Family Business Review

http://fbr.sagepub.com

# Examining the "Family Effect" on Firm Performance

W. Gibb Dyer, Jr

*Family Business Review* 2006; 19; 253
DOI: 10.1111/j.1741-6248.2006.00074.x

The online version of this article can be found at:
http://fbr.sagepub.com/cgi/content/abstract/19/4/253

Published by:

http://www.sagepublications.com

On behalf of:
Family Firm Institute

**Additional services and information for *Family Business Review* can be found at:**

**Email Alerts:** http://fbr.sagepub.com/cgi/alerts

**Subscriptions:** http://fbr.sagepub.com/subscriptions

**Reprints:** http://www.sagepub.com/journalsReprints.nav

**Permissions:** http://www.sagepub.com/journalsPermissions.nav

**Citations** http://fbr.sagepub.com/cgi/content/refs/19/4/253

Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

# Examining the "Family Effect" on Firm Performance

W. Gibb Dyer, Jr.

*The purpose of this article is to provide an explanation for the contradictory evidence in the literature regarding the performance of family-owned firms. The article suggests that most of the research fails to clearly describe the "family effect" on organizational performance. The "family effect," based on agency theory and the resource-based view of the firm, is described and propositions are generated that examine the relationship between families and organizational performance. Implications for theory and research are also discussed.*

How might a family that owns and manages an enterprise affect its performance? To answer this question, a number of scholars have attempted to compare the performance of family firms with firms having no family ties, but the results of such studies have led to mixed results and conflicting opinions regarding the impact of family control (Gomez-Mejia, Nuñez-Nickel, & Gutierrez, 2001; Schulze, Lubatkin, Dino, & Buchholtz, 2001; Schulze, Lubatkin, & Dino, 2003). For example, Daily and Dollinger, in their study comparing the performance of family versus nonfamily firms, write:

> family-run firms do appear to achieve performance advantages . . . whether performance is measured in terms of financially oriented growth rates or perceived measures of performance. (1992, p. 132)

More recently, Anderson and Reeb also found that family firms outperformed nonfamily firms in the S&P 500, noting that "family firms are significantly better performers than nonfamily firms" (2003, p. 1324).

In contrast to these findings, Perrow concludes that the family firm is inherently inefficient:

> *Particularism* means that irrelevant criteria (e.g., only relatives of the boss have a chance at top positions), in contrast to universalistic criteria (competence is all that counts), are employed in choosing employees . . . efficiency is foregone if recruitment or access is decided on grounds that are not related to the members' performance . . . More serious, the particularistic criteria are likely to be *negatively* related to performance—the more these particularistic criteria are used, the poorer the performance. (1972, pp. 8–10)

Work by Faccio, Lang, and Young (2001) has also noted that family firms are relatively poor performers due to conflicts that arise as a family attempts to manage an enterprise. Those who see the family firm as an inefficient organizational form typically argue that the best course for any family firm is to move as quickly as possible to replace family members in the firm's leadership positions with professional managers who can function with more objectivity and skill (Levinson, 1971).

The purpose of this article is to address these puzzling findings in the literature by analyzing the "family effect" on firm performance. First, I will discuss how the current theorizing and research on this subject fails to clearly differentiate the family effect from other variables that may influence firm performance. Some of the important



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

studies that focus on family firm performance will be reviewed and the possible explanations for the conflicting results discussed. Second, the "family effect" on firm performance will be explored using agency theory and the resource-based view of the firm to describe the impact that a family might have on a firm. Several propositions will be presented regarding family firm performance, suggesting that the family effect can be either positive or negative depending on the circumstances. Finally, implications of the family effect for theory development will be discussed.

## Determinants of Firm Performance

As mentioned previously, most studies that have attempted to ascertain the impact of the family on firm performance have compared the performance of family and nonfamily firms. Table 1 lists nine studies comparing the performance of family firms with nonfamily firms.[1]

Table 1 contains the definitions used in the studies, the performance measures, the samples, the criteria used to select the samples, and the findings. Of the nine studies, four reported that family firms perform better than nonfamily firms based on the performance criteria used by the researchers; three studies found that nonfamily firms had superior performance; two studies had mixed results. Upon closer inspection of these studies, there appear to be several possible reasons for the divergent conclusions. First, the different methodological approaches employed across the studies might account for the contradictory findings. For example, the definitions of what constitutes a family firm varied widely across studies. Some scholars defined a firm as being a "family firm" rather subjectively, basing firm classification on whether the respondent believed the firm was a "family firm," while other researchers based their definition on more objective criteria such the percentage of family ownership or the number of family members occupying management or board positions. Thus, some studies likely included firms in their "family firm" sample that would not have been included in other studies' samples and this mixing of "apples and oranges" might account for the ambiguous findings. Moreover, sample size, type of firm, and performance measures also varied widely between studies. Some studies primarily compared "founder-led" family firms with nonfamily firms while other samples were composed of family firms that had moved into succeeding generations of family leadership.

These methodological problems suggest that researchers need to unravel the impact of the various factors—including the family—that affect firm performance (Scott, 1992). Figure 1 outlines the typical factors that scholars have argued are the determinants of firm performance: (1) industry, (2) governance, (3) firm characteristics (e.g., social capital, strategy), and (4) management—particularly, in the case of newer firms, the impact of the entrepreneur or founder. What most scholars leave out or fail to clearly articulate, however, is the possible "family effect" on firm performance as described in Figure 2. Figure 2 suggests that a family might influence firm governance, its basic characteristics, the quality of its management, and possibly even an industry (Dyer, 2003; Morck & Yeung, 2003, 2004). It is also possible that a family may have a direct effect on a firm's performance that is not mediated through the other four variables.

The studies cited in Table 1 leave open the question as to whether these studies have sufficiently controlled for the effects of the various variables to truly isolate the "family effect" on firm performance. For example, Gallo, Tapies, and Cappuyns (2000) note that in their study, family businesses tend to be found in industries that are more "seasonal" in their sales and are less capital intensive, and the Anderson and Reeb (2003) study describes similar differences. Although some of

[1] These studies were gleaned from a review of journals known to publish studies comparing the performance of family and nonfamily firms, for example, *Journal of Finance*, *Academy of Management Journal*, *Family Business Review*, *Journal of Small Business Management*, and recent working papers on the subject. The list of studies in Table 1 is not exhaustive but clearly illustrates the fact that there are divergent findings regarding the performance of family firms.



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

**Table 1** Family Versus Nonfamily Firm Performance Comparisons

| Citation | Definition of Family Firm | Performance Measures | Samples | Sample Criteria | Findings |
|---|---|---|---|---|---|
| Anderson and Reeb (2003) | Family firm criteria: (1) the family continues to have an equity ownership stake in firm; (2) family possesses board seats; (3) founding CEO is still the acting CEO or descendent of CEO is acting CEO. | 1. Tobin's *q*.<br>2. Return on assets.<br>3. Return on equity. | 403 firms taken from S&P 500. Firms from 1992–1999. | S&P 500 firms, excluding banks and public utilities. | Family firms have higher Tobin's *q* and return on assets. |
| Beehr, Drexler, and Faulkner (1997) | A family business is one in which the owner and at least one other family member work. | 1. Conflict: work-family conflict/interpersonal conflict.<br>2. Expectations and advantages: family expectations/personal advantage.<br>3. Individual outcomes: job satisfaction/career satisfaction/psychological strain.<br>4. Organizational outcomes: organizational commitment/turnover intention.<br>5. Family outcome: family harmony. | 45 businesses. (37 paired family and nonfamily in Maine; 4 family and 7 nonfamily in Michigan). Individual sample: 235. | Small family-owned establishments in Maine were matched with nonfamily-owned establishments (predominantly from the retail industry). Michigan businesses were selected from machining and light metal manufacturing industry. | Family firms generally perform better on the 5 performance dimensions. |
| Daily and Dollinger (1992) | If there were key managers related to the owner working in the business the firm is considered a family firm. | 1. Size.<br>2. Growth.<br>3. Margins.<br>4. Perceived performance. | 186 manufacturing firms. | Manufacturing firms maintaining no more than 500 employees with standard industrial classification (SIC) codes 20–39. | Family firms perform better along the several dimensions. |
| McConaughy, Matthews, and Fialko (2001) | Public corporations whose CEOs are either the founder or a member of the founder's family. | 1. Efficiency.<br>2. Capital structure.<br>3. Value. | 219 firms identified from "The BusinessWeek CEO 1000." | Firms with CEOs included in the article, "The BusinessWeek CEO 1000," who fit the criteria of being either the founder or a member of the founder's family. | Family firms perform better along the 3 dimensions. |
| Gallo, Tapies, and Cappuyns (2000) | Designation of family firm left to the judgment of the person answering the questionnaire. | Growth, debt, and other financial measures. | 204 nonfamily businesses and 101 family businesses. | Spanish businesses that had sales of over 3 billion pesetas in 1995 and more than 150 employees. | Nonfamily firms had superior growth. |



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

**Table 1** (*continued*)

| Citation | Definition of Family Firm | Performance Measures | Samples | Sample Criteria | Findings |
|---|---|---|---|---|---|
| Gomez-Mejia, Nunez-Nickel, and Gutierrez (2001) | Determined by the relationship between the owners, the CEO, and editor. The CEO had the last name of the owner(s) or in the case of the editor, family status was confirmed if the CEO and the editor had the same last name. | Newspaper circulation. | 276 Spanish newspapers. | Spanish newspapers that existed between 1966–1993. | Nonfamily firms monitor CEOs better. |
| Villalonga and Amit (2004) | The founder or a member of his or her family by either blood or marriage is an officer, a director, or a stockholder. | Tobin's *q*. | Fortune 500 firms from 1994–2000. | Fortune 500 firms from 1994–2000. | Second-generation family leaders destroy firm value. |
| Chrisman, Chua, and Litz (2004) | Percentage of ownership, number of family members in management, and family successor chosen. | Sales growth. | 1,141 firms. | These firms were selected from the Small Business Development Center program in the United States. Each firm had at least 5 or more hours of counseling assistance from the SBDC in 1998. They were also required to have at least 5 full-time employees. | Mixed: little difference between family and nonfamily firms. |
| Tanewski, Prajogo, and Sohal (2003) | Owners decide whether or not they are a family firm and these criteria must exist: 50% or more of ownership held by a single family; a single family group is effectively controlling and managing the business. | 1. Product innovation. 2. Process innovation. 3. Structure. 4. Prospector strategy. 5. Leader strategy. | 2,000 small and medium-sized family and nonfamily owned businesses in manufacturing and service industry sectors in Australia. | 1,000 family-owned firms that had less than 100 employees (manufacturers) or less than 20 employees (service industries). | Mixed: family firms less innovative but have greater prospecting orientation. |

Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

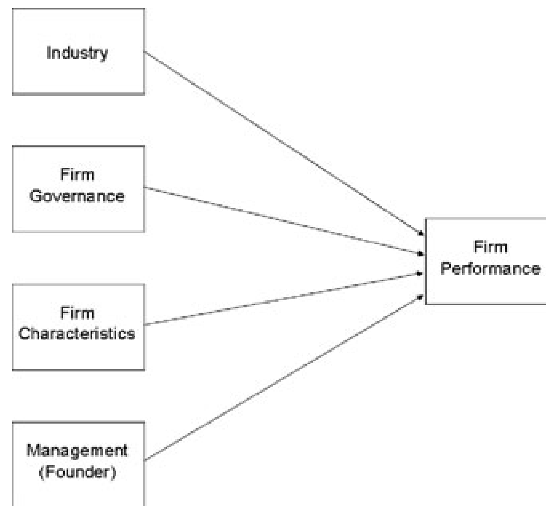


**Figure 1** Common Variables Affecting Firm Performance.

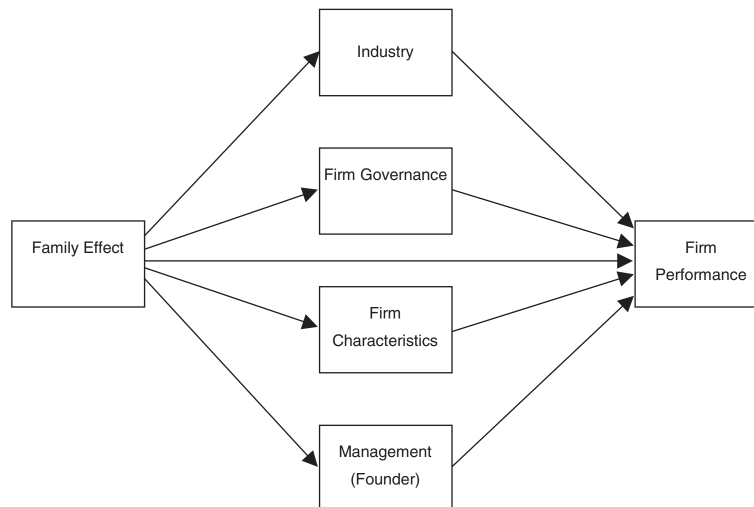


**Figure 2** The Family Effect on Firm Performance.

these studies do attempt to control for industry, the fact that families find certain industries more attractive for launching an enterprise calls into question whether performance differences are solely a function of family ownership and management or are, in fact, related to the industry where these firms are embedded.

Family governance is highlighted as making the difference in firm performance by Chrisman, Chua, and Litz (2004), Anderson and Reeb (2003), and McConaughy, Matthews, and Fialko (2001), and more recently has been discussed in a treatise by Carney (2005). However, these authors all argue that the agency benefits accrued by family firms are a function of unified governance—the owners are also the firm’s managers (Jensen & Meckling, 1976). But unified governance and its agency benefits are not unique to family businesses. Owners



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

who are not related to one another may also manage their businesses, and hence obtain the benefits of owner management. What these studies fail to demonstrate is the unique impact of *family governance* on firm performance.

The Anderson and Reeb (2003) study also presents another possible confounding variable, the "firm effect." Most studies that use comparative samples assume, ceteris paribus, that all the firm characteristics are held constant except for the variables under investigation. The Anderson and Reeb study compared founder-led family firms in the S&P 500 with firms that were not led by founders, and noted that the "newer" firms (less than 50 years old) performed better than the older firms. The organization life-cycle literature suggests that most firms go through four general stages: founding, growth, maturity, and decline (Greiner, 1972; Kimberly, 1980). Founder-led firms that are in the S&P 500 would have had to have been growing very rapidly to achieve such a size during the founder's tenure. If we were to compare founder-led firms that are likely to be in the growth stage of their life cycle with firms without founders that would likely be older, more mature, and growing slower or even declining (as in the case of nonfounder-led S&P 500 firms), then the differences in performance may be a function of the firm and its stage of development and not of the firm's relationship to a family. Furthermore, the studies by Beehr, Drexler, and Faulkner (1997) and Daily and Dollinger (1992) noted that certain firm characteristics such its strategy, structure, and human-resource systems differed somewhat between family and nonfamily firms, and therefore the inference was made that such differences were the result of family involvement. What is not clear from these studies, however, is the relationship between these firm characteristics and the owning families. Did, indeed, the family foster such differences in firm characteristics, or did they arise from some other driving force? This question is not fully answered by these studies.

A final potential confounding factor in these studies is the "management" or "founder" effect. Schumpeter (1934) argued that one of the most valuable commodities for any firm is the entrepreneur whose vision, innovation, and ability to see opportunities causes "creative destruction" in the marketplace and enables the firm to capture extraordinary profits (Morck, Shleifer, & Vishny, 1988). Although research does suggest that not all entrepreneurs bring with them a skill set that leads to high firm performance (e.g., Dyer, 1992; Kets de Vries, 1985), the success of new ventures is often attributed to the founder's unique skills and characteristics (Bird, 1989). In the case of the "founder-led family firm," it is difficult to determine whether the founder is primarily responsible for superior firm performance or whether the family is responsible. The studies found in Table 1 indicate that founder-led family firms generally perform better than those firms without founders. This was particularly evident in the Villalonga and Amit (2004) study that noted that founder-led family firms performed significantly better than second-generation-led family firms. Thus the studies comparing the performance of founder-led family firms with nonfamily firms may actually be demonstrating the "founder effect" and not the "family effect" on the firm. For example, the study by Anderson and Reeb (2003) includes firms such as Microsoft in their sample of "founder-led family firms." Although the impact of Bill Gates on the firm is undeniable, it is unclear what effect, if any, the Gates *family* has had on Microsoft's performance.

In summary, the research comparing the performance of family firms to nonfamily firms leaves us with many unanswered questions, the chief one being: How might a *family* affect the performance of a firm?

## The "Family Effect" on Firm Performance

The previous discussion has suggested that research noting differences in performance between family and nonfamily firms has not been particularly enlightening regarding the impact of a family on firm performance. We will now explore the "family effect" on performance, in other words, those attributes that a family brings to a firm that might affect its perfor-



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

**Table 2** "Family Factors" Affecting Firm Performance

| Family Factors Contributing to High Performance | Family Factors Contributing to Low Performance |
|---|---|
| *Agency Benefits* | *Agency Costs* |
| Lower agency costs due to the alignment of principal-agent goals | Higher agency costs due to conflicting goals in the family |
| Lower agency costs due to high trust and shared values among family members | Higher agency costs from opportunism, shirking, and adverse selection because of altruism (i.e., family members fail to monitor each other) |
| *Family Assets* | *Family Liabilities* |
| Human capital: the family has unique training, skills, flexibility, and motivation | Family lacks necessary skills and abilities due to small labor pool, lack of talent, or inadequate training |
| Social capital: the family develops relationships outside the family with employees, customers, suppliers, and other stakeholders that generate goodwill | Family fails to develop social capital with key stakeholders due to distrust of outsiders (i.e., "amoral familism") |
| Family "branding" of the firm or of the firm's goods and services may generate goodwill and a positive image with stakeholders | Family relationships lead to complex conflicts among family that may undermine image and goodwill with stakeholders |
| Physical/financial capital: the family may have physical or financial assets that can be used to support the firm | Family uses firm assets for personal use, thus draining the firm of financial and other resources |

mance. Performance, broadly defined, refers to efficiencies in terms of utilization of resources as well as the accomplishment of organizational goals (Steers, 1982). Families are thought to influence firm performance primarily through *family goals and relationships* and *family resources or assets* (Dyer, 2003; Habbershon & Williams, 1999; Steier, 2001). To develop theory regarding how family goals, relationships, and resources affect firm performance, agency theory and the resource-based view of the firm seem to be the most promising (Chrisman, Chua, & Litz, 2004; Chrisman, Chua, & Sharma, 2005; Schulze, Lubatkin, Dino, & Buchholtz, 2001; Sirmon & Hitt, 2003). Agency theory and the resource-based view suggest that certain "family factors" can lead to various agency benefits and important assets, while other family factors impose costs and are liabilities to firm performance. These factors are listed in Table 2.

The following discussion provides more detailed arguments regarding the impact of family goals, relationships, and resources on firm governance, firm characteristics, and a firm's management. (The potential impact of families on industries and even entire economies has been discussed previously by Morck and Yeung (2003, 2004) so it will not be discussed in detail here.) Several propositions are posited that are designed to more clearly articulate the "family effect" on organizational performance.

## Governance and the Performance of Family Firms

Agency theory has often been used to argue that family firm governance is more efficient than that of nonfamily enterprises (Morck et al., 1988). Jensen and Meckling (1976) indicate that family firms are likely to incur fewer agency costs because the goals of a firm's principals (owners) are aligned with its agents (managers) since they are typically one and the same. Because of this alignment of goals, agency costs will not be borne by the owners since they will not have to spend time and resources to monitor the behavior of their agents. Schulze, Lubatkin, Dino, and Buchholtz, in their review of agency theory and its application to family firms (2001, p. 99), discuss



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

the advantages of the alignment of principal-agent goals and, in particular, the advantages of owner management:

> owner management should reduce agency costs because it naturally aligns the owner-managers' interests about growth opportunities and risk. This alignment reduces their incentive to be opportunistic, sparing firms the need to maintain "costly mechanisms for separating the management and control of decisions." (Fama & Jensen, 1983a p. 332, quoted in Schulz et al.)

As noted previously, however, owner management is not unique to the family firm. Nonfamily owners can also manage their enterprises and therefore receive the same agency benefits as family owner managers. Thus owner management is not a "family effect" on firm performance.

It may be true, however, that familial relationships between owners and those managers who are their agents provide an additional benefit to reduce agency costs. Owners, who may have their sons, daughters, brothers, or other family members as their agents, need not incur the expense of monitoring agents they distrust. Fama and Jensen (1983b) suggest this idea when they note that "family members . . . therefore have advantages in monitoring and disciplining related decision agents" (Fama & Jensen, 1983b, p. 306). More recently, Ensley and Pearson (2005) have shown that top-management teams in family firms are more cohesive than those in nonfamily enterprises. To the extent that a family brings to the firm common goals, high trust, and shared values in addition to unified governance, cumbersome and costly monitoring mechanisms can be avoided.

Some research findings appear to support this view that family firms experience reduced agency costs. For example, McConaughy, Walker, Henderson, and Mishra (1998) present evidence that family monitoring of family managers encourages high performance and reduces conflicts between shareholders and managers. In another study, McConaughy (2000) compared family firms that had family CEOs with family firms that had nonfamily CEOs—specifically, compensation of family versus nonfamily CEOs. McConaughy concludes that:

> family CEOs possess superior incentives and have less need to receive additional incentives through their compensation from the firm. It shows that founding-family CEOs are paid less [on average $534,900 less] and that their pay is less sensitive to performance. Alternatively, the results can be taken to suggest that family controlled firms have to pay nonfamily CEOs more to get what a family CEO would do. (2000, p. 130)

A more recent study on CEO compensation comparing family and nonfamily firms by Gomez-Mejia, Larraza-Kintana, and Makri (2003) also noted that professional CEOs are paid significantly more than family CEOs. Families who control related managers through what Etzioni (1961) calls "normative control" (shared values) will likely incur fewer costs than those owners/principals who must provide financial incentives to their agents to get comparable performance. Thus, these studies indicate that having family involvement in firm ownership and management may significantly reduce certain costs, potentially enhancing firm performance.

## Why Reduced Agency Costs May Not Be Realized in Family Firms

In contrast to the view that family firms are more efficient due to reduced agency costs through relationships that align the goals and incentives of family owners and managers, is the alternative perspective that family firms are breeding grounds for relationships fraught with conflict (Dyer, 1986; Kaye, 1991; Lansberg, 1999; Ward, 1987). Indeed, family members may have competing goals and values, which may spring from complex conflicts and family dynamics that arise from a family's psychosocial history (Hilburt-Davis & Dyer, 2003). From biblical times, stories about families, whether they be about Cain and Abel, Jacob and Esau, or Joseph and his brothers, are filled with conflict, treachery, and deceit, rather than family harmony. In the context of a family business, differing views within a family about the distribution of ownership, compensation, risk, roles, and responsibilities may make the family firm a battleground where family members



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

compete with one another. Schulze, Lubatkin, and Dino argue that "the dispersion of ownership in family-held firms drives a wedge between the interests of those who lead a firm—and often own a controlling interest—and other family owners" (2003, p. 181). Since there is typically no equity market for minority family owners to "cash out" and go their own way, Schulze, Lubatkin, and Dino suggest that the minority owners have "incentives to free ride on the controlling owner's equity" (2003, p. 184) by shirking, exorbitant compensation, or accumulating perquisites. Under such conditions, family members are not equally yoked in pulling the firm and family forward, but are fighting for their own interests. From this perspective, the family firm may, in fact, incur significant agency costs due to the conflicts that accompany family involvement.

Another reason that is often posited for family firms not realizing reduced agency costs is the idea that *altruism* (or *particularism*) makes it difficult, if not impossible, for families to effectively monitor family members who work in the firm. Altruism, treating people for who they are rather than what they do, is often seen as the cornerstone value in family firms (Schulze, Lubatkin, Dino, & Buchholtz, 2001). Rosenblatt, de Mik, Anderson, and Johnson, in their extensive study of family firm dynamics, quote a senior family manager who articulates why family members may be monitored differently than nonfamily employees.

> "If my sons or my wife make mistakes, I let it go, because it's not worth fighting over. You have to live with your family. A nonfamily member, you can fire him." (1985, p. 112)

Almost a century ago, Max Weber presented his "rational-legal" model of bureaucracy as an alternative to nepotism, the outcome of altruism (Weber, 1946). Weber noted that nepotism leads to adverse selection and ineffective (or nonexistent) monitoring and evaluation of employees, which can lead to shirking and opportunism on the part of family members. Perrow excoriates nepotism when he writes: "Much inefficiency in organizations and much annoyance shown by members . . . stem[s] from nepotism" (1972, p. 13). He even suggests that nepotism is self-serving to those in control: "To some extent, nepotism undoubtedly does stem from the belief that one's own incompetence can be better protected if one offers positions to nephews, sons, uncles, and other relatives of the owners" (1972, p. 14). Perrow believes that nepotism makes it difficult, if not impossible, for family members to monitor each other effectively and that nepotism protects family members from such monitoring.

Schulze, Lubatkin, Dino, and Buchholtz (2001) and Gomez-Mejia, Nuñez-Nickel et al. (2001) present empirical evidence that such altruism may indeed lead to poor performance. Schulze, Lubatkin, Dino, and Buchholtz (2001), in their study of 1,376 family firms, reported that those family firms that had developed some formal governance mechanisms (which presumably mitigate against altruism) performed more effectively than those firms without such formal arrangements. Gomez-Mejia, Nuñez-Nickel et al. (2001) found that the Spanish family firms they studied were much more reluctant to fire a family CEO than were nonfamily firms, but when the family CEO was replaced, the firm performed significantly better after the transition than those nonfamily firms that also replaced their CEOs. The implication is that family owners, as a result of altruism, are unwilling to monitor and discipline their CEOs; hence the family CEOs became entrenched. As a result, the family waits too long (until performance falls precipitously) to make a leadership change. Nonfamily firms, on the other hand, monitor their CEOs more carefully and are not hamstrung by altruism; hence they are more willing and able to replace a CEO when the CEO's performance is deemed unacceptable.

In summary, if familial ties encourage principals and their agents to have common goals and values, such a "family effect" should lead to reduced agency costs. However, others have suggested that the family firm is not an inherently efficient organizational form, incurring significant agency costs due to the fact that family members may have different goals for the firm and family, creating incentives for minority family shareholders to free ride. Moreover, because the value of



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

altruism pervades most families, family members are reluctant to monitor, evaluate, or discipline each other. Such a value system can lead to adverse selection, shirking, and opportunism, thus undermining firm performance. Two propositions related to firm governance stemming from these arguments are:

*Proposition 1. Firms with principals and agents that have familial ties will have lower agency costs (due to more congruent goals and values) than those firms with principals and agents who are not related.*

*Proposition 2. Firms that have family relationships based on altruism will have higher agency costs than those firms whose relationships are based on universalistic criteria.*

## Family Assets and Firm Performance

The resource-based view of the firm has been another popular approach for critiquing the performance of family firms (Habbershon & Williams, 1999; Sirmon & Hitt, 2003). The resource-based view suggests that firms with assets that are valuable, rare, inimitable, and nonsubstitutable may be able to create a sustainable competitive advantage (Barney, 1991; Penrose, 1959). From the resource-based view, the question arises: Do families bring with them unique assets to a firm that will give it a competitive advantage? Three types of capital (or assets) have been associated with the performance of family firms: (1) human capital, (2) social capital, and (3) physical/financial capital. There are arguments—both pro and con—regarding whether or not families can indeed develop and take advantage of these assets.

### Human Capital

One resource that can give a firm a competitive advantage is human capital—the skills, abilities, attitudes, and work ethic of those employed by the firm. There have been several ideas posited concerning why family firms may have unique human capital. First, because the family name is "on the building," family members will naturally be more motivated and committed to the business (Rosenblatt et al., 1985; Ward, 1988). Such family connections inspire loyalty and family members are therefore willing to work long hours—often without compensation—and be highly flexible in their work roles and assignments in order to help the firm succeed (Rosenblatt et al., 1985). Second, family members have often been socialized at a very early age to understand the nature of the business, its customers, and its competitors, and have received hands-on training from family leaders who are knowledgeable and highly skilled (Dyer, 1986, 1992). Such a process of socialization can prove to be a significant source of competitive advantage by creating a highly knowledgeable and skilled cadre of family employees who are highly motivated and willing to sacrifice much to see the firm succeed. Few nonfamily firms can boast of a workforce with such assets.

On the other hand, family firms have a limited pool of potential recruits. Thus, the family may not be able to supply the firm with enough talented employees to manage the key operations. This is particularly true in firms that require highly specialized knowledge of technology and markets (e.g., bioengineering firms) or firms that are sufficiently large and complex enough to require sophisticated knowledge of management systems and processes. The restricted nature of the human resource pool supplied by the family means the family may not have enough qualified personnel to operate a business successfully unless they recruit nonfamily employees to fill key positions. Moreover, Dyer (1989) has documented the difficulty in integrating nonfamily managers into the family firm; thus merely going outside the family for management talent may not be a panacea for family firms needing outside assistance. If nepotism is the accepted norm (see Proposition 2), family members who are incompetent may be placed in key positions, thus jeopardizing firm performance. Thus family connections may inhibit a firm from developing and utilizing the best management talent, putting it at a competitive disadvantage in terms of human capital. In summary, propositions related to human capital are:



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

*Proposition 3. Firms with family employees will have greater human capital than firms with employees without family ties, given that family employees are better trained, more flexible, and more motivated than nonfamily employees.*

*Proposition 4. Firms relying solely on family employees to fill key positions in the firm will have poorer human capital than those firms that may also select nonfamily employees for key positions.*

## Social Capital

Social capital is a complex phenomenon, but simply stated, it is "the goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action" (Adler & Kwon, 2002, p. 17). Social capital is an important asset inasmuch as it allows the firm to gain access to other forms of capital (e.g., intellectual, human, financial capital) that are needed for a firm to survive (Sirmon & Hitt, 2003; Steier, 2001). Families may have some unique advantages in developing social capital between the family and firm stakeholders (e.g., customers, suppliers, employees), given that they typically have the ability to cultivate and nurture long-standing relationships across generations, and firm stakeholders may be more likely to develop personal attachments to a family that owns and operates a business, rather than to an amorphous, impersonal firm. Commitments made by a family, which are often based on altruism, are likely to be more enduring (and more trusted) than commitments by individuals, since familial obligations are generally shared within the immediate family, and may even extend to extended family members. Therefore, the enduring nature of family connections and commitments may give families certain advantages in developing and maintaining social capital.

A unique status is also often ascribed to family members who are connected with the ownership of an enterprise, and such status facilitates the cultivation of important relationships that may benefit the family and the business (Steier, 2001). Indeed, employees, customers, suppliers, bankers, and other company stakeholders often prefer to talk to members of the owning family about their issues and concerns rather than communicating with some lower-status nonfamily manager or employee (Meek, Woodworth, & Dyer, 1988). This is due, in large part, to the perception that family members have the power and ability to reciprocate financially and otherwise in any exchange. Moreover, there is an incentive for building relationships with members of an enterprise-owning family, since one's own status in the community may be enhanced by such relationships. Thus, an individual's or family's status in a community brings with it certain social benefits that are not available to others (Seidel, Polzer, & Stewart, 2000; Stuart, Ha, & Hybels, 1999). Wong, McReynolds, and Wong further note how Chinese families have been adept at using social capital to develop their businesses.

> In capital formation and investment, the supply of labor, and the motivation to work hard and cooperatively, ethnicity and the support of family members are the key to the survival of many immigrant businesses. Among Chinese, kinship often serves as both a catalyst and a facilitator of business enterprise. (1992, p. 355)

Other writers suggest that family businesses may have certain advantages in attracting customers and providing quality service because of the goodwill and trustworthiness generated by the family name and the commitment over time to customer service (Dollinger, 1995; Lyman, 1991). One family business capitalizing on its family connection, the Longaberger Company of Dresden, Ohio, markets its handicrafts by proclaiming that the company is selling products "From our family to your family" (Dollinger, 1995, p. 391). The message is that you can trust their products—after all, they're family. Indeed, the social capital attached to one's family name—to the extent it positively influences customers, suppliers, and other stakeholders—may prove to be a unique, inimitable resource that can be used by a firm to gain a competitive advantage. Creating and protecting the "family brand name" may prove to be particularly important in service industries or in cultures where reputation is critical for success.

Another form of social capital that may prove advantageous to a family firm is the extension of



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

goodwill beyond the family to nonfamily employees. For example, Meek et al., in their study of strikes in Jamestown, New York, reported that locally owned companies, most with family connections, had significantly fewer strikes and strikes of shorter duration than firms owned by "absentee owners" (Meek et al., 1988). Meek et al. conclude that one of the primary reasons for the greater unrest in the absentee-owned firms was because "the managers of the absentee companies were less influenced by local norms governing labor relations" (Meek et al., 1988, p. 74). Families who both own and manage an enterprise may be able to generate greater social capital and trust with their employees as compared to those firms operated by disinterested owners and managers who are not in tune with employee values and concerns. In summary, to the extent that familial social capital provides access to resources, generates "goodwill" on the part of customers and other key stakeholders, and fosters strong ties between the family and its workforce, family firms may have some unique resources to create a competitive advantage.

Despite the advantages derived from social capital, the presence of strong familial bonds also has disadvantages. Edward Banfield, in his classic work *The Moral Basis of a Backward Society*, describes families from southern Italy exhibiting what he calls "amoral familism." According to Banfield, amoral familists "maximize the material, short-run advantage of the nuclear family; [and] assume that all others will do likewise" (1958, p. 83). Thus, those outside one's family are not to be trusted and may be seen as potential competitors, even enemies. Families who create a tight social network that bars outsiders from entry may be unable to secure needed resources to develop their businesses. Amoral familists are unable to generate "spontaneous sociability," which Fukuyama indicates is essential to organization building.

> The most useful kind of social capital is often not the ability to work under the authority of a traditional community or group, but the capacity to form new associations and to cooperate within the terms of reference they establish. (1995, p. 27)

Case studies have illustrated the fact that certain families employ amoral familism in their relationships with their employees (Christensen, 2002). Nonfamily employees are treated as "second-class citizens" and are exploited by the family. Such an adversarial relationship between an owning family and nonfamily employees often results in low employee morale and low productivity. Propositions related to a family's influence on a firm's social capital are as follows:

*Proposition 5. Firms with family owners/managers have greater social capital between themselves and other stakeholders than firms without family ties.*

*Proposition 6. Firms with family owners/managers are more insular and self-interested (i.e., amoral familism) than firms without family ties.*

## Physical and Financial Capital

The last forms of capital to be considered are physical and financial capital. Families may bring with them significant physical and financial assets that can be used by the firm. Sirmon and Hitt believe that family firms with "survivability capital," which represents the pooled financial resources of the family, can provide the firm with a competitive advantage compared to those firms without access to such resources. As they note, "survivability capital can help sustain the business during poor economic times or, for example, after an unsuccessful extension or new market venture. This safety net is less likely to occur in nonfamily firms due to the lack of loyalty, strong ties, or long-term commitments on the part of employees" (2003, p. 343). Not only do families use their financial resources to protect their firms against business downturns, but they may also turn to extended family to generate capital to launch new ventures. This pooling of capital by families has been particularly successful in fostering the proliferation and growth of Chinese family businesses (Fukuyama, 1995).

Family members can use their personal assets to strengthen the firm; however, families are also known for taking assets out of the businesses they own, thereby undermining the firm's stability.



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

Haynes, Walker, Rowe, and Hong (1999) surveyed 673 family businesses, asking the owners to describe whether family funds were used to support the business or if business assets were used to finance family needs, such as securing personal loans or covering shortfalls in the family's monthly budget. They concluded that families are much more likely to draw on firm resources to meet family needs than they are to use family resources for the benefit of the firm. Therefore, family demands on firm resources may put the firm at risk. Intermingling of business and family funds also makes accountability difficult, making opportunism on the part of the family members more likely. Thus, families can have a direct effect on a firm by either providing or expropriating resources.

*Proposition 7. Family owners/managers are more likely to use personal resources to benefit the firm than are owners/managers without family ties.*

*Proposition 8. Family owners/managers are more likely to expropriate firm resources for personal benefit than are owners/managers without family ties.*

## The "Family Effect" Within the Population of Family Firms

The previous discussion suggests that not all family firms are alike because of the assortment of dynamics found in the families that own and manage them. Due to a particular set of family goals, relationships, and assets, some family firms are likely to have high agency costs and significant family liabilities (e.g., poor human, social, and financial capital), while other family firms may have characteristics that provide them with lower agency costs and abundant resources. Figure 3 presents three dimensions—"agency costs," "family assets," and "family liabilities"—ranging from "high" to "low," which we might use to begin to distinguish between various "types" of family firms.

There have been a few attempts to create typologies of family firms. For example, Dyer (1986) developed a typology of "business," "board," and "family" cultures that predicts successful leadership succession. Gersick, Davis, Hampton, and Lansberg (1997) and Lansberg (1999) categorize family firms in terms of ownership structure, noting that they often evolve from "controlling owners" to "sibling partnerships" and eventually to "cousin consortiums," with each type facing different issues and dynamics. Birley (2001) types family firms on the basis of family involvement in the firm as measured by owner-managers' responses to a 20-item questionnaire. For "Family In" firms, the owning family's needs and concerns influence firm behavior. "Family Out" firms have little family involvement, and thus family issues are generally not considered when making decisions. "Juggler" firms are those organizations where the owner-managers attempt to balance the needs of their families with the needs of the firm; neither family nor firm is deemed preeminent for "Jugglers."

Typologies can prove useful in articulating the differences in organizational forms and the outcomes derived from those forms, despite the fact that they frequently gloss over the fine-grained differences (or commonalities) one might find through a close examination of each type. With this in mind, a typology will be presented that will provide the foundation for theorizing regarding family firm performance. The dimensions presented in Figure 3 create four quadrants suggesting four types of family firms: (I) the *clan* family firm, (II) the *professional* family firm, (III) the *mom & pop* family firm, and (IV) the *self-interested* family firm. There are certain agency costs and familial assets or familial liabilities associated with each type. Each type will now be briefly described.

## Quadrant I—Low Agency Costs, High Family Assets: The Clan Family Firm

In the clan family firm, the goals of family owners and family managers are one and the same, leading to low agency costs. In this type of firm, the long-term family and firm goals are isomorphic, with the family attempting to meet both firm and family needs (similar to Birley's "Juggler"



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

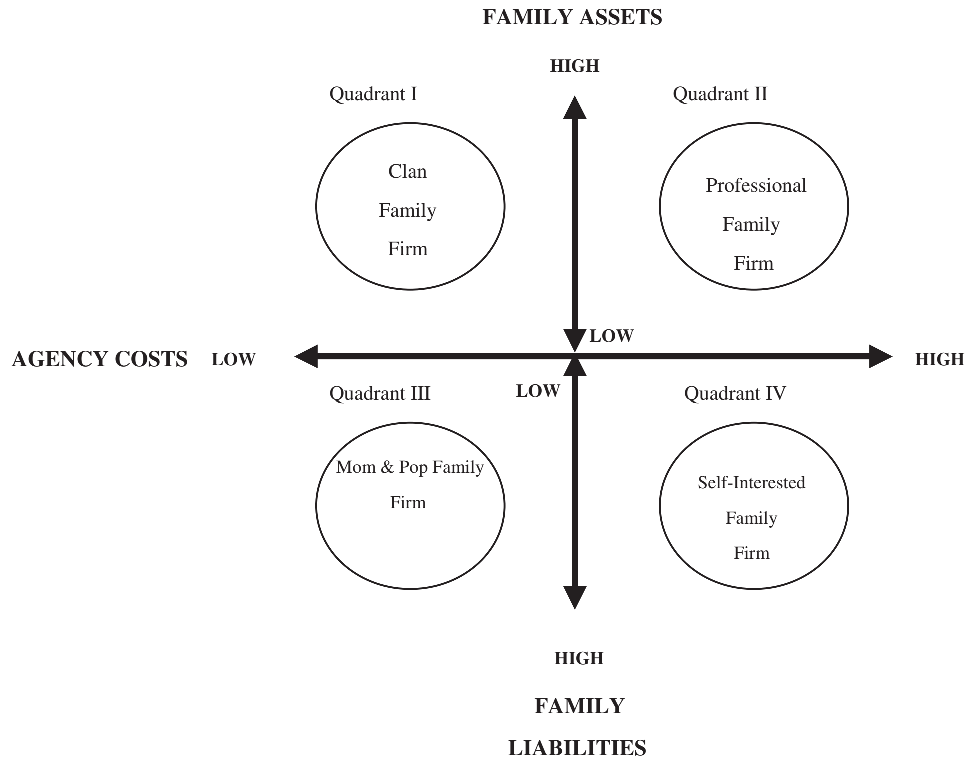


**Figure 3** Typology of Family Firms.

firms). This type of family firm gets its name from the fact that it receives the benefits of low agency and transactions costs due to "clan control": behavior is regulated and made predictable by the group's shared goals, norms, and values (Ouchi, 1980; Wilkins & Ouchi, 1983; Williamson, 1981). Such clans have a high degree of trust that reduces transactions costs while enhancing communication and coordination within the family and creating goodwill with firm stakeholders (Habbershon & Williams, 1999). Significant human capital is found in these firms since family members bring with them the skills and commitment needed for firm survival and success and social capital is developed by such families to acquire needed resources. Family resources are also used to support the firm during difficult times (Wong et al., 1992). In summary, in this type of firm, family relationships not only reduce agency costs, but enhance the firm's ability to leverage the owning family's human, social, and financial capital. Small, first-generation family firms that are owned and managed by family members highly committed to both the success of firm and family may be the stereotypical clan family firm.

## Quadrant II—High Agency Costs, High Family Assets: The Professional Family Firm

Relationships and governance in the professional family firm are based on professional codes of conduct. These firms have what Dyer (1986) describes as a "professional culture" and appear to



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

have some of the characteristics of Birley's (2001) "Family Out" firms that strive to implement professional values. Agency costs are higher in this type of firm as compared with the clan family firm, inasmuch as costs are borne in the attempt to formalize control systems and monitor management. However, to the extent that a family implements formal monitoring mechanisms, it also avoids the problems of opportunism and nepotism that afflict many family businesses. Thus, the professional control system helps ensure that the firm's resources are not squandered by the family. Family assets are therefore protected and can be developed in the professional family firm, much like the clan family firm. Large family firms such as the Marriott Corporation or WalMart, where the family maintains significant ownership but relies on professional managers to run the enterprise, are examples of professional family firms (Dyer, 1986, 1989).

## Quadrant III—Low Agency Costs, High Family Liabilities—The Mom & Pop Family Firm

In Quadrant III we find family firms that have low agency costs, but also certain liabilities stemming from family ownership. Such firms have the agency advantages of the clan family firm, inasmuch as the family does not have conflicting goals and behavior is monitored largely through close familial ties. However, families operating this type of firm fail to develop familial assets. Family values may encourage nepotism, so family managers may not be trained or have the expertise needed to grow the business. Family social capital may not be leveraged with customers and suppliers. Moreover, the family's physical or financial assets may not be utilized effectively to benefit the business. Thus, while this type of firm derives efficiencies from its low agency costs, its growth and performance may be stymied by family liabilities. This type of family firm is likely to be represented by small "mom & pop" enterprises such as family-owned restaurants or family farms, which may have been operated by a family for generations, but the owning family has not made an effort to cultivate family assets to help the firm grow.

## Quadrant IV—High Agency Costs, High Family Liabilities–The Self-Interested Family Firm

Self-interested family firms are based on utilitarian and altruistic relationships (Etzioni, 1961). Family members advance their self-interest at the expense of the firm and, often, other family members. These firms are similar to Birley's "Family In" firms, where nepotism is the norm. Particularistic criteria are used in employee selection, evaluation, and promotion to benefit the family and individual family members. Moreover, the family may display characteristics of "amoral familism" as family members look after their own and the family's self-interest as opposed to the well-being of the firm, and promote altruistic family relationships to avoid the monitoring of their activities by others. Thus family assets may be squandered through opportunism, shirking, and adverse selection, all of which are made possible by the lack of formal monitoring systems and the self-interested nature of the family. Family ownership in the self-interested firm may become widely dispersed among family members, with some family members interested in the growth of the business while others are more interested in reaping the rewards of ownership (Gersick et al., 1997; Lansberg, 1999). Such differences in goals for the firm stimulate conflicts and self-interested behaviors to the detriment of firm performance (Kaye, 1991). Gersick et al.'s (1997) "cousin consortium" family firms comprised of multiple generations of family members that are often highly conflicted or Banfield's insular family firms of southern Italy seem to be examples of self-interested family firms.

## Firm Type and Performance

Our typology presents us with four general types of family firms that we can now critique and compare as to their performance. The following propositions are based on the "ceteris paribus"



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

assumption, that the family effect on performance can be clearly delineated only by assuming that all other firm factors are held constant (e.g., industry, firm characteristics). Based on our discussion of the resource-based view and agency theory, we can postulate that clan family firms, ceteris paribus, will have the highest performance. Such firms have significant family assets and low agency costs. Professional family firms also have certain family assets, but bear the costs associated with the imposition of professional rules and monitoring, with such monitoring helping the firm avoid adverse selection, shirking, and opportunism. However, it may be that the relationship between monitoring and performance is curvilinear—too little monitoring fails to control opportunism, which leads to poor performance. However, too many bureaucratic controls may eliminate family assets, stifle innovation, and incur significant agency costs (Schulze, Lubatkin, Dino, & Buchholtz, 2001). The mom & pop family firm has the advantage of low agency costs but also has some family liabilities, while the self-interested family firm may incur liabilities due to incompetent management, amoral familism, complex conflicts, the siphoning of resources from the firm for use by the owning family, and so forth. The lack of effective monitoring may contribute to the creation of these liabilities. Thus, self-interested family firms may have difficulty surviving since they have significant familial liabilities coupled with high agency costs. Given these conditions, the self-interested family firms would be at a competitive disadvantage vis-à-vis clan family firms and professional family firms. In summary, the typology in Figure 3 suggests the following propositions.

*Proposition 10. Ceteris paribus, clan family firms will perform better than the other three types of family firms.*

*Proposition 11. Ceteris paribus, professional family firms will have higher performance than self-interested family firms.*

Predicting which firm—the mom & pop family firm or the professional family firm—has the performance advantage is more difficult. Although the mom & pop firm has an advantage due to lower agency costs, it also has liabilities. The professional family firm may have significant agency costs, but it also has a pool of family resources. Ceteris paribus, if the agency costs and familial assets of the professional family firm "outweigh" the agency costs and liabilities of the mom & pop firm, then the professional family firm would have the advantage (and vice versa).

Given the three dimensions of the typology just presented, one might feel that the propositions stemming from the typology are self-evident: firms with low agency costs and high resources will perform better than those with high agency costs and family liabilities. However, to the extent that the typology helps us to explicitly identify those factors that lead to lower or higher agency costs, as well as those factors that generate family resources or liabilities, we can more clearly identify sources of competitive advantage (or disadvantage) for family firms and therefore be better able predict their performance. Moreover, the typology encourages us to investigate the possible interaction effects of the dimensions. (e.g., How do various forms of governance affect family assets and liabilities?) Such an approach to theory building will help us better understand the determinants of family firm performance rather than merely assert that family firms are better or worse off than those firms without family connections.

## Comparing the Performance of Family and Nonfamily Firms

Nonfamily firms, ceteris paribus, would be expected to perform more poorly than clan family firms since they lack family resources and have higher monitoring costs (given that nonfamily firms typically use professional controls). Nonfamily firms would also be at a disadvantage compared to professional family firms since they have no familial resources and incur similar agency costs. However, nonfamily firms may fare much better compared to self-interested family firms, which have significant agency costs and family liabilities. This leads us to the following two propositions.



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

*Proposition 12. Ceteris paribus, clan family firms and professional family firms will have higher performance than nonfamily firms.*

*Proposition 13. Ceteris paribus, nonfamily firms will have higher performance than self-interested family firms.*

In the case of the mom & pop family firm, its advantage (or disadvantage) compared with the nonfamily firm would be a function of the comparative agency costs between the two, in addition to the family liabilities incurred by the mom & pop firm.

Testing these propositions may provide us with some additional insight concerning the reasons behind the contradictory findings in those studies that compared the performance of family and nonfamily firms. When studying family firm performance, researchers typically classify family firms using a 0 or a 1—either the firm is a family firm or it is not—and then compare the performance of the sample of family firms with those firms that are designated as nonfamily. Such a classification scheme turns the family firm into a "black box," since it fails to recognize and articulate which "family factors" lead to high performance and which may lead to poor performance.

Furthermore, when researchers compare a sample of family firms versus a sample of nonfamily firms, they are likely to obtain a cross-section of the various family firm types in the sample and gloss over the important differences we see in the population of family firms. To the extent that the family firm sample contains a disproportionate number of any particular type, the results may be misleading. For example, if a sample contained a disproportionate number of self-interested family firms, then the performance of the firms in that sample may fair poorly when compared to the nonfamily sample. Conversely, a sample containing a disproportionate number of clan family firms would likely perform better than a random sample of nonfamily firms.

Sampling bias provides us with a possible explanation for the contradictory findings in the literature; however, the major contribution of this framework lies in its ability to help us develop better theory regarding the impact of a family on firm performance. The theory used in creating the typology provides a framework to develop testable hypotheses to generate more precise explanations regarding *why* we may see differences in performance when comparing family and nonfamily firms as well as differences in performance within the population of family firms. The 13 propositions presented here help us get inside the black box of the family firm and suggest various means by which a family may affect a firm's performance. Thus, while researchers are typically asking the question: Do family firms perform better than nonfamily firms?, the appropriate question should be: What type of family firm leads to high performance?

## Family "Types" and Firm Performance

The typology just presented suggests that certain family firms have higher performance because they have familial assets and lower agency costs than firms without those advantages. This then leads us to consider the question: What types of families or family patterns are conducive to high firm performance? Indeed, family dynamics are what give rise to the benefits or costs we see associated with family firm performance. Thus we need to develop better theories about why certain families embrace nepotism while others do not; why do some families co-mingle family and firm assets while others eschew such practices; and why do certain families share common goals, while others do not. To answer such questions, we need to focus on the underlying family dynamics.

Previous work by scholars in the family sciences provides us with various models of family dynamics. For example, Constantine (1993) and Kantor and Lehr (1975) suggest four types of families: the *closed paradigm* family, in which the family relies on a hierarchy of authority to regulate family processes and make decisions, and the *random paradigm*, where the family values change and novelty. Such a family system is largely egalitarian and encourages independent thought and action on the part of family members. Collective needs are



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

seen as being met through individual initiative. A third family pattern is the *open paradigm*. In this pattern, family members create a democratic model for action and decision making as the family attempts to integrate individual needs into the family's collective goals and values. Such families attempt to synthesize the opposing values of hierarchy and independence found in the closed and random paradigms. A final pattern is the *synchronous paradigm*. Synchronous families rely on preexisting tacit agreements concerning shared values, goals, and ideas that regulate family processes. In such families, no one needs to be told what to do, for the family rules are internalized by all. Such families may be found more frequently in Asian societies rather than in Western cultures (Constantine, 1993).

Such a typology of families (in addition to many others that have been developed) may help us understand why certain firms owned and managed by families are at a comparative advantage or disadvantage. The reader may note some of the possible connections between the family paradigms just described and the family firm typology presented earlier. For example, synchronous families that own and manage an enterprise may have fewer agency costs than families operating with the random paradigm, and such families may also have the ability to develop social capital more effectively than other family types. It may also be true that families operating under an open or random paradigm may be able to help a firm adapt, grow, and change, as compared with a family using a closed paradigm. My purpose in suggesting such linkages between family type and firm performance is to encourage more theory building and collaboration across the disciplines of family science and management to better understand the role of the family in firm performance. To truly understand the "family effect" on firm performance, we need better theorizing regarding the link between family patterns and the behavior and performance of the firm. We may also discover that certain family patterns or paradigms "morph" into new family patterns once the family begins working together. What once were harmonious (or acrimonious) relationships in a family may dramatically change as family members interact day after day in the context of a business.

## Directions for Future Research

The purpose of this article has been to explore the "family effect" on organizational performance. The theoretical framework and typology presented suggest that there are several different types of family firms, some of which have unique assets that allow them to compete successfully while others have governance practices that incur significant agency costs, which, in turn, may cause them to falter in the marketplace. The dimensions that spawn the typology will, hopefully, encourage organization scholars to see family firms through a more complex lens, recognizing that there are differential "family effects" and that classifying all family firms in one category may lead to misleading conclusions. Definitions of family firms based strictly on percentages of ownership and management control—those most often used in current studies—will likely not differentiate the various family effects, and thus will not accurately predict nor explain differences in firm performance (Chua, Chrisman, & Sharma, 1999; Westhead & Cowling, 1998). Behavioral definitions, based on the dimensions suggested by the typology, will likely be more useful.

The typology presents a framework to better understand the family effect on firm performance, but it leaves us with a number of unanswered questions, such as the following.

1. How do we empirically determine the family firm types? How should we measure family resources and agency costs?
2. How do families acquire and develop their resources? Are certain forms of familial capital (e.g., human, social, financial) more valuable than others? How do families lose their resources?
3. Do certain governance mechanisms lead to greater or lesser agency costs in family firms?
4. What is the relationship between family ownership and management control and the four types of family firms?
5. Do families have a differential impact on different measures of firm performance? For



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

example, families might have a negative impact on human-resource outcomes (e.g., turnover), but a positive effective on financial outcomes (e.g., profits, revenues).

6. Are there other types of family firms, or are there other dimensions that will create new typologies to examine? What are the fine-grained differences between the various types?

7. Do these types evolve in family firms in any particular pattern? For example, do we typically find clan family firms in the first generation and then find such firms evolving into either professional family firms or self-interested family firms as the firm grows and the family transitions into the next generation?

As we answer these questions, we can begin to develop additional propositions to be tested that may unravel the complexities relating to the family effect and help us understand more fully the advantages and disadvantages of having families own and manage an enterprise.

## References


Adler, P. S., & Kwon, S. (2002). Social capital: Prospects for a new concept, *Academy of Management Review*, *27*(1), 17–40.

Anderson, R. C., & Reeb, D. M. (2003). Founding-family ownership and firm performance: Evidence from the S&P 500, *Journal of Finance*, *58*, 1301–1328.

Banfield, E. C. (1958). *The moral basis of a backward society*. Glencoe, IL: Free Press.

Barney, J. (1991). Firm resources and sustained competitive advantage, *Journal of Management*, *17*, 99–120.

Beehr, T., Drexler, J. A., & Faulkner, S. (1997). Working in small family businesses: Empirical comparisons to non-family businesses, *Journal of Organizational Behavior*, *18*(3), 297–312.

Bird, B. J. (1989). *Entrepreneurial behavior*. Glenview, L: Scott, Foresman and Company.

Birley, S. (2001). Owner-manager attitudes to family and business issues: A 16 country study, Entrepreneurship: *Theory and Practice*, *26*(2), 63–76.

Carney, M. (2005). Corporate governance and competitive advantage in family-controlled firms, Entrepreneurship: *Theory and Practice*, *29*(3), 249–265.

Chrisman, J. J, Chua J. H., & Litz, R. A. (2004). Comparing the agency cost of family and non-family firms, *Entrepreneurship Theory and Practice*, *28*(4), 335–354.

Chrisman, J. J., Chua, J. H., & Sharma, P. (2005). Trends and directions in the development of a strategic management theory of the family firm, Entrepreneurship: *Theory and Practice*, *29*(5), 555–575.

Christensen, J. (2002). *Bishop mines*. Brigham Young University Case Study. Provo, UT: Brigham Young University.

Chua, J. H., Chrisman, J. J., & Sharma, P. (1999). Defining the family business by behavior, Entrepreneurship: *Theory and Practice*, *23*(4), 19–39.

Constantine, L. L. (1993). The structure of family paradigms: An analytical model of family variation, *Journal of Marriage and Family Therapy*, *19*(1), 39–70.

Daily, C. M., & Dollinger, M. J. (1992). An empirical examination of ownership structure in family and professionally managed firms, *Family Business Review*, *5*(2), 117–136.

Dollinger, M. J. (1995). *Entrepreneurship: Strategies and resources*. Burr Ridge, IL: Irwin.

Dyer, W. G., Jr. (1986). *Cultural change in family firms*. San Francisco, CA: Jossey-Bass.

Dyer, W. G., Jr. (1989). Integrating professional management into a family owned business, *Family Business Review*, *2*(3), 221–235.

Dyer, W. G., Jr. (1992). *The Entrepreneurial experience: Confronting career dilemmas of the start-up executive*. San Francisco, CA: Jossey-Bass.

Dyer, W. G., Jr. (2003). The family: The missing variable in organizational research, *Entrepreneurship: Theory and Practice*, *27*(4), 401–416.

Ensley, M. D., & Pearson, A. W. 2005. An exploratory comparison of the behavioral dynamics of top management teams in family and nonfamily new ventures: Cohesion, conflict, potency, and consensus, *Entrepreneurship: Theory and Practice*, *29*(3), 267–284.

Etzioni, A. (1961). *A comparative analysis of complex organizations*. New York: Free Press.

Faccio, M., Lang, L. P. H., & Young, L. (2001). Dividends and expropriation, *American Economic Review*, *91*, 54–78

Fama, E., & Jensen, M. C. (1983a). Agency problems and residual claims, *Journal of Law and Economics*, *26*, 325–344.

Fama, E., & Jensen, M. C. (1983b). Separation of ownership and control, *Journal of Law and Economics*, *26*, 301–325.

Fukuyama, F. (1995). *Trust*. New York: Free Press.

Gallo, G. A., Tapies, J., & Cappuyns, K. (2000). Comparison of family and non-family business: Financial logic and personal preferences. "Chair of Family Business" IESE Research Paper No. 406 BIS. Universtiy of Navarra.




Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

Gersick, K. E., Davis, J. A., Hampton, M. M., & Lansberg, I. (1997). *Generation to generation: Life cycles of the family business*. Boston, MA: Harvard Business School Press.

Gomez-Mejia, L. R., Larraza-Kintana, M., & Makri, M. (2003). The determinants of executive compensation in family-controlled public corporations, *Academy of Management Journal*, *46*(2), 226–237.

Gomez-Mejia, L. R., Nuñez-Nickel, M., & Gutierrez, I. (2001). The role of family ties in agency contracts, *Academy of Management Journal*, *44*(1), 81–95.

Greiner, L. E. (1972). Evolution and revolution as organizations grow, *Harvard Business Review* July–August, 37–46.

Habbershon, T. G., & Williams, M. L. (1999). A resource-based framework for assessing the strategic advantages of family firms, *Family Business Review*, *12*(1), 1–25.

Haynes, G. W., Walker, R., Rowe, B. R., & Hong, G. (1999). The intermingling of business and family finances in family-owned businesses, *Family Business Review*, *12*(3), 225–239.

Hilburt-Davis, J., & Dyer, W. G., Jr. (2003). *Consulting to family businesses: A practical guide to contracting, assessment, and implementation*. New York: Wiley.

Jensen, M., & Meckling, O. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure, *Journal of Financial Economics*, *3*(2), 305–360.

Kantor, D., & Lehr, W. (1975). *Inside the family*. San Francisco, CA: Jossey-Bass.

Kaye, K. (1991). Penetrating the cycle of sustained conflict, *Family Business Review*, *4*(1), 21–44.

Kets de Vries, M. F. R. (1985). The dark side of entrepreneurship, *Harvard Business Review* November–December, 160–167.

Kimberly, J. R. (1980). *Organizational life cycle: Issues in the creation, transformation, and decline of organizations*. San Francisco, CA: Jossey-Bass.

Lansberg, I. (1999). *Succeeding generations*. Boston, MA: Harvard Business School Press.

Levinson, H. (1971). Conflicts that plague family businesses, *Harvard Business Review* March–April, 90–98.

Lyman, A. R. (1991). Customer service: Does family ownership make a difference? *Family Business Review*, *4*(3), 303–324.

McConaughy, D. (2000). Family CEOs vs. nonfamily CEOs in the family controlled firm: An examination of the level and sensitivity of pay to performance, *Family Business Review*, *13*(2), 121–131.

McConaughy, D., Matthews, C., & Fialko, A. S. (2001). Founding family controlled firms: Efficiency, risk, and value, *Journal of Small Business Management*, *39*(1), 31–50.

McConaughy, D., Walker, M., Henderson, G., & Mishra, C. (1998). Founding family controlled firms: Efficiency and value, *Review of Financial Economics*, *7*(1), 1–19.

Meek, C., Woodworth, W., & Dyer, W. G., Jr. (1988). *Managing by the numbers: Absentee owners and the decline of American industry*. Reading, MA: Addison-Wesley.

Morck, R., Shleifer, A., & Vishny, R. W. (1988). Management ownership and market valuation: An empirical analysis, *Journal of Financial Economics*, *20*(1/2), 293–315.

Morck, R., & Yeung, B. (2003). Agency problems in large family business groups, *Entrepreneurship: Theory and Practice*, *27*(4), 367–382.

Morck, R., & Yeung, B. (2004). Family control and the rent-seeking society, Entrepreneurship: *Theory and Practice*, *28*(4), 391–409.

Ouchi, W. G. (1980). Markets, bureaucracies, and clans, *Administrative Science Quarterly*, *25*, 129–141.

Penrose, E. T. (1959). *The theory of the growth of the firm*. New York: Wiley.

Perrow, C. (1972). *Complex organizations*. Glenview, IL: Scott, Foresman, and Company.

Rosenblatt, P. C., de Mik, L., Anderson, R. M., & Johnson, P. A. (1985). *The family in business*. San Francisco, CA: Jossey-Bass.

Schulze, W. G., Lubatkin, M. H., & Dino, R. N. (2003). Exploring the agency consequences of ownership dispersion among the directors of private family firms, *Academy of Management Journal*, *46*(2), 179–194.

Schulze, W. G., Lubatkin, M. H., Dino, R. N., & Buchholtz, A. K. (2001). Agency relationships in family firms: Theory and evidence, *Organization Science*, *12*(2), 99–116.

Schumpeter, J. A. (1934). *The theory of economic development*. Cambridge, MA: Harvard University Press.

Scott, R. W. (1992). *Organizations* (3rd ed.). Englewood Cliffs, NJ: Prentice-Hall.

Seidel, M. L., Polzer, J. T., & Stewart, K. J. (2000). Friends in high places: The effects of social networks on discrimination in salary negotiations, *Administrative Science Quarterly*, *45*, 1–24

Sirmon, D. G., & Hitt, M. A. (2003). Managing resources: Linking unique resources, management, and wealth creation in family firms, *Entrepreneurship: Theory and Practice*, *27*(4), 339–358.

Steers, R. M. (1982). When is an organization effective? In E. F. McDonough (Ed.), *Designing effective organizations* (rev. ed., pp. 196–206). Lexington, MA: Ginn.



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009

Steier, L. (2001). Next-generation entrepreneurs and succession: An exploratory study of modes and means of managing social capital, *Family Business Review*, *14*(3), 259–276.

Stuart, T. E., Ha, H., & Hybels, R. C. (1999). Interorganizational endorsements and the performance of entrepreneurial ventures, *Administrative Science Quarterly*, *44*(2), 315–349.

Tanewski, G. A., Prajogo, D., & Sohal, A. (2003). *Strategic orientation and innovation performance between family and non-family firms*. Presented at the World Conference of the International Council of Small Business. Monash University.

Villalonga, B., & Amit, R. (2004). *How do family ownership, control, and management affect firm value*. Harvard Business School and Wharton School, University of Pennsylvania.

Ward, J. L. (1987). *Keeping the family business healthy*. San Francisco, CA: Jossey-Bass.

Ward, J. L. (1988). The special role of strategic planning for family businesses, *Family Business Review*, *1*(2), 105–118.

Weber, M. (1946). *From Max Weber: Essays in sociology*, H. H. Gerth & C. W. Mills (Eds.). New York: Oxford University Press.

Westhead, P., & Cowling, M. (1998). Family firm research: The need for a methodological rethink, Entrepreneurship: *Theory and Practice*, *23*(1), 31–56.

Wilkins, A. L., & Ouchi, W. G. (1983). Efficient cultures: Exploring the relationship between culture and organizational performance, *Administrative Science Quarterly*, *28*, 468–481.

Williamson, O. E. (1981). The economics of organization: The transaction cost approach, *American Journal of Sociology*, *87*, 548–577.

Wong, B., McReynolds, B. S., & Wong, W. (1992). Chinese family firms in the San Francisco Bay area, *Family Business Review*, *5*(4), 355–372.


*W. Gibb Dyer, Jr., O. Leslie Stone Professor, Marriott School of Management, Brigham Young University, Provo, UT 84602; W_Dyer@byu.edu*.

I would like to thank Dave Whetten, Justin Dyer, William Schulze, John Ward, Jeffrey Dyer, Sabine Klein, Ludo Van der Heyden, Christine Blondel, Andrew Pettigrew, and members of the Marriott School OLS department for their helpful comments regarding the ideas in this article.



Downloaded from http://fbr.sagepub.com at SAGE Publications on May 21, 2009