The strategic behavior of family firms

IMPACT STATEMENT

TITLE

The Strategic Behavior of Family Firms – Studies on Innovation and Corporate Social Performance

ISSUE

Family firms represent one of the most prevalent forms of business around the globe. Yet, our understanding of the strategic behavior associated with this ownership group remains limited despite a growing body of literature in the domain. Research unambiguously shows that the behavior of family firms differs significantly from that of their non-family firm counterparts, which is why predictions and inferences based on the same traditional economic models are likely inadequate. It is essential to attain a better theoretical understanding of the idiosyncratic decision-making processes and mechanisms shaping the behavior of family-influenced businesses to provide adequate managerial advice and enable policymakers to take appropriate measures. Today, socioemotional wealth (SEW) theory dominates the family business research landscape, a framework that is still relatively young, dating back no more than 15 years (Gomez-Mejia et al., 2007). In essence, the framework suggests that family firm behavior is not primarily motivated by the maximization of profits (traditional economic theory) but rather by the maximization of non-financial objectives (e.g., reputation, preservation of the family dynasty), which family members derive from holding a controlling position. Accordingly, it is assumed that any threat to an owning family's non-financial benefits leads to preventive strategic action even if this entails sacrificing economic performance. Another fundamental and prevalent assumption of the SEW framework is that family firms are *a priori* long-term oriented, which is a result of their desire to preserve control over time. While the SEW framework was useful to develop our current understanding, it may be overly simplistic, and more complex theoretical advancements are in place to explain family firm behavior with greater accuracy (Le Breton-Miller & Miller, 2022). From a theoretical perspective, a failure to consider factors of heterogeneity and context can lead to theoretical inadequacies and an empirical misrepresentation impairing a reliable comparison between family and non-family firm behavior (Chrisman & Patel, 2012).

WHAT HAS BEEN DONE IN THIS DISSERTATION?

This dissertation intends to take a closer look at the strategic behavior of family firms and their underlying decision-making mechanisms in the context of innovation and corporate social performance (CSP). In this undertaking, prevailing assumptions in the family business research field are theoretically challenged, and empirical evidence is provided to support the notion that internal and external factors significantly impact the innovation and CSP output of family firms. Chapter 2 demonstrates that the presence of other influential owners has a substantial effect on radical innovation outputs. Chapter 3 shows that a family firm's likelihood to engage in open innovation depends on a family's managerial involvement and generational stage. Chapter 4 establishes that a family firm's CSP output is influenced by the presence of a financial crisis and its interaction with firm-level bankruptcy risk.

IMPACT

The theoretical work presented in this dissertation provides important insights into the field of family business research, which is crippled by insufficient consideration of heterogeneity, situational factors, and boundary conditions. In addition, there is little diversity of alternative and supplementary theoretical developments to advance our knowledge about the currently prevailing socioemotional wealth (SEW) paradigm. The presented work acknowledges the basic underlying premise of the SEW framework that non-financial considerations play a significant role in family firm decision-making and adds to our theoretical understanding of the decision-making peculiarities of family firms. The findings demonstrate that the research field can benefit from theoretical reassessments of underlying mental decision models, additional exploration of heterogeneity and situational factors, and the integration of more mature paradigms. Tapping into alternative theoretical paradigms appears particularly promising for generating new knowledge in the context of choices that are not primarily characterized by different levels of risk (e.g., CSP). Socio-emotional wealth theory is a derivative of the behavioral agency model, which builds on prospect theory and aims to predict behavior relating to decisions characterized by varying levels of risk (e.g., innovation, diversification, internationalization). However, the managerial decision-making process is more nuanced, and factors such as temporal preferences, for example, also play a significant role. In this regard, Chapter 4 informs the debate by demonstrating the value of alternative theoretical approaches (i.e., temporal orientation logic) in predicting family firm behavior. The field of family business research is still relatively young, harboring many theoretical avenues to pursue. Overall, the work presented in this dissertation attests to the necessity for future scholars to advance our theoretical understanding of family firm decision-making by taking more contextualized approaches and by relaxing the static assumptions embedded in the SEW framework (Le Breton-Miller & Miller 2022).

Regarding societal implications, this dissertation also makes several valuable contributions. Family firm behavior is motivated by the achievement of two, sometimes competing sometimes harmonizing – goals: financial and non-financial wealth maximization. A basic understanding of these motives can help manage expectations, facilitate better decision-making, and successful relationship building for stakeholders and shareholders.

The second chapter focuses on ownership heterogeneity and the impact of hedge fund activism on radical innovation outputs among family firms. The findings suggest that radical innovation output is inferior among family firms compared to non-family firms, weakening their long-term competitive position. This behavior can be interpreted as wealth expropriation from more diversified stockholders favoring strategic choices characterized by higher risk and return profiles. Hence, policymakers may want to limit the power of influential individual blockholders, for example, by using dual-class shares. Moreover, the results advocate that hedge fund activism, as a corrective corporate governance tool, is ineffective among certain firm types (e.g., family firms). Contrary to the prevailing opinion that hedge fund activism is the holy grail in sanctioning corporate misconduct, this finding informs investors more generally that the effectiveness of hedge fund activism is not universal, and its long-term impact remains understudied, warranting further investigation.

The third chapter of this dissertation finds that family firms are less likely to engage in open innovation (OI) partnerships despite the prevailing academic opinion of its positive long-term performance impact. Hence, family firm managers should recognize that alternatives to internally financed research and development approaches exist and that family firms are likely well-equipped to embrace collaborative innovation partnerships, potentially reducing associated costs, risks, and time-to-market. Failure to recognize and implement external innovation sourcing strategies may constitute an increasingly significant long-term disadvantage in today's fast-moving and highly competitive innovation landscape. In light of this, family business managers may be well-advised to actively search for OI partners in the planning phase of an innovation project. Managers can, for instance, identify potential collaboration partners by attending trade shows or by browsing trade directories.

The results of the fourth chapter on prosocial behavior suggest that family firms excel in corporate social performance (CSP) outputs. Hence, managers seeking to pursue social agendas may want to consider a career path in a family firm, given the higher probability of success in achieving social endeavors. For family managers, this chapter also provides an interesting recommendation. The results corroborate that a family firm's CSP is significantly affected by a financial crisis independent of firm-level financial risk. This decision could be sub-optimal. Hence, it would be advisable to rationally assess situations that appear threatening and pay explicit attention to the long-term implications associated with short-term cost-saving behaviors. Adopting a short-term logic during a crisis when firm performance is not significantly affected may undermine a firm's long-term value-creation capabilities. In contrast, strategic adjustments are in place once firm-level performance hazards require short-term action to ensure long-term survival. Hence, family firm managers could benefit from establishing a dedicated risk management program within the firm.