Does family involvement matter post IPO? Adding value through advertising in family firms

Atanas Nik Nikolov and Yuan Wen
Department of Marketing, Walker College of Business,
Appalachian State University, Boone, North Carolina, USA and
Carson College of Business, Washington State University, Pullman,
Washington, USA

Abstract

Purpose – This paper brings together research on advertising, family business, and the resource-based view (RBV) of the firm to examine performance differences between publicly traded US family vs non-family firms. The purpose of this paper is to understand the heterogeneity of family vs non-family firm advertising after such firms become publicly traded.

Design/methodology/approach – The authors draw on the RBV of the firm, as well as on extensive empirical literature in family business and advertising research to empirically examine the differences between family and non-family firms in terms of performance.

Findings – Using panel data from over 2,000 companies across ten years, this research demonstrates that family businesses have higher advertising intensity than competitors, and achieve higher performance returns on their advertising investments, relative to non-family competitors. The results suggest that the “familiness” of public family firms is an intangible resource that, when combined with their advertising investments, affords family businesses a relative advantage compared to non-family businesses.

Research limitations/implications – Family involvement in publicly traded firms may contribute toward a richer resource endowment and result in creating synergistic effects between firm “familiness” and the public status of the firm. The paper contributes toward the RBV of the firm and the advertising literature. Limitations include the lack of qualitative data to ground the findings and potential moderating effects.

Practical implications – Understanding how family firms’ advertising spending influences their consequent performance provides new information to family firms’ owners and management, as well as investors. The authors suggest that the “familiness” of public family firms may provide a significant advantage over their non-family-owned competitors.

Social implications – The implications for society include that the family firm as an organizational form does not need to be relegated to a second-class citizen status in the business world: indeed, combining family firms’ characteristics within a publicly traded platform may provide firm performance benefits which benefit the founding family and other stakeholders.

Originality/value – This study contributes by highlighting the important influence of family involvement on advertising investment in the public family firm, a topic which has received limited attention. Second, it also integrates public ownership in family firms with the family involvement–advertising–firm performance relationship. As such, it uncovers a new pathway through which the family effect is leveraged to increase firm performance. Third, this study also contributes to the advertising and resource building literatures by identifying advertising as an additional resource which magnifies the impact of the bundle of resources available to the public family firm. Fourth, the use of an extensive panel data set allows for a more complex empirical investigation of the inherently dynamic relationships in the data and thus provides a contribution to the empirical stream of research in family business.

Keywords Advertising, Family business, Family firms, Firm performance

Paper type Research paper

1. Introduction

Advertising is pivotal to the vast majority of firms, and family businesses are not exempt; however, creating value and capturing some of that value for the firm through advertising requires continuous investment (Mizik and Jacobson, 2003). Sustained levels of advertising investment enables firms to achieve current results, as well as to accumulate market-based assets such as brands, customer satisfaction and loyalty (Srivastava et al., 1998), which may
lead to increases in revenues, market share and, ultimately, higher bottom line firm performance (Ailawadi et al., 2003). Overall, advertising is a key component of firm strategy and resource building because it enables a firm to create and appropriate customer value (Mizik and Jacobson, 2003), and thus it is critical for long-term firm survival and profitability.

Within the extensive advertising literature, firm ownership structure as a determinant of advertising spending has received scant attention. Despite the focus of empirical family business researchers on investigating the differences between family and non-family businesses and the influence of family involvement in management and ownership on firm dynamics and outcomes, relatively little is known about the role of advertising in family businesses compared to non-family businesses. Family business researchers have demonstrated that a family brand identity can serve as a source of competitive advantage (Carney, 2005; Habbershon and Williams, 1999; Habbershon et al., 2003; Sirmon and Hitt, 2003; Zahra et al., 2004). Craig et al. (2008) found that by leveraging a family-based brand identity, family firms can influence customers’ purchasing decisions. In a study of Swiss family firms, Memili et al. (2010) found a positive relationship between family businesses’ self-reports of a family image in their advertising and firm performance. Zellweger et al. (2012) further demonstrate that family businesses’ firm pride, community social ties and long-term orientation predict family businesses’ reports that they portray themselves as a family business to customers and stakeholders, thereby driving higher firm performance. Finally, Krappe et al. (2011) suggest that the family businesses can be described as a brand on their own, even without having the family name become a part of the actual company name.

Although studies such as the aforementioned demonstrate that private family firms benefit from leveraging their familiness in the image they portray to external stakeholders, little is known about the family businesses’ advertising investment in the aggregate and its role in driving performance compared to non-family businesses. Furthermore, the extent to which advertising may benefit family businesses after such firms transition to publicly traded entity (i.e. after the initial public offering (IPO) process) is unclear.

This paper seeks to uncover differences between family businesses and non-family businesses in terms of their advertising investments and the implications of such investments for overall firm performance of publicly traded family firms. We explore family business investments in advertising as a mechanism to leverage the intangible resources available to them to drive higher performance compared to non-family businesses. We posit that family businesses allocate a greater proportion of resources available to them toward advertising compared to non-family businesses and that they benefit more from such investments compared to non-family businesses. The mixed nature of previous empirical research investigating the relationship between family involvement and firm performance indicates the presence of contingencies and incomplete knowledge of the underlying processes which create value (Zahra, 2005). Thus, investigating the family involvement–advertising–performance link will broaden our understanding of the firm performance implications of marketing in the context of a continued family presence in public firms, post-IPO. This is important, as the vast majority of businesses begin their existence as family-owned enterprises, and many retain aspects of family involvement after going through the IPO process. Therefore, increasing our knowledge of firm resource building processes is crucial for understanding returns to marketing initiatives in this understudied domain.

This study seeks to conceptualize and empirically test the link between continued family involvement in public firms and advertising investments, as well as to examine advertising’s implications for firm performance, with an emphasis on the differences between family and non-family public firms. Drawing upon research on resource management in the family firm (Sirmon and Hitt, 2003), advertising (Mizik and Jacobson, 2003) and the resource-based view (RBV) of the firm (Barney, 1991) literatures, this study proposes that the unique resource endowment of family firms leads to a higher intensity of
advertising investments. Such differences stem from the bundle of unique resources created by the interaction of the founding family’s continued involvement and the business environment (Habbershon and Williams, 1999). This is further underscored by the differences in managing the resource inventory and leveraging the set of available resources in crafting the competitive strategy of the business (Chua et al., 2003). As advertising is a major component of value creation and value appropriation activities in the firm, it is likely that family firms continue to use advertising investments to help leverage their unique resource base for achieving competitive advantages and, in turn, superior firm performance after they become public. Thus, this research proposes that the combination of family involvement and the increased scrutiny afforded by the publicly traded status of the firm achieve a synergistic effect in promoting a more efficient value appropriation through advertising, resulting in increased relative performance.

The empirical findings are based on a panel of over 2,000 publicly traded firms from 58 unique industries for the 2001–2010 time period. This paper makes a number of contributions. First, it highlights the important influence of family involvement on advertising investment in the public family firm, a topic which has received limited attention. Second, this paper integrates public ownership of family firms with the family involvement–advertising–firm performance relationship. The empirical analysis expands our understanding of how the family involvement–firm performance relationship may be affected by differences in advertising investments’ efficiency. As such, it uncovers a new pathway through which the family effect is leveraged to increase firm performance. Third, this study also contributes to the advertising and resource building literatures by identifying advertising as an additional resource which magnifies the impact of the bundle of resources available to the public family firm. Fourth, the use of an extensive panel data set and the GSEM model allow for a more complex empirical investigation of the inherently dynamic relationships in the data and thus provides a contribution to the empirical stream of research in family business (Evert et al., 2016). Last, this paper also answers the call by Dyer (2003) to increase the role of the “family” variable in empirical organizational research and suggests that family involvement can be a powerful catalyst for firm value creation and appropriation through advertising investments even beyond the confines of the private firm.

The remainder of the paper is structured as follows. First, an overview of the literature on family involvement, advertising, and testable hypotheses are presented. The empirical analysis is presented in Section 2, followed by the results. Section 5 includes the discussion, implications for theory and practice, directions for future research and limitations. Finally, concluding comments are presented in Section 6.

2. Literature review and hypotheses

2.1 Advertising investment

From a resource allocation viewpoint, advertising serves as a flexible vehicle to build awareness and enhance product knowledge (Keller, 1991); distinguish the company’s offerings from competitive products either directly or through a branding strategy (Golder, 2000); and influence consumer choice (Hoch and Ha, 1986). Sustained investments in advertising are expected to enhance brand reputation and perceived quality (Mizik and Jacobson, 2003). In particular, advertising strategies can be used to differentiate a company’s offerings from those of the competition by emphasizing the uniqueness of a firm’s brand or other attributes, such as the family nature of the business. Brands, as well as other marketing assets such as customer satisfaction and loyalty, are relational market-based assets (Srivastava et al., 1998), the development of which relies to a large extent on sustained, consistently high levels of advertising investments over extended time periods (Mela et al., 1997; Miller et al., 2005). Furthermore, stronger, more unique brands tend
to command higher revenues relative to generic unbranded products with identical features and benefits (Ailawadi et al., 2003). In turn, advertising-influenced relational market-based assets may increase firm accounting and financial value (Srivastava et al., 1998).

2.2 Family involvement and advertising investments

Drawing upon the literatures on family firm strategy, advertising, and the RBV of the firm, this research argues that a continued family involvement provides management with a stable, long-term oriented strategy setting and implementation environment which differs from that of non-family competitors, such conditions favor the building and nurturing of unique firm-based marketing resources partly by relying on increased advertising investments, which results in increased firm performance comparative to non-family firms.

Family involvement in public firms acts to promote a culture of strategy setting and implementation which is significantly different from that usually found in non-family competitors for a number of reasons (Stein, 1989; James, 1999). First, founding families tend to have a significant amount of their total wealth invested in the firm, as well as to be less diversified than what is prescribed by the classic finance theory (Colli, 2003). This allows the family to have a long-term perspective of the business, which is very different from most non-family corporations. Second, they tend to view their continued presence in the firm as a long-term asset that they intend to pass on to future generations (Casson, 1999; Le Breton-Miller and Miller, 2006), thus it needs to be preserved and nurtured for the long term. Third, in order to maintain influence in the organization, such families do not usually act as passive shareholders: instead, they employ various control-enhancing mechanisms such as dual-class stock structures (Gomez-Mejia et al., 2001). Non-passive family involvement in public firms also stems from the family’s socioeconomic wealth and identity which are inextricably tied to the fortunes of the firm (Berrone et al., 2012), the preservation of which may become a long-term goal in and of itself. In sum, the strategic goals and decision frameworks of family firms with continued family involvement tend to differ significantly from those of non-family firms (Lee and Rogoff, 1996) and to reflect a significantly longer time horizon orientation of ownership (Dreux, 1990; Le Breton-Miller and Miller, 2006). These differences are likely to transpire in strategy formulation and implementation through the families’ influence over management by encouraging a focus on the long-term interests of the business and its shareholders (Zahra, 2003) Thus, managers of family firms are more likely to have a long-term orientation and less likely to make short-term investment decisions (Miller and Le Breton-Miller, 2005) compared to their colleagues in non-family public businesses.

Family firms are therefore likely to focus on developing unique strategies and investments in resource creation, such as technology infrastructure and personnel improvements, and persistent and aggressive new product development policies (Arregle et al., 2007; James, 2006; Miller and Breton-Miller, 2006; Sirmon et al., 2008; Zellweger, 2007). Such strategies require management to make farsighted investments and to commit resources toward the ultimate health of the business, even at the potential cost of short-term sacrifices (James, 1999). Family firms allow for such long-term bets to take place, as families tend to practice patient capital policies (i.e. their investments in the firm do not usually come with the threat of liquidation) (Dobrzynski, 1993). Longer-term investment horizons are thus conducive to building trust over time with internal and external stakeholder groups, such as employees and suppliers (Anderson et al., 2003), as well as to accumulating large depositories of institutional, industry and product-market knowledge (Andres, 2008). Such knowledge reserves, accumulated over time, may result in the building and leveraging of firm-specific technologies, brands, as well as other firm and market-specific resources, essential to gaining competitive advantage.

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Family businesses also place greater emphasis on developing positive relationships with customers compared to non-family businesses (Cooper et al., 2005). Craig et al. (2008) demonstrate that family businesses who develop a family-based brand identity are able to achieve higher performance when they adopt a customer-centric – rather than product-centric – competitive orientation. Family businesses strive to maintain a positive family brand identity, in an effort to build rapport with customers and other stakeholders, thereby driving higher performance (Memili et al., 2010; Zellweger et al., 2012). Furthermore, customers tend to perceive brands owned by family firms as more trustworthy than brands of non-family firms (Zahra, 2003). In summary, publicly traded family firms form a unique culture of long-term orientation and engaged relationships with customers, suppliers and internal stakeholders, which is significantly different from that found in non-family businesses.

The RBV of the firm argues that if a firm possesses resources which are rare, valuable and inimitable, it is likely to enjoy superior returns (Barney, 1991). By emphasizing the building and leveraging of unique, firm-specific resources, coupled with the longer-term strategic horizons of owners and management, family involvement itself acts as an intangible resource (Sirmon and Hitt, 2003). This intangible resource consists of establishing deep relationships with customers, strong brand image and a better understanding of customers’ preferences and needs. Therefore, by developing differentiation strategies which take advantage of distinct attributes such as advertising (Arregle et al., 2007), or the degree of “familiness” of the firm (Habershon and Williams, 1999), family firms can garner significant competitive advantages. In sum, based on family firms’ resource specific configuration and inherent advantages such as strong brands, and trusty relationships with stakeholders, family involvement in public firms facilitates the nurturing of unique, firm-based resources through differentiation strategies which, in turn, contribute toward long-term value generation and appropriation. Such strategies are likely to rely extensively on sustained advertising investment in order to capture some of the value created. The following hypothesis is proposed:

**H1.** All else equal, publicly traded family firms have a higher advertising intensity than non-family firms.

### 2.3 Family involvement, advertising, and firm performance

Next, the second research question this study investigates is whether a public family firm’s increased advertising intensity also result in higher firm performance vis-à-vis non-family firms. Although prior studies have investigated the link between a family firm identity in advertising and performance (Craig et al., 2008; Memili et al., 2010; Zellweger et al., 2012), the implications for the advertising–performance relationship between publicly traded family and non-family firms remain unclear.

The literature overall appears split in terms of performance differentials between family and non-family public firms (Dyer, 2006). Some research finds that public family firms, on average, have higher performance than non-family businesses (Anderson and Reeb, 2003; Villalonga and Amit, 2006). On the other hand, the agency theory scholars propose that family nepotism, parochialism and the potential for entrenchment of executives lead to appropriation of firm assets for personal use (Morck et al., 2005), higher risk aversion (Schulze et al., 2001) and less willingness to invest in innovation and resource creation (Bloom and Van Reenen, 2007), thus resulting in reduced firm performance. Taken together, empirical results on both sides of the debate have been largely inconclusive (see O’Boyle et al., 2012 for a recent meta-analysis), largely calling for exploring more complex models which account for the presence of contingencies and more complete mapping of the underlying processes which create value in the context of family firms (Zahra, 2005).
The RBV of the firm suggests that the unique set of assets which a family firm possesses and which have a direct bearing on performance include human, social and physical/financial capital (Dyer, 2006). Merging those unique benefits of family firms with the opportunities presented by the public status of the firm post-IPO combines to preserve some of their benefits and reduce some of their disadvantages for a number of reasons; first, human capital continues to provide valuable insights to family firms, while the pool of potential recruits for other vital positions increases due to the firms’ more public profile and increased performance pressures. Second, the preservation of social capital in public family firms is also likely to have enduring consequences for firm performance (Steier, 2001) in terms of attracting customers through goodwill and commitment to customer service (Dollinger, 1995; Lyman, 1991). At the same time, the public status of the firm is likely to insulate it against some of the downsides of the presence of strong familial bonds, such as insularity, self-interest and nepotism (Dyer, 2006). Finally, wider public ownership of the firm’s stock post-IPO, along with the continued family involvement, is likely to interact synergistically to shape a more professional organizational culture within the firm. In essence, firms with continuing family involvement which also become publicly traded are likely to transition into what Dyer (2006) terms a “professional family firm,” characterized by formalized control systems and managerial monitoring, as well as by limiting opportunism and nepotism issues.

In sum, publicly traded family firms are likely to avoid some of the costs of the family effect, while being able to retain most of the advantages. The human and social capital available to such firms, combined with the capacity to nurture unique firm-based resources necessary to gain competitive advantages in product markets is likely to lead to better firm performance vis-à-vis their non-family competitors. Indeed, Sirmon and Hitt (2003) claim that such firms use their accumulated “family firm capital,” to evaluate, acquire, shed, bundle, and leverage their resources in strategically different ways from their non-family competitors, and thus achieve competitive advantage. Therefore, an increased focus on advertising should enhance relational market-based assets (Srivastava et al., 1998) such as a family and product brand identity (Craig et al., 2008; Memili et al., 2010; Zellweger et al., 2012) and deepen the firm’s understanding of customer needs. The continued infusion of advertising dollars is a key contributing factor to creating and appropriating value for the firm (Miller et al., 2005). Consequently, publicly traded family firms should experience increased financial performance, through the emphasis on building unique, valuable and inimitable firm-based resources and appropriating some of the value created by this bundle of resources by more intensive advertising. Therefore, we expect that family firms benefit more from their advertising investments relative to non-family firms such that the effect of advertising on performance is stronger for family firms:

H2. All else equal, the advertising intensity of publicly traded family firms results in higher firm performance relative to non-family firms.

3. Method
3.1 Sample
Following Anderson et al. (2009, 2012), the data sample is constructed as follows; first, family data ownership for all firms in COMPUSTAT with available data is obtained and supplemented with data from corporate histories (Gale Business Resources, Hoovers, and individual corporate websites), as well as through SEC 10-K company filings. The COMPUSTAT data, combined with the supplemental sources of family ownership data, are an appropriate source for the sample required for this study, as the final data set contains a wealth of information for the target sample of firms for this study: publicly traded firms with residual family ownership.
Of the total 2,000 firms remaining in the sample, there are 464 family firms, which were on average older than non-family firms (nine years compared to eight years since going public), and were present in 53 of the 58 industries represented in the data set (two-digit SIC codes). The top three industries in which such firms operated were business services (SIC code 73), apparel and accessory stores (SIC code 56) and food and kindred products manufacturing (SIC code 20). To alleviate concerns about the definition of family firms in this study, a second measure indicating whether a firm is considered a family firm is used: the presence of a family CEO. It was obtained by manually searching Gale Business Resources, Hoovers and individual corporate websites.

The final sample consists of a total of 9,995 firm-year data points for the period 2001–2010. Table I reports the descriptive statistics and a correlation matrix of all variables in the study. Model-free evidence (Table II) suggests that public firms with residual family involvement have a higher advertising intensity than non-family firms, and the difference is statistically significant in all but one of the sample years. These results provide initial evidence of family involvement’s importance in influencing managerial decision making regarding the importance of advertising. The link between family involvement and firm performance, however, appears more tenuous, supporting the need for more complex models to test the relationship.

3.2 Definitions of variables

Two distinct measures of family firm status are used to measure family involvement separately; This is important, as Dyer (2006) cautions that “[…] studies comparing the performance of founder-led family firms with non-family firms may actually be
demonstrating the ‘founder effect’ and not the ‘family effect’ on the firm” (p. 258). Similarly, studies using only ownership by the founding family may also not be able to fully capture the additional variance in firm performance due to the “family effect,” but may suffer from omitted variable biases.

First, a previously validated framework for measuring family ownership (Anderson and Reeb, 2003) is used to classify family firms by the fractional equity ownership of the founding family in the top 2,000 publicly traded firms in the COMPUSTAT database for the period between 2000 and 2010. Family firm involvement then is measured as an indicator variable equal to 1 if the family holds or votes a 5 percent or larger ownership stake in the company (Anderson et al., 2009). This measure may be more suitable than the raw ownership percentage of family holdings, as the differences in ownership levels among family firms may not represent the actual involvement a particular family may have with the firm (i.e., an equity stake of 2 percent may have a larger impact than one of 12 percent, depending on the ownership control structure and share classes). Second, an alternative measure of family involvement is used to replicate the analysis: following Anderson and Reeb (2003) and McConaughy et al. (2001), a family firm is defined as one in which the CEO is either the founder or a member of the founder’s family. This measure is a direct metric of family involvement in corporate governance, and it potentially taps at different family factors than percentage ownership does.

Following Kashmiri and Mahajan (2014), advertising investments are measured as intensity; advertising spending scaled by sales which accounts for size effects, as larger companies tend to advertise more in the aggregate. Firm performance is assessed in two ways: accounting return on assets (ROA) (Arosa et al., 2010) computed as earnings before interest, tax, depreciation and amortization divided by the book value of total assets, and Tobin’s Q. The latter measure is inherently forward-looking and risk-adjusted, integrates multiple dimensions of performance (i.e., sales, profits, cash flows, earnings volatility), and is less easily manipulated by managers than other performance metrics (Bharadwaj et al., 1999). Moreover, firms’ advertising spending provides both intangible and tangible signals to investors and affects firm financial performance in diverse ways for multiple periods into the future. Since Tobin’s Q reflects the market’s expectations of the firm’s future performance, it is more responsive to such strategic signals and better captures their impact over multiple years than any single measure of a firm’s annual performance (Lee and Grewal, 2004). A number of control variables are included as follows: firm size (Olson et al., 2003); the level of financial leverage (Cheng, 2009); outside institutional investors ownership (holding at least 5 percent equity stake in a company in a given year); dual-class stock structure; and firm age.

3.3 Analysis
The first estimation approach used to test the proposed mediation framework is generalized structural equation modeling (GSEM). A GSEM approach to mediation builds on recommendations by Baron and Kenny (1986) and is superior to alternative tests using general linear regression models (GLM or GLS) (Iacobucci et al., 2007). Furthermore, a generalized structural model is a preferred method for models featuring categorical variables (Rabe-Hesketh et al., 2004), as is the case with the family firm variables (both involvement and family CEO) in this study. GSEM has several further advantages; it is more efficient than structural equation modeling (SEM) and it allows for the use of robust standard errors using the Huber–White sandwich estimator which relaxes the assumption of normal and independent distribution of errors, thus ensuring against heteroscedasticity of the errors (Greene, 2008). Finally, the GSEM framework is largely used in organizational research for allowing estimation of multiple associations (Simsek el al., 2005; Hellier et al., 2003). Therefore, due to all of the above reasons, we use GSEM as it is clearly superior to alternative methods in testing mediation.
The GSEM model is built as follows: advertising intensity in a given year is used as a dependent variable to estimate the relationship between family involvement and advertising investments in the first equation, while it becomes an independent variable in the second equation, and both are estimated simultaneously:

\[
XAD_{i,t} = \beta_0 + \beta_1 \text{FamilyFirm}_{i,t} + \beta_2 \text{INST}_{i,t} + \beta_3 \text{LEV}_{i,t} + \beta_4 \text{SIZE}_{i,t} + \beta_5 \text{DUAL}_{i,t} + \beta_6 \text{COAGE}_{i,t} + e_{i,t},
\]

(1)

\[
\text{ROA}_{i,t} = \beta_0 + \beta_1 \text{FamilyFirm}_{i,t} + \beta_2 XAD_{i,t} + \beta_3 \text{INST}_{i,t} + \beta_4 \text{LEV}_{i,t} + \beta_5 \text{SIZE}_{i,t} + \beta_6 \text{DUAL}_{i,t} + \beta_7 \text{COAGE}_{i,t} + e_{i,t},
\]

(2)

where ROA_{i,t} = return on Assets for firm i at time t; FamilyFirm_{i,t} is a dummy variable equal to 1 if firm i, at time t, had family ownership of 5 percent or more (or alternatively, whether the firm had a founder CEO or the CEO was family member); XAD_{i,t} is advertising intensity; INST_{i,t} represents all institutional holdings (percentage), other than family firm owners; LEV_{i,t} is the degree of indebtedness; SIZE_{i,t} stands for firm size; DUAL_{i,t} is an indicator variable for the existence of a dual-class share structure; COAGE_{i,t} = company age since going public (post-IPO); and e_{i,t} is an iid error term. The same modeling approach is used to estimate the regressions for the second firm performance variable of interest (Tobin’s Q), substituting \( TQ_{i,t} \) for ROA_{i,t} in Equation (2).

### 4. Empirical results

In a mediation framework (i.e. path analysis), evidence for full mediation occurs when the indirect path from the independent to the ultimate dependent variable is significant and the direct path between those two constructs exhibits non-significance. Partial mediation occurs if both respective indirect and direct paths are significant. Finally, no evidence for mediation occurs if the indirect path is nonsignificant and the direct path is significant (Shrout and Bolger, 2002).

\( H1 \) indicates a positive relationship between family involvement and advertising intensity. The results (presented in Table III) suggest that family involvement is associated with increased advertising intensity (\( \beta_1 = 0.0017, p < 0.05 \)), finding support for \( H1 \). Testing the mediating role of advertising investments in the relationship between family involvement and firm performance, the indirect effect of family involvement on performance is positive and significant when using either ROA (\( \beta_2 = 0.0012, p < 0.01 \)) or Tobin’s Q (\( \beta_2 = 0.0068, p < 0.05 \)) as a dependent variable. The direct effect does not reach statistical significance in the case of Tobin’s Q, while it is positive and significant (\( \beta_2 = 0.0085, p < 0.01 \)) in the case of ROA as a dependent variable. The results from analysis using the second variable of family firm status (i.e. family CEO) are presented in columns 3 and 4 of Table III. \( H1 \) is supported, as having a family CEO is associated with increased advertising intensity (\( \beta_1 = 0.0043, p < 0.01 \)). Testing the mediating effect of advertising supports \( H2 \), as the indirect effect of having a family CEO appears to manifest itself through an increased advertising intensity and results in increasing Tobin’s Q (\( \beta_2 = 0.0991, p < 0.01 \)) and ROA (\( \beta_2 = 0.0012, p < 0.01 \)).

In summary, the GSEM approach supports \( H1 \) and \( H2 \), as there is evidence of mediation across all models, using two different firm performance measures, and two distinct measures of family firm status (i.e. ownership and executive control).

### 5. Sensitivity analysis

The analysis of the link between family involvement, advertising intensity and firm performance is repeated using the classic Baron and Kenny’s (1986) approach to testing mediation. Results are
shown in Table IV. Column 1 presents results for the main effects of family firm involvement (and control variables) on firm performance, establishing a direct effect. Column 2 presents the complete model by adding the proposed mediator (advertising intensity). Columns 3 and 4 repeat the analysis, by using the alternative measure of family firm status (family CEO).

According to this approach to testing mediation, a variable serves as a mediator when the variation in the independent variable (family firm) accounts for variation in the mediator (advertising intensity); a second condition for establishing mediation is when variation in the mediator significantly accounts for variation in the dependent variable (firm performance); and, finally, when controlling for the mediator, a previously significant relationship between the independent and dependent variables decreases or becomes insignificant. The results demonstrate that family firm’s higher levels of advertising intensity partially mediate these

<table>
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<th>Variable</th>
<th>Tobin’s Q model (1)</th>
<th>ROA model (2)</th>
<th>Tobin’s Q model (3)</th>
<th>ROA model (4)</th>
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<td><strong>Effects of IV (family firm) on mediator</strong></td>
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<td>Advertising intensity</td>
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<tr>
<td>Mediator</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising intensity</td>
<td>0.0068**</td>
<td>0.0012***</td>
<td>0.0991***</td>
<td>0.0012***</td>
</tr>
</tbody>
</table>

**Notes:** Firm size, firm age, firm leverage, dual-class stock structure and institutional investor ownership were included as covariates. *p < 0.10; **p < 0.05; ***p < 0.01

**Table III.** Results of mediation analyses using Preacher and Hayes (2008) GSEM method, models (1) and (2) family ownership, models (3) and (4) family CEO

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Adding value through advertising

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**Table IV.** Family involvement and advertising intensity (Tobin’s Q as a dependent variable)
firms’ superior performance relative to public firms with no family involvement, using both measures of family involvement.

In summary, the proposed mediating effects of advertising intensity appear robust to using two different estimation methods: GSEM, and Baron and Kenny’s (1986) mediation approach, as well as to using two distinct measures of family firm status.

As a final step, additional analysis is undertaken to estimate the practical significance of the results. Table V presents the results of an analysis comparing firms with and without family involvement at three different levels of advertising spending. Results suggest that family firms achieve a higher level of financial performance compared to non-family rivals for the same level of advertising investments. For example, when family firms’ advertising is held constant at the mean, the payoff is Tobin’s Q of 1.03 vs 0.97 for non-family firms. These differences increase in magnitude as the advertising intensity increases beyond the mean. Overall, it appears that the results are both statistically and substantially significant.

6. Discussion and implications

Family involvement in publicly traded firms may engender a culture of strategy setting and implementation different from that of traditional non-family public firms. Consequently, the interplay between family involvement and the public nature of these family firms may alleviate some of the downsides of the family effect in terms of human and social capital resource endowments. Furthermore, family involvement is also likely to result in a managerial tendency to focus on the long-term interests of the business and its shareholders by leveraging the bundle of unique resources available to these firms to create customer value. Investment in advertising is a key factor for firms to appropriate some of that value and translate it into profits. Despite its importance, however, the influence of family involvement on investment in advertising in the context of publicly traded family firms has not received the necessary attention. In addition, advertising may play a synergistic effect with other unique resources within the family firm to create a financial performance advantage for such firms. Therefore, the analysis undertaken in this study attempted to increase our understanding of the relationship among continued family involvement in firms post-IPO, advertising and firm performance vis-à-vis non-family competitors.

The findings document a positive relationship between family involvement and advertising intensity, suggesting that because of their unique resource base and longer-term oriented managerial outlook, public family firms rely to a higher degree on advertising investments than their non-family peers do. In addition, this positive relationship further translates into a higher firm financial and accounting performance. Thus, the increased level of scrutiny such firms receive by virtue of their publicly traded status combines with the advantages of family ownership (and/or management) and appears to result in superior firm performance, partially accomplished through value appropriation strategies through the more efficient use of advertising. Furthermore, the combination of public and family ownership (and/or management) can serve as an effective mechanism through which family firms move toward the “professional family firm” paradigm (Dyer, 2006), which, in turn, may increase overall performance and reduce risks.

This paper makes a number of research contributions. First, most previous studies have focused on the role of advertising in the context of private family firms (Craig et al., 2008;

<table>
<thead>
<tr>
<th>Firm type/advertising intensity level</th>
<th>Mean – 1 SD</th>
<th>Mean</th>
<th>Mean + 1 SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-family firm</td>
<td>0.9441***</td>
<td>0.9736***</td>
<td>1.0032***</td>
</tr>
<tr>
<td>Family firm</td>
<td>1.0077***</td>
<td>1.0372***</td>
<td>1.0667***</td>
</tr>
</tbody>
</table>
Motivated by the family firms’ prevalence in the overall economy, and the residual role that families play even in the largest publicly traded firms such as WalMart, Ford and the Marriott Corporation, and the lack of research on their effects on advertising investments, this paper represents one of the first efforts to explore the effect of family involvement in public firms on advertising investment. By introducing family involvement as an important element that possesses a different resource endowment than non-family firms, the results of this study extend the current understanding of the involvement–advertising–performance relationship.

Second, following Zahra (2005), this research acknowledges the complex relationships that exist within family firms and thus considers family factors in the context of publicly traded firms that may influence resource creation and value appropriation mechanisms. Specifically, this paper uses advertising intensity to investigate its mediating effect on the family involvement–firm performance relationship. The finding that a positive family involvement–firm performance relationship is mediated by differences in advertising intensity between family and non-family firms suggests that family firms use advertising in order to leverage the bundle of unique resources available to achieve increased firm performance. Particularly, this paper shows that publicly traded family firms may be in a position to take advantage of a synergy effect from combing family firms’ resources such as the increased attention to building relational market-based assets and deeper customer commitment, with the resources available to public firms (Srivastava et al., 1998). By showing that the performance differential between public family and non-family firms depends on the systematic differences in advertising intensity, this empirical test expands our understanding as to how the family involvement–performance relationship may be affected by different value appropriation mechanisms which leverage the unique resources of public family firms.

Third, this research extends the advertising and the RBV of the firm literatures by identifying family involvement as a novel antecedent to increasing the leverage of advertising investment’s firm performance implications. It supplements prior findings that family involvement may act as a potential deterrent to managerial short termism (Stein, 1989) and magnify the impact of the bundle of resources available to public family firms, and in turn, lead to increased firm performance.

Last, the use of an extensive panel data set of family firms allows for a more complex empirical investigation of the inherently dynamic relationship between family firm status and firm performance and therefore may be construed as an empirical contribution to the family-firm–performance relationship stream of research (Evert et al., 2016). Furthermore, this contribution is strengthened by the use of both ownership (i.e. percentage ownership by founding family) and management (i.e. having a family CEO) measures of family firm status, by using both top line (ROA) and bottom line (Tobin’s Q) firm performance metrics, as well as by using two empirical approaches to test the proposed relationship.

The results suggest several managerial implications. First, by showing that continued family involvement boosts advertising and, in turn, improves performance, this study provides new evidence to managers and owners of family firms in favor of an increased managerial emphasis on value creation and appropriation through advertising. Managers in public family firms should be better equipped to use advertising as a building block of intangible market and firm-based resources, which, in turn, should lead to improved accounting and financial market performance. This is especially pertinent during periods of economic contractions, as the ability to differentiate the firms’ offerings from the competition may actually increase during hard times (Kashmiri and Mahajan, 2014) by staying the course and investing proportionately more into advertising.

Second, this study also contributes to the organizational structure literature, by suggesting that ownership structure of family firms may affect marketing policy, even after...
a family firm becomes publicly traded. Ownership structure plays a critical role in firms’ performance outcomes (Jensen and Meckling, 1976); thus, the results of this study suggest that the publicly traded firm which still has residual family involvement is a robust organizational form, suitable for the rigors of modern competition. From the stockholder perspective, this type of corporate organization may help better align shareholders and managers’ interest together, thus avoiding some of the principal–agent problems inherent in the generic form publicly traded firm.

Third, the results suggest that an efficient development path for family firms exists which may alleviate some of the concerns held by founding families about taking their companies public; the results show higher firm performance in publicly traded family firms due to the potential of creating a type of resource synergy: in essence, combining some of the benefits of the family involvement up to and beyond the IPO process, with those of acquiring publicly traded status. Before going public, family firms that focus on building relationships with customers and other important stakeholders, for example, by investing in branding strategy, building trust and loyalty with customers, and other long-term related efforts. Consequently, post-IPO, these firms achieve a degree of professionalization, while retaining some of the long-term benefits of their family status.

Fourth, the results also suggest potential investor recommendations. Investment in advertising is central to creating and appropriating customer value. The results of this study indicated that family involvement is positively associated with advertising intensity, thereby implying that a high level of family involvement or management may increase the reliance on advertising and in turn, lead to superior firm performance. This, in turn, may improve the firm’s long-run success and non-family shareholders may gain, which suggests that investors should pay more attention to public firms’ ownership structure and management when they select investment targets. Also, investors may benefit from a strategy of going long the stock of family firms and shorting their closest non-family firm competitors. This strategy should take into account how levered the family firms are, as well as the existence of any dual-class share structures.

There are several limitations that also provide opportunities for future research, and should be taken into consideration when interpreting the findings of this study. First, while research using data from publicly traded firms has been the norm in studies seeking to study the impact of managerial strategies on firm performance, such data are not without limitations. For example, the results of this study may not generalize to smaller, pre-IPO private firms with family ownership. Future research should consider the use of alternative data such as qualitative data, based on surveys and interviews with managers to capture their decision making regarding advertising in public firms with continuous family involvement in order to corroborate the findings of the quantitative analysis. Second, the measure of family involvement in this study is based on a dichotomous variable tracking whether a firm features founding family involvement over a period of time or not. Yet, this has been the predominant way to identify family firms in the public firms’ universe (Anderson and Reeb, 2003). At the same time, to correct for this shortcoming of the data a second operationalization of “family firm” status (i.e. family CEO) is used. The results are largely unchanged, which provides an additional level of robustness to the findings. Future research could also use more fine-grained measures of advertising investment, such as different types of advertising (e.g. promotional, brand-building) if such data are available. Third, future research should also consider the potential for moderation effects to exist. For instance, what conditions affect the strength of this relationship? Such variables as the degree of intra-industry competition and turbulence or the degree of innovation intensity are some fruitful avenues to explore. Finally, research which looks at the differences between actual advertising produced for family vs non-family firms may uncover additional details regarding the family effect in leveraging advertising investment for increased firm performance.
References


Further reading


Corresponding author
Atanas Nik Nikolov can be contacted at: atanas.n.nikolov@gmail.com

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