Family governance and family firm outcomes

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Abstract:

We are pleased to present this Special Issue on Family Governance in the Journal of Family Business Management. The focus of the six articles in this Special Issue is on family governance, idiosyncratic family firm behavior, strategies, and performance. This Guest Editor's note synthesizes the contributing authors' propositions and findings concerning family governance and provides future research directions.

Many firms around the world exhibit family governance via family ownership, family's involvement in management and/or board, and other forms which can in turn substantially influence their strategies, behavior, and performance. When family business members pursue particularistic goals and strategies, these reflect on to firm strategies, behavior, and performance. For instance, the particularistic pursuit of family-centered non-economic goals create intentions to preserve socioemotional wealth (SEW), including family control and influence, binding social ties, emotional attachment, family members' identification with the firm, and renewal of family bonds to the firm through dynastic succession (Berrone et al., 2012; Carney, 2005). The achievement of non-economic goals is contingent upon the family's control of the firm through family governance mechanisms (Chrisman et al., 2014). Hence, when SEW is coupled with family governance components such as family ownership, they are influential on firm strategies, behavior, and performance. Accordingly, some of the articles in the Special Issue suggest and show that the family governance driven by SEW preservation concerns shape strategic behaviors such as innovation and different types of innovators (i.e. limited, intended, potential, and active) (Li and Daspit, 2016) and unique family controlled Real Estate Investment Trusts (REITS) driven by SEW perform differently depending on CEO founder vs successor in charge (Chang and Noguera, 2016).

Keywords: family governance | family firms

Article:

Introduction

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To explain the extent of a family's influence on family firms, Klein et al. (2005) identify family influence dimensions: power, experience, and culture. According to Chrisman et al. (2005), the power dimension involves sources and amount of authority a family has in a family firm. Experience dimension describes the level and type of family involvement in a family business and the extent to which this involvement lasts through generations. Culture is composed of family members' values and the extent to which these values shape the organizational values in family firms. Chrisman et al. (2005, p. 244) suggest that these three dimensions indicate "a family's ability and willingness to influence the direction of a business, as well as the depth to which a family's influence is likely to have affected business decision making." In the Special Issue, Sanchez-Marin et al. (2016) demonstrate that these family influence dimensions have differential impact on tax aggressiveness tendencies in family firms.

Moreover, although family firms are the dominant form of enterprise organization and key drivers of economies around the world (Bertrand and Schoar, 2006; La Porta et al., 1999; Tagiuri and Davis, 1996; Zahra and Sharma, 2004), we know little about how family governance influences their capital structure as well as the allocation of funds. Cho et al. (2016) examine the link between family ownership and debt ratios and moderation effects of equity performance and family control through involvement in management on this link. While Cho et al. examine the sources of funds, Muntean's (2016) work extends this line of research by investigating the allocation of funds, such as founder – and family controlled firms' political campaign support and contributions.

The focus on the impact of different forms of family governance on family firm strategies, behavior, and performance by drawing upon different theoretical perspectives contributes to the advancement of the theory of the family firm. This Guest Editor's note provides such a discussion of key findings and presents directions for future theory building and testing.

The remainder of the Guest Editor's note will progress as follows: first, this Editor's note will summarize each article in the Special Issue and evaluate key propositions and findings and their theoretical and practical implications. This allows identification of several under-researched areas that require close scholarly attention. In the final section of the Guest Editor's note, promising future research directions and insights for practitioners are discussed.

Articles

Family firm innovation heterogeneity

Li and Daspit (2016) draw attention to mixed findings concerning innovation in family and suggest that both the degree of family involvement in governance and the family's SEW intention affect the extent to which innovation is pursued. The authors develop a typology to classify the configurations of family firm innovation and identify four types of emergent innovation strategies as limited innovator, intended innovator, potential innovator, and active innovator strategies based on risk orientation, innovation goal, and knowledge diversity. The authors also provide practically useful recommendations regarding transitions from limited, intended, and potential innovators to active innovators.

Family controlled REITS

By drawing upon Transaction Cost Theory and SEW perspective, Chang and Noguera (2016) examine the governance mechanisms of family controlled REITS and compare them with those of professionally managed REITs. The authors suggest that controlling families are driven by SEW preservation rather than conforming to institutional norms. In turn, such actions result in performance variations and entrenchment. On the one hand, findings show that family controlled REITs focus more on developing governance mechanisms for SEW preservation despite the external governance controls prevailing in the markets. On the other hand, professional REITs tend to focus more on following institutional norms. Additionally, the authors show that long-term REIT performance is negatively affected when the CEO founder retires. When the successor is related to the founder long-term REIT, performance is negatively affected at a greater extent than when the successor is a professional manager. The authors also provide implications for practice.

Tax aggressiveness

Sanchez-Marin et al. (2016) examine the tax aggressiveness (i.e. firm's activities geared toward structuring and rationalizing the tax burden by evaluating all the potential benefits in relation to the explicit and implicit costs) of family SMEs based on the family influence dimensions (i.e. power, experience, and culture) (F-PEC) developed by Astrachan et al. (2002). Specifically, the authors suggest that family influence dimensions differentially affect the tax aggressiveness of family firms. Findings reveal that higher levels of family experience by the incorporation of second and subsequent generations increases tax aggressiveness, whereas higher levels of family power through family ownership and management lowers tax aggressiveness. Interestingly, a greater alignment of family and business culture does not exert a significant effect on tax behaviors of family firms.

Capital structure

Cho et al. (2016) analyze 200 publicly traded family firms in the S&P Small-Cap 600 index from 1999 to 2007 and show that family ownership is positively related to market-and book-value debt ratios. However, this effect is mitigated by equity performance and family control through the CEO position. Thereby, the authors draw attention to the differential impact of family ownership and family management on capital structure.

Political behavior in founder – and family controlled firms

Muntean (2016) enlightens us regarding the political behavior of founders, families, and their firms in the form of campaign contributions which has not been explored by past family business research. Indeed, partisan and ideological campaign contributions raise a range of governance issues and implications for myriad stakeholders, including investors, employees, customers, and the public. The author compares and contrasts the campaign contributions of founder – and family controlled firms relative to managerially governed firms and finds that founder – and family controlled firms are more partisan and ideological than other firms in their industry and this finding is consistent across industries.

Discussion and conclusion

The unique differences between family and non-family firms prompted family business research and the theory of the family firm to develop. As the theory of the family firm emerged and advanced, researchers identified differences not only between family and non-family firms, but also among family firms themselves. Family involvement in business tends to vary in family firms, resulting in variant forms of family governance and, in turn, idiosyncratic family firm strategies, behaviors, and performance. For example, family governance through ownership, management, and other governance mechanisms can differentially influence firm strategies such as innovation and firm performance. Hence, there has been a strong need to study and to learn more about these differences among family firms. This Special Issue informs both theory and practice through a further investigation of family firms' heterogeneity by taking a closer look at different configurations of family governance and how they influence family firm outcomes by drawing upon different theoretical perspectives such as SEW view, transaction cost, equity, and organizational justice theories.

There are a number of important contingencies that can alter the relationships examined in this Special Issue. Therefore, future research may explore other potential family governance forms and configurations along with contingencies such as family size, firm and national culture, industry, legal context, generation in charge, and many more in influencing family firm outcomes. For instance, even though increased globalization tends to cause similarities in business conduct in world economies, different legal regimes (e.g. common vs civil law) in different countries can result in differences in family governance and outcomes. Additionally, family business owners, managers, and board members often co-exist along with other large shareholders such as institutional owners in case of publicly traded family firms (unlike in private family firms). Therefore, the various outcomes of different family governance configurations can be investigated across countries. Furthermore, other theoretical angles such as stakeholder and institutional theories are also applicable to family governance investigations while agency theory, RBV, and KBV have been relatively more drawn upon.

This Guest Editors' note reflects on each article in the Special Issue on family governance configurations and their impact on family firm behavior, strategies, and outcomes. The articles in this Special Issue focus on unique organizational phenomena such as innovation, capital structure, financial performance, tax aggressiveness, and political behavior shaped by different forms of family governance. Several under-researched areas concerning family governance are identified, and future research directions and implications for practitioners are presented.

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