy behavior (Du, Bhattacharya, & Sen, 2007). Improved customer satisfaction has in turn been shown to improve firms' Tobin's q (Luo & Bhattacharya, 2006). Thus, CSP is expected to help firms in general, regardless of the economic cycle.