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

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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 socioemotional 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 (Andrés, 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.
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 (Habbershon 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 businesses 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 firm's 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 et 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:

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

(1)

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

(2)

where $\text{ROA}_{i,t}$ is return on Assets for firm $i$ at time $t$; $\text{FamilyFirm}_{i,t}$ 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; $\text{INST}_{i,t}$ represents all institutional holdings (percentage), other than family firm owners; $\text{LEV}_{i,t}$ is the degree of indebtedness; $\text{SIZE}_{i,t}$ stands for firm size; $\text{DUAL}_{i,t}$ is an indicator variable for the existence of a dual-class share structure; $\text{COAGE}_{i,t}$ = company age since going public (post-IPO); and $\epsilon_{i,t}$ 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 $\text{ROA}_{i,t}$ 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).

$H_1$ 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 $H_1$. 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. $H_1$ 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 $H_2$, 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 $H_1$ and $H_2$, 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>
<thead>
<tr>
<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>
</tr>
</thead>
<tbody>
<tr>
<td>Effects of IV (family firm) on mediator</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising intensity</td>
<td>0.0017***</td>
<td>0.0017***</td>
<td>0.0043***</td>
<td>0.0047***</td>
</tr>
<tr>
<td>Direct effects of mediator (advertising) on DV</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising intensity</td>
<td>1.3037***</td>
<td>0.4076***</td>
<td>1.2339***</td>
<td>0.2935***</td>
</tr>
<tr>
<td>Total effects of IV (family firm) on DV</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family firm</td>
<td>0.0493*</td>
<td>0.0092***</td>
<td>0.0053*</td>
<td>0.808**</td>
</tr>
<tr>
<td>Direct effects of IV (family firm) on DV</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family firm</td>
<td>0.0422</td>
<td>0.0085*</td>
<td>0.1058***</td>
<td>−0.0039</td>
</tr>
<tr>
<td>Observations</td>
<td>9,912</td>
<td>9,912</td>
<td>2,884</td>
<td>2,884</td>
</tr>
<tr>
<td>AIC</td>
<td>−10,912 (14)</td>
<td>−10,912 (14)</td>
<td>−16,307 (16)</td>
<td>−16,307 (16)</td>
</tr>
<tr>
<td>BIC</td>
<td>−10,811 (14)</td>
<td>−10,811 (14)</td>
<td>−16,212 (16)</td>
<td>−16,212 (16)</td>
</tr>
</tbody>
</table>

Bootstrap: indirect effects of IV on DV through proposed mediator

<table>
<thead>
<tr>
<th>Mediator</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>
</tr>
</thead>
<tbody>
<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

Table IV. Family involvement and advertising intensity (Tobin’s Q as a dependent variable)

Adding value through advertising
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;
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


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Corporate social performance in family firms: a meta-analysis

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Abstract

Purpose – Empirical studies provide conflicting conclusions regarding the corporate social performance (CSP) of family firms. The purpose of this paper is to synthesize the existing empirical evidence and examine the potential role of research design and contextual factors.

Design/methodology/approach – A meta-analysis of existing empirical studies was performed to examine the role of sampling, measurement and contextual factors in explaining the different and often conflicting results of empirical studies in the family business literature.

Findings – The overall relationship between family firms and CSP is positive. The relationship between family firms and CSP is positive for private family firms but is negative for public family firms. The relationship between family firms and CSP is positive when family involvement includes both family ownership and management as opposed to only family ownership or family management. Private family firms care more and public family firms care less about the community, environment, and employees than private and public nonfamily firms. The relationship between family firms and CSP is stronger in institutional environments with weak labor and corporate governance regulatory frameworks.

Research limitations/implications – The operationalization of both the family firm and CSP constructs significantly predicts the magnitude and direction of the relationship between family firms and CSP.

Practical implications – Family firms should become more skilled at measuring and disseminating information about the firm’s CSP. Family firms should work to improve public perceptions about the CSP of family firms.

Social implications – Policy should encourage family firms to remain privately owned by the family. Policy should also incentivize the involvement of family owners in the management of family firms.

Originality/value – Although several literature reviews address the relationship between family firms and CSP, this is the first review to use the meta-analysis method. The authors contribute to the family business literature by analyzing how differences in study-, firm- and country-level factors can explain some of the variance in the results of the studies in the literature.

Keywords Sustainability, Family business, Corporate social performance

1. Introduction

Social and environmental issues such as rising income inequality (Piketty, 2014; Davis and Cobb, 2010), record-high environmental degradation (United Nations Environment Programme, 2012) and the increase in corporate governance scandals (Davis, 2009) have become more pressing in recent years. The debate on the potential causes, outcomes, and solutions for these issues has led to a substantial growth of the literature focused on the relationship between business and society. A topic of growing importance for policy makers, business leaders and academic researchers is whether the corporate social performance (CSP) of family firms is different from the CSP of nonfamily firms. The fact that family firms are the most common form of business organization in the world makes research on whether family firms “care” more about their stakeholders even more relevant (Anderson and Reeb, 2003; La Porta et al., 1999). Despite the recent growth of the literature on the CSP of family firms, there is a lack consensus in both the theoretical arguments and empirical studies on the relationship between family firms and CSP.

Arguments for and against the superior CSP of family firms relative to nonfamily firms have been formulated based on multiple theoretical perspectives including the resource-based view,
agency theory and stewardship theory. The importance of nonfinancial goals in strategic
decision-making in family firms is at the core of the arguments that support a positive
relationship between family ownership and CSP (Chua et al., 1999). The emphasis on the role of
socioemotional wealth (SEW) as a reference point in the framing of decision-making processes is
a valuable contribution that the family business field has made to larger debates in the
management and organizational sciences (Gomez-Mejia et al., 2007). The application of
the concept of loss-aversion to the study of family firms helped expand our understanding of
the role of nonfinancial motives in decision-making processes within the firm. A central theme
of the family business literature is that SEW preservation concerns may lead managers and
owners of family firms to make decisions based on goals other than profit-maximization.
The rationale for this line of inquiry is twofold. First, due to the desire of family owners to leave
a legacy for future generations through the firm’s success, family firms seek to improve the
treatment of stakeholders as well as community relationships. Second, there exists evidence
that suggests that family firms may avoid socially irresponsible practices because of the
concern of how such practices may negatively affect their family’s reputation (Deephouse and
Jaskiewicz, 2013).

The theoretical arguments for a negative relationship between family firms and CSP
include the existence of conflicts of interest between family owners and the rest of
the shareholders, and conflicts among members of the controlling family. Through the
concentration of equity holdings, family owners can be effective in addressing agency costs
emerging from opportunistic behavior within the firm, in particular management’s
opportunism (Anderson and Reeb, 2003). However, family firms can also engage in
predatory practices against minority shareholders. For example, principal-principal
conflicts emerge when members of the owning family who may control a majority of the
firm’s equity are able to extract benefits from the firm by abusing their power over
nonfamily minority stockholders (Morck and Yeung, 2003; Morck et al., 2005). Concurrently,
conflict among members of the controlling family can also have a detrimental impact on the
firm and its relationship with stakeholders.

The focus on the role of nonfinancial objectives in decision-making processes and the
study of principal-principal conflict are some of the most salient contributions the family
business literature has made to other disciplines in economics and organizational sciences
(Gedajlovic et al., 2012). The application of the concepts of SEW preservation and owner-
owner conflict has helped family business scholars gain a deeper understanding into why
and how the socially responsible practices of family firms differ from those of nonfamily
firms. However, multiple researchers in the field have underscored the need to expand the
scope of the research agenda on the relationship between family firms and CSP to include
country-level formal and informal institutional factors. For example, Van Gils et al. (2014)
concluded that “future researchers should consider the effect of national context on the
scope and level of social practices of family businesses” (p. 201).

The incorporation of institutional analysis in family firm research can benefit the field
through: enhanced explanatory power, as well as improved ability to contribute to larger
debates in more established organizational sciences. First, widening the scope of the family
business research agenda beyond SEW factors to include environmental factors such as
cultural and political motivations may improve its explanatory power (Cennamo et al., 2012,
p. 1167). A top priority for family business research is addressing the wide heterogeneity
across family businesses and “this variation includes […] their performance goals and
outcomes in different institutional environments” (Salvato and Aldrich, 2012, p. 132).
Through the examination of additional motives and goals guiding decision-making
processes, institutional analysis can help better explain the wide variance in family firm
behavior and outcomes. “Indeed, ‘institutional logics’ […] may all drive family preferences
and behavior of family firms. Their study may add precision and scope to discussions of
family motives” (Miller and Breton-Miller, 2014, pp. 715-716). However, Le Breton-Miller and Miller (2016) recently noted that “there has been very little empirical work in the area” (p. 30).

Second, incorporating the institutional environment into family business research will enable scholars in the field to make more contributions that are meaningful to larger debates in management and other organizational sciences. Focusing on the performance implications of family firms, Gedajlovic et al. (2012) argued that because family firms exist across a wide variety of institutional settings, “they provide an excellent basis for studying how a common organizational form adapts and evolves in different institutional contexts” (p. 1024). The limited focus on the institutional environment has stifled the ability of the family business literature to contribute to long-standing debates in other organizational sciences. Although “the literature has not yet focused on these fundamental questions,” scholars have suggested that this shortcoming can be addressed through “the use of meta-analytic techniques that harvest effects from the many primary studies conducted on firms in diverse settings” (Gedajlovic et al., 2012, p. 1024). A recent review of empirical studies in family business research called for “more attention to cross-border and internationally comparative issues” and suggested the use of meta-analysis as an “underrepresented, yet potentially useful, technique” to promote theory development, make relationships more generalizable, and address conflicting results (Evert et al., 2016, p. 30).

In addition to the lack of theoretical consensus regarding the relationship between family firms and CSP, the results of the empirical studies vary substantially and there is a lack of agreement regarding the direction and magnitude of the relationship. A recent summary of the empirical studies on the relationship between family ownership and socially responsible practices found that, not only are there conflicting conceptual views on this relationship, but “the empirical results also fail to provide a fully conclusive picture” (Faller and Knyphausen-Auñseß, 2018, p. 32). Differences in the results of the empirical studies conducted to date are due to differences in the sample sizes and data collection methods used in the various studies, “making it difficult to compare the results and variables involved” (Faller and zu Knyphausen-Auñseß, 2018, p. 32). Jain and Jamali’s (2016) literature review of corporate governance and corporate social responsibility (CSR) also found “mixed results” (p. 260) regarding the relationship between family ownership and CSR. As Carney and Nason (2018) summarized it, “the mixed findings with respect to family managed firms and their governance practices suggest that business families could either mitigate or aggravate inequalities” (p. 1208).

This lack of consensus in the empirical studies is further exacerbated by the fact that the “institutional context is likely to play an influential role in the relationship between family firm governance and inequality” (Carney and Nason, 2018, p. 1209). The evidence for a negative relationship between family firms and CSR is “more pronounced in [liberal market economy] LME countries (e.g. the US) than in [coordinated market economy] CME countries” (Jain and Jamali, 2016, p. 260). A study of large publicly traded firms across 25 countries found that the legal regime at the country level is a significant predictor of CSP in family firms (Labelle et al., 2018). According to Labelle et al. (2018), family firms in countries with a legal regime based on code law have higher CSP than family firms in countries with legal regimes based on common law.

Meta-analysis has been particularly helpful in areas of research in which several individual studies have produced contradictory or insignificant results (Hunter and Schmidt, 2004). Meta-analysis is a research method that allows researchers to synthesize empirical findings in the literature by aggregating results and correcting for sampling and measurement error. Although Faller and Knyphausen-Auñseß (2018) have correctly identified sampling and measurement error as causes for the inconclusive findings in the existing studies, their use of the “vote counting” technique for summarizing empirical

CSP in family firms
results in the literature stifles their ability to effectively synthesize results. The “vote counting” technique has been shown to be incorrect for multiple reasons (Hunter and Schmidt, 2004). By reporting the final results of different studies without considering crucial differences between the studies, the “vote counting” technique is likely to yield incorrect insights. Also, several of the studies that provide evidence for both a positive and negative relationship between family firms and CSP in Faller and Knyphausen-Aufseß (2018) are based on overlapping samples and thus are not statistically independent. Comparing the number of studies that find that family ownership has a positive effect on CSR vs the number of studies that find that family ownership has a negative effect on CSR can be misleading, particularly if those studies are based on data from overlapping samples.

In the following sections, we seek to fill this gap in the literature by performing a meta-analysis of the relationship between family firms and CSP. Section 2 provides an overview of our conceptual model (Figure 1), the literature on CSP in family firms, and our hypotheses. Section 3 provides a summary of our methods including our sample selection, coding procedures, variable definitions, and statistical analysis. Section 4 provides a summary of the results of our empirical analysis, which are further discussed in Section 5.

2. Theory and hypotheses

2.1 CSP in family firms

A central proposition of the family business literature is that family firms’ behavior is influenced by both financial and nonfinancial goals (Chua et al., 1999). Because family owners perceive their firms to be repositories of SEW, the preservation of SEW becomes the key reference point from which decisions are framed (Gomez-Mejia et al., 2007). The desire to prevent the loss of SEW can lead to decisions that diverge from profit-maximizing behavior. Family members’ efforts to preserve SEW can lead to suboptimal performance and greater risk (Gomez-Mejia et al., 2007), as well as the reluctance to incur risky investments that are crucial to the renewal of family firms (Gomez-Mejia et al., 2011; Gomez-Mejia et al., 2010). For example, family firms tend to avoid investments in explorative R&D, and their reliance on exploitative R&D investments leads to riskier and more unreliable sales outcomes (Patel and Chrisman, 2014). This in turn can lead to inferior operational processes and outcomes within the firm and ultimately jeopardize the long-term ability of the firm to remain a going concern (Block, 2012). Dyer and Whetten (2006) applied a SEW loss-aversion lens to explain why family firms were more reluctant and less likely to perpetrate environmental offenses. Dyer and Whetten (2006) emphasized how concerns over the family’s image and reputation can influence publicly traded family firms to avoid practices that have a negative impact on the environment.

One of the main drivers of socially responsible practices in family firms is the concern over reputational effects of socially irresponsible actions. Family members care about the reputation of their firm because they associate the reputation of the family firm with their family’s reputation (Chrisman et al., 2007); thus, the higher the reputation of their firm the better that family members feel about themselves (Deephouse and Jaskiewicz, 2013).

Figure 1. Diagram of conceptual relationships in the theoretical model
This effect is stronger when the family name is included in the name of the firm and when the role of the family in managing the firm is more visible (i.e. Zellweger et al., 2012).

Because of the desire of family owners to leave a legacy for future generations through the firm’s success, family firms seek to improve the treatment of stakeholders as well as community relationships. Consequently, family firms avoid short-term strategies that have a detrimental effect on the firm’s stakeholders (Berrone et al., 2010, 2012; Cruz et al., 2014), emphasize investments in reputational capital (Fombrun, 1996), and build positive relationships with outside stakeholders (Arregle et al., 2007). A study of high-tech family firms in Korea found that family firms tend to be more successful at fostering employee engagement as well as developing positive relationships with other stakeholders (Miller et al., 2009). Likewise, a comparison of small lone-founder and family firms in Canada suggested that family firms outperform their lone-founder counterparts because of their focus on the continuance of their markets, the development and allocation of employees’ capabilities, and the nurturing of long-term relationships with suppliers (Miller et al., 2008).

Family owners, through the concentration of ownership, can be effective in addressing agency costs emerging from opportunistic behavior within the firm (Anderson and Reeb, 2003). However, family firms can also be prone to principal-principal conflicts that emerge when family owners are able to extract benefits from the firm at the expense of stockholders with more dispersed equity holdings and less control over the firm (Morck and Yeung, 2003). Family owners may engage in rent-seeking behavior and steer the strategic management process of the firm to accomplish their own personal goals, which may bear no relationship to the continued success of the firm (Morck et al., 2005; Le Breton-Miller and Miller, 2016). After differentiating between publicly traded family and lone-founder firms, Miller et al. (2011) found that family firms do not outperform their Fortune 1,000 peers, a finding that suggests that family members’ meddling in the operations of the business can be detrimental for publicly traded family firms.

Despite the theoretical arguments and empirical evidence for why the relationship between family firms and CSP should be negative, we expect the positive impact of family firms’ reputational concerns, intergenerational legacy desire, and corporate governance advantages to outweigh the “dark side” of family firms such as principal-principal conflicts and intrafamily conflict. Therefore, we hypothesize that:

\[ H1. \] There will be a positive relationship between family firms and CSP.

2.2 Internal vs external stakeholders

Family control will be more strongly correlated with CSP intended toward internal stakeholders than activities that affect external stakeholders. Internal stakeholders include employees and investors, while external stakeholders include consumers, community members, and the environment. Cennamo et al. (2012) argued that family members that hold key ownership or management positions will seek to secure and extend their control over the firm through maintaining positive relationships with internal stakeholders who they perceive to be critical in order to preserve the family’s control over the firm. In contrast to nonfamily firms, family firms are less likely to downsize their labor force irrespective of financial performance (Stavrou et al., 2007), emphasize the importance of the quality of life of their labor force (Stavrou and Swiercz, 1998), provide more stable employment (Block, 2010), and grant more favorable employment contracts to nonfamily hires (Cruz et al., 2010). Thus, we hypothesize that:

\[ H2. \] The relationship between family firms and CSP will be stronger for internal stakeholder CSP and weaker for external stakeholder CSP.
2.3 The role of the institutional environment

2.3.1 Regulatory. A study based on a sample of publicly traded firms in Europe during the 2001–2010 period found a negative relationship between family firms and CSR ratings (Cruz et al., 2014). Cruz et al. (2014) also found that family firm status was not a significant predictor of socially responsible activities directed at external stakeholders, a finding at odds with prior studies (Berrone et al., 2010). Cruz et al. (2014) attributed the differences between their results and those of previous studies to country-level formal and informal institutional differences. They found that differences in the institutional environment, which they measured using the CAGE index of national standard distance between each country and the USA, was a significant predictor of socially responsible activities in nonfamily firms but not in family firms. They concluded that differences at the “regulatory level (e.g. specific environmental laws and norms, regulatory stringency, and enforcement mechanisms) may explain the different results. Future research should investigate to what extent these differences interact with the identity of the owners (i.e. family vs. nonfamily) to explain cross-national variations in company responses to stakeholder claims” (Cruz et al., 2014, p. 1310).

According to Steier (2009), family firms can serve as an informal institution to protect entrepreneurs and investors from the hazards inherent in countries with weak corporate governance and/or property rights protection. Other meta-analyses have found that informal institutions can fill the void created by weak institutional environments. For example, the results of a meta-analysis of the effect of business group membership on firm performance from studies in 27 countries found that, as an informal institution, business groups fill the institutional void caused by weak financial and labor institutional environments (Carney et al., 2011). Similarly, as an informal institution family firms can fill the institutional void that exists in countries where the formal institutional framework provides weak property rights and investor protection (Khanna and Palepu, 1997; Steier, 2009). Jiang and Peng (2011) found that family management benefited firm performance in institutional environments where shareholder protection laws and regulations are weak. Jiang and Peng’s (2011) results suggest that family involvement in the firm can serve to improve the family firm’s corporate governance practices toward majority and minority shareholders in institutional environments with weak minority investor protection. However, Jiang and Peng’s (2011) findings contradicted the findings of a previous study by Peng and Jiang (2010) which concluded that family management and family pyramid ownership are less detrimental to firm value in countries with strong rule of law, low corruption and highly efficient judicial systems. According to Luo and Chung (2013), the contradictory findings of Peng and Jiang (2010) and Jiang and Peng (2011) can be explained by differences in how the family firm construct is operationalized. Luo and Chung (2013) found that family firms fill the institutional void created by weak investor protection by formal institutions only when family control involves both ownership and management of the firm. Essen et al. (2015) found that the performance of family firms is higher in environments with weak rule of law index scores, which suggests that family firms fill the institutional void and deliver superior results to investors in environments with weak legal and judiciary enforcement institutions.

Writing from a corporate responsibility framework, Westermann-Behaylo et al. (2014) argued that if corporate responsibility is defined as social action beyond what is legally required, the removal of regulations that protect labor would, by definition, make firms seem more socially responsible. However, there exists empirical evidence suggesting that family firms fill the institutional void in weak institutional environments even when CSP toward employees is defined using objective measures such as protection from layoffs or wage cuts. For example, Essen et al. (2015) found that family firms are more likely to provide stability...
of employment and less likely to reduce employee wages in institutional environments with weak labor protection laws and regulations. Family firms in institutional environments with weak labor protection laws are more likely to protect employees from layoffs, particularly during economic downturns (Essen et al., 2015). Thus, we hypothesize that:

H3a. The strength of corporate governance regulation will negatively moderate the relationship between family firms and corporate governance CSP.

H3b. The strictness of labor protection will negatively moderate the relationship between family firms and employee-related CSP.

H3c. The stringency of environmental policy will negatively moderate the relationship between family firms and environmental CSP.

2.3.2 Normative. A recent review of the literature on socially responsible behavior by family firms suggested time orientation and risk-aversion as country-level cultural variables that could explain some of the variance in the CSP of family firms across different institutional environments (Van Gils et al., 2014).

2.3.2.1 Long-term orientation. A considerable number of characteristics differentiating family firms from other firms are related to the concept of time (Sharma et al., 2014). Short- and long-term considerations and concerns permeate family business research (Yu et al., 2012). Intergenerational legacy and reputational concerns are some of the reasons for why family firms are particularly effective at preserving values such as honesty and responsibility across multiple generations (Koiranen, 2002). The family business literature has emphasized long-term orientation as a defining characteristic of family firms (Sharma et al., 2014). Brigham et al. (2014) proposed and validated a construct for firm-level long-term orientation and found that family firms scored higher than their nonfamily counterparts. They concluded that the study of long-term orientation “could deepen understanding of the mechanisms underlying many of the theories that are important to comprehending family business phenomena” (p. 83). Long-term orientation (Le Breton-Miller and Miller, 2006; Lumpkin et al., 2010), legacy concerns and firm succession are time-related concepts that play an important role in explaining why family firms care more about their stakeholders than other firms (Cennamo et al., 2012). Thus, we hypothesize that:

H4. The long-term orientation in the country’s culture will positively moderate the positive relationship between family firms and CSP.

2.3.2.2 Risk-aversion. A central premise of SEW preservation theory is that family owners are willing to make strategic decisions that increase the risk of financial loss if they help decrease the risk of SEW loss. Family firms engage in activities to improve their CSP in order to prevent losses to their stock of SEW even though the financial return on investment on CSP activities is uncertain. Berrone et al. (2010) studied firms in pollution-intensive industries and found that family firms release fewer pollutants into the environment than other firms, particularly when embedded in tightly knit communities. They attributed the difference in pollution emission levels to the desire of family firms to preserve SEW – the family’s image in this case. Dyer and Whetten (2006) compared KLD scores on both positive initiatives and areas of concerns of family and nonfamily S&P 500 companies. They found that although family firms received a slightly lower average rating for positive initiatives, they ranked substantially better by having significantly lower scores for social responsibility concerns than nonfamily firms. Thus, we hypothesize that:

H5. The risk-aversion in the country’s culture will positively moderate the positive relationship between family firms and CSP.
3. Methods

3.1 Search procedure

A four-stage approach to search for sample studies was followed in order to identify the sample studies included in the meta-analysis. First, we performed targeted searches in the top journals in the fields of management, economics, and finance (i.e. *SMJ, AMJ, ASQ, ETP, JBV, JoM, Org. Sci, JFE, JCF*) as well as the top family business, corporate governance, and CSP journals (i.e. *JMG, JBE, CGAIR, BSE, SBR, JFBS*). Second, we searched for published articles in academic databases including EBSCOHost, Scopus, ScienceDirect, ABI/Inform and WebOfScience. We also used the snowballing technique to identify sample studies through searching in the references section of articles identified in the first and second stages (Hunter and Schmidt, 2004). Third, we searched for working papers and conference proceedings in academic repositories including RePEC, Google Scholar, IEEE Explore, SSRN and Econis. Fourth, we searched for dissertations in the ProQuest Dissertation Database and Google Scholar. We used the terms “family firms,” “family owner*,” “family CEO,” and combined them with terms that refer to the relationship between business and society such as “CSP,” “CSR,” “sustainability,” “stakeholder relationships,” “corporate social actions,” “corporate citizenship,” “employees,” “environmental management,” “eco initiatives,” “ecological embeddedness,” “human resources,” “resilience,” and social responsibility. We alternated the use of family firms with CSP keywords to maximize the efficiency of each search.

3.2 Inclusion criteria

Strict inclusion guidelines were followed in the process of selecting the articles included in the final sample. First, studies had to report an effect size statistic such as the correlation coefficient, independent t-test scores, or differences-in-means. Consequently, we excluded conceptual manuscripts. Second, studies had to report statistics that allowed a comparison between family and nonfamily firms. Thus, we excluded studies that focused solely on family firms without providing statistics to compare them to nonfamily firms. Third, studies had to define the focal variables in ways that are conceptually consistent with broadly accepted definitions of family firms and CSP. Thus, we excluded studies that did not explicitly define their measures of CSP and family firms. Studies that only reported effect size statistics for founder characteristics were also excluded from the sample. Our search resulted in 98 studies based on 77 statistically independent samples.

3.3 Operationalization of variables

3.3.1 Corporate social performance. We categorized each sample effect size to denote the stakeholder group that it belonged to. The CSP categories initially used in this meta-analysis were: Governance, economic, operations, consumers, employees, suppliers, community, environment and overall. The overall dimension is used for effect sizes belonging to a combination of several of the CSP categories. In an effort to reduce the number of CSP categories, we eliminated the economic dimension of CSP; and merged the operations effect sizes with the environment ones. First, because only two studies provided effect sizes for the economic dimension of CSP, we eliminated this category. Second, there were only six effect sizes belonging to the operations CSP category; thus, we reclassified the operations effect sizes and merged them with the effect sizes in the environment category of CSP.

There were 150 effect sizes belonging to CSP toward external stakeholders: 49 community effect sizes, 34 consumer effect sizes and 67 environment effect sizes. Another 167 effect sizes belonged to CSP toward internal stakeholders: 82 employee effect sizes, 80 governance effect sizes and 5 supplier effect sizes. An additional 67 effect sizes belonged to the overall category. Our final sample included a total of 384 effect sizes.
3.3.2 Family firms. Consistent with prior meta-analyses (i.e. Arregle et al., 2017; Duran et al., 2016; Wagner et al., 2015) we categorized sample effect sizes into four family firm categories: family ownership, family management, a combination of both (family ownership and management) and other types of operationalization of the family firm construct. Family ownership measures ownership of firm equity and/or voting rights by family members. It includes binary variables equal to 1 if the family owns a certain percentage (i.e. 5, 10, 20 or 50 percent) of the firm’s equity and otherwise equal to 0, as well as the percentage of the firm’s equity owned by the family. Second, family management measures family members’ involvement in the management of the firm. Examples include binary variables equal to 1 if there are family members serving as employees, managers, or directors in the firm and equal to 0 otherwise, continuous variables that indicate the number of board directors that are family members, and the ratio of family member directors to the total number of directors. Family ownership and management indicates family members’ simultaneous involvement in the ownership and management of the firm. It includes binary measures equal to 1 if the firm has both family ownership and management and 0 otherwise; as well as binary variables equal to 1 if the firm has both a certain percentage of family ownership and family members in key management positions and 0 otherwise. The other category measurement of family firm characteristics refers to all other family firm operationalizations, such as intergenerational intentions, first vs later generation family firms, lone-founder firms, and family name in the firm’s name. It also includes instances in which studies do not specify their definition of family firms.

3.3.3 Institutional variables. To control for differences in effect sizes resulting from differences in the institutional environment at the country level we used country- and year-specific moderating variables. Environmental policy stringency is an index provided by the OECD that measures the explicit or implicit cost of air and water pollution based on 14 country-specific policies and regulations. Employment protection strictness is a measure of the severity of country-level regulations and policies that prevent employers from dismissing employees and hiring labor on a part-time basis; data for this variable was obtained from the OECD Employment Protection Database. The antidirector rights index is a commonly used measure of investor protection (La Porta et al., 1998); values for 1997, 2005 and 2008 were obtained from Spamann (2010). Minority investor protection is a country-level index of the strength of regulations that protect minority shareholders from abuse by majority shareholders by limiting the ability of majority owners to extract benefits from the firm at the expense of minority owners. Data for this variable were obtained from the Global Competitiveness Index Historical Data set provided by the World Economic Forum. In line with Peng and Jiang (2010), we measured the level of institutional development at the country level as a composite index of: the rule of law index provided by the World Bank; and the government integrity measure of government transparency and control of corruption ranking provided by the Heritage Foundation. Values for uncertainty avoidance and future orientation practices (as is) were obtained from House et al. (2004).

3.3.4 Control variables. To control for differences in effect sizes stemming from differences in the operationalization of the CSP variables, we divided our sample of effect sizes into three categories. In line with Orlitzky et al.’s (2003) typology, we categorized effect sizes as: disclosure, reputation indexes, social audits, corporation behaviors, processes and outcomes and CSP values and attitudes (see Allouche and Laroche, 2005) for a similar taxonomy of CSP effect sizes). We also controlled for the method used to collect the CSP data used in each study. In line with Wang et al. (2016), we categorized each study as based on data from either: a social audit, content analysis, proxy variable, reputation ratings or surveys.
Public is a binary variable equal to one if the effect size is from a sample of firms publicly traded in the stock market and zero otherwise. Firm size was measured as the firm’s asset value, or total revenue in millions of dollars; alternatively, number of employees was also used. For studies with firm size values not in USD, we used the exchange rate for the last date in which the data were collected; for studies not indicating a date range we used the exchange rate for three years prior to the publication date. We also distinguished between published and unpublished sample studies. Publication bias is a binary variable equal to one for published studies and zero for unpublished studies. Published studies are those accepted for publication in peer-reviewed journals and unpublished studies include dissertations, book chapters, working papers, and conference proceedings. At the country-level, we controlled for GDP per capita and whether the country’s legal system is based on common company law or (French/German) commercial code (Labelle et al., 2018; La Porta et al., 1998). Based on the seven world regions used by the World Bank Group (2018), we created binary variables equal to 1 if the country where the data for each sample study were collected belonged to that geographic region and equal to 0 otherwise.

3.4 Statistical procedures
The statistical analysis was conducted in two sequential stages. In the first stage, we performed a bivariate analysis using the Hunter and Schmidt (2004) approach, and in the second stage, we performed a meta-regression analysis based on the method proposed by Berkey et al. (1998) and following the best-practice recommendations by Gonzalez-Mulé and Aguinis (2018). The effect size we used is the Pearson product-moment coefficient that measures the correlation between two variables. In instances in which only effect sizes other than correlation coefficients were reported, we used the formulas in Lipsey and Wilson (2001) to convert them to correlation coefficients. Prior to starting the statistical analysis, we performed two corrections to each effect size. First, to control for sampling error we divided every effect size by the inverse of its sample size. Second, to address measurement error we corrected for effect size attenuation due to unreliability of the dependent and/or independent variables by dividing the effect size by the product of the root square of the reliability coefficient estimates for both the family firm and CSP variable. We used Cronbach’s α as the measure of composite reliability. If a reliability coefficient estimate for an effect size was not provided, we used the average for all other effect sizes for which it was provided (e.g. Gonzalez-Mulé and Aguinis, 2018). After correcting for sampling and measurement error and in accordance with Hunter and Schmidt (2004), we averaged the effect sizes of studies that included more than one effect size (multiple-endpoint studies) to include only one effect size per study in the bivariate analyses. This was done to avoid violating the assumption of independence of the effect sizes (Hunter and Schmidt, 2004; Lipsey and Wilson, 2001).

We subsequently estimated the mean weighted effect size as well as 95 percent confidence intervals, \( \tilde{r} \), and the Q-statistics for the overall relationship between family firms and CSP based on all effect sizes in our sample. The Q-statistic is a \( \chi^2 \) test of the null hypothesis of effect size homogeneity; significant Q-statistic p-values suggest effect size heterogeneity. \( \tilde{r} \) reflects the percentage of total variance resulting from between-study variance as opposed to within-study sampling error. \( \tilde{r} \) values above 50 percent (Higgins and Thompson, 2002) and 75 percent (Hunter and Schmidt, 2004) suggest the need for further moderator analyses. Confidence intervals that include zero also suggest the need for moderator analyses (Gonzalez-Mulé and Aguinis, 2018).

In the first step of our statistical analysis, we performed a bivariate analysis to test differences between subsamples with low and high scores of each moderating variable. We grouped effect sizes into two subsamples: a low subsample containing
effect sizes with moderator variable scores below the median value; and a high subsample including effect sizes with moderator variable scores above the median value of each moderator variable. We subsequently estimated mean weighted effect sizes, $\bar{\theta}$, $Q$-statistics, and 95 percent confidence intervals for each low and high subsample. To test for the statistical significance of the difference between the mean effect sizes of the low vs the high subsample, we used Fisher’s $r$-to-$z$ transformation; significant $z$-scores suggest that the difference between the mean weighted effect size of each subsample is statistically significant.

In the second stage of our meta-analysis we performed a series of meta-regressions. In a meta-regression, the effect size is the dependent variable and the moderator variables are the independent variables. Effect sizes were weighted by the inverse of the within-study variance. Fixed effects models assume that the between-study variance estimate, $T^2$, is zero, an assumption that requires that all studies from which the effect sizes were extracted were performed using the exact same methods. Because this assumption is unrealistic in our case (Gonzalez-Mulé and Aguinis, 2018; Hunter and Schmidt, 2004), we used a random-effects maximum-likelihood estimation meta-regression model which estimates a between-study variance component, $T^2$, to account for differences between the studies such as research design and methodological differences. Because many of the studies in our sample reported more than one family firm and/or CSP variable, we used the method outlined by Berkey et al. (1998) to account for the correlation between effect sizes that are extracted from the same study. Thus, we included all effect sizes from all studies and then estimated an unstructured covariance matrix with within-study construct-level variance estimates in the diagonal. $T^2$ is an estimate of within-study construct-level variance. Because we estimated random-effects variance components at the effect size- and sample-level, our study represents a form of multi-level meta-analysis. To control for the presence of studies based on overlapping samples (i.e. same source of CSP data and overlapping time period), all meta-regressions were performed under the assumption that only effect sizes from nonoverlapping samples were statistically independent rather than assuming that effect sizes from each study are statistically independent. The three-level model used in this meta-analysis allows us to include all effect sizes from all studies even from studies based on overlapping firm-year level data while accounting for the correlation between effect sizes based on overlapping firm-year samples. Berkey et al.’s (1998) meta-regression model helps overcome the “biases or lack of efficiency in statistical inferences” inherent in bivariate meta-analysis by simultaneously allowing for the inclusion of as much information as possible while controlling for the correlation between effect sizes (Olkin and Gleser, 2009, p. 374).

4. Results
As shown in Table I, the relationship between family firms and CSP is positive ($r = 0.005$), thus providing support for $H1$. Because the $\bar{\theta}$ estimate (93.1 percent) is above the 75 percent threshold, the results of the $Q$-statistic test are statistically significant ($p$-value $\leq 0.001$), and the 95 percent confidence interval includes zero ($lb = -0.007; ub = 0.017$), we proceeded to examine boundary conditions through bivariate and meta-regression moderator analyses. The results of the bivariate analyses reported on Table I suggest the presence of study-, firm-, and country-level boundary conditions regarding the magnitude and direction of the relationship between family firms and CSP. First, the focal relationship is positive for private family firms ($r = 0.019$) but negative for public family firms ($r = -0.025$) and this difference is statistically significant ($z$-score $= -12.33; p$-value $\leq 0.001$). Second, mean weighted effect sizes are different for each source of CSP data and these differences are statistically significant. Third, the magnitude and direction of the family firms-CSP relationship is different in each of the geographic regions and these differences
are statistically significant. Fourth, the mean weighted effect size is negative ($r = -0.027$) for studies performed in code law countries and positive for studies performed in common law countries ($r = 0.016$) and these mean weighted effect sizes are significantly different from each other ($z$-score $= -6.86; p\text{-value} \leq 0.001$).

We used random-effects maximum-likelihood estimation meta-regressions to test the robustness of some of our bivariate analyses. First, as shown in Table II, we found that the relationship is strongest when there is both family management and family ownership ($p_e = 0.037; p\text{-value} \leq 0.05$) than when there is only family ownership ($p_e = -0.022; p\text{-value} > 0.10$) or family management ($p_e = -0.016; p\text{-value} > 0.10$). Second, the results shown in Table III suggest that only private family firms care more about their stakeholders than their nonfamily counterparts; public family firms care less about their stakeholders than other public firms. Thus, we only found support for $H2$ in private family firms but not in public family firms. Finally, Table IV provides results regarding the difference between the family firms-CSP relationship in public vs private family firms and these results are consistent with those of the bivariate analysis.

Table V reports the results of our meta-regression analyses of country-level institutional environment moderators. The results of Model 5.1 in Table V suggest that both corporate
governance institutional-level variables, minority investor protection (pe = –0.010; p-value ≤ 0.001) and anti-director rights (pe = –0.086; p-value ≤ 0.001), negatively moderate the relationship between family firms and governance-related CSP. Thus, we found support for H3a. The results of Model 5.2 shown in Table II suggest that the strictness of labor protection at the country level (pe = –0.331; p-value ≤ 0.05) negatively moderates the relationship between family firms and employee-related CSP. Thus, we found support for H3b. The results of Model 5.3 suggest that the moderating effect of the

<table>
<thead>
<tr>
<th>Variables</th>
<th>Family Ownership</th>
<th>Family Ownership (or Board Involvement)</th>
<th>Family Management</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.074***</td>
<td>–0.043******</td>
<td>–0.032</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>–0.093 (76)</td>
<td>0.029 (47)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>0.013 (104)</td>
<td>0.008 (27)</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>0.028 (68)</td>
<td>0.022 (18)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.019 (71)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Notes: m, number of effect sizes; T² construct-level random-effects variance component; K, number of statistically independent samples. *p ≤ 0.05; **p ≤ 0.01; ***p ≤ 0.001; ****p ≤ 0.10</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Variables</th>
<th>Public family firms</th>
<th>Private family firms</th>
<th>All family firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community</td>
<td>–0.021*</td>
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<td>0.026</td>
</tr>
<tr>
<td>Consumer</td>
<td>0.001</td>
<td>0.008</td>
<td>0.048**</td>
</tr>
<tr>
<td>Employees</td>
<td>–0.037***</td>
<td>0.109***</td>
<td>0.012</td>
</tr>
<tr>
<td>Environment</td>
<td>–0.047***</td>
<td>0.032****</td>
<td>0.002</td>
</tr>
<tr>
<td>Governance</td>
<td>–0.089***</td>
<td>0.090**</td>
<td>–0.037*</td>
</tr>
<tr>
<td>Overall</td>
<td>–0.050***</td>
<td>0.208*</td>
<td>–0.001</td>
</tr>
<tr>
<td>Suppliers</td>
<td>n/a</td>
<td>0.089****</td>
<td>0.046</td>
</tr>
<tr>
<td>Audit T²₁ (m)</td>
<td>0.016 (191)</td>
<td>0.018 (69)</td>
<td>0.019 (245)</td>
</tr>
<tr>
<td>Disclosure T²₂ (m)</td>
<td>0.009 (58)</td>
<td>0.039 (10)</td>
<td>0.029 (68)</td>
</tr>
<tr>
<td>Values T²₃ (m)</td>
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<td>0.030 (71)</td>
</tr>
<tr>
<td>K</td>
<td>38</td>
<td>40</td>
<td>78</td>
</tr>
</tbody>
</table>

Notes: m, number of effect sizes; T² construct-level random-effects variance component; K, number of statistically independent samples. *p ≤ 0.05; **p ≤ 0.01; ***p ≤ 0.001; ****p ≤ 0.10

<table>
<thead>
<tr>
<th>Variables</th>
<th>All studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Family Firms</td>
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</tr>
<tr>
<td>Private Family Firms</td>
<td>0.070***</td>
</tr>
<tr>
<td>Management T²₁ (m)</td>
<td>0.011 (88)</td>
</tr>
<tr>
<td>Ownership T²₂ (m)</td>
<td>0.013 (105)</td>
</tr>
<tr>
<td>Management and Ownership T²₃ (m)</td>
<td>0.018 (135)</td>
</tr>
<tr>
<td>Other T²₄ (m)</td>
<td>0.021 (56)</td>
</tr>
<tr>
<td>K</td>
<td>78</td>
</tr>
</tbody>
</table>

Notes: m, number of effect sizes; T² construct-level random-effects variance component; K, number of statistically independent samples. *p ≤ 0.05; **p ≤ 0.01; ***p ≤ 0.001; ****p ≤ 0.10
The stringency of a country's environmental policy (pe = 0.055; p-value > 0.10) is not statistically significant. Thus, we failed to find support for H3c. The results of Model 5.4 suggest that neither future orientation (pe = −0.010; p-value ≤ 0.001) nor uncertainty avoidance significantly moderate the relationship between family firms and CSP. Thus, we did not find evidence in support of H4 and H5 regarding the moderating effect of the country-level cultural dimensions.

5. Discussion
Examining CSP in family firms, we categorized family firms into four categories based on the presence of members of the owning family on the firm's ownership and management structure. We found that both family ownership and family management should be present in order for the relationship between family firms and CSP to be positive. We also found that only private family firms achieve greater CSP than their nonfamily counterparts; the CSP of public family firms is lower than the CSP of other public firms.

Regarding the influence of the source of data on the family firms-CSP relationship, we found a positive relationship when data from audits, proxy variables, and surveys was used, and a negative relationship when data from content analysis and reputation ratings was used. This finding is noteworthy because CSP data from audits, proxy variables, and surveys is considered to be more objective than CSP data from content analysis and reputation ratings (Wang et al., 2016). The negative relationship between family firms and CSP reported by studies based on reputation rankings data could be explained by two reasons. First, there may be a negative bias against family firms by members of society who perceive them as obscure and exploitative toward minority shareholders and other stakeholders. Second, it may be that reputation data are more often used to assess the CSP of public firms and is less often used to assess the CSP of private firms. The fact that the relationship between family firms and CSP is negative for effect sizes obtained from studies that used content analysis data to measure CSP variables can be explained by two potential reasons. First, it may be that family firms are less adept at reporting information about their CSP processes and outcomes. Second, it may be that family firms are more reluctant to point up their CSP, which they may view as a moral obligation rather than something to brag about.
5.1 Research implications

Our meta-analysis provides insights into how the use of different definitions of family firms can influence the results of empirical studies. As explained in the previous section, we found that the family firms-CSP relationship is positive only when family firms are defined as simultaneously family owned and family managed firms, as opposed to only family owned or family managed firms. These results are in line with those of previous meta-analyses such as Arregle et al. (2017) who reported that family firms engage in significantly less internationalization only when researchers define family firms as simultaneously family owned and family managed. We contribute to a growing body of literature that provides evidence suggesting that the operationalization of family firms used in research studies has an impact on the results obtained. Future research studies may benefit from: including definitions of family firms that require both family ownership and family management; while also including definitions of family firms based only on either family ownership or family management. Researchers can subsequently compare the results of both definitions of family firms and test whether different definitions of family firms lead to different results.

Our finding that public family firms have a lower CSP than other public firms while private family firms have a higher CSP than other private firms suggests that the stock market has a negative effect on the CSP of family firms. Although recent research studies have studied how the presence of other ownership types influences the CSP of family firms (Berrone et al., 2010; Kabbach de Castro et al., 2017; Lamb and Butler, 2016), further research is needed to expand our understanding of how other ownership types interact with family ownership and management. Future research should clarify how the stock market can exert influence on the CSP of family firms, and whether variables such as share turnover ratio, investor activism, and poison pills influence the CSP of public family firms differently than they influence the CSP of other public firms. Are differences between how stock market related variables predict the CSP of public family firms vs how stock market related variables predict the CSP of other public firms explained by firm-level differences or are these differences explained by the particular way in which stock markets approach public family firms? Beyond the effect of the stock market, what characteristics unique to public family firms can explain why public family firms have lower CSP than other public firms? Similarly, what differences between private and public family firms predict the difference in the CSP of private vs public family firms? What role do differences in family generation, the presence of the founder, or equity ownership dispersion play in explaining differences in the CSP of private vs public family firms? What lessons can public family firms learn from private family firms that may help public family firms improve their CSP? Addressing some of these questions will likely require the use of balanced samples that include data on both public and private family firms.

5.2 Managerial implications

The differences in the results stemming from differences in the sources of data have important implications for managers and practitioners. The relationship between family firms and CSP is positive for studies that used data from social audits, surveys, and proxy variables and is negative for studies that used content analysis as a source of data to measure CSP variables. This implies that family firms should improve how they communicate information about their CSP processes and outcomes to internal and external stakeholders. Family firms need to become more proficient at communicating information about their CSP efforts in their marketing materials and corporate reports. Informing the public about the firm’s CSP can benefit family firms by improving corporate reputation as well as the firm’s attractiveness as an employer (Turban and Greening, 1997). Relaying information about the firm’s CSP through internal communication channels can help
motivate internal stakeholders such as stockholders and employees. This may require hiring employees who are skilled at measuring, tracking, and reporting data on the firm’s CSP processes and outcomes. It may also involve training of current employees on how to measure and transmit CSP information.

We also found that the relationship between family firms and CSP is negative for studies based on reputation rankings data. Although studies that used more objective CSP measures, such as social audits or proxy variables (Wang et al., 2016), report a positive relationship between family firms and CSP, studies based on reputation rankings report a negative relationship. Negative stereotypes regarding the CSP of family firms may be one of the underlying causes of the low CSP scores assigned to family firms in reputation rankings. Family firms should work to change the public perception of family firms and address negative stereotypes. Educating the public about the evidence of the higher CSP of family firms vis-à-vis other firms is an important step in this direction. Efforts to improve public perceptions about the CSP of family firms can be carried out through firm-level initiatives or through joint efforts using business associations and institutes. Countrywide as well as state- or regional-level family firm associations, institutes and centers, can be effective vehicles for family firms to work collectively to educate various stakeholder groups on the CSP of family firms. Industry associations in industries predominantly composed of family firms can also help educate the public on the empirical evidence of the CSP of family firms. Although our results suggest that there is some truth to popular culture stereotypes regarding the CSP of family firms, this only holds true for publicly traded family firms. Distinguishing between private and public family firms can benefit most family firms, since the vast majority of family firms are privately owned. Developing a brand image and social identity as private family firms, and not just family firms, may also be beneficial to private family firms.

5.3 Social and policy implications

Our finding that family firms can help fill the institutional void caused by weak labor or investor protection by formal institutions draws attention to a social benefit of family firms that is often overlooked. Our framework complements previous frameworks in the family business literature (i.e. Carney and Nason, 2018) and helps explain seemingly counterintuitive results such as Essen et al.’s (2015) who found that the CSP of family firms is higher in institutional environments with weaker labor laws and regulations. Similarly, the counterintuitive results of Cruz et al. (2014) that suggest that family firms are less socially responsible than nonfamily firms can be explained through the firm-, study-, and country-level boundary conditions for the relationship between family firms and CSP suggested by this meta-analysis. The results of the study by Cruz et al. (2014) are less counterintuitive when considering that they are based on a sample of large publicly traded firms, using CSP ratings data, and in countries with a strong regulatory environment. By examining when family firms care more about their stakeholders, our meta-analysis can help explain some of the inconsistent results in the family business literature.

The results of our meta-analysis also have important policy implications. Because family ownership has the weakest relationship with CSP of all operationalization types of family firms studied in this meta-analysis, absentee ownership of family firms should be discouraged. Despite the argument that the separation of ownership and control can lead to improved financial performance in modern corporations, the evidence provided in this study suggests that the separation of ownership and control in family firms may not be optimal from a social perspective. The recent increase in the importance of CSP as a measure of performance makes questions regarding the efficiency of the separation of ownership and control in family firms more relevant for policymakers. Policy can play a role in encouraging family owners to remain involved in the management of family firms. Policy options include
providing: incentives for family firms in which members of the owning family are involved in managing the firm; and/or penalties for family firms in which members of the owning family are not involved in managing the firm.

Tax policy can encourage family firms to remain private. For example, estate taxes can be reduced for equity holdings in private family firms and can be increased for equity holdings in public family firms. Increasing tax benefits to private family firms may also incentivize family owners to keep their firms private. For example, reduced estate tax rates can be granted to inheriting family owners who have been involved in the management of the family firm for a certain number of years. Alternatively, tax deductions can be granted to inheriting family owners who remain involved in the management of the family firm for a certain number of years.

6. Conclusion
The family business literature provides theoretical arguments for and against the hypothesis that family firms care more about their stakeholders. A large number of empirical studies have studied the relationship between family firms and CSP. Even though a large amount of empirical evidence has accumulated in recent years, the results of the studies fail to provide a conclusive answer as to whether the CSP of family firms is higher than the CSP of nonfamily firms. We synthesized the existing empirical evidence through a meta-analysis of 98 studies from 27 countries. We found that the relationship between family firms and CSP is positive, but it differs significantly across firm types, operationalization types of the family firm and CSP constructs, sources of data, world regions and institutional environments. The various boundary conditions identified in this meta-analysis also yield significant managerial, research and policy implications.

References
References for studies included in the meta-analysis start with*.


Cabrera Suárez, K. and Santana Martín, D.J. (2003), “Corporate and family governance in the Spanish family firms”, working paper, Universidad de Palmas de Gran Canaria, Palmas.


*Kashmiri, S. (2012), “When business is in the blood: essays on the link between family ownership, strategic behavior, and firm performance”, doctoral dissertation, University of Texas at Austin, Austin, TX.


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(The Appendix follows overleaf.)
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Adapting through learning and knowledge acquisition: the cases of four global family firms

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Abstract

Purpose – The purpose of this paper is twofold: first, to investigate the importance of knowledge as a tool for adaptation and competitive advantage through qualitative research, exploring the cases of four global family firms; and second, to develop a theoretical framework based on the knowledge-based view (KBV) of the firm to facilitate understanding of learning and knowledge acquisition among family firms.

Design/methodology/approach – This investigation focusses on the cases of four family firms, two operating in a developed (Australia), and two in an emerging economy (Uruguay). In-depth, face-to-face interviews were conducted with firm owners, co-owners and one manager.

Findings – Regardless of firms’ operating environment (OECD, emerging economy), similar outcomes were revealed. Indeed, firm management’s ability to gather, contextualise and synthesise knowledge, including tacit knowledge, emerged as crucial to adapt to new challenges in their business environment. Several tenets of the KBV emerged, including those associated with knowledge to solve emerging problems, specialisation through knowledge acquisition and applying specialised knowledge to produce. Importantly, firms’ ability to anticipate future events through tacit or new knowledge acquisition became evident.

Originality/value – The study makes two key contributions that represent originality and value. First, the presented theoretical framework facilitates understanding of various dimensions of knowledge, their resulting influence on firms’ preparedness to adapt to events in their business environment, and potential implications on their competitive advantage. Second, by qualitatively examining the participating family firms, the study addresses a recognised research gap, notably, that research investigating this group has been predominantly quantitative.

Keywords Australia, Adaptation, Knowledge, Case studies, Uruguay, Global family firms, Knowledge-based view of the firm

Paper type Research paper

1. Introduction

Academic research highlights the importance of family firms as nations’ socioeconomic pillars (e.g. Astrachan and Shanker, 2003; Chirico and Nordqvist, 2010; Dana and Ramadani, 2015; Fitzgerald and Muske, 2016; Klein, 2000; Poza and Daugherty, 2014). Despite their significance, and as with other businesses, family firms are confronted with the complexities of a fast-paced business environment (Chirico and Salvato, 2008). To increase their competitive fit and strategic adaptiveness, firms need to create processes to change and direct existing capabilities, or those path-dependent, idiosyncratic ways of conducting business (Chirico and Salvato, 2008). Knowledge, particularly organisational knowledge, becomes a crucial element for firms (Chirico and Salvato, 2008). Indeed, in the case of family firms, understanding the significance of transferring knowledge can contribute to developing or retaining their competitive advantage (Cabrera-Suárez et al., 2001).

In an organisation/business context, knowledge is defined as actionable, relevant information that is at least partly based on experience (Leonard and Sensiper, 1998). Knowledge can be subjective, and comprises “a subset of information [...] linked to meaningful behavior [...] it has tacit elements born of experience” (Leonard and Sensiper, 1998, p. 113), as well as explicit
elements (Nonaka, 1994). Tacit knowledge is unconscious and semiconscious knowledge; tacit
elements of knowledge are experiential, more complex and subjective (Chuang et al., 2016;
Leonard and Sensiper, 1998). In a company environment, tacit knowledge can be illustrated
through the experience employees have accumulated, as well as knowledge associated with their
beliefs and attitudes (Nonaka and Takeuchi, 1995). In contrast, explicit knowledge is structured,
codified, rational, objective and is accessible to individuals other than those originating it
(Leonard and Sensiper, 1998).

In their study of family firms’ succession, knowledge and realisation of competitive
advantage, Boyd and Royer (2012) differentiate between three forms of experiential knowledge:

1. Idiosyncratic: specific knowledge about location- and time-detailed “conditions that
cannot be formalised” (p. 367).

2. Subject-related: knowledge that is experienced without an association with location
or time conditions, and is dependent on abilities and skills.

that, typically, family firms have networks that positively contribute to more
knowledge development.

More recent research comparing the cases of two family firms (Boyd et al., 2015) revealed the
significance of idiosyncratic knowledge in the early stages; this knowledge was transferred
within the family. However, as time went on, network-related knowledge became more
important (Boyd et al., 2015).

Strongly interlinked with these notions is organisational learning (OL), a relevant
element in today’s knowledge-based, changing and globalised economy (Chadwick and
Raver, 2015; Chiva et al., 2014). OL has been defined as “the process of improving actions
through better knowledge and understanding” (Fiol and Lyles, 1985, p. 803). In the process
of gaining a greater understanding of learning organisations, continuous learning, which
can be adaptive or incremental, is also fundamental (Appelbaum and Goransson, 1997).

Within an organisational context, and in line with Appelbaum and Goransson (1997),
Doppelt (2010) identifies three key types of learning:

1. Adaptive learning (AL) is, essentially, a coping, reactive form of learning, involving
“the search for direct solutions to immediate problems” (p. 217). For example, in a
group context, and in response to changes, AL can occur through variations in role
structure or group configuration (Sessa and London, 2006).

2. Anticipatory relates to avoidance of future problems by identifying probable
triggering events, and overall seeking strategies to best prepare for them
(Doppelt, 2010).

3. Action converting real tasks or problems “into a learning laboratory” (Doppelt, 2010,
p. 219), whereby teams within the organisation try solving the problem and learning
from the experience.

Against this background, which emphasises the strategic significance of knowledge and
learning within a firm context, the present empirical study contributes to the family
business literature in various ways. Fundamentally, the study is concerned with how and
specific ways in which knowledge is manifested in design and execution of adaptation
strategies among family firms.

According to Chirico (2008, p. 434), “research on the construct of knowledge in family
business” is scant. In addition, there is a dearth of academic studies examining the
significance of knowledge-based attributes as part of global family firms’ strategy,
particularly in the Southern Hemisphere, and in distant geographic locations. Furthermore,
quantitative methods appear to be predominantly used to examine family firms (Hair and Sarstedt, 2014), and much less so qualitative research.

The present study contributes to narrowing these knowledge gaps, examining the cases of four medium-sized model global family firms, two operating in developed (Australia), and two in a developing economy (Uruguay) through semi-structured, in-depth, face-to-face interviews. Given the study’s focus on knowledge as a tool for adaptation, and in line with previous family business research (e.g. Cabrera-Suárez et al., 2001; Hatak and Roessl, 2015; Woodfield and Husted, 2017), the study will adopt the knowledge-based view (KBV) paradigm (e.g. Grant, 1996; Grant and Baden-Fuller, 1995; Nickerson and Zenger, 2004). This adoption and the identified associations with the findings result in a further contribution through the proposition of a theoretical framework, which could guide future investigations, including case study research.

2. Literature review
2.1 Knowledge and family firm adaptation
The academic literature implicitly and explicitly presents and discusses the strong significance of knowledge as a key asset for firms to learn from an organisational point of view and adapt to the rapid pace of the business environment. For example, Chirico and Salvato (2008) suggest that members of family firms have adequate knowledge internally concerning external factors; correspondingly, through this knowledge their firms can adapt to dynamic business or industry environments. De Massis et al. (2016) explain that, by leveraging tradition, family firms can “rediscover distinctive knowledge whose adaption to current market needs and expectation may open the door to the creation of unique opportunities […] and, as a consequence, competitive advantage” (p. 101). In their study of four family firms from two different countries, Chirico and Nordqvist (2010) found that firm Alfa was able to operationalise its accumulated knowledge to support adaptation for growth while its industry environment was changing.

2.2 The KBV of the firm
Numerous academic investigations have contributed to developing the KBV (e.g. Foss, 1996; Foss et al., 2013; Grant and Baden-Fuller, 1995; Grant, 1996; Kogut and Zander, 1992; Nickerson and Zenger, 2004; Nonaka and Takeuchi, 1995; Nonaka et al., 2008). The KBV is suggested as an extension of various research streams (Grant, 2015), including innovation and new product development, OL, and the resource-based view of the firm (Grant and Baden-Fuller, 1995). This theory seeks to analyse how firms acquire, create, protect, transfer or apply knowledge (Cabrera-Suárez et al., 2001). The KBV also highlights the role that knowledge plays in determining performance and organisation (Macher and Boerner, 2012). In essence, it views the core of organisations in terms of promoting the efficiency of knowledge application and generation (Grant, 2013). This process depends on integration and specialisation of knowledge, regardless of whether such knowledge resides in organisation or information systems, within humans or capital equipment (Grant, 2013).

Furthermore, the “rudiments” of KBV, which are based on Grant and Baden-Fuller’s (1995) review of the pertinent literature (e.g. Hedlund, 1994; Nonaka, 1994; Quinn, 1992) include a rationale for firms’ existence, analysis of integration of knowledge within firms and assumptions regarding knowledge and firms. Thus, five key assumptions are postulated:

1. Knowledge is a crucial productive resource for firms, for instance, contributing to adding value and overall strategic importance (Grant and Baden-Fuller, 1995). Moreover, demonstrating its links to OL, knowledge is a valuable resource that can help firms gain competitive differentiation (Blome et al., 2014). Furthermore, through the application of knowledge itself can generate new knowledge (Rebolledo and Nollet, 2011).
(2) Knowledge comprises skills, information, technology and know-how. Also, as previously indicated, key distinctions exist between explicit and tacit knowledge.

(3) People gain knowledge, and accumulate tacit knowledge (Grant and Baden-Fuller, 1995).

(4) Given time and cognitive limitations, “individuals must specialize in their acquisition of knowledge” (Grant and Baden-Fuller, 1995, p. 18). Importantly, in order to make gains in-depth of knowledge, people may forgo breadth of knowledge.

(5) Producing by creating value through the transformation of inputs into outputs, typically entails applying various kinds of specialised knowledge (Grant and Baden-Fuller, 1995).

A further insightful theoretical proposition is provided by Grant (1996), who explains that, in order to develop a theory of the firm, it is crucial to determine the characteristics of knowledge that could have key implications for the firm’s management. Some of these characteristics are summarised as follows.

Transferability: the notion that knowledge transferability is significant, both between firms, and within a firm. For instance, through external knowledge transfer, firms can acquire expertise, which can positively affect their processes or products (Blome et al., 2014). By transferring knowledge, firms also need to address “the issue of knowledge retention” (Rebolledo and Nollet, 2011, p. 329). Internally, and in the case of family firms, life and work in the family enterprise from an early age enables family members to acquire high levels of tacit knowledge (Chirico and Nordqvist, 2010).

Capacity for aggregation: knowledge aggregation, which includes individuals’ ability to add new knowledge to already acquired knowledge (e.g. knowledge absorption), can provide an element of efficiency in the transfer of knowledge. This efficiency is significantly enhanced when knowledge can be articulated through common language, for instance, through statistics and information technology, which represent explicit knowledge (Grant, 1996). Two empirical studies highlight firms’ capacity for knowledge aggregation. In one, Aguilera-Caracuel et al. (2012) explain how exporting firms have benefited from their international experiences. In the other, De Massis et al.’s (2016) investigation of long-lasting family firms reveals “the potential of past knowledge in terms of value creation and capture” (p. 93).

Appropriability: knowledge is a resource subject to complex issues of appropriability. For example, tacit knowledge cannot be directly appropriated because it is not directly transferable; rather, it can only be appropriated “through its application to productive activity” (Grant, 1996, p. 111).

Knowledge requirements of production: this characteristic, which is essential to the KBV, relates to “the assumption that the critical input in production and a primary source of value is knowledge” (Grant, 1996, p. 112).

Nickerson and Zenger’s (2004) contribution highlights that knowledge formation and problem solving are at the core of the KBV. A key knowledge-based goal for managers is to maintain above-average performance (i.e. profits), constantly searching for new solutions or knowledge-related discoveries “that form unique combinations of existing knowledge” (Nickerson and Zenger, 2004, p. 618). Further, if firms are to develop unique capabilities or knowledge, they need to identify valuable problems, referred to as those problems that, if solved, can yield desired capability and knowledge, and conduct efficient solution searches (Nickerson and Zenger, 2004). This identification process illustrates firm management’s ability to assess the expected value when seeking to find potential solutions.

Value to firms is delivered through valuable solutions, and can be achieved by developments or enhancements of products/services, or by reducing costs of delivery or
production (Nickerson and Zenger, 2004). In summarising the KBV, Nickerson and Zenger (2004) state that “firms shift their boundaries in response to changes in the problems they address” (p. 629). These problems fall under life cycles that experience evolutionary changes, and require dynamism from firms’ organisational structure. Provided that firm problems are not extremely severe, the theory proposes the discussion of these problems, subsequently breaking them into sub-problems (Nickerson and Zenger, 2004). Overall, developing a culture of consensus decision making, and widespread knowledge sharing within the organisation may yield valuable solutions (Nickerson and Zenger, 2004).

The usefulness of the KBV to understand various dimensions of knowledge gathering, as well as the operationalisation of knowledge as a resource contributing to family firms’ competitive advantage potential has been recognised in the academic literature. An earlier contribution (Cabrera-Suárez et al., 2001), which considered both the resource-based and KBV to propose the examination of family firms’ succession process concludes emphasising the usefulness of these ideologies. Moreover, from a strategic leader perspective, the ideologies help scrutinise processes whereby firm successors absorb both the family’s knowledge and philosophy, which in turn helps guarantee the firm’s continuity (Cabrera-Suárez et al., 2001).

Research by Chirico and Salvato (2008) led to the development of a framework illustrating factors affecting knowledge integration among family firms. This framework proposes that knowledge integration among family members is, among other elements, dependent on the ability (internal social capital) and willingness to integrate knowledge (affective commitment to change).

More related to the present study, an empirical contribution focussing on four family firms operating in two different countries (Chirico, 2008) proposes a family business knowledge model. On the one hand, the framework highlights the importance of openness factors, which include past study and working experience (family members), as well as employing family or non-family members. On the other hand, the framework underlines emotional factors, represented by family relationships within the firm, which enhances trust among family members, commitment to the firm and psychological ownership of the family firm (Chirico, 2008). Together, the two types of factors affect the accumulation process of knowledge, which then becomes an enabler of family firm longevity.

Based on the previously discussed theoretical notions, the present study draws on the KBV to examine the significance of knowledge as an adaptation tool for global family firms, and ways in which knowledge contributes to adaptive strategies. Consequently, the following research questions (RQs) are investigated:

**RQ1.** How is knowledge manifested among family firms, notably, in the design of adaptation strategies to operate in their business environment?

**RQ2.** In what specific ways, if any, does knowledge contribute to adaptation among family firms?

### 3. Methods

#### 3.1 Approach

In adopting the KBV as the theoretical foundation, this study investigates the importance of knowledge, as well as ways in which knowledge is a factor in firms’ adaptive processes and strategies to address contemporary business issues. Four family firms, two from an emerging (Uruguay) and two from a developed economy (Australia) will be presented. In choosing these firms, an objective of the present research was to ascertain whether their acquisition and application of knowledge differs based on the business environment in which they operate (i.e. less vs more developed business environments and economies).
Given the nature of the research, choosing selected model firms, a case study approach, “which focuses on understanding the dynamics present within single settings” (Eisenhardt, 1989, p. 534) was adopted. Moreover, case studies examine contemporary cases, illuminating and facilitating understanding, with researchers expecting to uncover unusual or new interactions, explanations, cause-effect relationships, events or interpretations (Hays, 2004). Importantly, generalisation is not an objective of case studies; instead, “discovering the uniqueness of each case is the main purpose” (Hays, 2004, p. 218). However, generalisability may be possible when research is based on various cases studies studying a similar phenomenon (Hays, 2004). Further, a case study approach typically combines different data collection methods, including observations, archives, fieldwork, interviews or a combination thereof, and the evidence can be quantitative, qualitative or both (Eisenhardt, 1989; Yin, 1981). The above characteristics fit in the context of the present study.

Earlier studies, for instance, on adaptive and OL (e.g. Appelbaum and Goransson, 1997; Chadwick and Raver, 2015; Chiva et al., 2014; Doppelt, 2010; Sessa and London, 2006; Tyre and von Hippel, 1997) were consulted in the process of designing the RQs. Through an earlier data collection process, with interviews conducted with managers of regional agencies, including shires (Australia), chambers of commerce and producer associations (Uruguay) four model family firms were identified. According to the feedback obtained, these firms were constantly involved in innovative practices, and highly efficient in managing and maximising their resources. For example, one key characteristic of managers/owners was their exceptional entrepreneurial spirit, particularly discovering new or maintaining strategically significant international consumer markets. The decision to consider family firms is also supported by studies emphasising the importance of this group of businesses for countries’ economies (e.g. Chirico and Nordqvist, 2010; Poza and Daugherty, 2014).

3.2 Data collection

Initial e-mail contact sent to the attention of the firms’ owners/general managers described the objectives of the study, and formally invited them to take part in the research. Contact was undertaken during the second half of 2014 in the case of Uruguayan firms, and in the second half of 2015 in that of Australian firms. Moreover, given the geographic distance between the two countries, it was decided to gather the data from the two countries separately, allowing the researcher to travel to the firms’ operations or main building whenever possible.

Follow up e-mails and telephone contact in the weeks after the first e-mail contact confirmed the participation of all four firms’ management. During the researcher’s travel to Uruguay in December of 2014, a semi-structured, in-depth, face-to-face interview was first conducted with the co-owner of Firm 1 at the winery. This interview also allowed for useful on-site observations of the firm’s operation to be made. This participant is responsible for marketing, tourism and domestic sales. This data collection process was complemented with subsequent e-mail correspondence with the second co-owner, who is responsible for the winery’s international commerce, through 2015. In the case of Firm 2, face-to-face interviews were undertaken with both the co-owner and general manager at the firm’s main office on two separate occasions. These three interviews lasted on average 70 mins; knowledge about the firms was further enhanced through industry-related videos on the internet, website reports and news.

Regarding the two Australian firms, given the geographic distance between the researcher’s university and Firm 3, a 45 min telephone interview was first conducted with the co-owner in November of 2015. After the interview, the co-owner’s agreement was obtained to travel to the business operations early December, 2015. This visit, which lasted over 3 h, allowed the conducting of a second in-depth interview, and a visit of the premises,
which was experiencing major technological and expansion developments. Finally, with regard to Firm 4, the co-owner’s work commitments only allowed the face-to-face interview to be conducted in January of 2016. This interview was complemented by a tour to the firm’s facilities; this interview lasted approximately 1 h. Thus, in all, six respondents contributed to the study. In all four family firm cases, the data collected through interviews and on-site visits were further strengthened by e-mail communication maintained with all six participants in the successive months following the fieldwork, and by company news and information available on updated online content (firms’ website).

The participation of only four firms is recognised as a limitation of this study, which may prevent broad generalisations to be made from the overall findings. However, the findings provide a number of perspectives that could be of practical valuable to firms and industry, and conceptually/theoretically for academics, particularly through the adoption of KBV.

3.3 Data analysis
All interviews were digitally recorded with participants’ permission, and were subsequently transcribed verbatim. The data collected in Uruguay were translated into English by the researcher, who is bilingual. To analyse the data, content analysis (e.g. Hsieh and Shannon, 2005; Weber, 1990) was used, which facilitated the identification of emerging themes and patterns from participants’ verbatim comments.

3.4 Demographic characteristics of firms and participants
As would be expected given their role as firm co-owners, all participants except one (F2P2), have several decades of experience (Table I). In four cases, such experience goes as far back as when the company was established in the 1970s and 1980s, while in a fifth case (F2P1), a new generation of family members (second generation) inherited the firm. Aligned with co-owners’ experience, all four firms date from various decades. In one case (Firm 1), the company has been in family ownership for ten generations, which suggest the new ownership’s ability to draw from crucial past knowledge, including tacit knowledge, as well as expertise, to adapt and develop resilience. The two Uruguayan firms fall under the category of medium-sized enterprises, or between 20 and 99 employees (Gatto, 1999); similarly, Firms 3 and 4 are considered medium for Australian standards, or between 20 and 199 employees (ABS, 2001).

4. Results
4.1 RQ1: knowledge, family firms and adaptation
Throughout their reflections, participants’ comments illustrated numerous ways in which knowledge contributes to family firms’ adaptation to an increasingly challenging business environment. Whether operating in an emerging or developed economy, in the main participants’ comments clearly underline that embracing knowledge to adapt to a changing business environment knows no geographic boundaries. Table II provides a concise summary of the main threads that emerged from the content analysis, while the following sections elaborate on the findings, highlighting each individual firm.

Firm 1. Being one of Uruguay’s most forward-thinking wine businesses, with a century-old grape-growing and winemaking tradition, Firm 1 clearly demonstrates the role of knowledge in equipping entrepreneurs with tools to adapt to new market demands. As F1P1 explained, in the 1970s, a proposal to improve and position the winery to compete in a growing globalised consumer market, represented both a key challenge and a key opportunity for the winery’s ownership to use a vast reservoir of knowledge and adapt to the new global order. This development was pioneering in Uruguay, and represented a key step in the “coming of age” of the national wine industry. Interviews with other industry
Characteristics

**Firm 1: winery**
- **Role** – Participant 1: F1P1\(^b\) Co-owner
- **Time in the firm** Over 30 years
- **Role** – Participant 2: F1P2\(^b\) Co-owner
- **Time in the firm** Over 30 years
- **Approximate number of full-time employees** 35
- **Decades of firm’s existence** Since 1970s

**Firm 2: caviar producer**
- **Role** – Participant 3: F2P3\(^b\) Co-owner
- **Time in the firm** Over 25 years
- **Role** – Participant 4: F2P4\(^b\) General manager
- **Time in the firm** 8 years
- **Approximate number of full-time employees** 30–50
- **Decades in existence** Since 1960s

**Firm 3: avocado packing**
- **Role** – Participant 5: F3P5\(^b\) Co-owner
- **Time in the firm** Since 1987
- **Approximate number of full-time employees**
- **Decades in existence** Since 1987

**Firm 4: vegetable producer**
- **Role** – Participant 6: F4P6\(^b\) Co-owner
- **Time in the firm** Over 30 years
- **Approximate number of full-time employees** 100
- **Decades in existence** Since 1930s

**Notes:** *All firms currently export; \(^b\)denotes abbreviation when verbatim comments are indicated in results section*

### Table I.
Demographic characteristics (participants, firms)*

<table>
<thead>
<tr>
<th>Firm</th>
<th>How knowledge is manifested (RQ2)</th>
<th>Knowledge and adaptation (RQ2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm 1</td>
<td>Reconversion programme, which allowed for newly gained knowledge and experience. International travel (e.g. wine fairs); gaining knowledge from new trends (e.g. tourism)</td>
<td>Newly acquired knowledge helped increase the potential and marketability of the firm’s wines. Growth of wine tourism as a diversification and new sales strategy, both domestically and internationally</td>
</tr>
<tr>
<td>Firm 2</td>
<td>Previous experience in the fishing industry helped accumulate technical knowledge. Long-standing relationships with suppliers/clients led to unique knowledge about the potential of a new activity (caviar production)</td>
<td>Knowledge was gathered and accumulated about the new activity (breeding sturgeons). Ways to improve life and quality of the product were trialed, thus, rendering the firm more competitive. Founder’s knowledge provided a vital foundation for the second generation to build upon</td>
</tr>
<tr>
<td>Firm 3</td>
<td>Constant knowledge acquisition has helped the firm to evolve from growing to consulting, packing and exporting</td>
<td>Knowledge provided the pillars for the company to innovate, diversify, grow domestically and internationally and overall achieve competitive advantage</td>
</tr>
<tr>
<td>Firm 4</td>
<td>Knowledge from previous experiences helped the firm to “foresee the future”, initiating a new path and course of action, modernising and focussing on maximisation and efficiency</td>
<td>Learning about trends and shifts (e.g. currency) help the company to anticipate events and concentrate their resources in exploiting opportunities</td>
</tr>
</tbody>
</table>

### Table II.
Content analysis – RQ1 and RQ2
stakeholders, such as other firms and chamber of commerce representatives, along with industry reports on this firm further supported the firm management’s assertions.

F1P1 also reflected on all the steps leading to the firm’s ability to compete and adapt in very demanding international consumer markets. First, as part of the reconversion process, planting new, pest-free, imported rootstock and purchasing state-of-the-art technology to support efforts to improve the quality of the wines demanded significant investments: “At that time no one talked about overseas markets; all wineries focussed on the domestic market, predominantly producing table wines, in one-litre bottles or demijohns”.

The reconversion process, which took F1P1 well over a decade to complete, enabled the firm to gain knowledge and incrementally build on this knowledge to open up key markets: “You have [to] adapt the staff to the new realities of world markets […] have to start traveling the world in order to learn about the types of wines the different consumer markets demand”.

Another key investment undertaken, with resulting accumulated knowledge, included participation to specialist international wine fairs:

It was the eye-opener, which helped us realise how far we were from matching international markets’ demands. We needed to update our wines, produce fruitier wines, with livelier colours. The bottles had to be new and of excellent quality; new labels, corks, cases […] we became the first in the country to produce high-end wines in 750cc bottles […] our staff were trained to only think and focus on quality wines (Köln, 1989).

Today, the winery has gained access to more than one dozen markets, including some of the most demanding, such as Canada, Germany, UK or USA.

The reflections of the other co-owner (F1P2) further emphasised the associations between knowledge and adaptation. Focussing on the marketing and tourism side of the business, F1P2 mentioned the development of wine tourism since 2004 as an additional revenue stream. Moreover, working collaboratively with other Uruguayan wineries led to an alliance supporting an infrastructure to host visitors to a newly established wine trail. This alliance contributed to a significant increase of wine tourists, from nearly 4,000 in 2004 to over 60,000 in recent years. As many as 40 per cent of these visitors came from neighbouring countries, and, upon their return, often purchased cases of wine. This new development partly resulted from investment in knowledge to learn and adapt to new market segments. For example, F1P2 acknowledged the earlier organisation of wine tourism workshops, recruiting wine tourism experts from as far as Australia to increase the local industry’s knowledge about this alternative business option.

Firm 2. According F2P1 and F2P2, and supported through conversations with individuals working at Uruguayan chambers of commerce and news/industry reports, various historic events occurring within the family firm, and associated with accumulated knowledge and adaptation, shaped the ownership’s decision to make a fundamental strategic change. This change entailed the firm’s shift of business focus, from predominantly being a maritime agency trading fishing products and providing for fishing vessels, to producing caviar. This radical shift was first based on the owner’s foresight concerning the growing complexities of pursuing the traditional business focus of the family firm long-term. Second, the owner’s existing networks with Soviet researchers in the 1960s increased his knowledge, not only about the commercial potential of this species, but also, and critically, knowledge that, given a number of challenges, sturgeons’ natural habitat, and therefore future high-quality caviar production, was threatened.

The combined events coupled with the owner’s accumulated technical knowledge over nearly 20 the years of contacts with highly knowledgeable researchers culminated in gaining approval to introduce and farm sturgeons in Uruguay, and import key equipment. Adapting to the realities of the new entrepreneurial direction represented a significant
learning curve, which underlined the importance of knowledge (F2P1): “At the beginning, we managed to resolve issues as they emerged. Luckily, we did more things right than wrong, and ended up developing a product and a process that we can control well from a technical point of view”.

The associations between innovation and knowledge suggested earlier (e.g. Grant and Baden-Fuller, 1995; Liu et al., 2014) became apparent in this firm’s activities, with the owner undertaking a series of innovative practices that led to the firm’s competitive advantage. For example, a feeding plant was established to guarantee a controlled and consistent food supply for the sturgeon population, with no dependency on imported feed. A few miles/kilometres away, and through gravitation, fresh water flows into the built pools for sturgeons to benefit from an environment that resembles the natural habitat. Through this innovative development, accomplished through key collaborative relationships with overseas experts, the fish breathe in nearly 100 per cent oxygenated water, with significant implications for the quality of the final caviar product (F2P1, F2P2).

Knowledge, both tacit, built from previous experiences, as well as newly acquired, including knowledge of new trends, new consumer markets and ways to reach these are crucial for the new ownership of family members. Moreover, the founder’s knowledge was transferred to, and further developed by the four siblings who inherited the family enterprise to seek to adapt to the numerous and increasing changes and challenges in caviar’s supply and demand. As F2P2 noted, Uruguay’s geographic distance to key consumer markets represents a severe constraint demanding a very well-coordinated logistics structure, which often is beyond the firm’s control. As a result, constant monitoring of potential changes in airlines’ timetabling or numbers of flights on a given week can also have strong impacts on time delivery, and product quality. Furthermore, with key informants in various parts of the world, the firm can learn and gather knowledge about latest developments.

Firm 3. Having grown avocados since the 1970s, thereby being a pioneer in the region, and similar to Firm 2, F3P1 and her husband had accumulated crucial knowledge about their industry, including the marketing of avocados, which helped her and her firm learn about emerging events, both from a supply and demand perspective. In fact, F3P1 mentioned the ownership’s foresight to anticipate a production glut, with potentially devastating consequences for the firm, and at the same time adapt by filling emerging gaps. Thus, from growing avocados, the firm turned to packaging and consulting to cater for the needs of the region’s avocado growers. At the same time, knowledge of producers elsewhere in Australia led to establishing networks to boost avocado exports to various lucrative South-East Asian consumer markets.

F3P1’s comments further illustrate the significance of tacit and explicit knowledge in helping build the firm’s capacity to withstand upcoming challenges, and maintain its competitive edge. For example, the firm has recently embarked in new strategies that include partly shifting its business focus to cater for the needs of end consumers. This fundamental extension of existing business focus has demanded constant consideration and re-designing of strategies to solve problems, particularly through innovative practices and technologies (F3P1). To accomplish the task of maintaining the balance between the firm’s main and extended business foci, the owners have made several considerable investments, particularly of high-end equipment. These developments have been highlighted in local and national media outlets, including on ABC’s Landline television programme broadcast. The firm’s extended business focus has also required the recruitment of various professionals, including a food scientist, to conduct research and potentially develop new food products geared towards consumer segments, including the growing aged-care group and infants. These initiatives also underline the significance of creativity and learning for sustainable growth highlighted in recent research (e.g. Lozano, 2014).
The balancing act of innovating while further developing additional business dimensions and strengths demands constant surveillance of international markets, a key revenue source for the firm, and therefore knowledge gathering to adapt to potential future threats. Apart from the always-present avocado competing markets producing cheaper fruit, F3P1 also noted other threats that require prompt adoption of knowledge and adaptive capacity. In fact, the firm’s success was perceived to become a potential future threat. As F3P1 explained, the firm’s ability to sell more avocados and maintain a high price, which has been based on the avocados’ quality and perceived quality among buyers may lead to a future shortage of the product to satisfy ever-increasing demand.

However, the accumulated tacit knowledge, and the newly acquired knowledge, through constant exposure to international and very demanding markets, new company focus, and new product development as well as innovative strategies provide a solid foundation for the firm’s ownership to anticipate and adapt to future challenging scenarios. In addition, and as F3P1 indicated, the advice provided to regional growers through consulting has enhanced product quality and the price both the firm and growers earn. This achievement could further incentivise growers to maintain existing or even increased production volumes while focussing on consistency of quality standards.

Firm 4. Knowledge about the economic realities of food production led F4P1, one of the co-owners of the family business to propose a new business model that would significantly change its strategic direction. Moreover, rising costs of labour triggered by western Australia’s mining boom (e.g. between 2007 and 2010) coupled with inconsistency of quality from growers supplying the firm were clear signals for F4P1 to communicate to family members that, if no fundamental changes were soon made, the firm’s very existence would be at risk.

The resulting strategy meant abandoning labour intensive products, focussing more on machine-harvested crops, securing land to shift production at particular times of the year, and at particular locations depending on the season. Further adding to the business’s sustainability was the maximisation of recycling of wastage from the harvested products, which is now utilised to feed some 300 heads of cattle. In this case, newly acquired knowledge about the properties of the feed to subsequently produce beef plays a key role, as does expertise testing this alternative (consultation with experts, trial and error) to confirm its usefulness; as F4P1 stated, “this green feed is excellent for cattle”.

Further, while F4P1 underlined the low-margin nature of the agriculture industry, he also emphasised various aspects related to knowledge as the key to adapting to new challenges. In fact, the fundamental business strategy is based upon “start to finish”, where working ahead of time is thorough and systematic. For example, management choose the varieties the firm will grow/produce and secure the seeds in advance. Growth, harvest, ensuring the quality is “good enough” (F4P1) and selling the products follow; all these systematic steps further highlight the critical association between enhanced knowledge from previous experiences and AL.

Furthermore, although seemingly a simple step for a firm of 100 employees, investing in designing a website was the result of the decision to expose the firm “and chase the export market”. This step was followed by another knowledge-based decision resulting from a critical event (F4P1): “When the [Australian] currency fell, I did a bit of travelling […] I could see that the products that I was looking at […] I could work the margins in my head, and I thought that we could be ‘in the game’. Since then we have been in [city/country] for nearly two years […] they are now our number three customer”. The decision to broaden the export market was clearly a move to spread the risk of depending on primarily few major domestic clients.

However, specialised, explicit knowledge, in this case of exchange rate fluctuations, became critical for the firm to adapt and make crucial business decisions. For example,
in referring to an earlier discontinued export activity, F4P1 emphasised the constant surveillance of the exchange rate: “[…] it [export to country X] was good, and then the currency changed significantly […] domestic price improved […] taking the risk away […] [therefore] we got out of the export market”.

5. Discussion
The case studies revealed clear links between the findings and various tenets of the KBV. Figure 1 provides a conceptualisation of these links, predominantly highlighting the contributions by Grant and Baden-Fuller (1995), Grant (1996) and Nickerson and Zenger (2004). First, the four case studies document the significance of knowledge as a productive resource (Grant and Baden-Fuller, 1995) that becomes invaluable over time, with reinforcement and further development of firm ownership’s know-how and skills. The long history of the firms, in the case of Firm 1 as long as ten generations, provides a foundation for the storage of tacit knowledge (Leonard and Sensiper, 1998; Nonaka, 1994), passed or inherited from generation to generation. This notion is supported by contemporary family business research (Chirico and Nordqvist, 2010), which highlights the importance of growing up and working at the family firm, which contributes to individuals’ learning and storing tacit knowledge.

Furthermore, newly acquired, explicit knowledge is operationalised and adapted by the new ownership when addressing emerging challenges through the development of OL and resilience. In the case of Firm 2, for example, with the firm operating in a high-end industry, growing a product for a niche market, and implementing very concise, often innovative
strategies and practices, illustrates the significance of tacit knowledge, specialisation, production and application of specialised knowledge (Grant and Baden-Fuller, 1995).

Importantly, while most technical knowledge may be modestly updated or changed, the newly acquired knowledge provides a key complement. Indeed, the reputable quality of the firm’s caviar incentivises management to learn about global trends and events that may affect the company. The existence of key informants (distributors) in strategic markets illustrates yet another form of acquired knowledge; together the above knowledge-based strategies have proven fundamental for the firm’s success. These aspects of Firm 2’s strategy relate to Blome et al.’s (2014) point that external knowledge transfer allows firms to gain expertise, and influence their products or processes in a positive manner. As postulated by Rebolledo and Nollet (2011) the application of knowledge, reflected in the case of Firm 2 in the form processes to maintain or improve the quality of its caviar, can help create new knowledge. This new knowledge could extend to the discovery of new consumer markets or avenues to position their product.

Transferability of knowledge (Grant, 1996), in this case, within the firm itself was also documented in various ways. Firm 1, for instance, accumulated knowledge about wine production for generations (tacit knowledge); this finding aligns with De Massis et al.’s (2016) view that past knowledge can be an avenue for value capture and value creation. This knowledge was further developed through observation and learning about new trends, which could be implemented to cater for new markets, as with wine and food tourism and related events (explicit knowledge). Learning about new trends and markets is also associated with Chirico’s (2008) research, which emphasises the importance of openness factors (e.g. past study, work experience). Capacity for aggregation was also illustrated, especially in the case of Firm 3, developing new business foci that require further searching for information, researching (new product development), or, in the case of Firm 4, spreading the geographic scope, calendar and types of food production, as well as establishing trade through international relationships.

Furthermore, the application of knowledge in various ways, with Firm 2’s ownership/management maintaining unique production methods, and assuring quality consistence, or Firm 3 using accumulated knowledge and expertise in the local avocado industry underline the association of the element of appropriability of knowledge (Grant, 1996). Firm 4’s constant surveillance of monetary fluctuations, or Firm 1’s export and wine tourism strategies also emphasise knowledge as key source of value, whereas in the case of Firms 2 and 3, it arguably constitutes a vital input in production (Grant, 1996). In all four firms, emotional factors (Chirico, 2008) were also manifested, for instance, through commitment and psychological ownership of the firm. These factors together with openness factors (Chirico, 2008) can be determinant in firm’s accumulation of knowledge, which in turns can result in enhancing firms’ longevity.

Nickerson and Zenger’s (2004) contribution also became apparent in the findings. Indeed, in all four cases, and in agreement with Chirico and Nordqvist (2010), the formation of knowledge in previous years and decades represented a key alternative to solving emerging problems. Facing the new “world order” in the wine industry in the 1970s, and even today (Firm 1), the foreseen decline of business activities (Firm 2), the “future” threat of the avocado glut forcing participants to opt for new strategies (Firm 3), or the need to design a new business model in light of increasing labour costs (Firm 4) demonstrate the key contribution of knowledge as a key problem-solving tool. In addition, these cases, particularly that of Firm 4 in shifting trade direction (e.g. exports vs domestic sales) in response to currency fluctuations aligns with the element of shifting boundaries in response to problems (Nickerson and Zenger, 2004).

Lastly, during the interviews it became apparent that knowledge sharing was a clear element in everyday company life, in particular, among members of the firm’s ownership.
This finding also relates to recent research (Woodfield and Husted, 2017), which underlines the central aspect of knowledge sharing, particularly for family-owned businesses. Figure 1 further illustrates, that, together, all the different complements and extensions of knowledge can help family firms to anticipate or foresee crucial and often defining events. Hence, as revealed in the findings, the ability to foresee or anticipate significant events potentially affecting the firm enables operators to choose strategic alternatives to best adapt to these events. This notion aligns with the term “anticipatory learning” (Doppelt, 2010). Moreover, the above alternatives that are fundamentally based on tacit and/or newly acquired knowledge can be a source of competitive advantage, with fundamental implications for firms’ bottom-line.

6. Conclusions

The academic literature emphasises the value and impact of knowledge as a key component of AL and OL (e.g. Appelbaum and Goransson, 1997; Blome et al., 2014; Doppelt, 2010; Fiol and Lyles, 1985; Rebolledo and Nollet, 2011; Tyre and von Hippel, 1997). Part of the literature also underscores the significance of knowledge in the context of family firms (e.g. Boyd and Royer, 2012; Boyd et al., 2015; Breton-Miller and Miller, 2006; Cabrera-Suárez et al., 2001; Chirico, 2008; Chirico and Nordqvist, 2010; Chirico and Salvato, 2008; De Massis et al., 2016; Hatak and Roessl, 2015).

Against this background, the present study has made several contributions to family firm research. First in considering the KBV as the theoretical foundation, the study examined the importance of knowledge as a tool enabling family firms’ adaptation strategies to address contemporary and emerging issues. Second, the study proposes a theoretical framework emanating from the findings and the adoption of the KBV. Third, the study provides an original component, presenting research on knowledge-based attributes among global family firms in distant geographic destination; to date, these dimensions have received limited academic attention.

One key finding emerging from the interviews with co-owners and one manager was firms’ constant surveillance of the business environment, which primarily rested on accumulated or tacit knowledge, and was significantly complemented, updated, and enhanced through management’s acquisition and gathering new, more explicit knowledge. In turn, this added knowledge clearly became part of firms’ specialised knowledge and skills, and represent crucial resources, potentially determining their success and long-term sustainability.

The consideration of the KBV allowed for a deeper understanding of knowledge and adaptation among family firms. In particular, and as illustrated in the four cases, the element of problem solving emerged as crucial, in that firms’ management used accumulated (e.g. tacit, explicit) knowledge to articulate strategies and address pressing issues. However, capacity for aggregation, shifting boundaries, knowledge formation, knowledge storage and production were also conceptual elements illuminating the research, and further demonstrating the value of the KBV as a useful tool to examine the study’s key themes.

6.1 Implications

One overarching practical implication emanating from the finding is that the accumulation of knowledge in various forms can have substantial impacts on family firms’ future direction, leading to AL and the management’s stronger ability to withstand new changes and challenges. This notion implies potentially considerable investments from family firms’ ownership, and in cases of family firms with limiting resources, suggests the need for external support, for instance, through business advice and training. These forms of assistance could provide family firms with a level of explicit knowledge that could build upon firm’s tacit knowledge, enhancing adaptive strengths or resilience.
Overall, and as the cases illustrate, reinforcing or strengthening the family firm’s tacit knowledge, often built through generational processes (e.g. Firms 1, 2 and 4), with new experiential or research-based knowledge can be crucial for their sustainability. This notion further suggests the inherent need to consider knowledge capture at multiple levels. While there is inevitably overarching knowledge that exist, specific tacit knowledge, which builds upon layers and layers of wisdom, can provide opportunities to enhance resilience and competitive advantage.

Moreover, in the case of the participating family firms, both tacit knowledge, and newly acquired knowledge allow their ownership to foresee, and anticipate potentially significant events (e.g. Firms 2, 3 and 4). This point is fundamental, as it can be a key differentiating factor for family firms. Indeed, the suggested foresight resulting from acquiring explicit and accumulating tacit knowledge is further illustrated in firms’ adaptation and decision to explore business alternatives. The examples of innovative practices (e.g. Firms 2, 3), or new business strategies (Firms 1, 4) underline the skill of the firms’ management in problem solving, particularly addressing new market demands and requirements, with subsequent effects on family firms’ competitive advantage.

From a theoretical perspective, the KBV, especially when broadened to include various key contributions (Grant, 1996; Grant and Baden-Fuller, 1995; Nickerson and Zenger, 2004) provides a valuable perspective to understand AL, and the various facets associated with knowledge acquisition that are vital to family firms’ competitive advantage (e.g. problem solving, shifting boundaries, acquiring, storing tacit knowledge). Along these lines, the resulting framework (Figure 1) provides a tool that allows for a more in-depth reflection on the relationships between knowledge and family firms’ adaptive strategies.

In fact, foresight, or anticipating future events based on the accumulation of knowledge was emergent in this research as a key element associated to firms’ adaptation. Foresight, which is also related to anticipatory learning (Doppelt, 2010), as well as proactiveness, or “acting in anticipation of marketplace changes or future needs and problems” (Short et al., 2009, p. 14) provided an additional angle that identifies links between knowledge and family firms’ strategic undertakings. Thus, knowledge acquisition, while potentially drawn from previous experiences and information built through generational processes, should be utilised in a form that enables proactive and forward-looking planning. Given its apparent usefulness, including its reference as a key attribute in earlier family firm research (e.g. James, 1963; Ward, 2000) foresight could be considered as an extension when applying the KBV to study family firms.

6.2 Limitations and future research

While proponents acknowledge the merits of conducting case study research (e.g. Eisenhardt, 1989; Yin, 1981), selecting four cases of global family firms represents a limitation in the present study, especially as compared to thousands of other existing firms in both nations. Therefore, while the gathered insights provide practical and theoretical value, as well as a platform for future studies to consider and build upon, the overall results must be treated with caution with regard to any generalisations made from them. Apart from a larger number of participants, future research could also widen the scope to firms from more nations, or from different nations, as well as choose small and micro firms. All of these suggested research avenues could add to the body of existing knowledge, as well as confirm/disconfirm some of the emerging themes of this study, thus, allowing for comparisons. Similarly, the applicability of the KBV in these suggested contexts could help illuminate future research, potentially confirming or disconfirming its usefulness, contributing to theory testing and avenues for development. Furthermore, the KBV could be enhanced through the adoption of an alternative theoretical framework, such as stakeholder theory, or the theory of innovation.
References


**Further reading**


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Moderating role of education on succession process in small family businesses in Pakistan

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Abstract

Purpose – The purpose of this paper is to enhance the longevity and improve the succession process in small family businesses sustaining in Pakistan. Family businesses perform an active role in economic development of any country. Statistics shows, 30/13/3 business transfers into subsequent generation in the inter-family business (Ward, 2016).

Design/methodology/approach – Data are collected from 365 respondents who were either incumbents or successor in 135 small family businesses in Pakistan. Simple linear regression and process control analysis by Andrew Hayes are used for moderating variable analysis in SPSS20.

Findings – The results show that customer focus management, business strategies and governance board have a significant positive impact on the succession process of small family business in Pakistan. There is negative significant moderating impact of education on business strategies and customer focus management while there is no moderating impact of education over governance board and satisfaction with succession.

Research limitations/implications – This study will help the family business incumbents to focus deliberately on the factors that influence the succession process so that business could be transferred to the subsequent generation successfully.

Originality/value – The previous research does not show the effect of education at different levels and importance of customer focus management toward the succession process.

Keywords Family business, Succession planning

Paper type Research paper

1. Introduction

Small family businesses play an escalating part for the economic stability of any country (Griffeth et al., 2006). Approximately 5.5 million family businesses are sustaining in USA which is generating 75 percent of all new jobs and contributing toward the 57 percent of GDP (Williams et al., 2013). Small medium enterprise development authority reported that there exist 3.2 million businesses which are contributing 30 percent toward the GDP of Pakistan. According to Pakistan tax ordinance, business having equity up to Rs25m and turnover of Rs200m are termed as a small business. However, SME states, businesses employed personnel ranging from 10 to 35 and productive assets ranging from Rs2–20m termed as small businesses. Small businesses employed more employees than a larger business due to greater in number.

Family businesses are those which are run or owned by a member/members of a single family. Statistics shows, 30/13/3 business transfers into subsequent generation in the inter-family business (Ward, 2016). The literature shows that, in case of death or retirement of owner/manager of family business, less than one-third of the businesses sustained up to the second generation, and less than half of it sustain till the third generation (Breton-Miller et al., 2004; Lobley et al., 2016). To ensure the success of the family business; the literature has long stressed the vitality of succession process (Brockhaus, 2004; Morris et al., 1997; Poza, 2013). Abdille (2013); Wang et al. (2004) highlighted that despite considerable research the longevity of family business is alarmingly low. So business succession has turned as a critical concern.
for consultants and academicians (Zellweger et al., 2011). The incumbent has to take necessary
and challenging decisions as succession is a long-term project and succession failure evasion,
and insurance of business continuity is of utmost importance. The succession decisions must
be rational because any mistake can be disastrous for business and family as well. So, observation and training of successor are essential for the success of succession process.

Day to day decisions/long term or short-term strategies made and implemented by the
incumbent/successor in any business lead it toward prosperity or decline. The prosperity
term as the longevity of family business up to subsequent generation and decline termed as
lessening the life of family business. So, there pertain a need for a governance board which
play its role for business strategies by anticipating current market and customer’s needs so
that customer focused initiatives could be taken. No business either family or non-family
cannot survive without customers. So, purpose of this study is to analyze that, if existence of
governance board, business strategies and customer focused management can contribute for
the longevity of family business. Moreover, this study is first investigating the role of
education of incumbent/ successor on the succession process in family business in Pakistan.

1.1 Governance board

Literature shows that various driving forces and governance board drives the family
business across subsequent generations successfully. Family businesses controlled by
non- family board members are more competitive than controlled by family governance
board members (Memili et al., 2016). The role of governance board is not only restricted to
resolve the conflict between family and business but to generate such traditions and values
which lead the family business toward subsequent generation. Moreover, governance board
members generate business-oriented policies which maintain benefits across stakeholders
(Aguilera et al., 2008).

During the phase of first generation, founder considers family and business as two
separate entities, but this concept tends to weaken across generations, and various confusions
arise between the two. Family interest supersedes the interest of business due to faithfulness
toward family in subsequent generation (Randoy et al., 2003; Schulze et al., 2003). There is need
to develop formal and conscious methods which transmit the culture and goals of the business
because with the business growth, informal socialization process attenuates. Good governance
would increase the chances of smooth inter-generational transitions and contribute toward the
longevity of the family business (Groysberg and Bell, 2014).

Succession in family firms has historically been associated with risk (Yeh, 2017).
However, improvements in laws and regulations along with the consequent improvements
in corporate governance can significantly mitigate the potentially negative impacts on
succession performance. The results indicate that improvements in the regulatory
environment along with the consequent strengthening of corporate governance reduce the
probability of family succession while at the same time increases firm performance during
the succession period. The implications of these findings underscore the importance of the
government’s role in establishing robust internal and external mechanisms to enhance
corporate governance so that significant events such as firm succession, the attendant risks
are reduced.

1.2 Business strategies

The research conducted in the past 30 years exposed that family businesses characterize by
the strategies are relatively dissimilar from non-family businesses (Chrisman et al., 2005).
Dynamics of families, influence the ways strategies are made, and ways by these strategies
are implemented (Bruninghe et al., 2007). Peters and Buhalis (2004) compared the average
profit of ten years which showed that family businesses with written plans had better profit
improvements than business who do not write down their plans.
It has been long realized by the entrepreneurial researchers that the process of strategic planning is different from the other types of organization than what is occurred in the family business (Zahra et al., 2004). The recent research shows that knowledge of the strategic process regarding family businesses is still limited. The scholar suggests that to develop the family business growth strategies more research is requisite (Abdille, 2013; Upton et al., 2003). However, researchers consider the deployment of business strategies (Mazzola et al., 2008) and change management theory (Pardo-del-Val, 2009) as a great step toward the understanding of succession processes in family firms. Gilding et al. (2015) argued that various motives of incumbent leads to distinctive strategies which create a path for succession planning in family businesses.

1.3 Customer focus management
Customer focus management is to mitigate all needs of customers. Customers have an emotional attachment to family businesses, and family controlled businesses provide superior services than non-family businesses (Carrigan and Buckley, 2008). Customer focus management is to mitigate and exceed expectations and requirements of customers initially, every time and forever (Haksever, 1996). If the principle of customer focus management adopted by all employees be an integral part of the culture of an organization than it can contribute to a meaningful role in attracting more customers. However, the introduction of a successor in the family business is of critical importance for the continuation of the trusted relationship with the employees and customers (Wang et al., 2004). As the customers are the lifeblood for any business (Freeman, 2001) as no business either family or non-family can survive without customers so for the survival of the business, customer friendly business strategies are essential which attract new customers and turn the existing customers into loyal customers (Bhote, 1996). A large number of customer base cause to generate revenue for subsequent years which may help the business to be shifted in the next generation successfully. Financial measures are not the only key to business success, but stakeholder’s role, operational efficiency and customer’s relationship too are vital components of business success (Kay, 1995). Not only financial measure contribute to the success of any family business; however, it is the long-term perspective, planning, focused mechanism of governance board, loyal employees and focuses on customers lead the business toward sustainability (Young, 2014). Lamster (2017) highlighted that the landscape of succession planning has dramatically changed so, the incumbent in retail business must anticipate customers’ needs, wants and develop entertainment type experiences. So, the successful transition of business is not attributed to the growth of small and micro-businesses but with customer’s need and their satisfaction (Reijonen, 2008).

1.4 Education
The requirement in the business society is training, education and development that pay attention to issues irregular to firm characteristics governing by family ownership or control dormant (Sharma, Hoy et al. 2007). Studies show many succession matters are associated with the assortment and growth of an appropriate successor. Now, attention has been dedicated to transmitting information from an ancestor to a descendant for proper training and professional education of the descendant (Breton-Miller et al., 2004). Researchers are striving for the development of educational tools which contribute to transfer of information during the succession process (Miller et al., 2003). Besides the attainment of education and specific managerial competencies, time constraints are growth inhibiting factors (Morrison et al., 2003). Miller, Breton-Miller, and Lester (2010) highlighted that educational attainment develops individual’s perceptions, unity, and harmony in business families. Ip and Jacobs (2006) also correlated the attainment of economic education with the success of family business succession and concluded that it would enhance the
chances of successful succession transition. Founder’s fear of lost control, power and identity refuse the succession planning and have not prepared a successor having adequate economic education in the family (Harveston et al., 1997).

The existing literature lacks the influence of customer focus management and educational perspective toward the successful transition of family business. So, this paper aims to establish a relationship between customer focus management and succession process. Moreover, this study is the first attempt to establish that influence of an increase in the level of successor’s educational attainment varies on the success of succession process accordingly. So, this paper strives to help the policy-makers and family business incumbent to pay attention toward the establishment of governance board, business strategies and customer focus management in family businesses. Moreover, this paper reveals that with the increase in the educational level of successor, incumbent should acknowledge the successor’s contribution and give weight to his vision for day to day and long-term strategies, so that arise of conflict could be mitigated by the contribution of governance board and customer base could be enhanced by paying attention toward customers. In this way, the successor will be able to turn the small family business into medium-size family business, and business longevity can enhance.

1.5 Research hypothesis
The hypotheses of this study are prescribed below:

H1. Governance board has a significant relationship with succession process in small family businesses in Pakistan.

H2. Business strategies influence the succession process in family businesses.

H3. There is an association between customer focus management and satisfaction with succession.

H4. Education has a significant moderating effect on the customer focus management and satisfaction with succession process.

H5. Education has a moderating effect on business strategies and satisfaction with succession process.

H6. Education has a moderating influence on governance board of family businesses and satisfaction with succession (dimensions of the business strategy used by Miller (1986) and Kotha and Vadlamani (1995)).

2. Research methodology
2.1 Study design
The current study investigated the effect of factors: customer focus management, business strategies and governance board on the succession process of family businesses in Pakistan. Moreover, this study investigated the moderating effect of education on customer focus management, business strategies, governance board and the satisfaction with succession. The small family businesses have been chosen to investigate as they are a continuous source of revenue for the government, families attached to the business and employees. Newly established small businesses have not been not chosen as they are in the phase of establishment and require revenue to invest despite reaping profits like family businesses. The primary data were collected from most populous cities of Punjab which are Rawalpindi, Lahore, Faisalabad and Multan districts by using a close-ended questionnaire. Pilot testing was conducted based on 30 respondents to check the reliability of the questionnaire. However, linear regression model was implemented to analyze the effect of customer focus
management, business strategy and governance board on the family business succession process while process control analysis was implemented in this study to analyze the moderating effect of education (undergraduate, graduate and post-graduation) on the customer focus management, business strategy, governance board and family business succession process.

The sample. The unit of analysis was the incumbents and successors of small family business under the surveillance of first, second, third and fourth generations involved in the day to day operations. The sample size consisted of 357 respondents. However, non-probability purposive sampling technique was adopted to fill the questionnaire.

Target population. The population of the study consisted of small family businesses in which two or more than two family members were operating a business, and at least five to 50 number of employees were working in that family business. The small family businesses focused to be investigated by retail businesses, wholesale businesses and restaurants in Pakistan.

Sampling frame. The table above shows that 72 percent of respondents were founders of small businesses, 20 percent belonged to a second generation, 5.6 percent belonged to third generation while only 1.6 percent belonged to fourth generation who were operating their business (Table I).

Research instrument. The close-ended questionnaire consisted of customer focus management, business strategies, governance board and succession process variables. The customer focus management scale (Jbenedict, 2017) consisted of 29 elements. The business strategy scale (Kotha and Vadlamani, 1995; Miller, 1986) consisted of five dimensions and 24 elements. The governance board scale used by Koufopoulos et al. (2008) was implemented to measure the governance board. However, the family business succession was measured by Sonfield and Lussier (2004), which consisted of 20 elements. While, the educational level was specified in three levels which were undergraduate, graduate and postgraduate. The five-Likert scale is used in questionnaire ranging from 1 – Strongly disagree, 2 – Disagree, 3 – Neither agree nor disagree, 4 – Agree, 5 – Strongly agree.

Procedure. The questionnaires were filled by face-to-face meetings with the successor and incumbents of small family businesses to increase the response rate as most of the incumbents were not convenient with the e-questionnaires filling. Approximately 401 questionnaires were filled in the span of 11 months, but 44 questionnaires were discarded to maintain the quality of data. The Cronbach $\alpha$ value of each variable was more than 0.7.

Equation. The linear regression model used to analyze the significance of customer focus management, business strategies and governance board with the succession process.

The equation is:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3,$$

where $Y$ is the family business succession process, $X_1$ the customer focus management, $X_2$ the business strategies, $X_3$ the governance board, $b_1$, $b_2$ and $b_3$ are the coefficients.

However, process control analysis by Andrew Hayes was implemented to estimate the interaction of customer focus management, business strategies, governance board ($X$) and

<table>
<thead>
<tr>
<th>No. of generation</th>
<th>Rawalpindi</th>
<th>Lahore</th>
<th>Faisalabad</th>
<th>Multan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>73</td>
<td>103</td>
<td>43</td>
<td>39</td>
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<tr>
<td>Second</td>
<td>21</td>
<td>30</td>
<td>12</td>
<td>10</td>
<td>73</td>
</tr>
<tr>
<td>Third</td>
<td>6</td>
<td>9</td>
<td>3</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Fourth</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>146</td>
<td>58</td>
<td>50</td>
<td>357</td>
</tr>
</tbody>
</table>

Table I. The sampling frame of the study.
education \((M)\) in explaining family business succession process \((Y)\) and analyze the effect of successor’s education at undergraduate, graduate and postgraduate level. The multiple regression equations are estimated as under:

\[
Y = i + aX + bM + cXM + E,
\]

where \(Y\) is the family business succession process, \(X\) the customer focus management/business strategies/governance board, \(M\) the education.

The moderation effect measured by the interaction of \(X\) and \(M\) or path \(c\). The path \(a\) measures the main effect of \(X\) on \(Y\) when \(M\) is equal to zero.

3. Results

A total number of participants were 357 in number. In all, 131 (37 percent) respondents were aged between 15 and 25 years, 59 (17 percent) were aged between 26 and 35 years, 23 (6 percent) were aged between 36 and 45 years, 101 (28 percent) were aged between 46 and 55 years while 43 (12 percent) were above 56 years. The data show that founders of business and newly entered successor are managing the business but successors between the age of 26 and 45 years turned down the business or leave the family business. The reason for a high percentage of successors between the age 15 and 25 are mostly under the influence of the founder and not taking part in strategic decision making due to less experience or qualification. However, as the age of successor increases their level of education increases simultaneously and they start focusing on participating in the strategic decision making. The equal consideration for decision making between the successor and incumbent by the increase in age attracts the successor more toward the business progress but as the age increases and a successor is not given equal rights to participate in business may lead to creating conflict and successor tend to leave the business.

Undergraduate respondents were 224 (63 percent), graduate respondents were 121 (34 percent), while postgraduate respondents were 12 (3 percent). The data show the percentage of undergraduate successor/incumbent is greater than graduate and postgraduate. The data show that successors join the family business early in their age despite educational attainment up to postgraduate level. Due to less number of highly qualified successors, the survival rate of family business decreases as they are agile in decision making (de Vries, 1993) but not as good to anticipating a rapid change in market dynamics.

The incumbent’s behavior with the successor reveals 115 (32 percent) were strongly dissatisfied, 63 (18 percent) successors were dissatisfied with the behavior of a successor, while 40 (11 percent) successor were neither satisfied nor dissatisfied with the behavior of the incumbent. However, 94 (26 percent) successors were satisfied with incumbent’s behavior, and 45(13 percent) were strongly satisfied with the incumbent’s behavior. The data reveal that incumbent’s attitude toward successor also influences the successor’s attention and affections with the family business, Malone (1989) identifies a weak correlation between “perceived family harmony” and the “level of business continuity planning” (Malone, 1989).

The linear regression model is applied to analyze the strength and significance of the relationship between independent variables which are governance board, customer focus management and business strategies with a dependent variable which is satisfaction with succession. Moreover, process control analysis implemented to analyze the moderating effect of educational level on independent and dependent variables in this study.

To analyze the effect of regression analysis, \(R^2\) value, beta and significance value is used. The value of \(R^2\) explains the variation due to governance board, customer focus management and business strategies on satisfaction with succession. The \(\beta\) value shows that the one unit change in the dependent variable is due to change in the independent variables. The significance of the relationship between the variables is determined by \((\rho > 0.05)\). The value of
($R^2 = 0.593$) shows that governance board, business strategies and customer focus management influence the succession process by 59.3 percent.

The result indicates that governance board has a significant relationship with satisfaction with a succession of the family business (GB: $R^2 = 0.593 \ b = 0.368, \ t (357) = 7.286$ and $p = 0.000$). The results show that one unit increase in governance board increases the succession process 0.368 units. The results of governance board are significant at 5 percent with succession process. Hence, $H1$ is accepted. Groysberg and Bell (2014) also highlighted that family owned business needs a governance board to become better at governance by implementing best practices and processes because governance board may lead to higher survival rates and smoother generational transitions of family businesses.

Mustakallio et al. (2002) found that an effective board enhances the quality of strategic decisions. The results also show that business strategies have a significant association with the succession process of family businesses (BS: $R^2 = 0.593, \ b = 0.412, \ t (357) = 6.415$ and $p = 0.000$). The results show that one unit increase in business strategies increases the succession process in 0.412 units. The results of business strategies are significant at 5 percent confidence level with succession process. Hence, $H2$ is accepted. Family businesses that have progressive policies and strategies seem to have better performance and longevity (Astrachan and Kolenko, 1994). The dynamics of every family varies from family to family, so these dynamics influence the way, strategies are built and implemented in family businesses (Brunninge et al., 2007). Firms involving management in succession planning were associated with strategies improving efficiency as well as their future growth and expansion (Scholes et al., 2010).

Customer focus management is to serve its customers to fulfill their needs. Customer focus is usually an active contributor to the overall success of the business (Abadi et al., 2016). The results show that customer focus management has a significant association with family business succession process (CFM: $R^2 = 0.593, \ b = 0.164, \ t (357) = 3.225$ and $p = 0.001$). The results show that one unit increase in customer focus management increases the succession process by 0.164 units. The results of customer focus management are significant at 5 percent with succession process. Hence $H3$ is accepted. Customer focus management plays a vital role during the transition to the family business, phase in which the family business is being transited to a successor. A revolutionary or unexpected change may result in loss of customer’s base, and family business will continue to disrupt (Harvey and Evans, 1995). Ultimately, a family business having huge customer base will sustain up to the subsequent generation, and a successful succession transition will help the successor to maintain the customer base by mitigating the trending needs of customers (Table II).

3.1 Process control analysis by andrew hayes
This moderation analysis analyses the impact of education at the different levels of independent variables and dependent variable.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
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<td>(Con-stant)</td>
<td>14.831</td>
<td>5.315</td>
<td>2.790</td>
<td>0.006</td>
</tr>
<tr>
<td>Cfm</td>
<td>0.164</td>
<td>0.051</td>
<td>0.152</td>
<td>3.225</td>
</tr>
<tr>
<td>GB</td>
<td>0.412</td>
<td>0.064</td>
<td>0.295</td>
<td>6.415</td>
</tr>
<tr>
<td>CFM</td>
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<td>0.050</td>
<td>0.340</td>
<td>7.286</td>
</tr>
<tr>
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<td>$F$-value</td>
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<td></td>
</tr>
<tr>
<td>R</td>
<td>0.593</td>
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</tbody>
</table>

**Note:** Dependent variable: satisfaction with succession

**Source:** Author’s own calculation
3.2 Interaction customer focus management & education
Customer focus management and education has significant effect on the satisfaction with succession as \( (\text{CMF} \times \text{EDU}: R^2 = 0.1721, b = -0.1736, t (357) = 2.2755 \text{ and } p = 0.0235) \). So, the educated successor/incumbent by emphasizing on the customer focus management in small family business may contribute to improving the succession process. The results show that education at the under graduation, graduation and post-graduation level contributes for succession transition but as the level of education increases either successor switch into another profession due to changes in market dynamics, culture, customer demand and society or incumbent turns the small business into medium size family business. Johansen (2013) also supported that education of an entrepreneur up to high school have a positive correlation in participation in family business’s programmed and start-up activity. Hence, \( H4 \) is accepted (Table III).

3.3 Interaction business strategies and education
Business strategies and education have a significant effect on the satisfaction with succession as \( (\text{BS} \times \text{EDU}: R^2 = 0.2562, b = -0.2916, t (357) = -3.5095 \text{ and } p = 0.005) \). So, the educated successor/incumbent may be able to devise day to day and long-term business strategies. The strategies implemented to improve the effectiveness of operations and progress of business may contribute toward the satisfaction of succession in family business. The business strategies of incumbent comply with successors up to graduation level. However, implementation of strategies by incumbent may collapse with the strategies of successor educated up to post-graduation level. So, business strategies evolve with the increase in the educational level in family business. Hence, \( H5 \) is accepted (Table IV).

3.4 Interaction governance board and education
Governance board and education have no significant effect on the satisfaction with succession in small family business succession as \( (\text{GB} \times \text{EDU}: R^2 = 0.2562, b = -0.2916, t (357) = -3.5095 \text{ and } p = 0.005) \). The results show that education of members of governance board of small family business is not mandatory as these members can belong to inside and outside family and business. Governance board is a strategic body which strives to serve the interest of owners, customers, and management of the family business. Mustakallio \textit{et al.} (2002) endorse the vitality of the informal governance mechanism for family businesses as it

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<th>( T )</th>
<th>( R^2 )</th>
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<tbody>
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\textbf{Note:} Author’s own calculation

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<th>( R^2 )</th>
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\textbf{Note:} Author’s own calculation

---

Table III.
Interaction customer focus management and education

Table IV.
Interaction business strategies and education
reduces the conflict arisen by family members. Hence, $H_6$ is rejected. The results of this study are in line with findings of Matlay et al. (2010), which state that entrepreneurial education is mandatory for the family business survival and smooth succession transition. These findings of Jayawarna et al. (2014) are also in line with a current study that a solid basic educational background contributes toward the acquisition of human capital during the entrepreneurial life course (Table V).

4. Discussion

The current study identifies the factors which influence the succession process in family businesses. Results reveal that incumbent’s attention toward customer focus management, business strategies and governance board contribute toward the success of succession process.

Governance model indicates that director’s monitoring and counseling improve the outcomes of business strategies (Mustakallio et al., 2002). So, governance board and business strategies have an unavoidable relationship with each other. The result of this study shows that customer satisfaction, retention, care and management contribute to longevity and survival of business after the transition of the business to the next generation. Literature shows that strategies and policies are made and implemented by the directors of the family business (Wheelen and Hunger, 2011). Perfect strategies and business-friendly policies influence the customer’s behavior, stakeholder’s expectation, and succession process of family businesses.

The results show that with variation in successor’s/incumbent’s education the succession process in family businesses evolves. So as the educational level increases, the successor may switch into another profession due to changes in market dynamics, culture, customer demand or conflict between the successor and incumbent but contrary to this small business can turn into medium size family business. The educated successor/incumbent may be able to devise day to day and long-term business strategies. However, appropriate business strategies contribute to improving the effectiveness of operations and progress of business which contributes toward succession process. The results show that business strategies comply with that of incumbent’s up to graduation level of a successor in Pakistan, but the implementation of strategies by incumbent may collapse with the strategies of successor educated up to post-graduation level. So, business strategies evolve with the increase in the educational level in family businesses.

Governance board is a strategic body which strives to serve the interest of owners, customers, and management of the family business. Mustakallio et al. (2002) highlighted that informal governance mechanisms are vital for family firms. The results show that education of members of governance board of small family business is not mandatory as these members can belong to inside and outside family and business. However, education of governance board members may contribute more succession process. However, informal governance mechanisms are not limited to family businesses only but play its role to reduce the conflict caused by their distinctive characteristics.

Succession is a slow process, but its importance is evident. Successful succession process contains greater rewards in it, but the failure of succession process can turn into irreparable losses. So, incumbent’s attention toward customer focus management, business strategies and governance board in succession process can succeed the family business toward next generation. Thus, the life of small family businesses can be

<table>
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<th>$R^2$</th>
</tr>
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<td>0.0000</td>
</tr>
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</table>

Table V. Interaction governance board and education
enhanced in Pakistan. The negative moderating impact of education shows that as the level of education increased in a successor, the small family businesses either turns into medium size family businesses or educated successor quit from the family business and join any other field which matches with his personality traits.

5. Conclusion
Incumbent’s negligence toward the business succession process brings business to the brink of the disaster which creates crises for families and businesses. Succession process is accompanied by risks and opportunities. Risk arises due to incumbent’s non-compliance with time and appropriate response to succession process and opportunity in case of proactive approach toward selection and training of appropriate successor by anticipating market dynamics. A successful succession process preserves the incumbent’s achievements and ensures the success of the business for forthcoming years.

The survival of the family business is mandatory as these businesses generate the persistent and high volume of profits for families. Personnel hiring ratio in family businesses is higher than non-family businesses despite the economic downturn. Family businesses are financially prudent and engaged in charity programs in their respective communities. Intensive attention toward the family businesses survival is pertinent as these are the backbone of country’s economy. So, family businesses will contribute toward the prosperity of Pakistan’s economy.

6. Limitation
The sample size in this study is less due to the availability of resources. The sample size of this study consisted of only three districts of Punjab, Pakistan, but there is a need to collect data from all provinces of Pakistan. This effect of each variable is not analyzed generation wise. There is need to estimate the influence of governance board, business strategies and customer focus management in different generations separately, and magnitude of influence can be measured in different generations. Moreover, there is need to analyze either specific education concerning family business is essential for the successor for successful succession transition or general education is enough for successful succession transition.

7. Implications of study
The transition of the family business from one generation to subsequent generation is fraught with hardships and headache. This study is intended to grab the attention of the incumbent toward the existence of governance board, making customer-oriented business strategies and customer focus management to reduce the hardships and making the succession process bit smooth for transition into subsequent generation. It is deduced that customer-focused business strategies made by the governance board can contribute to the successful succession transition of family businesses. This study encapsulates that, incumbent/successor should make and implement business strategies in consultation with governance board so that, customer-focused business strategies could help the business for the longevity. The long-term survival of family business tends to enhance employment ratio, business revenue, tax payments, the strength of the relationship between family & Business and help to minimize successor’s & incumbent’s conflicts. This study will strengthen the family business’s societal bond toward customers, employees, and vendors. This study is an evolution of the business strategies; customers focus management and governance board to be more formal. This study is a step toward incumbent’s awareness about the importance of succession planning so that successor could avail the opportunity to turn the small family business into medium size family business.

This study has highlighted the importance of customer focus management due to which business incumbent and successor will strive to enhance the customer satisfaction by
considering neglected aspects of the business. In this way, business revenue and loyal customer base will enhance. The huge customer base can be sustained and maintained up to subsequent generations.

This study can help the business incumbent and policy-makers for the formation of independent governance board which may contribute to make and implement long and short-term customer-oriented strategies by considering the market situation. This study highlights the importance of successor’s/incumbent’s education so that, they could be updated with the up-coming world leading trends. Moreover, successor’s educational attainment in a particular business domain will build incumbent’s trust on his/her capabilities for day to day decision making which in turn mitigate the conflict between incumbent and successor. The conflict minimization would strengthen the relations of the incumbent with successor and family. This study pointed out that, as the level of education increases the incumbent should trust on the capabilities of a successor. It is recommended that at the post-graduation level of successor’s education incumbent should transfer the decision making power to successor so that he/she could be able to implement such business strategies as per current marketing and customer’s trends. In this way, a balance between the family and business would be established with the help of this study.

Reference


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Structural aspects of corporate governance and family firm performance: a systematic review

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Department of Management Sciences, Ho Technical University, Ho, Ghana

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Ad Kil
Nyenrode Business Universiteit, Breukelen, The Netherlands

Abstract
Purpose – The purpose of this paper is to systematically review and examine extant knowledge on corporate governance structures (CGS) and performance relation within family firm and set the agenda for future research.
Design/methodology/approach – The study analyses the content of 159 empirical articles retrieved mainly from Google Scholar and published between 2000 and 2016 in 61 highly ranked journals across different disciplines.
Findings – The review reveals fixation on quantitative approach and its associated techniques in examining CGS and performance nexus. The results from the review demonstrate heterogeneous relation between measures of CGS and performance. Suggestions for further studies include: measurement of non-economic performance of the family firm and incorporation of moderators and mediators from the organizations’ environment through the adoption of multilevel research.
Research limitations/implications – The limitations of this review include: first, issues relating to key/search terms and journals used for the study; this may not be exhaustive and hence likely to lead to omission of key publications. Second, scholarly attention in terms of empirical studies on family governance, including family council, family assembly and family constitution, has been scarce (Suess, 2014; Klein, 2008; Witt, 2008); hence family governance is outside the scope of this review. In sum, future work may explore other keywords and publications not used in this review and consider review of family governance.
Originality/value – The authors offer a multidisciplinary conceptual framework that synthesizes and integrates the existing literature on CGS across different disciplines within family firms. This provides researchers across different disciplines a common platform for interdisciplinary discourse.
Keywords Performance, Systematic review, Family firm, Corporate governance structures

1. Introduction
The growth of family firm research since the earlier publication of Trow (1961) has been extensively recognized in the literature (Sharma, 2015; Sharma et al., 2012; Stewart and Miner, 2011). One topic that has proliferated and received legitimacy as a consequence of this growth, in the family firm literature from the late 1990s till date is corporate governance (Siebels and zu Knyphausen-Aufseß, 2012; Debicki et al., 2009). This concentration of scholars in the last two decades on corporate governance in family firms (Yu et al., 2012) is because of its ability to negate the thorny issues of unselfishness, favoritism and weak risk-bearing traits which are perceived to harm the efficiency, effectiveness and survival of family firms (Carney, 2005).

The concept of corporate governance is very broad, complex and can be traced back to the classical work of Berle and Means (1932) who argued that the structure of the USA corporate
law enforced the separation of ownership from control in large firms. Corporate governance is defined as a system by which companies are directed and controlled (OECD, 2004; Cadbury, 1992). It focuses on the configuration of a regulatory system that attempts to limit problems arising from probable conflict of interest among diverse participants in an organization. Corporate governance is broadly defined as systems of structures and processes to secure the economic viability as well as the legitimacy of the corporation (Neubauer and Lank, 1998). Thus, corporate governance has two main aspects: structures and processes. Corporate governance structures (CGS) include ownership, board and management and are set to discipline the behavior of corporate governance actors, such as executive managers, directors and owners. Corporate governance processes (CGP) refer to the interaction of governance actors based on governance structures (Sarbah and Xiao, 2015).

As the field of corporate governance in family firms grows and matures (Gedajlovic et al., 2012; Sharma, 2004) in terms of empirical studies, academics have intermittently compiled and wrote literature reviews to evaluate progress made and provide foundation to guide future research direction. For example, Siebels and zu Knyphausen-Aufseß’s (2012) review focused on theories used to explain family performance and performance difference between family and non-family firms from corporate governance perspective. Pindado and Requejo (2015) explored the influence of three mediating variables[1] on the relation between corporate governance and firm performance, including choice of ownership structure, corporate strategies and succession process of family control. Mazzi (2011) conducted a literature review regarding the link between family ownership/control/management and firm performance, with a focus on financial performance. Goel et al.’s (2014) review focused on the major themes within the family governance literature.

Though these reviews address critical issues regarding corporate governance and performance linkage, their settings are evidently lopsided. All were lean toward CGP. The current review focuses on CGS as studies on this topic remains fragmented in the literature. This fragmentation exists because scholars study the CGS in relation to performance and other variables, including mediating, moderating and control effects through different lenses. In contrast to previously published reviews, the purpose of this paper is to comprehensively review the existing literature on CGS by principally addressing the following research questions:

RQ1. What variables are used to measure CGS dimensions – ownership, board and management?

RQ2. How is organizational performance measured in the context of CGS?

RQ3. What moderators and mediators are used in CGS-performance relationship?

RQ4. What theories are used to explain CGS-performance association?

More specifically, we intend to offer a general integrative model which incorporates and harmonises earlier published works on CGS within family firms in relation to performance measures. Also, to be included are the moderating, mediating and control variables[2]. Based on the literature review, we provide assessment of existing knowledge and make a proposal for possible future research directions.

Accordingly, the review makes the following contributions to existing knowledge. First, this review complements existing systematic reviews undertaken on this subject as it analyses empirical studies from a wide array of articles published in different disciplines including finance, accounting, economics, management, entrepreneurship, etc. Second, the model developed based on this review ties all key variables used in the studies of CGS-performance relation. This enhances our understanding of how CGS within family firms shapes firm’s outcomes. The harmonization of studies from different fields on a
single platform stimulates interdisciplinary dialogue between academics and promotes cohesion and scholarship development within the domain of family business.

The paper continues as follows: next section describes the methodology of this study, including literature selection criteria, search terms and engine and article eligibility assessment process (Section 2). Then, the results of the literature review are presented and discussed (Section 3). The integrative model to study CGS – performance relation is presented and discussed in Section 4. Finally, future research directions and conclusions are presented (Sections 5 and 6, respectively).

2. Methodology

2.1 Literature search process

This literature review follows the three-stage basic procedure for systematic reviews recommended by Tranfield et al. (2003), including planning the review, conducting the review and reporting of findings. In the first step, the researchers define the aims and objectives of the review and formulate the review protocol. Then, literature search and extraction of information from selected articles is done in step two. Finally, findings from extracted information are synthesized and reported in step three.

This literature review covers empirical papers published from January 2000 to September 2016 and is restricted to peer-reviewed, English language top tier scholarly journal articles from different disciplines. These journals are considered to disseminate validated knowledge and have the highest impact in their field (Keupp et al., 2012; Ordanini et al., 2008). Additionally, they are revered for shaping and setting new horizon for studies within their frame of reference (Furrer et al., 2008). Graduate thesis, working papers, conference papers, books and book chapters were excluded from the study. The inclusion and exclusion criteria used in this review were considered apt since they offer truthful representation of germane scholarly work (Podsakoff et al., 2005). The sampling of articles for the review was undertaken through a search of keywords drawn from the literature on CGS and performance association. We searched for combination of terms “corporate governance,” “governance,” “ownership,” “board,” “management” and “family business,” “family firm,” “performance” in the titles and abstracts of articles from two sources. First, a broad search was performed using Google Scholar for the following reasons: family business research appears in other mainstream journals index to Google Scholar (Debicki et al., 2009; Chrisman et al., 2008); findings of preceding studies that use Google Scholar returns 100 percent coverage of intended articles (Gehanno et al., 2013) and Bramer et al. (2013) suggest that Google Scholar retrieves more relevant, higher quality articles compared to other search engines. Second, we focused on articles published in Journal of Family Business Strategy, Family Business Review, Corporate Governance: An International Review and Entrepreneurship: Theory and Practice. These outlets are considered the most appropriate and highly respected journals to publish in by family business researchers and account for majority and the most influential journals in the field (Siebels and zu Knyphausen-Aufseß, 2012; Chrisman et al., 2010; Debicki et al., 2009; Chrisman et al., 2008).

The search resulted in 642 records. In total, 131 articles were assessed to be eligible for analyses after subjecting the articles to assessment process using the preferred reporting items for systematic reviews and meta-analysis (Moher et al., 2009). A total of 194 articles were excluded from the studies because they fell into the category of conference and seminar papers, literature reviews, editorial opinions and theoretical papers and 12 articles were eliminated because they did not relate to any of the CGS dimensions under consideration. In total, 28 additional studies were added after cross-checking reference list of eligible articles used for the review, existing systematic reviews and meta-analyses to avoid overlooking critical papers, which resulted in 159 papers. The information on the eligibility assessment is illustrated in Figure 1.

After this process, a summary table was created in Microsoft Excel Software where the bibliographic information and content details regarding specific themes such as type of
firm, theories used, unit of analysis and research approach applied to 159 articles were entered. The extracted bibliographic information is shown in Table I and content details in Table II. The articles were further independently and separately examined and coded based on subject matter (Hiller et al., 2011). The subject matter includes conceptual labels of variables used in the specific article to examine CGS and performance linkage. The identified labels were grouped under the following five categories of codes: CGS, performance, control variables, moderators and mediators. CGS was further recoded into three categories: ownership, board and management. Performance was recoded into three categories: financial, non-financial and other financials. The control variables were recoded into six categories: firm specific, industry, ownership, board, management and performance; mediator variable into one category: management; and moderator variables into four categories: ownership, board, management and general human resource issues. The content from the coding categories were summarized and used to develop a conceptual framework shown in Figure 2.

2.2 Description of articles

Literature search resulted in identification of 159 articles published in 61 journals. As it can be seen in Table I, 50 percent of the articles are published in management related journals. Family Business Review (25.97 percent), Journal of Family Business Strategy (20.78 percent) and Corporate Governance: An International Review (12.99 percent) were the dominant journals.
Table I. Distribution of articles by publication journal, continent and year

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<tr>
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<td>Business and Entrepreneurship (BE) related</td>
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Table II. Distribution of articles by firm type, theory, unit of analysis, research approach, data source and estimation method

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</table>
Figure 2. Corporate governance structure models of family firm performance.
journals in this category. The reviewed studies are spread across different continents. At the continental level, 45.28 percent of the studies were conducted in Europe, followed by Asia (25.16 percent) and North America (22.01 percent). Africa (1.89 percent), Middle East (1.26 percent) and Australia (0.63 percent) are the least researched continents. For European countries, majority of the studies were conducted in Spain (23.88 percent) and Italy (16.42 percent). This suggests that Anglo-Saxon (North America and Western Europe) countries are well represented and the rest of the world is omitted in the research on CGS and performance in family firms. Table I further shows that research on CGS in family firm has been stable. Exactly 34.59 percent of the articles are published between 2005–2009 and 2010–2014. The highest number of articles was published in 2011 (14.93 percent) followed by 2008 (11.04 percent) and the least in 2002 (0.65 percent).

Consistent with reviews of Pindado and Requejo (2015) and Berrone et al. (2012), majority (74.84 percent) of the articles investigated listed firms (Table II). This is not surprising since it is usually easier to access financial and other data on listed firms than on their privately held counterparts. Of the 159 articles, 108 (67.92 percent) used theory to support their empirical findings. For most of the 108 articles, 73.15 percent used a single theory. As found in previous studies (Pindado and Requejo, 2015; Moreck and Yeung, 2003; Schulze et al., 2001), agency theory remains the single most frequently used theory. Agency and stewardship are used as multiple theories in 21 articles and agency and resource base view theory is used in 4 articles. Agency, stewardship and contingency theories are used as three-fold theories in one article. Regarding the unit of analysis, 97.48 percent of articles focuses at the organizational level and 74.84 percent are listed family firms. There is also a clear imbalance with regards to research approach, data source used and estimation methods. Exactly 96.8 percent of the reviewed articles adopted quantitative approach, 97.30 percent used secondary sourced data and 94.70 percent employed regression technique for data analysis.

3. Results
Table III provides a summary of measures or indictors of CGS (first column), mediators and moderators (second column) and performance indicators (third column) studied in reviewed articles as well as the outcomes of those analyses (last column). This section examines the trends that emerged from the analysis of the individual articles.

3.1 Performance and CGS
Performance variables reviewed in the articles can be categorized into three types of measures: financial, non-financial and other financial measures. Approximately 70.13 percent of the reviewed papers adopt financial performance measures. The most used financial measure includes accounting performance: return on assets (ROA; 51.43 percent) and market performance: Tobin’s Q (32.86 percent). Exactly 21.40 percent of the articles used other financial measures such as investment performance (Orbay and Yurtoglu, 2006); sales growth (Cabrera-Suárez and Martín-Santana, 2015); earning management (Jaggi et al., 2009); equity financing (Wu et al., 2007); and dividend payout ratio (Yoshikawa and Rasheed, 2010). Finally, 8.47 percent of the articles used non-financial measures such as corporate reputation (Delgado-Garcia et al., 2010); acquisition behavior (Miller et al., 2010); entrepreneurial evidence (Brunninge and Nordqvist, 2004); strategic conformity (Miller et al., 2011); strategic change (Brunninge et al., 2007) and product diversification (Jones et al., 2008).

3.2 Ownership and family firm performance
Ownership as an aspect of CGS is measured in the reviewed articles mainly in terms of percentage of shareholding by family (35.29 percent) and control-ownership wedge
### Antecedents

<table>
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<tr>
<th>Indicators of ownership</th>
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<th>Results of CGS and performance relation</th>
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<tbody>
<tr>
<td>% of family ownership</td>
<td>Management – mediator (family CEO)</td>
<td>Non-financial</td>
<td>U-shape relation with financial, non-financial and other financial measures – (Che and Langli, 2015; De Massis et al., 2013, 2015; Sciascia et al., 2013; Mazzola et al., 2013; Kowaleski et al., 2010, etc.)</td>
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<td></td>
<td>Family leadership (family CEO)</td>
<td>Corporate reputation (Delgado-Garcia et al., 2010)</td>
<td>Positive (increasing) relation with financial, non-financial and other financial measures – (López-Delgado, Diéguez-Soto, 2015; Bonilla et al., 2010; Randøy et al., 2009; Ding et al., 2008; Chen et al., 2005, etc.)</td>
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<td></td>
<td>Board</td>
<td>Acquisition behavior (Miller et al., 2010)</td>
<td>Negative (decreasing) relation with financial, non-financial and other financial measures – (Block, 2010; Wu et al., 2007; Chu, 2009, etc.)</td>
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<td>Board independence – CEO duality and independent directors (Chen and Hsu, 2009)</td>
<td>R&amp;D investment – R&amp;D ratio (Chen and Hsu, 2009)</td>
<td>Stable (no change) relation with financial, non-financial and other financial measures – (Silva and Majluf, 2008; Jayaraman et al., 2000, etc.)</td>
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<td>Management</td>
<td>Strategic change (Bruning et al., 2007)</td>
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<td>Founding family leadership -Family CEO/Chair (Randøy and Goel, 2003)</td>
<td>Product diversification (Jones et al., 2008)</td>
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<td>Tenure of family members (Goel et al., 2011)</td>
<td>R&amp;D intensity (Block, 2012; Muñoz-Bullón and Sanchez-Bueno et al., 2011)</td>
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<td>Family firm generation (Blanco-Mazagatos et al., 2016)</td>
<td>Downsizing (Block, 2010)</td>
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<td>Family involvement measured – (CEO)(Calabrò et al., 2013)</td>
<td>Sales internationalization (Sciascia et al., 2013)</td>
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<td>General human resource issue</td>
<td>Innovation (Chin et al., 2009)</td>
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<td>High-performance work systems (Tao et al., 2009)</td>
<td>Strategic conformity (Miller et al., 2011)</td>
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<td>Behavioral control (Hsu and Chang, 2011)</td>
<td>Degree of internationalization (Graves and Thomas, 2006)</td>
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<td>Managerial capabilities (Graves and Thomas, 2006)</td>
<td>Financial</td>
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<td></td>
<td>Performance</td>
<td>ROA, ROE, ROI, ROS, ROCE, ROANI, ROIC, ROCE, RONW, Tobins Q Firm value (Goel et al., 2011; Singal and Singal 2011; Shyu, 2011; De Massis et al., 2013; González et al., 2012; Sacristán-Navarro et al., 2011, etc.)</td>
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<td>Industrial profit margin (Randøy et al., 2009)</td>
<td>Other financial measures</td>
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<td>High-discretion slack (Liu et al., 2011)</td>
<td>Firm value, operating efficiency and finance structure (McCorquodale et al., 2001)</td>
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<td>Earning management (Yang, 2010)</td>
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<td>Bank risk (Barry et al., 2011)</td>
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<td>Sales growth, performance variance, survival (Wennerg et al., 2011)</td>
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### Antecedents

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<tr>
<th>Indicators of Board</th>
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<tr>
<td>Board independence (Leung et al., 2014; Garcia-Ramos and García-Ollalla, 2011; Chen and Jaggi, 2000; Jaggi et al., 2009; Brunninge and Nordqvist, 2004, etc.)</td>
<td>Ownership</td>
<td>Investment performance (Orbay and Yurtoglu, 2006)</td>
<td>U-shape relation with financial, non-financial and other financial measures – (De Massis et al., 2015; Sciascia et al., 2013, etc.)</td>
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<td>Board composition (Cabrera-Suárez and Martin-Santana, 2015; San Martin-Reyna and Duran-Encalada, 2012; Arosa et al., 2010a; Abor and Biekpe, 2007, etc.)</td>
<td>Management</td>
<td>Sales growth, revenue and capital structure (Oswald et al., 2009)</td>
<td>Positive (increasing) relation with financial, non-financial and other financial measures – (Garcia-Ramos and Garcia-Ollalla, 2011; Swamy, 2011; Arosa et al., Arosa et al., 2010a, b; Abor and Biekpe, 2007, etc.)</td>
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<td>Board committees – (Lam and Lee, 2012, etc.)</td>
<td>Generation of ownership (Arosa et al., 2010a)</td>
<td>Net income to assets, ordinary income to assets (Joh, 2003)</td>
<td>Negative (decreasing) relation with financial, non-financial and other financial measures – (Cabrera-Suárez and Martin-Santana, 2015; Prabowo and Simpson, 2011, etc.)</td>
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<td>Board size (Che and Langli, 2015; Garcia-Ramos and Garcia-Ollalla, 2011; Cheng, 2008; Bennedsen et al., 2008; Abor and Biekpe, 2007, etc.)</td>
<td>Founder-Generation managing the firm – (Maseda et al., 2015)</td>
<td>Total factor productivity (Kim, 2006)</td>
<td>Stable (no change) relation with financial, non-financial and other financial measures – (Leung et al., 2014; Shyu and Lee, 2009; Braun and Sharma, 2007, etc.)</td>
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<td>Board task/activity (Garcia-Ramos and Garcia-Ollalla, 2011; Cabrera-Suárez and Martín-Santana, 2015)</td>
<td>Corporate governance - (McGuire et al., 2012).</td>
<td>Investment-cash flow sensitivity (Pindado et al., 2011)</td>
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<td>Board management skill (Ehikioya, 2009; Abor and Biekpe, 2007, etc.)</td>
<td>Other financial measures</td>
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<td>Board tenure (Ericsson et al., 2005, etc.)</td>
<td>Earning management (Jaggi et al., 2009)</td>
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<td>CEO duality – (Azovry et al., 2015, etc)</td>
<td>Sales (Cabrera-Suárez and Martin-Santana, 2015)</td>
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<td>Internationalization/Export intensity – measured by the export intensity-percent of revenues on export (Cabrera and Mussolin, 2013; Cabrera et al., 2012)</td>
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<td>Indicators of Management</td>
<td>Management</td>
<td>Non-Financial</td>
<td>U-shape relation with financial, non-financial and other financial measures (De Massis et al., 2013; Naldi et al., 2015; Minichilli et al., 2010; Sciascia and Mazzola, 2008, etc.)</td>
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<tr>
<td>Family in Top Management (Hoffman et al., 2016; Chirico and Bau', 2014; Sciascia et al., 2014; De Massis et al., 2013; Minichilli et al., 2010; Chrisman and Patel, 2012; Wu et al., 2007, etc.)</td>
<td>Family longevity goals (Kim and Gao, 2013)</td>
<td>CEO compensation (McConaughy, 2000)</td>
<td>Positive (increasing) relation with financial, non-financial and other financial measures – (Hoffmann et al., 2016; Sciascia et al., 2014; Cai et al., 2012; He, 2008; Anderson and Reeb, 2003, etc.)</td>
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<tr>
<td>Family CEO (Miralles-Marcelo et al., 2014; Kim and Gao, 2013; Cai et al., 2012; Minichilli et al., 2010; Ben-Amar and Andre, 2006; McConaughy, 2000, etc.)</td>
<td>Family firm generation (Blanco-Mazagatos et al., 2016)</td>
<td>Innovation (Chin et al., 2009)</td>
<td>Negative (decreasing) relation with financial, non-financial and other financial measures – (Kim and Gao, 2013; Block et al., 2011; Villalonga and Amit, 2006, etc.) Stable (no change) relation with financial, non-financial and other financial measures (McGuire et al., 2012, etc.)</td>
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<td>Founder CEO (Croci et al., 2011; Miller et al., 2011; Caprio et al., 2011; Lee, 2006; Nelson, 2003; Zahra, 2003; Jayaraman et al., 2000, etc.)</td>
<td>Generation in control (Naldi et al., 2015)</td>
<td>Strategic conformity (Miller et al., 2011)</td>
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<td>Founder management (He, 2008; Jayaraman et al., 2000, etc.)</td>
<td>Birth order (Schenkel et al., 2016)</td>
<td>R &amp; Intensity (Block, 2012)</td>
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<td>Generation managing the business - (Hsu and Chang, 2011; Arosa et al., 2010b; Westhead, 2003, etc.)</td>
<td>Ownership</td>
<td>Degree of internationalization (Graves and Thomas, 2006)</td>
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<td>Family member advisors- (Naldi et al., 2015)</td>
<td>Family ownership- (Cai et al., 2012)</td>
<td>Financial</td>
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<tr>
<td>Non-family CEO: (Miller et al., 2014; McConaughy, 2000, etc.)</td>
<td>General Human Resource issue</td>
<td>ROA, ROE, ROI, ROS, ROCE, ROAN, RONW, Tobins Q, Firm value</td>
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<td>Family Chairman/CEO (Garcia-Castro and Aguilera, 2014; Sacristán-Navarro et al., 2011; Kowalewski et al., 2010; Block, 2010; Chin et al., 2009, etc.)</td>
<td>Long-term orientation (Hoffman et al., 2016)</td>
<td>Other Financial Measures</td>
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<tr>
<td>CEO duality (Braun and Sharma, 2007, etc.)</td>
<td>Environmental dynamism (Chirico and Bau', 2014)</td>
<td>Absolute sales, employment growth, exports, profitability (Westhead, 2003)</td>
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<tr>
<td>Family/founder/descendant CEO (Barontini and Caprio, 2006, etc.)</td>
<td></td>
<td>Net profit, sales growth, cash flow, growth of net worth – (Chirico and Bau', 2014)</td>
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Table III. Structural aspects of corporate governance
(22.57 percent), that is the separation of ownership and control measured as the difference between cash flow rights held by the largest shareholder and voting rights (Liu and Magnan, 2011; DeAngelo and DeAngelo, 1985). However, the measure of percentage of shareholdings by families used in the empirical articles varies significantly. The studies on unlisted firms used predominantly percentage of family ownership compared to control-ownership wedge used predominantly in studies on listed firms.

The indicators of ownership were studied in relation to financial (Goel et al., 2011; Hamadi, 2010); non-financial (Delgado-García et al., 2010; Brunninge et al., 2007) and other financial (Barry et al., 2011; Yang, 2010) measures. Accounting measures were generally found to be positive and significant (Andres, 2011; Barontini and Caprio, 2006; Anderson and Reeb, 2003) for listed firms. Association between family ownership and performance for unlisted firms was found to be mixed-negative, positive and neutral which is consistent with the review of Mazzi (2011). For example, ownership was largely found not to be significantly related with performance (Sciascia and Mazzola, 2008; Westhead and Howorth, 2006). Using the stewardship theory, Zahra et al. (2004) suggest that this phenomenon exists because unlisted family firms with little external influence are likely to focus on non-financial goals to guard family interest. This focus may retard the pursuance of firm’s financial goals. Also, Westhead and Howorth (2006) opine that unlisted firms might focus more on financial performance if more ownership stake is in the hands of outsiders. Reviewed studies also show that in both listed and unlisted firms a U-shaped relationship exists between ownership and performance (Che and Langli, 2015; De Massis et al., 2013; Anderson and Reeb, 2003). This finding supports the documented long-held view of non-linear relation between ownership concentration and performance (López-de-Foronda et al., 2007; De Miguel et al., 2004). Furthermore, control-ownership wedge was found to be a highly unreliable predictor of financial performance. For example, in the same study conducted by Silva and Majluf (2008), voting right concentration was found to be not a significant predictor of market performance but a significant and positive predictor of accounting performance. Bozec and Laurin (2008) also found a significant positive relation between control-ownership wedge and accounting performance.

3.3 Board and family firm performance

Boards are defined as organizational bodies that may support and empower managers in strategy formulation and implementation (Bezemer et al., 2007; Huse, 2007). Exactly 40.25 percent of reviewed articles used demographic approach to measure issues relating to the board. Consistent with findings of Basco and Voordeckers (2015), this review revealed board independence (34.38 percent) and board composition (28.13 percent) as the most measured dimensions. This suggests that family firms value board diversity which has been argued to enhance boards functional area knowledge, skills and creativity (Tuggle et al., 2010; Lau and Murnighan, 1998) and to enlarge the potential information pool and the availability of complementary information (Zhang et al., 2009).

Similar to ownership dimension, the indicators of board were tested in relation to financial (Leung et al., 2014; Garcia-Ramos and Garcia-Olalla, 2011), non-financial (Jones et al., 2008; Brunninge and Nordqvist, 2004) and other financial (Cabrera-Suárez and Martín-Santana, 2015; Jaggi et al., 2009) performance measures. Studies on listed firms examined more of indicators of board compared to studies on unlisted firms. This finding is not surprising as in listed firms where major conflicts usually arises between owners and managers, it is important to have independent board members to monitor and guide any type of family CEOs managing the firm. Additionally, agency theory asserts that the primary role of the board is to monitor management in contrast to stewardship theory which suggests an advisory responsibility (Gubitta and Gianecchini, 2002). Findings of studies on accounting performance are also mixed. There was positive and significant effect for
accounting performance in the study of Leung et al. (2014) and Abor and Biekpe (2007), and negative and insignificant effect on accounting performance in the studies of Bennedsen et al. (2008) and Prabowo and Simpson (2011). Finally, there is an evidence of curvilinear relationship between board and performance (Maseda et al., 2015; Che and Langli, 2015).

3.4 Management and family firm performance

Exactly 42 percent of the reviewed articles provide valuable evidence on the management of the business by family members. Family CEO (34.5 percent), founder CEO (22.4 percent) and percentage of family in top management (25.9 percent) are the most researched family management variables. Heirs/descendant (6 percent) led business and generation in management (3 percent) received low attention. Additionally, family presence in management is represented in Western European countries. These findings suggest the willingness of families to be involved in strategic decision making of the organization.

The indicators of family management were examined in relation to financial (Miralles-Marcelo et al., 2014; Cai et al., 2012), non-financial (Miller et al., 2010; Brunninge et al., 2007) and other financial (Miller et al., 2011; Barth et al., 2005) performance measures. The findings from this review are mixed. Similar to the findings of Mazzi (2011), the review found listed firms to perform better than unlisted firms with regards to accounting performance. The founder as CEO/Manager has been found to affect performance positively (Narayanan et al., 2009; Nelson, 2003). A number of studies also found that the relationship between family involvement in top management and firm performance is not linear but either U-shaped (De Massis et al., 2013) or inverted U-shaped (De Massis et al., 2015; Chirico and Bau, 2014). Whereas U-shaped relationship implies that performance decreases to some point as family involvement increases, and increases again after this point is crossed, inverted U-shaped relation means that performance increases to some point and decreases after achieving that point.

3.5 Mediating and moderating variables in CGS – performance relationship

The articles reviewed also included moderating or mediating variables when examining the effect of CGS on performance. Exactly 13.57 percent of reviewed articles assessed the impact of moderating variables on CGS-performance relation whereas only one article assessed the effect of mediating variable on CGS-performance relation. The interaction effects are conducted for both listed and unlisted firms using mainly indicators of CGS. The interaction effects predicting market performance are largely found to be positive and significant (Schenkel et al., 2016; Randoy et al., 2009; Randøy and Goel, 2003). Also found was reverse non-linear relationship between CGS and performance when moderated by family firm generation. For example, the effect of the presence of family member advisor and accounting performance was found to be flat for firms in first generation whereas it was U-shaped for firms with later generation in management (Naldi et al., 2015). Furthermore, Maseda et al. (2015) found an inverted U-shaped relation between presence of outside board directors and accounting performance for firms with first and second generations in management.

3.6 Control variables and performance

Several variables were used to control the prediction of performance by CGS. Control variables used in reviewed articles are categorized into six types: firm, industry, board, management, ownership and performance. Exactly 50.94 percent of the studies used firm control variables followed by industry control variables (15.19 percent). Firm size (56 percent), firm age (43 percent) and type of industry (36 percent) are principally firm and industry control variables. Board size (9 percent), Tobin’s Q (3 percent), CEO tenure
(5 percent) and family ownership (8 percent) are predominantly used in other categories. All the control variables used were found to return mixed results when predicting accounting and marketing performance in both listed and unlisted family firms.

4. Discussion
Based on the synthesized findings regarding the concepts used in the reviewed articles, we developed a model predicting firm performance by CGS comprising all the variables used in the existing studies. The framework includes indicators, mediating, moderating, dependent and control variables (see Figure 2). We do not propose an exhaustive model of CGS as a predictor of performance in family firms based on studies over the past years. Instead, we aim to provide an integrative framework which would reflect the vast and diverse body of literature covering the key variables to which other variables can be added in the future. To be included as an indicator variable, a concept must be used in multiple reviewed empirical research papers. All moderators and mediators applied in the empirical studies were included in the model because of their limited usage.

From the literature, we identified seven indicators in terms of ownership, seven indicators in terms of board and six indicators in terms of management (Figure 2, column 1). We classified the performance measures into three categories: financial, non-financial and other financial measures (Figure 2, column 3). The review revealed 18 moderating variables and only one mediating variable. The moderating variables are classified under five types: board (no. of articles = 2), ownership (no. of articles = 2), management (no. of articles = 6), performance (no. of articles = 2) and general human resource (no. of articles = 6). There is only one mediating variable and it falls under management dimension of CGS. Control variables used were classified under six categories: firm, industry, ownership, board, management and performance (Figure 2, column 2).

Figure 2 shows that the relation between CGS considered at the ownership, board and management dimension (column 1) and performance (column 3) is as follows: moderated and mediated mainly by variables related to ownership, board and management (column 2), and controlled by variables categorized under firm, industry, ownership, board, management and performance (column 2). Thus, existing research on influence of CGS on performance in family firms examined both direct and indirect effects. Additionally, the relation yielded either positive, negative, stable and U-shape/inverted U-shape outcomes.

The summary statistics (see note to Figure 2) demonstrate the number of tested hypotheses in terms of each CGS dimensions and performance relation – ownership (222), board (153) and management (139) and interacting effect (52). The results of tested hypotheses confirm that the relationship between CGS and performance in family firms is difficult to predict consistently – the findings are mixed. Additionally, our review shows that the majority of the tested hypotheses were ownership related. This suggests a scholarship bias in favor of ownership dimension of CGS compared to board and management dimensions as predictor of performance. Precisely 107 of the tested hypotheses including ownership-related indicators reported a significantly positive relation with performance whereas 58 reported a significantly negative relation with performance. The review also reported significantly positive effect for majority of interacting variables (32). This indicates that the use of interacting variables between CGS and performance achieved a significantly better performance. The finding implies that family business owners must attempt to create conditions that would enhance the CGS-performance linkage.

5. Direction for future research
This literature review has tracked the growth of empirical studies on CGS and performance in the context of family firm. It can be concluded that, the field is well developed at its present stage. However, our evaluation of the literature suggests an overemphasis on
quantitative methods, including the use of secondary data from reports and/or databases and regression technique for data analysis. It also represents absence of diversity or flexibility in the choice of research design, even as the field continuous to experience tremendous growth. The overconcentration on quantitative approach has left issues that need further attention.

First, as far as CGS outcomes are concerned, financial performance dimensions are well researched variables. In contrast, our review shows relation between CGS and non-economic performance of the family firm has been overlooked. Family firms have been noted to be concerned with not only financial goals but also non-economic goals (Astrachan and Jaskiewicz, 2008; Chua et al., 2003; Chrisman et al., 2003) such as continuity of family influence and protection of family ties (Chrisman et al., 2003); firm survival and family financial benefits (Astrachan, 2010); community respect, and child and firm development (Sorenson, 2000) among others. Astrachan and Jaskiewicz (2008) posit that, the entire value of a business is composed of financial worth, private benefits, as well as the valuation of the impact of emotional components. Chrisman and Carroll (1984), on other hand, have demonstrated that family firms that pursue non-economic goals can enhance their economic performance through the systemic and synergistic effect of these non-economic goals on wealth creation. Consequently, future studies on performance must consider a more complex variable that considers non-economic goals and socio-emotional wealth of the owning family (Gomez-Mejia et al., 2007). However, the operationalization of non-economic performance within a rigid quantitative paradigm remains the key challenge to the scientific community. A multilevel study can be considered as a starting point in addressing this challenge. A multilevel analysis encourages probable hypothesis effects involving different levels of analysis (Mathieu and Chen, 2011). For example, regarding the prediction of socio-emotional wealth and/or non-economic goals by CGS, CGS can be measured at the organizational level whereas socio-economic wealth at the individual level. The works of Mathieu and Chen (2011), Mathieu et al. (2012) and Croon and Van Veldhoven (2007) provide family firm researchers valuable information on how to design multilevel studies.

Second, the relationship between control variables and performance is one example for which hypotheses are readily tested to enhance our understanding of CGS-performance nexus. Yet, moderating and mediating effects in the relation have received minimal attention. Moreover, majority of moderators used are measured in terms of ownership, management and board. We seem to know more about what types of CGS issues that are measured, how these variables are controlled and their impacts on performance at the organizational level. But we do not know how CGS and performance nexus is moderated by other variables in the organizational environment, such as commitment, high-performing teams, leadership style, etc. The contradictions that occur in prior empirical studies suggest that CGS-performance association is inclined to multifaceted variables in the organizations environment that must be more clearly identified and tested as a mediator or moderator. Several researchers have suggested that the use of mediators and moderators would enhance a deeper and more refined understanding of a causal relationship between an independent and dependent variable and produce a consistent outcome (Wu and Zumbo, 2008; Wall and Wood, 2005; Wright et al., 2001). For illustrations, the empirical contribution of Graves and Thomas (2006), Hoffman et al. (2016) and Tsao et al. (2009) in examining organizational context variables – including managerial capabilities, long-term orientation and high-performance work systems on CGS-performance relation in family firms must be embraced by scholars. Future research should, thus, consider studies that would incorporate these variables. Again, the measurement of organizational environmental factors calls for the use of multilevel research design.

The size of an organization is suggested as an influential moderator in the relationship between independent and dependent variable because exposure rate of small firms is lower
compared to large organizations (Namazi and Namazi, 2016; Kang et al., 2015; Niresch and Velnampy, 2014; Wu and Ko, 2013). Additional suggestion for examining moderating effect is to explore CGS-performance relation using control variables. The key question would be whether control variables turnout the same results when used as moderating variables.

Third, one key aspect of CGS is family governance, that is structures aimed as regulating the relationship between family and the firms including family council, family assembly, family office, family meetings family committee and family constitution (Rodrigues and André Marques, 2013). Several scholars state that the number of studies into family governance is limited (Suess, 2014; Klein, 2008; Witt, 2008). Therefore, in examining CGS-performance relationship, this literature review does not cover studies on family governance. In this context, future work should empirically examine the dimensions of family governance in relation to both financial and non-financial performance measures (Berent-Braun and Uhlaner, 2012).

Fourth, the review also shows that the examined studies are conducted at the organizational level. The organizational level analysis also influences the dominance of organizational level theories, such as agency theory, to explain economic behavior arising from ownership, board and management. The agency approach is principally founded on owner–manager agency problems (Chrisman et al., 2005) and the perception of the theory’s perceived ability to reduce agency cost and enhance firm performance by aligning the goals of the principal and agent (Dyer, 2006; Chrisman et al., 2004). Given that there is cross-section of family firm types (Dyer, 2006; Gersick et al., 1997) and the inconsistent results from the findings relating to agency theory, the dominance of a single theory in explaining CGS-performance linkage cannot provide a comprehensive understanding of multifaceted phenomenon within family firm research context and would consequently lead to misleading results (Duh, 2010). To capture similarities and differences among these firms, various theoretical perspectives are required (Melin and Nordqvist, 2007). We encourage forthcoming studies in corporate governance within family firms to apply more theories from other disciplines such as psychology and sociology (Pindado and Requejo, 2015) to expand the frontier of theory application in family firms. The possibility of introducing mediators and mediators from organizational context can also open the gate for the adoption of new theoretical approaches in explaining family firm performance.

Finally, there is dearth of investigation on CGS in family firms from the emerging economies. Scholars have questioned the suitability of applying western solutions in solving problems in developing countries due to contextual differences (Xu et al., 2008). The need for scholarship from emerging economies would be helpful in expanding the frontier of CGS and family firm research both in terms of coverage and depth. To populate studies from the perspectives of emerging economies, dedicated chairs must be set up in higher institutions with appropriate funding. These institutions should endeavor to develop a core group of researchers with specific focus on corporate governance. Additionally, we encourage researchers from developing economies to publish their works in well recognized and high impact journals which offers their work the needed credibility and visibility in the scientific community.

6. Conclusion
This systematic literature review attempts to document the progress in CGS research in the setting of family firms through the development of holistic conceptual framework that outlines the relationship between several variables reflecting CGS and used within the empirical literature to predict firm performance. We examined 159 articles published in four categories of journals in the period of 2000–2016. We reviewed systematically (Tranfield et al., 2003) the articles to retrieve and synthesize relevant information.
The study shows that CGS in family businesses has grown rapidly as a unique field. Notwithstanding the progress achieved in the past decades, inconsistent outcomes, reliance on few core theories and measurement of CGS dimensions with different indicator variables have been identified with the field.

Our framework and additional information provided in the Tables I and II revealed the tremendous progress in the field and also pointed out knowledge gaps resulting from fixation on research design that does not allow for flexibility. Addressing such gaps through future research, we believe, would contribute considerably to the growth of the field. The gaps we propose for future research include examining non-economic performance of the firm, moderators and mediators from organizational environment, application of new theories, examining family governance dimensions and extending CGS scholarship in family firms to emerging economies. Regarding each gap identified, we argue for their relevance to the field and provided suggestions on how such knowledge gaps may be closed. We believe efforts directed at closing these gaps may make tremendous contributions to the field.

Notes
1. A mediator is a variable intertwining the relationship between the predictor and dependent variable; it explains why an association occurs between those two variables (Holmbeck, 1997).
2. A control variable is used to control the effect of the predictor on dependent variable for a third variable, dubbed with the aim of eliminating any distortions, legitimate or otherwise, associated with extraneous variables, thereby purifying results and exposing “true relationships” of a study (Atinc et al., 2012, p. 59).
3. A moderator is a variable intertwining the relationship between a predictor and dependent variable; it explains under what conditions association occurs between two variables (Holmbeck, 1997).
4. Return on assets (ROA) is used to measure the effectiveness of the company in generating profits by exploiting its assets and is calculated as ratio of net income to total assets (Juliati and Prastowo, 2002).
5. Tobin’s Q is used to measure market performance of the firm and is calculated as market value of a firm’s assets divided by the replacement cost of those assets (Tobin, 1978).

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Where have all the countries of origin gone? A note on the neglect of firm nationality in family business studies

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Abstract

Purpose – The purpose of this paper is to present arguments for the inclusion of greater sampling detail in comparative studies of family business that includes country of origin/ownership.

Design/methodology/approach – This paper is a commentary piece from a scholar focused on family business studies.

Findings – This commentary paper challenges several past family business studies and argues that mixing small family firms with foreign-owned family firms (subsidiaries of foreign companies) into one research sample of “family firms” can represent a significant source of bias. The authors assume that this bias is likely to be more pronounced in samples of privately-held family firms.

Originality/value – While most of the author’s knowledge on family firms is based on analyses of publicly-held firms, current editors of scholarly journals call for more research on privately-held firms since they represent the vast majority of firms worldwide. The development of the knowledge about private family firms crucially depends on the reliability of results. This paper emphasizes the need for research samples of comparable firms and more comments on the sampling process.

Keywords Family business, Research design, Sampling, International family-owned business

Paper type Viewpoint

Introduction

Family firms are generally considered to be empirically different from non-family firms, and naturally, the existence of differences attracts the attention of scientists. Hence, for a long time, comparative studies have been occurring in the field of family business research. Traditionally, economic performance gaps between family and non-family firms have been examined by a number of scholars (Wagner et al., 2015). Other authors compared family firms with non-family firms in terms of corporate social responsibility, innovativeness, long-term orientation, financial decision making, among others.

Exploring differences and verifying their existence requires the use of quantitative research methods, and, in particular, various kinds of regression analyses. In this context, the choice of relevant control variables belongs to one of the crucial parts of the research design. Frequently-used control variables include firm size, firm age, industry affiliation, among others (De Massis et al., 2012). However, it seems that family business scholars have been regularly omitting one of the determinants of performance – the nationality of firms. Many authors do not provide enough comments on how they dealt with “foreign family firms” in their samples.

The goal of this viewpoint paper is to present arguments for the need of paying greater attention to the foreign ownership of firms included in research samples of family business studies, and, in particular, for a better description of sampling in comparative studies.

The author appreciates the funding support received from the Czech Science Foundation for this project entitled “Privately-held Firms with Multiple Owners: The Role of Family and Responsible Ownership” (Registration No. GA17-10948S).
This paper is organized in the following manner. First, we present arguments on how multinational firms differ from local firms and how home country institutions affect business and family behavior. Subsequently, we discuss the major weakness of comparative family business studies focused on privately-held firms. Finally, concluding remarks and suggestions are presented.

The effects of “being international”
Multinationality has multiple known effects on the performance and behavior of firms. Among the advantages of internationalization, we can mention the possibility of enjoying returns to scale to enhance the growth potential of the firm as well as acquiring new knowledge and experience (see Sapienza et al., 2006). Those factors can create competitive advantages vis-à-vis firms focused on local markets, and enhance the flexibility of the firms and its abilities to adapt to a changing environment (Teece et al., 1997).

Multinational firms, by definition, have an existing international experience and know-how and are backed up by their parent companies. As a result, multinational firms enjoy the following competitive advantages (Bellak, 2004):

- better access to foreign markets through intra-firm trade and network economies;
- the possibility of taking advantage of the managerial expertise of the parent company;
- access to a more extensive set of information and better capacity for evaluating different situations; and
- access to superior technology.

On the other hand, internationalization is a risky venture associated with costs. Foreign market entry leads not into to investment expenditures but also to organizational changes in the firm (Sui and Baum, 1997) including corporate governance and transaction costs (Zaheer and Mosakowski, 1997). Firms entering foreign markets face a lack of information and knowledge of local culture. At the same time, they can face issues associated with economic nationalism (Zaheer and Mosakowski, 1997), which can be seen as a competitive disadvantage, sometimes referred to as liability of foreignness (Petersen and Pedersen, 2002).

The total effect of internationalization on performance depends on multiple factors, and it still not clear-cut that there is a positive relationship between the two variables. While some studies indicate a positive relationship between internationalization and performance (Qian, 1990; Zahra et al., 2000), other authors presented quite the opposite findings (Kumar, 1984; Michel and Shaked, 1986). According to Buckley et al. (1978), there is no statistically significant relationship between internationalization and performance, while other authors present evidence of a non-linear relationship (Thomas and Eden, 2004; Hitt et al., 1997; Contractor et al., 2007). A meta-analysis presented by Bausch and Krist (2007) suggests that at the aggregate level, there is a significant positive relationship between internationalization and performance, but there are significant moderators of this relationship, such as firm age, size and country of origin. The fact that the internationalization-performance relationship is positive, but the country of origin plays a significant role in this relationship, has subsequently been supported by a meta-analytic review of Marano et al. (2016).

Internationalization of family firms
Family firms also perceive international opportunities and search for them; however, they exhibit a more significant risk aversion and prudence than non-family firms (Claver et al., 2008). Instead of being involved in mergers and acquisitions, family firms usually prefer organic growth to avoid dilution of control and ownership. According to Schwass (2005), successful family firms often take advantage of a slow, “wise” growth which is based on traditions and
values of past generations. As a result, family firms are more careful when entering foreign markets (Bloch et al., 2012).

Indeed, a number of studies found a lower propensity of family firms to internationalize (e.g. Graves and Thomas, 2004; Merino et al., 2015; Sciascia et al., 2012). In particular, family firms are:

- less willing to use debt financing (McConaughy et al., 2001; Allouche et al., 2008) which leads to a lack of available financial resources;
- afraid of decentralization and loss of family control over the family firm; and
- lacking managerial abilities, which can be attributed to the unwillingness to perform changes in organizational structure (Gómez-Mejía et al., 2010) or employ qualified managers who are not family members (Boeker and Karichalil, 2002).

The existing research suggests that family firms which decide to enter a foreign market are older, larger and more complex (Zahra, 2003). At the same time, it seems that family firms which have already passed the baton to the next generations are more successful in internationalization (Menéndez-Requejo, 2005). In such stage of the lifecycle, however, family firms have a higher family and business complexity (Gimeno et al., 2010, pp. 39-40), they often employ non-family (“professional”) managers and resemble more to non-family firms (Stewart and Hitt, 2012).

The effect of country of origin of business and family behavior

Marano et al. (2016) argue that firms’ home country institutional environments shape the strategies of firms and their ability to compete. Following past scholars, the authors distinguish formal institutions (norms codified into documented rules and standards) and informal institutions, such as values and beliefs. In particular, culture, being “durable, long-lasting, and relatively stable, with incremental changes occurring slowly” (Holmes et al., 2013, p. 3), may become one of the major forces driving the development of formal institutions (Jackson and Deeg, 2008). Recently, Beugelsdijk et al. (2018) documented that cultural distance, i.e. the extent of cultural differences between countries, had a significant effect on behavior of subsidiaries and that it was very sensitive to the home country of the company. Past literature reports that the country of origin strongly affects organizational control practices of managers (Harzing and Sorge, 2003) and that managers from different cultures interpret and respond to the same strategic issues in different ways (Schneider and De Meyer, 1991). Hence, it can be assumed that the country of origin is a significant predictor of firm strategy choice and its behavior.

Similarly, past literature reports that the prevalent culture affects family values and norms, and hence the family behavior. For instance, in collectivistic cultures, loyalty to family becomes more important than in individualistic cultures, and the norms of reciprocal altruism and mutual support dominate (Sharma and Manikutty, 2005, pp. 300-301). Bertrand and Schoar (2006) argue that cultural norms and beliefs dictate the will to build a family legacy, can give rise to nepotism or shape the inheritance rules (such as primogeniture, where the eldest son is supposed to take over the family firm). As a result, the country of origin can be assumed to be an important factor determining family behavior.

Firm nationality as a possible source of bias in family business studies

Family business studies have frequently been focused on particular countries and compared family and non-family firms operating in these countries. However, in our research, we noticed that a surprisingly large proportion of family business studies did not comment on the nationality of firms in their sample, or simply ignored it. The absence of comments on
firm nationality has frequently been observed in results and discussion sections, but also in the very description of the sampling process.

We argue that mixing small family firms with foreign-owned family firms (subsidiaries of foreign companies) into one research sample of “family firms” can represent a source of bias of past studies. Such an idea is based on the assumption that local and foreign family firms are empirically different. Besides the above-mentioned supporting theoretical arguments, there is also empirical evidence; Machek (2016) found that Czech family firms performed significantly differently than foreign family firms. According to his results, foreign family firms operating in the Czech Republic enjoyed higher labor productivity and profitability than local, domestic family firms.

The differences are moderated by ownership type. On the one hand, large publicly-traded (listed) firms are typical of a great business and family complexity and dispersed ownership, and such firms often become internationalized, which could mitigate possible gaps between local and foreign family firms. On the other hand, smaller privately-held family firms will be very different from multinational foreign family firms’ subsidiaries, even though such firms may be seemingly of similar size. Hence, we assume that the sampling bias is likely to be more pronounced in samples of privately-held family firms.

To illustrate the above arguments, let us have a closer look at several prominent family business studies.

The widely-cited paper of Chrisman and Patel (2012) examined the variations in R&D investments of family and non-family firms. This paper focused on manufacturing firms included in the Standard & Poor’s 1,500 index, which contains mostly large US firms. As many large family businesses, especially cousin consortiums, have a complex structure and more dispersed ownership, such firms often become internationalized, which is likely to be marginal. Another frequently cited study of Martínez et al. (2007) compared the performance of family and non-family firms registered in Bolsa de Comercio de Santiago. Likewise, it is presumable that the results will not be significantly biased since the sample contains predominantly large- and medium-sized Chilean firms, which are owned by other Chilean legal or physical persons.

On the other hand, studies that focused on smaller, privately-held family firms, often did not comment on the possible effects of foreign ownership. For instance, Arosa et al. (2010) compared the performance of Spanish family and non-family firms. To do so, the authors did an exhaustive review of shareholding structures and composition of firms included in the Iberian Balance Sheet Analysis System (SABI). Such databases, however, typically contain many firms which are not really “local”; although seemingly Spanish, many firms could have been directly or indirectly controlled or owned by foreign parent firms. As a result, foreign ownership could have biased the presented results. Similarly, Kotlar et al. (2014) used the Encuesta Sobre Estrategias Empresariales database which contains information on Spanish manufacturing firms with ten or more employees. The authors compared changes in R&D investment of family and non-family firms. This study does not comment on possible foreign ownership, while R&D investment could potentially be associated with foreign control. Hence, there is a certain risk that the presented estimates have been biased.

To illustrate further, let us compare the results obtained by matching surnames among Czech firms in the Bisnode’s Albertina database. Such an approach aims to identify family firms by matching family names of owners, managers and members of supervisory boards (see Hnilica and Machek, 2015). Table I presents the 15 largest family firms operating in the Czech Republic obtained by surname matching.

One-third of these firms are foreign family firms, which, in our view, are not comparable to the other Czech family firms and any analysis which would include them in the research
sample could potentially present biased results. Hence, foreign family firms should be eliminated from the list, and the researcher should comment on this exclusion to enhance the replicability of his research.

**Concluding remarks**

Based on our discussion, we suggest that in the family business literature, there is a potential for studies that use the country of origin as one guiding factor in the development of a sample of family business, and that even the nationality of firms in research samples of single-country studies should not be overlooked. This viewpoint paper emphasized that the bias due to the neglect of country of origin will be more pronounced in family business studies focusing on privately-held firms. While most of our knowledge of family firms is based on analyses of publicly-held firms, current editors of scholarly journals call for more research on privately-held firms (Carney et al., 2015) since they represent the vast majority of firms worldwide.

The goal of this paper was to emphasize the importance of eliminating “foreign family firms” from research samples of comparative studies. Similarly to the very definition of “family firms,” the firm “nationality” also suffers from non-standardized definitions. What does it mean for a firm to be Spanish? Should the owners be Spanish? However, what if the firm is owned by a foreign legal person operating in a country where ownership structures are not disclosed (such as Cyprus)?

When sampling, we suggest a careful verification of who the owners of the individual family firms are. Sometimes, the true owners are unknown; in that case, the inclusion of such a firm to the sample is debatable. If the owners are foreigners living abroad or the owning entity is a foreign firm, researchers should reconsider whether this firm fits to the research design.

When reporting methodology and data (materials), we suggest providing a clear description of the sampling strategy and exclusion criteria. This description would not only increase the reliability of results but also facilitate a possible replication of the study by other authors. For instance, when exporting financial data from databases such as SABI or Albertina, the sampling criteria could eliminate firms whose shareholders are not located in the particular country, and these shareholders could own more than 50 percent of ownership.
To sum up, in order to present useful and correct answers to research questions, family business scholars need to employ reliable research samples of comparable firms without foreign family firms’ subsidiaries and comment on whether and how they eliminated them from their samples.

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Further reading

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Family ownership and financial reporting quality: Iranian evidence

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Abstract
Purpose – In the process of reporting accounting information, the auditor’s objective is to detect possible misstatements and errors in accounting information. Audit evidence aids auditors in providing reasonable assurance about the quality of financial reporting. Studying the quality of family firms’ financial reporting is of higher importance relative to non-family firms due to lower risk of accounting manipulation. Therefore, the purpose of this paper is to examine the relationship between family ownership structure and financial reporting quality from an auditing perspective.

Design/methodology/approach – To analyze the research hypotheses, the authors use a sample data consisted of 221 companies listed on the Tehran Stock Exchange (including 52 family and 169 non-family firms) over a five-year span from 2011 to 2015.

Findings – Using multivariate regression analysis of panel data, our results indicate that audit risk in family firms is lower than their counterparts. Likewise, the findings are indicative of lower audit fees paid by family firms as compared to non-family ones. The authors also find that auditors put more effort in family firms and thus audit effort is more significant for this kinds of firms.

Originality/value – The study focuses on family ownership and financial reporting quality in a developing country like Iran and the results of the study may be beneficial to other developing nations, as Iran stock market possesses some unique features which are not normally prevailing in other equity markets, even in the Middle East.

Keywords Audit fees, Family ownership, Reporting quality, Audit effort, Audit risk

Paper type Research paper

1. Introduction
According to Accounting Theory (Hendrickson, 1982), the primary goal of reporting is to offer useful information to those who are most interested in financial reports. Data derived from the accounting information system represents one of the most reliable resources at the disposal of users to make decisions about business entities. The ultimate outcome of accounting information systems is financial reporting. All users rely on these financial reports to assess business entities. If financial reporting is of standard quality, it will allow users to make accurate decisions. Major users of such information include investors, creditors, employees, customers, commercial creditors and government. These sound decisions will lead to systematic allocation of resources, which will have a significant impact on the optimum allocation of resources in the economy of a country (Tariverdi, 2007). In this respect, one of the determining factors that enhance the quality of information and reduce the information risk of corporate reports is provision of higher quality audit services.
Researchers argue that “higher quality audits” improve the credibility of the data given to users, especially investors and the opportunity to accurately analyze the financial status and performance of a company (Salehi et al., 2017).

Society in its broad sense has always demanded quality audit services. The negligence and failure of auditors to provide high-quality audit services, as expected of them as specialists, has at all times been accompanied by a punitive response from the community. Auditors are being summoned to court, sentenced to pay heavy compensations and lose their social status, and even if not summoned to court, the society metes out a social punishment for them, for example, by charging them of having enormously large pockets (Volk, 2006). In this context, verifying evidence and declaring an opinion by auditors depend on audit effort, which is in turn a function of audit risk. An estimate of audit risk and audit fee is provided by an auditor at the time of reviewing financial statements in accordance with accepted auditing standards, which includes inherent risk, control risk and detection risk in the account balance, transaction group, related claims and disclosure level. In the inherent risk assessment, the auditor takes into account the integrity and competence of the management, unusual transactions, complex business arrangements, operational risk, and accounting practices. Similarly, the auditor, as part of risk control assessment, considers the effectiveness of the control, quality of information systems, internal audit function, risk monitoring strategy, identification of risk changes and response to management, risk control or reduction by management and board members (Ghosh and Tang, 2015). The detection risk represents the risk of failing to find a significant misstatement by the auditor. Where there is a gap between income and the cash flows due to management estimates and assumptions, auditors are required to modify their audit plan to detect high-risk accounts and increase audit fees proportional to their audit effort, i.e. more hours spent by auditors or getting assistance from specialists in the audit team (Bedard and Johnstone, 2004).

Family firms are less susceptible or prone to financial statements manipulation, primarily due to direct monitoring, greater managerial integration, lower operational risk, deeper business knowledge, and enhanced understanding of the relationship between business owner, customers and suppliers (Wang, 2006). In addition, accounting estimates and assumptions are less erroneous and subject to managerial manipulations as well as significant distortions. Therefore, auditors are likely to consider a lower risk in their audit planning. Auditors are also expected to charge lower (higher) fees from family firms (non-family firms) since they undertake fewer (more) substantive tests in order to provide a reasonable level of assurance. Based on previous discussions, an auditor’s task is thus the quality assessment of financial reports and relevant disclosures to issue the final opinion (Ghosh and Tang, 2015).

The agency theory maintains that family firms may mitigate or intensify agency problems. According to this theory, on the one hand, there are incentives for family firms to maximize their personal interests and influence the financial reporting process and consequently give rise to agency costs. Higher agency costs, by itself, entail greater risk assessment, audit efforts and audit fees. Nevertheless, family ownership can reduce audit risk assessment and lower audit fees in order to reinforce internal monitoring and lessen conflicts of interest between corporate managers and owners (Khan and Subramaniam, 2012). On the other hand, when the quality of financial reporting is low and chances of financial statements manipulation are high, auditors spend more time on approving accruals of extraordinary items or simply going through risky accounts. If auditors assess the quality of their client’s financial reporting low due to high inherent risk or control risk, the audit risk will be high, so normal auditing practices will not be able to reduce audit risk to a satisfactory level. In this case, auditors attempt to collect more audit evidence, undertake exhaustive tests and conduct more accurate fieldworks and audit efforts (Fan and Wong, 2002; Tong, 2007).
Audit standards require auditors to respond to audit risk by changing the nature, timing and extent of audit procedures, which will affect the planning and pricing of auditors (Houston et al., 1999; Bedard and Johnstone, 2004). Generally, the decisions regarding the planning and pricing of audit are made by the senior members of the audit team, which is a function of the risk of owner firm (Bedard and Johnstone, 2004). Auditors also put more effort in questioning and challenging clients, which will inevitably postpone the completion of fieldwork (Hirst, 1994); consequently, when auditors dismiss a financial report as low-quality, auditing costs are expected to rise. Further, auditors may charge higher fees when using specialists in the audit team in an attempt to mitigate risk (Ghosh and Tang, 2015).

Given the importance of family firms, growing attention has been paid to these firms. Shareholders, potential investors, creditors and other beneficiaries obtain information about their respective companies. Considering the above, and the fact that there are hosts of family listed on Tehran Stock Exchange (hereafter, TSE), it seems necessary to undertake a research into the impact of family and non-family firms on the quality of financial reporting from the auditors’ perspective. In addition to offering a new perspective to financial reporting research, it provides necessary ground in the capital market for users of financial statements.

In the present paper, our conjecture lies in the fact that auditors of family firms charge lower audit fees as a result of lower audit effort. In other words, one or combination of characteristics of family owned companies such as high quality financial reporting as a function of lower risk of accounting system assessment, the state of being less prone to financial manipulation, tendency not to withhold bad news, and enhanced compulsory disclosures (e.g. financial statement notes) provided us with an incentive to conjecture that lower audit effort in family firms due to previously mentioned items leads to lower audit fees. It is also arguable that retaining similar disclosure and reporting qualities in both family and non-family firms is likely to affect audit fees significantly. Understanding how auditors evaluate the quality of financial reporting in family and non-family firms is likely to give conclusive evidence on whether financial reporting quality is systematically different between the two groups.

The present paper contributes and deviates from exiting approach in current line of research on accounting and auditing literature in a number of ways. First, most previous studies conducted on financial reporting quality have utilized accrual-based models and ignored higher explanatory power of audit-based models which are typically well-specified with higher $R^2$ and lower risks of correlated variables. Second, firm performance is the major concern in prior literature on financial reporting quality as it is highly correlated with financial reporting quality. However, from auditing perspective, performance of the firm is not as critical, particularly when the client is larger in size and highly profitable. Finally, accrual-based models of financial reporting quality are solely dependent on the information on accruals while audit-based models incorporate information from financial statements and notes thereto.

The reminder of the present paper is organized as follows. In the following section, we frame the study into the theoretical backgrounds of family ownership and financial reporting quality and provide a succinct review of institutional background in Iran. Section 3 provides the literature review and hypotheses development process. The methodology used to gather evidence in order to test research hypotheses are then presented in Section 4. It also details the sample selection procedure. Section 5 discusses the main empirical results. Finally, Section 6 concludes this research by highlighting its main implications.

2. Theoretical foundations and institutional background
Investors pour their wealth into a firm in a variety of manners such as labor, capital, raw materials, and management. They expect to receive reasonable returns based on the amount of investment and risk-taking. Understandably, corporate executives utilize these economic
resources in the production process and earn revenues by selling their products. Now, the question is: to whom this income belongs? And what is the share of each stakeholder from this income? There is no doubt that these revenues belong to those who have made their fortunes available to the company. According to the theory of property rights, corporate income is divided based on the characteristics of property rights. Shareholders are the last group to benefit from this revenue, making claim relative to assets and cash flows of the company. Obviously, in a competitive market, the returns of all shareholders who have invested their wealth in the firm in a variety of ways will reach a state of equilibrium (Furubotn and Pejovich, 1972).

Financial information, in general, and accounting information, in particular, is a determining factor for all quoted firms in both equity and debt markets, especially when they witness a fierce competition with other market participants to acquire necessary resources. In this regard, the quality of the information is of highest importance as it brings about several advantages and inevitable consequences for the market participants such as better transparency, favorable contracting terms, lower asymmetric information and lessened conflicts of interests between agents and principals (Watts and Zimmerman, 1986; Hutton, 2007; Tong, 2007). Prior accounting literature has placed emphasis on higher quality accounting information or financial statements as it provides users with more reliable and useful information, particularly for decision making processes (Francis et al., 2004; Villalonga and Amit, 2006). In addition to above advantages, previous studies also document some market-specific benefits, namely reduced cost of capital and heightened stock liquidity (Schipper and Vincent, 2003; Francis et al., 2005). This, by itself, justifies the attractiveness of stocks in the eyes of outsiders. In general, three essential enquiries are taken into consideration when we are referring to the quality of financial information: how informative are the reported numbers and figures; how sufficient or comprehensive is the financial disclosure, and do the reported numbers comply with generally accepted accounting principles. Of all the factors, more informative financial numbers are typically regarded as highly important (Schipper and Vincent, 2003; Tong, 2007).

A family business may sometimes go beyond a family firm. In the definition of this type of business, three factors are included: family, ownership, and management. The convergence of family factor and only one of two factors of ownership or management (family and ownership of a business, or family and management of a business) can define a family business. Family business is one of the most traditional socioeconomic institutions to have been recognized so far. Similar to other places of the world, Iranian family firms have come into vogue almost recently. Such companies account for almost 60–93 percent of the European, 95 percent of American, and 65 percent of Central and South American firm (Tong, 2007; Ghosh and Tang, 2015).

Agency conflicts between family owners and managers or between family owners and other minority shareholders are prevailing in family owned firms. Accordingly, this kind of ownership structure can be seen from two opposing viewpoints. On the one hand, founding family owners are able to exert significant influence and control over managers and prevent any managerial misbehavior or expropriation. On the other hand, their superiority and significant control over major shareholders is likely to facilitate private misconduct (Fan and Wong, 2002; Tong, 2007). To be more specific, family firms tend to employ a long-term investment approach which is likely to prevent family owners from involvement in any disvaluing behavior. Indeed, family owners have a tendency to persuade investors and outsiders into purchasing non-controlling interests and fulfill their accountability role by preparing high quality financial information (Anderson and Reeb, 2003; Tong, 2007). Family owners are also capable of mitigating managerial opportunistic behavior and financial manipulation by effectively monitoring professional managers (Demsetz and Lehn, 1985;
Weber et al., 2003; Tong, 2007). In other words, significant influence and financial share of family owners enable them to lessen the possibility of management short-sightedness and consequently hold the managements accountable for their actions. Taken together, all these policies result in higher quality financial reporting practices in family owned firms (Weber et al., 2003; Tong, 2007).

Nevertheless, some studies argue that concentrated ownerships like family and institutional ownerships are associated with lower reporting discretion and earnings which are not informative enough. More specifically, family owners are prone to get involved in self-interest affairs and conducting non-profit maximizing objectives (Faccio et al., 2001; Fan and Wong, 2002; Anderson et al., 2003). Furthermore, less effective or less prevalent corporate governance practices as well as lower unaffiliated block-holder ownership in family firms compared to non-family firms are noted in prior literature, suggesting the lack of external body to control the actions of family owners (Barclay and Holderness, 1989; Shivdasani, 1993; Tong, 2007).

In Iran, the definition of the family firm is based on the considerable influence of the members. The Iranian Accounting Standards Committee in its Clause 8 of the Accounting Standard No. 20, for instance, specifies that shareholders with a minimum of 20 percent voting rights exert a significant influence over their investee. Furthermore, under article 107 of the Iran Trade Law (ITL), all publicly held companies are required to form a board of directors including a minimum number of five shareholders. Hence, it can be concluded that shareholders with as little as 20 percent corporate ownership can push for their own seats on the board or enact changes at shareholder meetings (Khajavi et al., 2012). Collectively, possessing a minimum of 20 percent of firm stocks by the family members is one of the conditions of family firms. In addition, the membership of family members in the board and the controlling of the firm are two other criteria of establishing family firms.

The present study uses a special sample data collected from a transition market in which the socio-economic, political and cultural factors are significantly different from those prevailing in developed markets. This provides new insights into the relationship between financial reporting quality and family ownership. What follows is a summary of some related characteristics of the Iranian immature market (Salehi et al., 2017):

(1) In the light of the Iranian Government’s five-year privatization plans, the ownership structure of listed companies on the TSE has changed dramatically since 2000. In other words, the substantial transfer of ownership structure from government sector to the private sector has led to a more diffuse ownership structure in companies listed on the TSE (Davani, 2003; Bagherpour et al., 2014; Salehi et al., 2017).

(2) The Iran Audit Organization (IAO) had been playing a monopolistic role in the audit market of Iran prior to the establishment of the Iranian Association of Certified Public Accountants (IACPA) in 2001. The IACPA certified a considerable number of private audit firms subsequently and diversified the Iranian audit market. Nonetheless, dynamic market share of audit firms (newcomers, restructures and mergers) and the Government’s persistent involvement within the corporate governance structure of listed companies have made the plan ineffective, or, at least (Mashayekhi and Mashayekh, 2008; Bagherpour et al., 2014; Salehi et al., 2017).

(3) The concept of “litigation risk” is not applicable to the audit market of Iran as Iranian auditors are only charged with criminal rules prescribed by the ITL (Salehi et al., 2017).

(4) The activity of BIG international audit firms in Iran is prohibited due to some political issues and, as a result, the IAO is considered a benchmark for other private audit firms. Further, this phenomenon has led to less pronounced effects of auditor reputation in the Iranian audit market (Salehi et al., 2017).
3. Literature review and hypothesis development

3.1 Role of management and ownership in family business

Family firms comprise two cornerstones of “business” and “family.” This combination creates a synergy between the so-called factors, which doubles the significance of the issue. The proper management in each of these cornerstones would directly affect the other and this causes the formation of a new concept for family firm management. The owners of such firms, in addition to managerial and entrepreneurship skills, should benefit from life skills including communications at a high level. Running a successful family firm, besides generating income for family members, improves the relations among members and lowers the social issues of such families.

In family firms, a large portion of shares are generally owned by one or more major shareholders from a family and family members are assigned to executive and operational positions. If the share of managers exceeds a threshold, they may be persuaded to provide a more desirable financial and performance statement. Moreover, major shareholders can also affect decisions and activities of the firm through controlling the conduct of managers (Mehrazin et al., 2013). Given the specific ownership structure of family firms, the preservation of family interests takes precedence over protecting the interests of shareholders, and since shareholders are less likely to have access to the essential corporate information, there is always a risk of conflict of interests, especially in the long run (Abdolmohammadi and Kvall., 2010). Companies, institutions, and firms which are under the influence of family relations and interactions are (Ali et al., 2007):

- businesses which are belonged to the family members and run by them or their employees;
- large and multinational businesses operating by several local families; and
- mutual businesses among some non-family partners, majority of whom are sons, daughters and/or other family members.

3.2 Family ownership and financial reporting

Family firms are generally characterized by a structure of ownership, management and control directed by a family member. A family firm is often distinguished by a sole ownership of family members, but there is little known about such firms and the choice of financial reporting in this particular form of companies. Nevertheless, a study of different aspects of financial reporting of family firms can aid shareholders, investors and creditors in making sound investment decisions (Salvato et al., 2008). It is fairly straightforward to identify an accounting entity, but this raises the question of whether such an entity likely to adapt when it comes to a family with controlling power? In this regard, two official perspectives were raised by Salvato et al. (2008):

(1) the founding family or the dominant family, who is chiefly interested in the long-term survival of the firm and concerned about the family and firm's reputation, and also possesses greater supervisory powers over executives is at place, mainly due to higher quality of accounting, planning and auditing in the family firms; and
the efforts made to mislead other stakeholders about the financial performance of
the firm and also conceal the wealth of founders or the dominant family is due to
lower quality of accounting, planning and auditing.

Accounting evidence on the relationship between ownership structures and financial
reporting quality is typically focused on one or more aspects of ownership structures.
Wang (2006), for instance, examines the relationship between founding family ownership
and earnings quality using data from the Standard & Poor’s 500 companies and concludes
that family owned firms demonstrate higher quality earnings and lower abnormal accruals.
He also documents that the earnings reported by family owned companies is more
informative than their counterparts and contains less transitory components. Similarly,
Namazi and Mohammadi (2010) examine the relationship between earnings quality and
stock returns in a sample of 39 family and 79 non-family firms listed on the TSE. The results
of their study indicate that there is not any significant relationship between earnings quality
based on the ratio of operating cash flow to net income as well as the standard deviation of
operating income to standard deviation of operating cash flow in family and non-family
firms. Rahimian et al. (2011) also report that firms with higher levels of institutional
ownership indicate higher audit quality, while institutionalized ownership concentration
tend to impair the audit quality. The authors use audit firm size, auditor’s specialization and
audit opinion as proxies for audit quality.

To our knowledge, a narrow line of research, to date, has examined the quality
of financial reporting or disclosure. However, the evidence on family ownership structures
is still lacking and inconclusive as the results are somewhat mixed and controversial.
Hutton (2007) argues that the research on family ownership is still in its early stage as he
found a spurious relationship between family ownership and disclosure quality. Based on
his findings, family owned firms are likely to have better performance whilst
well-performed firms tend to have high quality financial disclosure. Ali et al. (2007) and
Chen et al. (2008) provide some contrasting evidence on financial reporting and disclosure
quality. Specifically, while Ali et al. (2007) indicate higher quality of financial reporting
and disclosure, Chen et al. (2008) assert that the financial disclosure of family owned
firms is not transparent enough and lacks the transparency factor. The latter suggests
that family firms report more earnings warnings and fewer earnings forecast, probably
due to the fact that family owner have greater litigation and reputation cost concerns.
In stark contrast to Chen et al. (2008), the study of Mengoli et al. (2017) indicates that
family ownership and institutional environments of a sample of 12 European countries
have a substitute effect on the quality of financial reporting. In other words, their
contribution lies in the fact that better formal institutions are more likely to affect the
earnings quality of non-family firms more favorably. A few studies also document
that family and non-family firms’ valuations are significantly different and attribute
this difference to information risk along with the variations in financial reporting quality
(e.g. Anderson et al., 2003; Villalonga and Amit, 2006; Ghosh and Tang, 2015). Indeed,
prior literature on the relationship between firm valuation and ownership structure
contends that information asymmetry and information precision are less and
more pronounced for family firms, respectively (Easley and O’Hara, 2004; Villalonga
and Amit, 2006; Lambert et al., 2007).

Prior auditing literature demonstrates that financial reporting quality is significantly
associated with different auditing factors such as audit pricing, audit effort and audit risk
(Hirst, 1994; Gul et al., 2003; Bedard and Johnstone, 2004; Ghosh and Tang, 2015).
The general conjecture is that auditors spend more time on the audit engagement for
clients whose financial statements are of poor quality and thus the risk of financial
misstatement is considered high. In this respect, when auditors consider financial
reporting as low quality, they, consequently, raise the level of audit risk and charge higher
audit fees as well. They also consider the use of specialized personnel on the audit team in order to reduce audit risk, which, per se, leads to higher audit fees (Bedard and Johnstone, 2004; Ghosh and Tang, 2015).

Ebrahimi et al. (2014) examine ownership structure impact on audit fees and independent auditors’ opinion in companies listed on the TSE. Using multivariate regression of integrated data for 69 companies during the period of 2006–2011, they report that the ownership of institutional investors has a significant and positive effect on audit fees. Their results also suggest a significant and negative relationship between institutional ownership and qualified audit opinions. Bedard and Johnstone (2004) provide some evidence on earnings manipulation as a corporate governance risk and its significant and positive relationship with audit effort and remuneration. Likewise, Leventis and Dimitropoulos (2010) indicate that earnings management causes higher audit fees, particularly in small-sized companies in Athens. Alali (2011) tests the linkage between audit fees and discretionary accruals during 2000–2006 and find that there is a positive and significant relationship between discretionary accruals and audit fees. Moreover, his study shows that firm profitability negatively affects audit fees. Specifically, his findings suggest that companies operating in an insecure financial situation (losing money) are likely to pay higher audit fees due to the higher risk of the company as a result of its poor profitability.

The Australian evidence of Khan and Subramaniam (2012) investigates how family ownership is related to audit fees and auditor choice. According to their results, family firms pay higher audit fees than do non-family firms. Their results also reveal that, compared with non-family firms, family firms are more likely to work with BIG auditing firms. In a similar vein, He (2010) examines family ownership impact on auditor choice, audit fees and internal governance and concludes that in firms with strong internal governance, clients would be more likely to choose the most qualified auditors. Furthermore, he shows that the positive relationship between family ownership and the expert auditor choice is strengthened by strong internal mechanisms and the negative relationship between family ownership and audit fees is eliminated in the presence of strong governance. Collecting data from the S&P 1,500 firms, Kang (2012) investigates how ownership structure of family firms and agency issues affect the choice of expert industrial auditors and audit fees. The findings suggest that family firms are more likely to choose expert auditors and also pay lower audit fees than do non-family firms. Ghosh and Tang (2015) examine auditor’s assessment of the quality of financial reporting by analyzing the audit fee and audit risk in family and non-family firms in 2000 US industrial companies from 2001 to 2010. The results revealed that auditors charge less fees from family firms compared to non-family firms and this gap is diminished when family firms entail high audit risk. The authors also report that audit risk and audit effort in family firms are less risky than non-family firms.

Based on the preceding discussions in the theoretical foundations and literature review, we expect a significant relationship between family ownership and audit related factors, namely audit risk, audit effort and audit fees. Accordingly, we present our hypotheses as follows:

H1. There is a significant relationship between family ownership and audit risk.
H2. There is a significant relationship between family ownership and audit fees.
H3. There is a significant relationship between family ownership and audit effort.

4. Research methodology
4.1 Research model and statistical sample
Given the nature and content of the study, we use regression analysis to test our hypotheses. Drawing on the secondary data extracted from the financial statements of companies listed on the TSE, the relationship between variables is analyzed. This is a descriptive research
that adopts an ex post facto design for the analysis of past data (corporate financial statements). The total number of 460 companies is listed on the TSE during 2011–2015, from which we choose a sample of 221 companies consisting of 52 family firms and 169 non-family firms. Our sample is about 48 percent of the statistical population which seems a logical percentage.

Following Ghosh and Tang (2015), the empirical models used in the present research are described as below:

\[
TCA = \beta_0 + \beta_1 \text{Family-firm} + \beta_2 \text{Size} + \beta_3 \text{Current assets-to-current liabilities}
+ \beta_4 \text{Inventory} + \beta_5 \text{Return on assets} + \beta_6 \text{Loss} + \beta_7 \text{Audit-opinion}
+ \beta_8 \text{Audit-tenure} + \beta_9 \text{Audit specialization} + \beta_{10} \text{Leverage}
+ \beta_{11} \text{Current assets-to-total assets} + \beta_{12} \text{Growth} + \beta_{13} \text{Market-to-book}
+ \beta_{14} \text{Busy-season} + \beta_{15} \text{Auditor-change} + \epsilon. \tag{1}
\]

We use an accrual-based measure for audit risk in model (1) as the dependent variable. The variable of interest in this model is Family-firm and its coefficient (\(\beta_1\)). We expect \(\beta_1\) to be negative if audit risk is lower for family firms:

\[
\text{Audit fees} = \beta_0 + \beta_1 \text{Family-firm} + \beta_2 \text{Size} + \beta_3 \text{Current assets-to-current liabilities}
+ \beta_4 \text{Inventory} + \beta_5 \text{Return on assets} + \beta_6 \text{Loss} + \beta_7 \text{Audit-opinion}
+ \beta_8 \text{Audit-tenure} + \beta_9 \text{Audit specialization} + \beta_{10} \text{Leverage}
+ \beta_{11} \text{Current assets-to-total assets} + \beta_{12} \text{Growth} + \beta_{13} \text{Market-to-book}
+ \beta_{14} \text{Busy-season} + \beta_{15} \text{Auditor-change} + \beta_{16} \text{Financing}
+ \beta_{17} \text{Cash-flow} + \beta_{18} \text{Beta} + \epsilon. \tag{2}
\]

In model (2), the dependent variable is audit fees charged by auditors and our main variable of interest is again Family-firm. The coefficient on Family-firm (\(\beta_1\)) is expected to be negative if audit fees in family firms are lower due to higher quality of financial information:

\[
\text{Report time} = \beta_0 + \beta_1 \text{Family-firm} + \beta_2 \text{Size} + \beta_3 \text{Abnormal accruals}
+ \beta_4 \text{Return on assets} + \beta_5 \text{Leverage} + \beta_6 \text{Auditor-change}
+ \beta_7 \text{Busy-season} \tag{3}
\]

Report time as the dependent variable of model (3) represents audit effort. The coefficient on Family-firm (\(\beta_1\)) is expected to be negative in order to fulfill our primary expectation regarding lower audit efforts in family firms as a result of higher reporting quality.

4.2 Dependent variables

The quality of financial reporting from the auditor’s perspective consists of three criteria of audit fee, audit risk and audit effort, each of which is described in details below. For the audit risk criterion, we use the modified model of Dechow and Dichev (2002) to measure the quality of accruals:

\[
TCA_{i,t} = \beta_0 + \beta_1 \text{CFO}_{i,t-1} + \beta_2 \text{CFO}_{i,t} + \beta_3 \text{CFO}_{i,t+1} + \beta_4 \Delta \text{REV}_{i,t} + \beta_5 \text{PPE}_{i,t} + U_i \tag{4}
\]

where \(TCA_{i,t}\) is the sum of current accrual items for firm \(i\) in year \(t\), which is measured using the following equation:

\[
TCA_{i,t} = \text{OL}_{i,t} \cdot \text{CFO}_{i,t}.
\]
CFO\(_{it}\) is the Operating cash flow of firm \(i\) in year \(t\); \(\Delta \text{RE}V_{it}\) the changes in net sales during year \(t\) and \(t-1\) for firm \(i\); PPE\(_{it}\) the net value of tangible fixed assets of firm \(i\) in year \(t\); \(U_{it}\) the estimated error (remainder of the regression); \(\text{OI}_{it}\) the operating income of firm \(i\) in year \(t\).

All variables in Equation (4) are deflated by the sum of assets to ensure homogeneity. \(U_{it}\) is the residual of the model, which is a proxy for the quality of accruals. Due to its inherent characteristics, the quality of accruals can be regarded as a substitute for audit risk. The residuals of the model indicate the degree to which accruals have been mapped to cash flows. Residuals are likely to result in management bias which raises the probability of major manipulations in the financial statements and thus leads to higher audit risk (Francis et al., 2005).

The second dependent variable in this study is the audit fee, which is calculated as the logarithmic transformation of the total fees charged by the auditor. The third dependent variable is audit report lag; therefore, if auditors are supposed to charge lower fees due to reduced audit risk, they need to undertake less audit tests. Using audit report lag (the number of days between the end of the fiscal year and the issuance date of the audit report) as a proxy for the audit effort in the third model indicates the need for fewer substantive tests to provide the reasonable level of assurance to the users of audit report. Given the fact that few substantive tests are required to reach a reasonable level of assurance, less audit effort is needed and thus auditors charge less fees from family firms. Previous studies suggest that greater auditor’s effort would delay the issuance of audit reports, thus in this study audit report lag is used as an indicator of audit effort. When higher audit effort is required, auditors are expected to spend more time and charge higher fees (Knechel and Payne, 2001).

4.3 Independent variables

The present paper employs the Daxplus Family Index along with a review of previous studies to identify family firms. In this respect, the term “family firm” is used to refer to companies in which at least 20 percent of shares are owned by a family or their relatives, or when two family members or a relative sit on the board of directors and hold a minimum of 5 percent of the common stocks.

4.4 Control variables

Following Ali et al. (2007) and Ghosh and Tang (2015), we use a set of control variables in our regression models to control auditor and client related effects. Table I describes these variables in detail.

Discretionary accrual as a control variable is also included in the model (3) and calculated by using the modified Jones model as follows:

\[ TA_{it} = E_{it} - \text{OCF}_{it}, \]

where \( TA_{it} \) is the total accruals of the firm \(i\) in year \(t\); \( E_{it} = \) Income before unrealized items for firm \(i\) in year \(t\); \( \text{OCF} = \) cash flows from operations for firm \(i\) in year \(t\).

After calculating total accruals, the \( \alpha_1, \alpha_2, \alpha_3 \) parameters are computed using the following equation:

\[ TA_{it} = \frac{1}{A_{it-1}} + z_2 \frac{\Delta \text{RE}V_{it}}{A_{it-1}} + z_3 \frac{\text{PPE}_{it}}{A_{it-1}} + e, \]

where \( TA_{it} \) is the total accruals of the firm \(i\) in year \(t\); \( A_{it-1} \) is the total book value of the firm’s assets at the end of year \(t-1\); \( \Delta \text{RE}V_{it} \) the change in sale revenues of the firm \(i\) between years \(t\) and \(t-1\); \( \text{PPE}_{it} \) the net value of plan, properties and equipment of firm \(i\) in year \(t\); \( e_{it} \) the error terms of random factors; \( \alpha_1, \alpha_2, \alpha_3 \) the estimated parameters of firm \(i\).
After calculating $\alpha_1$, $\alpha_2$, $\alpha_3$ parameters using the least squares method, the discretionary accruals are determined using the following equation:

$$NDA_{it} = \alpha_1 \frac{1}{A_{it-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} + \alpha_3 \frac{PPE_{it}}{A_{it-1}},$$

(7)

where $NDA_{it}$ is the non-discretionary accruals of firm $i$ in year $t$; $\Delta REC_{it}$ the change in accounts receivable of firm $i$ between years $t$ and $t-1$, report time indicates the number of days between the end of the fiscal year and the date of the auditor’s signature.

5. Research findings
5.1 Descriptive statistics

Table II presents the descriptive statistics of variables used in the regression models. As it is evident in panel (A), we present the mean values for the full sample (221 firms), the family subsample (52 firms) and the non-family sample (169 firms). We also report the frequency distribution of family firms in panel (B). Our variables of interest in this table are audit fees, audit effort and quality of accruals items (audit risk). For the full sample, the mean audit fees are 8.82 ($183,000). The mean value of audit fees for the family and non-family subsamples are 8.05 ($174,000) and 9.11 ($196,000), respectively. Unreported numbers indicate that the difference in audit fees between family and non-family subsamples is statistically significant.

The average audit report lag as a proxy for audit effort is about 94 days for the full sample. This mean value is approximately 91 days for the family subsample and about 100 days for the non-family subsample, supporting our primary expectation on lower audit effort for family firms. Unreported value for the difference of subsamples is again statistically significant. The variable capturing audit risk, quality of accrual items, is −0.02
on average for the full sample. The corresponding numbers for family and non-family subsamples are −0.36 and 0.00, respectively. The difference is statistically significant at margin of error of 0.05. The mean value on size for the full sample is 6.04 and the corresponding numbers for family and non-family subsamples are 5.95 and 6.85, respectively. As the difference of the preceding numbers is statistically significant, it can be argued that, relative to family firms, non-family firms are larger in size. Overall, all the differences of variables shown in Table II are statistically significant except for inventory to total assets as well as auditor tenure.

5.2 Goodness of fit or specification tests in panel data models
The present study uses panel data approach in order to test research hypotheses. In this respect, we conduct several diagnostic tests to determine which estimator estimates our regression models well. What follows is a summary of these tests. Table III reports the results of F-Limer test. The results indicate that pooling model is not an appropriate estimator for the second and third regression models as the significance value (0.000) is less than what is desired (0.05). In sharp contrast, the probability value of the first model suggests that panel data model is more appropriate to be used as an estimator.

Based on the results of F-Limer test shown in Table III, the appropriate model for estimating the first model is panel data. Therefore, it is required to select the best estimator between fixed effects and random effects for this model. In this regard, we use Hausman test to choose the appropriate estimator. The results of this test are reported in Table IV. Since the p-value of this model is greater than the margin of error of 0.05, we choose fixed effects model as the desirable estimator for estimating the first regression model.

<table>
<thead>
<tr>
<th>Regression model</th>
<th>F-statistic</th>
<th>Sig.</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.04</td>
<td>0.010</td>
<td>Null hypothesis (Pooling model) is confirmed</td>
</tr>
<tr>
<td>2</td>
<td>3.7</td>
<td>0.000</td>
<td>Null hypothesis (Pooling model) is rejected</td>
</tr>
<tr>
<td>3</td>
<td>3.85</td>
<td>0.000</td>
<td>Null hypothesis (Pooling model) is rejected</td>
</tr>
</tbody>
</table>

Table III. Results of F-Limer test
5.3 Estimation results

5.3.1 First hypothesis testing (family ownership and audit risk). Given the results of specification tests and heterogeneity of variance analysis for the research models as well as determination of appropriate estimators, we estimate each regression models.

Table V reports the estimation results of the first hypothesis for the full sample, assuming that the factor loadings on the control variables are stationary across family and non-family subsamples. The probability value of $F$-statistics (0.00 < 0.05) indicates the general significance of the total model, and the Durbin-Watson statistic (1.53) confirms the lack of auto-correlation between the components of the disturbance. The $R$ squared and the adjusted $R$ squared values of the model are 78 and 77 percent, respectively. Therefore, it can be concluded that in the regression equation, about 77 percent of the dependent variable changes is explained by the independent and control variables.

Under first hypothesis, we attempt to examine whether audit risk varies between family and non-family firms. In this respect, we have used an accrual-based proxy for audit risk based on the modified Dechow and Dichev (2002) model. Panel (A) of Table V reports the estimation results from using the full sample. The coefficient on Family-ownership is negative and significant ($C = -0.014; \ P = 0.001$). This provides...
consistent evidence with our hypothesis. In other words, it can be argued that audit risk is lower for family firms as compared with their counterparts, probably because the residuals of the accrual model give rise to audit risk in the form of misstatements, omissions or earnings management. Furthermore, the estimation results for the control variables are in line with those reported in prior studies. Specifically, audit risk is higher for firms that are larger, have more return on assets, have higher ratio of current assets to total assets or current liabilities and experience auditor change. By contrast, audit risk is lower for firms which receive the audit services from specialized auditors or which receive qualified audit opinion. Not surprisingly, audit risk is also lower for firms which are growing further.

5.3.2 Second hypothesis testing (family ownership and audit fees). Table VI presents the estimation results of the second hypothesis respecting the significant relationship between family ownership and audit fees. As it is obvious, our variable of interest, family ownership, indicates a negative and significant coefficient ($C = -0.090; P = 0.014$), suggesting that audit fees paid by family firms are lower than non-family firms. This finding is in line with the second hypothesis and that of prior studies (e.g. Chen et al. 2008; Kang, 2012; Ghosh and Tang, 2015).

The $F$ statistic of the overall model is significant at 0.05 of margin of error, and the Durbin-Watson’s statistic (1.56) implies lack of auto-correlation between the components of

Panel A: estimation results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>$t$-statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family ownership</td>
<td>-0.090</td>
<td>-2.469</td>
<td>0.014***</td>
</tr>
<tr>
<td>Size</td>
<td>0.062</td>
<td>2.444</td>
<td>0.015**</td>
</tr>
<tr>
<td>Current asset to current liabilities</td>
<td>-0.073</td>
<td>-3.937</td>
<td>0.000***</td>
</tr>
<tr>
<td>Inventory to total assets</td>
<td>-0.333</td>
<td>-2.299</td>
<td>0.022**</td>
</tr>
<tr>
<td>Return on assets</td>
<td>0.244</td>
<td>1.462</td>
<td>0.144</td>
</tr>
<tr>
<td>Loss</td>
<td>0.051</td>
<td>1.435</td>
<td>0.152</td>
</tr>
<tr>
<td>Auditor’s opinion</td>
<td>0.034</td>
<td>1.221</td>
<td>0.222</td>
</tr>
<tr>
<td>Auditor’s tenure</td>
<td>0.032</td>
<td>1.055</td>
<td>0.315</td>
</tr>
<tr>
<td>Auditor’s industry specialization</td>
<td>-0.118</td>
<td>-4.033</td>
<td>0.000***</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.128</td>
<td>-1.012</td>
<td>0.312</td>
</tr>
<tr>
<td>Current assets to total assets</td>
<td>0.428</td>
<td>2.922</td>
<td>0.003***</td>
</tr>
<tr>
<td>Growth</td>
<td>0.002</td>
<td>0.257</td>
<td>0.720</td>
</tr>
<tr>
<td>Market-book value</td>
<td>0.015</td>
<td>0.844</td>
<td>0.399</td>
</tr>
<tr>
<td>End of fiscal year (March)</td>
<td>0.104</td>
<td>2.830</td>
<td>0.004***</td>
</tr>
<tr>
<td>Auditor’s change</td>
<td>-0.048</td>
<td>-0.757</td>
<td>0.449</td>
</tr>
<tr>
<td>Initial public offering</td>
<td>0.681</td>
<td>3.678</td>
<td>0.000***</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>-8.393</td>
<td>-1.691</td>
<td>0.091*</td>
</tr>
<tr>
<td>Systematic risk ($\beta$)</td>
<td>-0.000</td>
<td>-0.610</td>
<td>0.542</td>
</tr>
<tr>
<td>Y-intercept</td>
<td>8.207</td>
<td>31.768</td>
<td>0.000***</td>
</tr>
<tr>
<td>$R^2$</td>
<td></td>
<td></td>
<td>0.12</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td></td>
<td></td>
<td>0.08</td>
</tr>
<tr>
<td>$F$-statistic</td>
<td></td>
<td>2.736</td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td></td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson statistic</td>
<td></td>
<td>1.56</td>
<td></td>
</tr>
</tbody>
</table>

Panel B: mean differences

<table>
<thead>
<tr>
<th>Variable</th>
<th>Levine test</th>
<th>$t$-test</th>
<th>$t$-test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit fees</td>
<td>0.077</td>
<td>0.782</td>
<td>-3.45</td>
</tr>
<tr>
<td>$t$-test</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: ***, ***Significant at 10, 5 and 1 percent levels, respectively

Table VI. Results of the second hypothesis testing (family ownership and audit fees)
the disturbance. The coefficient of determination and modified coefficient of determination in the second model are also 12 and 8 percent, respectively. Therefore, it can be concluded that in the regression equation, about 12 percent of variations in the dependent variable is explained by independent and control variables.

The estimation results on control variables are somewhat similar to those of the first model and prior literature. For instance, more operating cash flows, systematic risk, auditor changes and financial leverage are negatively associated with audit fees. By contrast, larger clients, growing clients and qualified audit opinions raise the level of audit fees.

5.3.3 Third hypothesis testing (family ownership and audit effort). Under third hypothesis, we conjecture that audit report lag as a measure for audit effort is significantly and negatively associated with family ownership. In other words, relative to non-family firms, audit effort in family firms is lower due to higher quality financial reporting. As it is shown in Table VII, the coefficient (30.359) and p-value (0.000) of family ownership suggests that our hypothesis is supported. Other control variables in the model indicate plausible frequencies.

Taken together, our findings suggest that auditors of family firms are likely to put less effort into auditing practice. Which, by itself, is a consequence of lower level of audit risk. In other words, family firms are more prone to prepare high quality financial reports and lead audit firms into determining lower level of audit risk. Finally, when the level of audit risk is considered lower than average, auditors are likely to charge lower audit fees from family firms.

We argue that a combination of several factors in family firms is likely to contribute to the above-mentioned conclusions such as less likelihood of financial manipulation, tendency not to withhold bad news, and enhanced compulsory disclosures (e.g. financial statement notes).

6. Concluding remarks
The main objective of this research is to examine the relationship between family ownership and financial reporting quality from the auditor’s perspective. For this purpose, we use a sample of 221 firms (52 met family firm criteria and 169 are non-family firms) listed on the TSE

---

**Panel A: estimation results**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family ownership</td>
<td>30.352</td>
<td>14.982</td>
<td>0.000***</td>
</tr>
<tr>
<td>Non-discretionary accruals</td>
<td>0.135</td>
<td>0.053</td>
<td>0.957</td>
</tr>
<tr>
<td>Auditor’s change</td>
<td>-0.922</td>
<td>-0.363</td>
<td>0.716</td>
</tr>
<tr>
<td>End of fiscal year (March)</td>
<td>-31.682</td>
<td>-3.984</td>
<td>0.000***</td>
</tr>
<tr>
<td>Leverage</td>
<td>10.492</td>
<td>5.184</td>
<td>0.000***</td>
</tr>
<tr>
<td>Return of assets</td>
<td>-34.708</td>
<td>-2.329</td>
<td>0.020**</td>
</tr>
<tr>
<td>Company size</td>
<td>5.531</td>
<td>2.270</td>
<td>0.024**</td>
</tr>
<tr>
<td>Y-intercept</td>
<td>44.775</td>
<td>2.168</td>
<td>0.031**</td>
</tr>
<tr>
<td>R²</td>
<td>0.18</td>
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</tr>
<tr>
<td>Adjusted R²</td>
<td>0.16</td>
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<tr>
<td>F-statistic</td>
<td>8.447</td>
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</tr>
<tr>
<td>Sig.</td>
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<tr>
<td>Durbin-Watson statistic</td>
<td>1.87</td>
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<td></td>
</tr>
</tbody>
</table>

**Panel B: mean differences**

<table>
<thead>
<tr>
<th>Variable</th>
<th>F</th>
<th>Sig.</th>
<th>t</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit effort</td>
<td>0.487</td>
<td>0.486</td>
<td>4.25</td>
<td>332</td>
<td>0.000</td>
</tr>
</tbody>
</table>

**Table VII.** Results of the third hypothesis testing (family ownership and audit effort)

Notes: *,**,***,**,**Significant at 10, 5 and 1 percent levels, respectively.
during the 2011–2015. According to the results, there is a significant difference between the audit risk of family and non-family firms. Thus, it can be concluded that in family firms, the agency’s conflicts between family owners and managers are less pronounced and they are not adequately motivated to maximize their personal interests and influence the financial reporting process.

On the one hand, auditors dedicate more time to conduct final audit of family firms, and this is not consistent with theoretical foundations. Perhaps, this is due to the importance of family firms from the auditor’s perspective, so that auditors tend to further question and challenge the owners of family firms, which delay the completion of the fieldwork. On the other hand, they consider the level of audit risk lower than that of non-family firms, due to higher quality financial reporting in family firms. Higher quality financial reporting implies lower level of financial manipulation enhanced compulsory disclosures as well.

Generally, a review of literature suggests that the results of this study are consistent with the findings reported by Tsui et al. (2001), Griffin and Lont (2011), Chen et al. (2008), Kang (2012), Ghosh and Tang (2015). However, our results are not in line with the findings of Khan and Subramaniam (2012) and the third hypothesis of the Ghosh and Tang (2015) as well as the results of Ebrahimi et al. (2014).

References


Further reading


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