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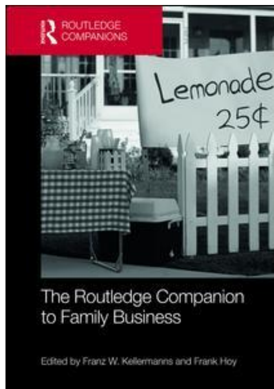

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7

SOCIOEMOTIONAL WEALTH PRESERVATION IN FAMILY FIRMS

A Source of Value Destruction or Value Creation?

Ionela Neacsu[1], Geoffrey Martin, and Luis Gómez-Mejía

The role played by large family owners and minority shareholders in influencing firm strategic decisions has been widely analyzed in the management literature (e.g., Block 2010, 2012; Chrisman and Patel 2012; Deephouse and Jaskiewicz 2013; Feldman et al. 2014; Gómez-Mejía et al. 2010, 2014; Grossman and Hart 1986; Miller et al. 2010; Muñoz-Bullon and Sanchez-Bueno 2011; Patel and Chrisman 2014; Shleifer and Vishny 1986). According to the growing body of research exploring the interplay between family and non-family shareholders, family owners are prone to make strategic decisions that follow their own subjective rules—triggered by their own risk preference—rather than make choices based on objective financial criteria which presumably would be more beneficial to non-family shareholders (Anderson et al. 2012; Chua et al. 2015). Given this conflict of interests between family and non-family shareholders, powerful family owners may develop an "us-against-them" mentality (Kellermanns et al. 2012) that leads them to use their control and influence over the business to alter firm strategic decision-making in ways that advance their family interests. That is, family owners purportedly obtain private benefits from the firm at the expense of other firm stakeholders (Berkman et al. 2009; Fan and Wong 2002; Grossman and Hart 1986). In fact, family owners' prioritization of family goals is likely to influence the future of the firm since it affects the allocation of internal resources, the relationship with non-family stakeholders, as well as the work environment (Hitt et al. 2009). For instance, senior executives of family firms may allocate considerable levels of resources and capabilities to achieve family goals, which may have negative consequences for firm performance (Shleifer and Vishny 1986).

Given family owners' intentions to exercise control and influence over the family firm—often at the expense of non-family stakeholders—the research question we revisit in this book chapter is: 'How does family ownership influence firm performance?' Although a large body of literature has addressed this question by examining the differences in performance results between family and non-family firms, the findings remain contradictory and the conclusions are mixed (e.g., Dyer 2006; Miller et al. 2007; Schulze et al. 2001, 2003). Further confounding this stream of literature, family firms are generally found to outperform non-family firms, despite their purported pursuit of non-financial objectives (see extensive review by Amit and Villalonga 2014). One possible explanation for these equivocal findings is that the definition used for classifying a firm as family-owned differs considerably between studies, given 'family-owned'

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is a relatively arbitrary measurement (Amit and Villalonga 2014). That is, the proxy used can depend on both the subjective perception of researchers and more objective criteria, such as the percentage of family ownership and the number of family members in management positions or on the board of directors (Dyer 2006).

The relationship between family firm's aspiration to achieve family-centered non-economic goals (flow) and the accumulation of effective resources that have non-economic utility (stock) is likely to represent a source of heterogeneity among family firms (Chua et al. 2015). As Chua and colleagues argue, family firms driven by non-economic flow are more likely to take aggressive strategic decisions (making them more risk-willing) relative to family firms driven by non-economic stock. Given that riskier strategic actions are associated with high economic returns (Fama and French 1992), the distinction between stocks and flows of non-economic wealth may help explain differences in performance among family firms. Lastly, a diverse set of contingencies such as firm size, the nature of the sample, generational stage or the type of firm may all be behind these mixed results (Villalonga and Amit 2006; Morck et al. 2004). For instance, Naldi and colleagues (2013) compared firms led by family CEOs and firms led by non-family CEOs across two types of business environments, namely industrial districts and publicly listed firms in Italy. Their findings show that family firms with a family member as CEO outperform family firms with a non-family CEO when analyzed based on industrial districts, and underperform them when the firms are publicly traded. That is, having a family CEO at the helm improves firm performance in industrial districts where the social norms and tacit rules are of greater importance, and becomes a burden in publically traded companies, where broader stakeholder management has more importance. Similarly, Villalonga and Amit (2006) and Miller et al. (2007) report that family firms outperform non-family firms, yet only when the founder remains involved. We conclude that, although the family influence on firm's decisions is indubitable, the impact of family ownership on firm performance remains an open research question. Our intention is to revisit this issue from the perspective of the socioemotional wealth (SEW) preservation theory (Gómez-Mejía et al. 2007), which "has gained great traction in family business research in recent years" (Schulze and Kellermanns 2015).

Socioemotional Wealth Theory

Because the SEW construct has been used in family firm research for less than 10 years, most prior research on family business performance has not relied on SEW as a theoretical lens. The purpose of this chapter is to reexamine prior literature, focusing on the question of whether SEW preservation in family businesses helps create or destroy firm value. Specifically, we reinterpret prior results using the logic of loss aversion in the context of SEW, derived from the behavioral agency model (BAM; Wiseman and Gómez-Mejía 1998). Consistent with prospect theory (Kahneman and Tversky 1979; Tversky and Kahneman 1992) BAM's predictions draw on the concept of loss aversion, which suggests that individuals prefer to preserve the accumulated value of their wealth rather than pursue strategic decisions with uncertain prospective gains. BAM's main objective is to analyze managerial agents' risk preferences in response to the wealth-at-risk (or risk bearing) associated with compensation. Family firm literature applies this logic to decision making of the firm's principals – often comparing family principals' decision making to non-family firm principals. Hence, instead of analyzing decisions of managerial agents, family firm scholars have examined loss aversion of family principals with respect to their stock of SEW.

SEW is an umbrella term coined by Gómez-Mejía and colleagues (2007) to capture the whole set of non-pecuniary endowments that the family has embedded in the firm. This would

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include, for instance, enjoyment of family control over the business, granting family members job security and financial benefits, assuring the transgenerational control of the family business, as well as securing the family's reputation and status in the community (see Berrone et al. 2012, for a discussion of various SEW dimensions). As a consequence of these family-specific utilities, family owners are considered loss averse to SEW. That is, when making risky strategic decisions, family firms will trade off economic and non-economic goals. For instance, family firms engage in lower R&D investments (Block 2012; Chrisman and Patel 2012; Gómez-Mejía et al. 2014; Muñoz-Bullon and Sanchez-Bueno 2011; Patel and Chrisman 2014), less international diversification (Gómez-Mejía et al., 2010; Miller et al., 2010), fewer unrelated acquisitions (Gómez-Mejía, Patel and Zellweger in press), lower asset divestiture (Feldman et al. 2014), lower cooperative participation (Gómez-Mejía et al. 2007) and invest more in environmental programs (Berrone et al. 2010), among others, to protect SEW and prolong the family control over the firm, even if these actions are detrimental to the "bottom line." This trade-off between socioemotional and financial benefits is likely to provide one explanation as to why the evidence regarding family firms' performance relative to non-family firms is mixed or conflicting.

Contrary to non-family firms that are primarily interested in maximizing firm financial results, family firms think of performance in a broader sense, comprising both pecuniary and socioemotional forms of wealth (Gómez-Mejía et al. 2011). Thus, to family owners, the firm's value includes both socioemotional and financial endowments (Zellweller et al. 2012). Expanding on this idea, McKenny and colleagues (2012) suggest integrating family firms' non-financial (or socioemotional) benefits into a multidimensional performance measure. However, measuring family firm performance from a multidimensional perspective represents a challenge for researchers trying to understand how family ownership and control influence firm results. For instance, under financial distress, family firms may increase R&D investments despite that this could lead to a reduction in SEW (Gómez-Mejía et al. 2014). As R&D investments imply that part of family control and influence needs to be delegated to external experts, the family firm becomes dependent on external parties from outside the family area of influence. In a similar fashion, when exposed to greater potential for bankruptcy, family firms may engage in greater diversification (Gómez-Mejía et al. 2010), join a cooperative (Gómez-Mejía et al. 2007), or even replace a long-tenured family CEO with an external executive (Gómez-Mejía et al. 2001).

Applying a behavioral agency logic (Wiseman and Gómez-Mejía 1998), family owners consider both economic and socioemotional reference points when framing the possible outcomes of their strategic decisions in terms of gains and losses. Given that SEW preservation depends on the firm's survival, SEW loss avoidance represents a priority as long as the firm is not suffering from financial distress (Chrisman and Patel 2012). However, as performance hazard decreases, family firms will be more prone to make strategic decisions motivated by both financial and socioemotional considerations, with the latter moving to the forefront if the firm is financially secure (Chrisman and Patel 2012). That is, in order to ensure firm survival and the preservation of the family-specific endowment, family owners need to guarantee their firm's economic sustenance. This might explain why SEW preservation may not lead to lower economic performance, except perhaps if we consider opportunity costs of SEW loss avoidance when the firm is performing relatively well (for instance, family owners may make "suboptimal" economic investments, such as lower R&D, to protect SEW when the firm is not in financial danger; Gómez-Mejía et al. 2014; Chrisman and Patel 2012). Thus, overall family firms, despite the SEW loss aversion motive, may slightly outperform non-family firms. This conclusion is consistent with firm performance differences between family and non-family based on dozens of prior empirical studies recently reviewed by Amit and Villalonga (2014).

Value Destruction as the Offspring of SEW Loss Aversion

Despite the non-pecuniary benefits family owners obtain from preserving SEW, the family firm literature is still exploring how this family-specific socioemotional endowment affects strategic decision-making processes and firm performance. According to the SEW logic, family controlled firms are concerned with the preservation of SEW as their main goal, often at the expense of financial performance. That is, since family owners have most of their wealth (financial and non-financial) invested in the firm, they face severe consequences in case of failed strategic actions (Gedajlovic et al. 2004). As such, family firm's loss aversion to SEW results in family owners' tendency to avoid strategic decisions that may threaten SEW even when they have the potential to increase the firm's financial returns (Berrone et al. 2010; Deephouse and Jaskiewicz 2013; Gómez-Mejía et al. 2007, 2010, in press; Leitterstorf and Rau 2014; Zellweller et al. 2012).

Moreover, family owners deal with the negative consequences of their desire to protect SEW at the expense of other financial benefits, such as strong conflicts of interest between family members (Zellweger and Astrachan 2008) or between family owners and external stakeholders (Fan and Wong 2002). These conflicts may have severe negative implications for the survival of the family business as they could tear the firm apart, ultimately leading to a forced sale, liquidation or a merger. That is, the duality of family members' role inside the firm—family member and employee—is likely to make it difficult to achieve both socioemotional and financial goals (Berrone et al. 2012). Other family-specific characteristics such as sibling rivalry or identity conflicts (Schulze et al. 2001) are likely to accentuate the conflict between the different roles family members assume, making family members less likely to nurture the family firm's stakeholders (Kellermanns et al. 2012). According to Kellermanns and colleagues (2012), family-centric behavior is negatively associated with proactive stakeholder engagement. That is, such conflicts are strongly associated with a lower engagement of firm employees and reduced job satisfaction. Even when family employees are not able to leave the firm because of family ties with the rest of family members, the negative impact of such constrains is likely to be reflected in a hostile relationship with other employees, both family, and non-family, resulting in lower productivity.

Schulze and colleagues (2001) argue that family ownership and control may also represent a liability, due to a decrease in the firm's entrepreneurial behavior that may negatively influence firm growth and performance. Given the family's intention to protect and prolong its socioemotional endowment over the long run, family shareholders may become more conservative (risk averse) in their strategic actions. Presumably, this translates into weaker performance because family businesses are considered to be conservative, unwilling to change, and introverted, which is the opposite of the entrepreneurial spirit that might lead to higher returns (Naldi et al. 2007). This creates a problem for family firms given that: (1) obtaining superior results has been associated with risk taking, the so called "high risk/high return" paradigm (Miller and Bromiley 1990; Sanders and Hambrick 2007); and (2) family firms are argued to be more risk averse than non-family firms (Basu et al. 2009; McConaughy et al. 2001; Mishra and McConaughy1999). Since family owners are less diversified than non-family shareholders, they are also more likely to bear the brunt of downturns in their chosen industry without the benefit of diversified investments stemming from having wealth spread across businesses with negatively correlated returns. That is, the family firm's wealth (financial and socioemotional) could be significantly affected by the negative results of failed risky choices due to a lack of diversification. As a result, since high returns are generally associated with taking high risks, family firm's vulnerability to losses will cause them to avoid high risk; high return strategies that may come at the expense of family's socioemotional wealth.

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Gómez-Mejía and colleagues (2007) offer strong theoretical and empirical support for the hypothesis that family firms may choose to preserve SEW at the expense of financial benefits. Based on a population of Spanish olive oil mills, the authors show that family firms are less likely to join a cooperative that would bring them financial benefits in order to preserve their SEW. That is, family firms prefer to remain independent even if this decision would imply assuming greater business risks due to a higher probability of failure and lower performance. In a similar fashion, researchers have shown that family firms are less likely than non-family firms to engage in corporate diversification (Anderson and Reeb 2003b; Gómez-Mejía et al. 2010). According to Gómez-Mejía and colleagues (2011), firm diversification represents a threat to family owners' SEW for several reasons. First, firm diversification may require extra funding from external parties who would gain power over the strategic decision-making process of the family firm and consequently weaken family owners' ability to control and influence the family business. Second, diversification projects may also require hiring external expertise, leading to an increase in the information asymmetry between family owners and managers and ultimately reduce family owners' authority and monitoring ability. Lastly, by introducing new products and technologies or entering new markets, family's authorities and traditions would be threatened, leading to a decrease in SEW. Gómez-Mejía and colleagues (2010) also found that family firms are less eager to engage in international diversification that would decrease the family firm's dependence on local revenues, reduce the risk profile of the firm and therefore the cost of capital. Family owners' concern for SEW preservation may also slow rates of growth, reduce the investments in product development, as well as diminish the firm's ability to accumulate capital (Gómez-Mejía et al. 2014; Schulze and Kellermanns 2015). Likewise, family firms are less likely to use debt financing, suffering the consequences associated with their undiversified wealth and higher risk (Schulze et al. 2003).

The preservation of family SEW is also prone to restrain the family firm's innovative behavior for various reasons, as presented by Block and colleagues (2013). First, family owners' desire to exercise control and influence over the firm's strategic decisions may, in fact, diminish the firm's access to financial capital with potential to dilute family control, such that innovation projects with significant resonance are unlikely to be funded. Second, family shareholders' desire to appoint family members to key positions within the firm may restrain the managerial expertise needed to undertake sound innovation projects. Third, family owners' desire to pass the family legacy to next generations (transgenerational) control (Berrone et al. 2010), or the motivation for dynastic succession (Berrone et al. 2012), may in fact expose family members' inability to manage their firm and thus reflect their failure to engage in the innovation that is crucial for their firm's competitiveness. Lastly, most innovation projects are characterized by high levels of uncertainty. As such, family firms are inclined to invest in innovation projects with lower economic and technological relevance than non-family firms, even when controlling for the level of R&D spending (Block et al. 2013). That is, family firms will not only invest less in R&D than their non-family counterparts but will choose those innovation projects with inferior economic and technological impact. It follows that, by investing less in R&D projects, family firms' growth and survival are at risk (especially in high technology markets), whereas a constant investment level may allow firms to remain competitive in the market (Gómez-Mejía et al. 2011).

Similar to the case of R&D investments, Feldman and colleagues (2014) show that family owners may choose to retain rather than divest firm assets, motivated by their intentions to provide management positions for future family generations and prolong established relationships with firm stakeholders such as employees, buyers, and suppliers. The authors also mention that family firms may protect themselves from short-term market pressures by introducing control measures such as dual-class stock, high board representations, pyramids and voting arrangements.

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Faccio and colleagues (2001) demonstrated that in an East Asian empirical context, due to conflict of interests that emerge between family members, family firms are worse performers than non-family firms. According to Anderson and Reeb (2003), among Fortune-500 firms, dual share classes, hierarchies and voting arrangements are likely to weaken the founder's positive effect on firm value that we have referred to previously (cf. Villalonga and Amit 2006). According to Anderson and Reeb (2003a), conflict of interest between owners and managers are more costly in non-family firms relative to founder firms, and less costly in next-generations family firms relative to non-family firms. In addition, the effect of descendant CEOs on firm value is negatively associated with family firms owned by second-generation family members but positively associated with third-generation family firms.

Managerial entrenchment is also related to SEW preservation as the family is reluctant to replace one of its own, despite poor performance outcomes (Gómez-Mejía et al. 2001). Given that family managers tend to be relatively free from performance accountability, they tend to achieve longer tenures than their contributions would justify. According to McConaughy (2000), the tenure of family members holding executive positions tends to be three times longer than the tenure of non-family executives. Likewise, Gómez-Mejía and colleagues (2001) found that family CEOs' tenure is about seven years longer than the tenure of non-family CEOs when the probability of firm failure is high. Cruz et al. (2010) report that for similar performance levels the tenure of family CEOs is four times greater on average than the tenure of non-family CEOs. Some researchers argue that the main cause of managerial entrenchment is family altruism, resulting from a high concentration of family ownership (Stulz 1988) or from family owner's incapability to discipline another family member (Schulze et al. 2003). Thus, family managers' entrenchment may negatively affect firm performance. In support of these findings, Gómez-Mejía and colleagues (2003) show that, as industry-wide risk increases, family owners will increase family CEO's compensation to account for the possibility of firm failure or takeover, which would represent a threat to CEO's position within the firm.

Family members' altruism among each other has been found by Gómez-Mejía and colleagues (2001) and Schulze and colleagues (2001) to lead to poor performance. According to Schulze and colleagues (2001), family firms that have developed governance mechanisms able to curb altruism are better performers relative to firms which didn't adopt such measures. In a similar fashion, Gómez-Mejía and colleagues (2001) argue in their study based on the population of Spanish family newspapers that these organizations were less likely to dismiss family member CEOs than non-family firms owing to family altruism. However, when the family CEO was fired and replaced, performance improved significantly relative to the performance of non-family firms that also named new CEOs. In consequence, when family firms delay the decision to replace inefficient CEOs due to altruism, they are likely to negatively affect firm performance on a longer period.

Cucculelli and Micucci (2008) also found that family management has a negative impact on firm performance and this effect is stronger in competitive markets. According to the authors, family characteristics with a potentially positive impact on performance (stewardship, lower agency costs, long-term orientation and firm-specific investments) are significantly reduced when the firm is controlled by family members. For instance, family owners' desire to maintain control over the firm may lead them to assign family members to the board, which will negatively affect non-family stakeholders (Kellermanns et al. 2012). In addition, hiring outsiders for key positions within the firm is likely to be discouraged in family firms (Gómez-Mejía et al. 2010; Kets de Vries 1993). Although this tendency can be explained from a socioemotional point of view, there are also other factors impacting it, such as limited resources and capabilities, as well as the size of the firm (Gómez-Mejía et al. 2011). In fact,

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even when hiring outsiders, family owners will try to instill new employees with family values and rules to preserve their socioemotional endowment. It follows that family owners' desire to control the family business and appoint family members to key positions within the firm may lead to dysfunctional conservatism, unqualified management, and strategic involution (Miller and Le Breton-Miller 2014). Although these consequences may align with family's socioemotional objectives, they ultimately decrease firm performance, reduce the chances of firm survival, and lead to discontent non-family stakeholders (Schulze and Kellermanns 2015).

Nevertheless, family owners' loss aversion to SEW does not mean that they ignore the financial consequences of their strategic choices. It is more likely that, under family ownership, firms are willing to indulge the costs and uncertainty associated with certain strategic decisions led by the belief that the prospective financial gains are counterbalanced by family-specific noneconomic benefits. Next, we are offering evidence for the purported positive effect of SEW on family firm performance.

Value Creation as the Offspring of SEW Loss Aversion

As discussed above, family firms have idiosyncratic firm-specific non-utilitarian endowment in the form of socioemotional wealth (Gómez-Mejía et al. 2007). As a result of this non-pecuniary investment, family principals' financial and socioemotional risk bearing (wealth-at-risk) leads them to subjectively value their firm higher than owners of non-family firms (Zellweger et al. 2012). Empirical evidence shows that, because of a strong association between the firm and the family name, public attacks to firm's reputation could have devastating consequences on the future of the family business (Westhead et al. 2001). As a consequence, family firms are prone to achieve higher levels of corporate social responsibility and community service in order to protect or enhance family firm's image and reputation in society (Berrone et al. 2010; Dyer and Whetten 2006). It follows that family firms are more likely than owners of non-family firms to closely monitor managers' strategic decision-making process to ensure that they will not expose the family firm to financial losses that would ultimately lead to dramatic reputational (and thus SEW) losses.

Amit and colleagues (2015) argue in their research study based on publicly listed Chinese firms that family firms may, in fact, outperform non-family firms when institutional efficiency is high. This is consistent with the seminal agency literature (cf. Berle and Means 1932; Jensen and Meckling 1976) arguing that the concentration of ownership has a positive effect on firm value given a reduction in the conflict of interest appearing between owners and managers. Since the family name has great visibility, family owners will be more strongly linked with the business relative to their non-family counterparts, making them more committed and loyal to their business (Ward and Dolan 1998). Family members are willing to work intensively, in many cases even without extra compensation, and are flexible regarding their responsibilities in order to assure firms' survival and success. In addition, family members are usually involved in the family firm starting at early ages in order to understand how the business works, the attributes of firm customers, suppliers, and competitors, and have received intensive training from experienced family leaders (Dyer 1992). Such an apprenticeship can lead to a considerable competitive advantage relative to non-family firms without access to such a profound learning process. Other scholars propose that family firms are also better at attracting loyal customers and offering higher quality service due to the goodwill and truthfulness inspired by the family name and reputation and the commitment to their customers (Dyer 2006; Dollinger 1995). In sum, from the resource-based point of view, "firms with assets that are valuable, rare, inimitable, and nonsubstitutable

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may be able to create a sustainable competitive advantage" (Dyer 2006: 262), implying that such resources may improve family firm performance.

It follows that elements of SEW such as dynastic succession, strong social ties between the family firm members, the importance of family identity within the firm and family transgenerational control can make the family firm more competitive and thus survive over the long-term. Given their longer-term orientation (Miller and Le Breton-Miller 2005), family firms are also more likely than non-family firms to invest in patient strategies that result in building lasting relationships with firm's stakeholders such as suppliers and customers to acquire social capital and goodwill (Carney 2005). Consequently, in times of financial distress, this type of non-financial capital represents a social protection for firm's capital (Godfrey 2005). In short, the challenge for family owners is to guarantee firm survival by using SEW as a resource that enhances the firm's long-term competitive advantage.

We have mentioned that family firms tend to under-invest in R&D despite the potential negative effect on long-term competitiveness. However, there is also potentially a bright side to family firm's unique R&D approach. Given that family firms are more prone than non-family firms to have a better understanding of the family business and processes, there is likely to be lower information asymmetry between owners and managers (Miller and Le Breton-Miller, 2005; Ward, 2004). As a result, although family firms may invest less in R&D projects relative to non-family firms (Chen and Hsu 2009; Chrisman and Patel 2012; Patel and Chrisman 2013; Gómez-Mejía et al. 2014), once the decision to make the investment was taken, they may obtain lower agency costs and more successful R&D investments (Block 2012).

Family firms are also able to attract unique physical and financial capital to be used by the firm. According to Sirmon and Hitt (2003), family firms possess survivability capital, which represents the joint financial resources of the family, able to provide the firm with greater slack relative to those firms (non-family) that don't have access to it. Family owners may use financial resources from the family members uninvolved in the business as well, which protects the firm against major financial problems and contributes to the growth of the family firm. Some authors argue that family firms represent fertile grounds for entrepreneurial behaviors, necessary for firm foundation and evolution (Aldrich and Cliff 2003). According to Zahra (2005), goal convergence between family members and the firm, as well as goal continuity across family generations working within the firm may foster entrepreneurial behaviors. Together with a long-term orientation and lasting social relationships this may all contribute to greater perseverance in the pursuit of opportunities (Kellermanns et al. 2008), ultimately leading to an improvement in firm performance.

Founder involvement has often been argued to improve the performance of family firms (Amit and Villalonga 2006; Anderson and Reeb 2003a). This is explained by the fact that family members' identification with the firm, control and influence weakens as the firm changes its status from founding-family business to later generations family ownership (Gómez-Mejía et al. 2007). In other words, as family owners' desire to preserve SEW weakens from one generation to another, the use of SEW as a main reference point for strategic decision-making is also likely to decrease, inducing managers to make decisions aimed at improving firm's financial results (Anderson and Reeb 2003a). Similarly, founders have been argued to be more growth focused because they are less impeded by family non-economic priorities (Le Breton-Miller and Miller 2008).

Family firms' strategic decision-making process is also strongly influenced by family owners' desire to pass the business to future family generations, what is known as dynastic succession (Berrone et al. 2012; Chrisman and Patel 2012; Gómez-Mejía et al. 2011). According to Anderson and Reeb (2003a), because of blood ties between family members, family owners

view their business as an asset to be passed to future family generations and not wealth to be spent during their reign. Thus, in order to ensure the transgenerational transfer of family ownership and control (or dynastic succession; Berrone et al. 2012), family firms need to make strategic decisions that strengthen firm longevity. Such long-term objectives are achieved when family firms' strategic decisions are characterized by three elements: futurity, continuity, and perseverance (Lumpkin and Brigham 2011). Futurity refers to a prospective orientation of firm's strategic decisions; continuity requires the appreciation of firm's legacy, values, and traditions while perseverance implies the firm's ability to accept short-term sacrifices in order to attain long-term objectives.

Several family business scholars have argued that family firms may be indeed longer-term oriented than non-family firms given their intention to assure the transgenerational continuity of family control and influence (Anderson and Reeb 2003a; Arregle et al. 2007; Gómez-Mejía et al. 2011; James 1999; Kets de Vries 1993; Le Breton-Miller and Miller 2006; Miller et al. 2010; Sirmon and Hitt 2003; Zellweger and Astrachan 2008; Zellweger et al. 2012). That is, family firms may take strategic decisions intended to help the future family generations continue to enjoy the emotional and economic benefits of ownership, which may not necessarily produce economic gains in the shorter term (Block 2010; Casson 1999; James 1999). Since family owners are interested in achieving non-utilitarian benefits such as preserving the family's legacy, traditions, control and influence across generations (Gómez-Mejía et al. 2007), developing strong relationships with firm stakeholders (Berrone et al. 2012; Block 2010) or building a strong social position and image (Arregle et al. 2007), they are less pressured by external shareholders to obtain short-term results. According to Sirmon and Hitt (2003), family firms are more likely than non-family firms to invest in "patient capital," which is a type of financial capital without threat of liquidation on the short-term. Lastly, family owners may have greater self-efficacy and thus be more prudent in their risk taking behaviors, so that overall risk-taking is more successful (Martin et al. 2015)

Given that long-term horizons of firm strategic decisions may lead to superior performance in the long run (Drucker 1986; Jensen and Murphy 1990; Laverty 1996; Marginson and McAulay 2008; Mueller and Reardon 1993; Walsh and Seward 1990), family firms' desire to protect and prolong SEW across family generations may, in fact, lead to an alignment between the economic and family goals when analyzed over the long-term. Theoretical work examining family firm's temporal orientation relative to non-family firms supports the idea that the former type of ownership has longer-term horizons than the latter. For instance, family firms are more likely than their non-family counterparts to develop market loyalty, highly skilled employees and stable relationships with external stakeholders to ensure firm longevity (Arregle et al. 2007; Carney 2005; Chrisman et al. 2009; Miller et al. 2010). Family firms are also more likely to have concentrated ownership, lengthy executive tenure, and superior business expertise, all being associated with a long-term orientation (Le Breton-Miller and Miller 2006) and thus, with superior performance. A greater accumulation of slack resources, taking a less strategic risk and having a lower bankruptcy risk (Gentry et al. 2014) may also be precedents of superior performance results for family businesses. These findings may partly explain why, despite the negative consequences of SEW preservation (for instance, nepotism, managerial entrenchment, conflicts between family members, excessive control and influence over the firm as such; Gómez-Mejía et al. 2011, Schulze and colleagues 2001, 2003), family firms may in fact outperform non-family firms (Amit and Villalonga 2014; Amit et al. 2015).

Powerful stakeholders are also likely to influence the strategic decision making of family firms and thus their performance outcomes (Bromiley 1991; Wright et al. 1996). For instance, powerful external shareholders (blockholders) are likely to resist family firms' intentions to pursue

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non-economic (socioemotional) goals (Anderson and Reeb 2004; Thomsen and Pedersen 2000). According to Harrison and colleagues (2010), firms need to satisfy the demands of their shareholders. That is, even though family owners' preferences for specific strategic decisions may be driven by their desire to protect and prolong SEW, they will still need to get the approval of external shareholders in order to initiate their investment plans (Cennamo et al. 2012). That is, family firms are likely to develop a strong shareholder orientation in order to protect and preserve their socioemotional wealth and reputation (Cennamo et al. 2009). As a consequence, blockholders' power to gain control over the firms' strategic decisions (Thomsen and Pedersen 2000) is likely to weaken family owners' ability to pursue socioemotional objectives and favor more economic-driven decisions with a positive effect on firm's short-term performance. In a similar fashion, firm creditors (debt holders) represent another key class of stakeholders with significant influence over the family firms' strategic decision-making process (Schulze et al. 2003). This happens because creditors are highly interested in debt repayment and thus are less inclined to encourage family owners' intentions to make strategic decisions led by socioemotional rather than financial objectives. Therefore, through the presence of debt holders on the board of directors or their power to influence managers' strategic decisions through debt agreements, family owners' discretion to preserve SEW in a manner prejudicial to firm performance is likely to be mitigated.

Summary and Conclusions

This chapter has analyzed the impact of SEW preservation logic on family firm performance. The cumulative evidence from theoretical and empirical studies reviewed here suggests that family owners' desire to protect and prolong SEW can have both positive and negative implications for firm. That is, strategic decisions that encourage SEW preservation may also expose the family firm to performance hazard and increased employment risk when the non-utilitarian benefits are not also balanced by financial considerations. Our review of the literature suggests that, rather than being entirely concerned with the preservation of SEW, family firms face a trade-off between socioemotional and economic objectives. For instance, Chrisman and Patel (2012) argue that SEW preservation takes priority in family firms as long as their performance doesn't decline relative to aspirations. The authors argue that when performance doesn't meet aspirations, the SEW goals will become less important for family owners, making them more myopic in their strategic decision-making. That is, when firm failure due to poor performance results becomes a threat—leading to a complete loss of SEW—family firms are more likely to take shorter-term strategic decisions to improve their economic situation. In a similar fashion, Gómez-Mejía and colleagues (2014) show that family and non-family firms are more similar in their strategic decision making in a low-performance context, driven by the fear of losing all their SEW as a consequence of firm failure. It follows that, when firm performance is above aspirations, socio-emotional goals are more likely to influence the strategic decisions of family firms, leading to a divergence from non-family firms' strategic decision-making.

Given the complexity of most strategic decisions, prior empirical findings on the relationship between family ownership, strategic choices and performance outcomes may be open to alternative interpretations. For instance, R&D investments can be both short-term (tactical) and long-term (strategic) (Smit and Ankum 1993). Likewise, asset divestiture can be considered to be both a resistance to short-term market pressure (Feldman et al. 2014) or value destroying on the long-term since it doesn't make use of opportunities specific to low-performing firms with valuable assets (Berry 2010). Similarly, local and international diversification may decrease firm risk in the short-term, but over the long-term reduces firm returns and thus threatens the firm's

Table 7.1 The Negative and Positive Effects of SEW Preservation

Negative Aspects of SEW	*Positive Aspects of SEW*
1. Less diversified shareholders	1. Control measures such as dual-class stock, high board representations, pyramids and voting arrangements protect family firms from short-term market shocks
2. Family owners purportedly obtain private benefits from the firm at the expense of other firm stakeholders	2. Lower agency costs
3. Allocation of considerable levels of resources and capabilities to guide the company in a particular direction, with negative consequences for firm performance	3. Long-term orientation
4. Dysfunctional conservatism	4. Invest in patient strategies that result in building lasting relationships with firm's stakeholders
5. Strategic involution	5. Higher levels of corporate social responsibility and community service
6. Slow rates of growth	6. Encourage firm-specific investments
7. Low investments in product development	7. Attract loyal customers, offering higher quality service
8. Diminished ability to accumulate capital	8. Superior business expertise
9. Less access to debt financing	9. Greater accumulation of slack resources
10. Lower R&D investments	10. Less strategic risk taking
11. Less local and international diversification	11. Lower bankruptcy risk
12. Lower asset divestiture	12. More successful R&D investments
13. Lower cooperative participation	13. Attract survivability capital
14. Unqualified management	14. Invest in "patient capital"
15. Nepotism and family altruism	15. Enhances futurity, continuity, and perseverance
16. Managerial entrenchment	16. Strong social ties between the family firm members
17. Conflicts between family members	17. Intentions for family transgenerational control
18. Excessive control and influence over the firm	18. Family stewardship: committed and loyal family members, that work intensively and are flexible regarding their responsibilities
19. Strong conflicts of interest between family members or between family owners and external stakeholders	19. Intensive training from experienced family leaders
20. Sibling rivalry and identity conflicts	20. Good knowledge of the family business
21. Lower entrepreneurial behavior (more conservative, unwilling to change, risk averse, introverted)	21. Considerable competitive advantage relative to non-family firms without access to a profound learning process

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competitive position (Morck et al. 2004). The literature suggests that family firm's failure to make such strategic decisions may be explained by family owners' desire to exercise transgenerational control and influence over the firm—as socioemotional objectives—rather than based on performance considerations. However, we could also conclude from the aforementioned literature that the accumulated family-specific resources and capabilities allow family firms to obtain a long-term competitive advantage (Rau 2014) that is likely to contribute to outperformance relative to non-family firms (Amit and Villalonga 2014; Amit et al. 2015).

Consequently, a sensible conclusion from this review is that SEW loss aversion, which has been well established in the family business literature, may lead to suboptimal performance choices by family owners when the firm is doing relatively well (representing an opportunity cost); yet the same loss aversion will not put the firm in financial danger because this will also imply a potential loss in SEW (and in the extreme, the total loss of both SEW and the family's financial endowment if the case of firm failure). Another way of looking at this is that SEW loss aversion may induce family owners to "satisfice" rather than maximize when it comes to the pursuit of financial returns, and that paradoxically this may help in ensuring firm survival and in general offer some slight performance advantages over non-family firms (by promoting a long-term orientation, by avoiding imprudent risk taking, by having access to "patient capital," by enjoying greater reputation in the community, by having more continuity at the top and a more stable workforce).

In short, the effect of SEW preservation on firm performance may be both negative and positive (which we have summarized in Table 7.1); yet the fact that family firms, in general, tend to outperform non-family firms (Amit and Villalonga 2014) suggests that at worst, the performance consequence of SEW loss aversion is neutral (because the positives and the negatives cancel each other out). At best the net performance effect is positive, as a result of those SEW aspects that may enhance firm performance.

In terms of a future research agenda, the net impact of SEW preservation on firm performance needs further theoretical and empirical development before it can be considered a main characteristic of the family firm. Although the SEW logic provides a comprehensive theoretical framework to help us understand family firm behavior relative to non-family firm (that may ultimately provide a platform for a theory of the family firm), a more fine-grained theoretical and empirical research is still necessary. For instance, given the complexity of the SEW concept, future research could analyze which specific aspects of SEW are more likely to have a strong impact on firm behaviors and performance (cf. Miller and Le-Breton Miller 2014). Perhaps there are mediating behaviors that will further elucidate why family firm performance differs from non-family? Another interesting research question that deserves further examination is related to the causal effect between family owner's desire to protect and prolong SEW and firm performance. That is, do family firms achieve superior performance (relative to non-family firms) as a consequence of their desire to preserve and enhance SEW, or is it that family firms have dual socioemotional and economic objectives that may, in fact, be compatible over the long-term? Or do family owners outperform despite their commitment to emotional objectives that conflict with financial objectives? The generational stage also appears to be instrumental in differences between family and non-family firms (cf. Amit and Villalonga 2006), however, research examining the behavioral differences between different generations of family firms and how they impact performance is sparse. Further studies may need to address these research questions through the lens of a more comprehensive theoretical model that can explain both family owners' preference for dual—socioemotional and economic—objectives and contingencies (moderators) that make family firms behave similarly to non-family firms (and thus achieve similar performance levels).

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