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New Insights On Economic Theories Of The Family Firm

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RESEARCH ARTICLE

New insights on economic theories of the family firm

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Abstract Research attention to family firms has significantly increased in recent years, with a growing application of economic theories such as agency theory and resource-based theory to explain differences between family firms and nonfamily firms and heterogeneity among family firm populations. Despite this progress, the formulation of an economic theory of family business remains notably absent. Merely applying existing economic theories of the firm to the realm of family business is inadequate, as these general theories fail to incorporate the idiosyncratic aspects of family firms, such as the pursuit of socioemotional wealth. This paper seeks to advance economic theories specific to family firms and lay the groundwork for future studies. We advocate for interdisciplinary research using insights from fields such as economics, management, sociology, and psychology to investigate the complex dynamics governing family firms and their economic behaviors, decision-making, and performance.

Plain English Summary Research on family firms is increasing. Scholars are using economic theories like agency theory and resource-based theory to explain differences between family and nonfamily firms as well as variations among family firms. However, there is still no clear economic theory of the family firm. Using existing economic theories does not work well because they do not consider the unique aspects of family businesses. Essentially, the economic theory of family business must tackle three core inquiries: What makes family firms distinct from nonfamily organizations? What factors dictate the scale and scope of family businesses? And what influences the heterogeneity within the family business sector? This paper contributes toward the development of an economic theory of family firms.

Keywords Family firms · Family business · Governance · Culture · Institutional economics · Long-term orientation

JEL Classification G32 · G34 · L20 · L25

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1 Introduction

Although a young field, research attention to family firms has grown rapidly in recent years, and several scholarly attempts have been made to explain the differences between family and nonfamily firms as well as the heterogeneity among family firm populations (Gedajlovic et al., 2012). These attempts have extensively drawn on ideas expressed in economic theories such as agency theory, resource-based theory, and transaction cost theory (Chrisman et al., 2010; Sharma et al., 2012). Economic theories have indeed motivated the development of key concepts and constructs used in family business, including nepotism, paternalism, family altruism, and bifurcation bias, among others. Furthermore, some recent studies grounded in economics have been initiated to explain the uniqueness and heterogeneity of family firms in specific contexts (e.g., Audretsch et al., 2023; Berghoff, 2006; Osakwe et al., 2022).

Nevertheless, despite the strong connection between economic theories and the study of family firms, the establishment of an economic theory of family business remains notably absent. Merely applying pre-existing economic theories of the firm to the realm of family business is inadequate, as general economic theories of the firm fail to incorporate the idiosyncratic aspects of family firms such as the pursuit of socioemotional wealth (Gómez-Mejía et al., 2007). This exclusion neglects crucial elements necessary for constructing a solid theoretical foundation for exploring the behavior and performance of family firms. Exploring economic theories of family firms might unveil new perspectives and motivate the development of new theories or the extension of existing theories pertaining to family business in economics and other relevant disciplines. As argued by Chrisman et al., (2016: 719), "Making richer contributions to general management and economics requires efforts such as theoretical reconciliation with general business theories, conceptual and empirical elaboration of the heterogeneity of family firm types, and theoretical refinement of the sources of family firm distinctiveness."

This special issue aims to act as a catalyst, fostering and facilitating contributions toward the establishment of an economic theory of family business. We received submissions that spanned a diverse array of topics set in a variety of institutional contexts. In this introductory article, we elucidate the importance of developing an economic theory of family business and identify essential questions that deserve exploration. Subsequently, we delve into the substance and contributions of the articles featured in this special issue and elaborate on the insights each offers pertaining to the development of a theory of the family firm. The issue culminates with a comprehensive discussion of the themes presented, as well as highlighting areas that this special issue has not addressed.

2 Economic theory of family business

This special issue is devoted to the development of economic theories for family businesses, which are intrinsically linked to the economic theory of the firm. According to Holmstrom and Tirole's (1989, p. 65), a theory of the firm must address two central questions: (1) why firms exist and (2) what determines their scale and scope. As Holmstrom and Tirole put it: "[t]he challenge is to offer a genuine trade-off between the benefits and costs of integration." In that regard, the central task of the economic theory of the firm is to compare firms with alternative modes of organizing economic exchanges to market transactions (Alchian & Woodward, 1987; Coase, 1937; Demsetz, 1988). For example, transaction cost theory (Williamson, 1975) emphasizes the existence of firms as a means to lessen the opportunistic potential arising from market exchange. A firm attains the limits of its scale and scope when the costs associated with firm organization surpass the corresponding benefits.

Adhering to the foundational questions posited by the theory of the firm (Conner, 1991), we follow Chrisman et al., (2018: 171) in arguing that an economic theory of the family firm should explain "why family firms exist along with other organizational forms, what determines their scale, scope, and performance, and the variations that exist among them." Essentially, the economic theory of family business must tackle three core inquiries: What makes family firms distinct from nonfamily organizations? What factors dictate the scale and scope of family businesses? And what influences the heterogeneity within the family business sector?

Unlike the traditional economic theory of the firm, which uses market-based economic exchanges as benchmarks for comparison, an economic theory of the family firm must specifically identify and explain the distinctiveness of family businesses in contrast to nonfamily businesses (Chua et al., 1999; Sharma et al., 1997). For example, agency theory posits that family businesses exist because the interests of family owners often align with those of family managers, resulting in lower agency costs in family businesses when juxtaposed with nonfamily businesses (Chua et al., 2009). A family business may reach its threshold of scale and scope when (1) the growth of the business demands equity investment coming from nonfamily shareholders (Villalonga & Amit, 2006), (2) there are no willing and capable family members available to serve as family business managers (Fang et al., 2016), or (3) a family manager's interests diverge from those of the family owners or the collective interests of the family (Schulze et al., 2001) and such interest misalignment cannot be resolved by the owning family (Chrisman et al., 2007; Fang et al., 2017). Furthermore, distinctions among family firms arise from variations in terms of the extent of equity investment from nonfamily sources that the business needs, the pool of available family members that can serve as owners and managers of the business, and the level of interest alignment among family members.

Similarly, a resource-based view proposes that a family business exists because the owning family's involvement can provide unique, valuable resources that may not be available in a nonfamily firm (Habbershon & Williams, 1999). A family business may reach its threshold of scale and scope when (1) the business needs nonfamily resources to continue expanding or (2) the family is no longer willing or able to provide valuable resources to match the business's growth. From a resource-based view, the heterogeneity of family firms stems from the idiosyncratic resource bundles that can be provided by the owning family (Chrisman et al., 2003, 2009).

As powerful as those theories are, neither takes into account the socioemotional wealth (SEW) of family firms. Thus, scholars have recently theorized that family firms exist because the business can provide noneconomic value from the family's current control and potential to retain control of the business across generations (Gómez-Mejía et al., 2011). The noneconomic value associated with SEW may compensate for the lower potential of the firm to generate economic returns in some instances or may create opportunities for the firm to generate higher economic returns in others. Accordingly, family firms may exist because of the combined economic and noneconomic value associated with its ability to generate SEW. Thus, the limits of the scale and scope of a family business would occur when the marginal economic and noneconomic costs of its SEW begin to outweigh the marginal benefits from SEW (Chua et al., 2015). Finally, the heterogeneity of family firms is influence by differences in the types and extent of SEW generated by the firm and its importance to the family (Debicki et al., 2016; Jaskiewicz & Dyer, 2017; Kotlar et al., 2018).

In short, existing economic theories help explain the reasons family firms exist, the limits of their scale and scope, and why family firms are so heterogeneous. However, they neglect the noneconomic elements which is a main distinguishing feature between family and nonfamily firms. On the other hand, while the concept of SEW could potentially fill this gap, it has not been adequately integrated with the economic theories of the firm to explain when and why it is important or when and why it may serve as a complement or substitute for economic motivations. More work is needed to address these issues. We posit that the articles in this special issue contribute to understanding the nuances that must be addressed to develop a theory of the family firm.

3 The articles in the special issue

In the following sections, we briefly summarize and discuss the articles included in this special issue (see Table 1). In keeping with the theme of the special issue, we attempt to link each article with one or more concepts that are relevant to the development of a theory of the family firm: (1) why family firms exist, (2) the limits to the scale and scope of family firms, and (3) the sources of heterogeneity of family firms.

3.1 Institutions and intrafamily succession (He et al.)

Although factors associated with intrafamily succession are widely studied in the family business literature, few studies have examined how the institutional environment influences whether and when the successor of a family firm will be a family member. To fill this gap in the literature He et al. (2024, this issue) investigate a cross-sectional sample of 774 privately

Table 1 Summary of the studies in this special issue

Authors	Topic	Theory/concepts	Theory of the family firm	Level of analysis	Research design	Sample	Findings
He et al	Impact of state institutions and FFs' political power on intrafamily succession intentions	Institutional economics and socioemotional wealth (SEW)	How institutional environment and political power affect FFs' continued existence (heterogeneity)	Firm	Cross-sectional	774 privately held FFs in China considering succession	State logics (institutional arrangements) decrease intrafamily succession intentions (IFSI) but are offset by FFs' political power. The negative relationship between state logic and IFSI only holds in regions with less developed market institutions
Pinelli et al	Family governance and performance	Institutional economics	How context affects family firm governance and how governance affects performance (comparative)	Firm	Cross-sectional	3221 listed FF and nonfamily firms (NFF) from 19 countries	Cultural long-term orientation (LTO) increases family-intensive governance arrangements (FGA), FGA decreases performance (Tobin's Q) and fully mediates the relationship between LTO and performance
Sanchez et al	How humility rhetoric in corporate communications impacts stock returns	Value-based, humility rhetoric	How humility influences the performance (scale and scope) of family and nonfamily firms (comparative)	Firm	Longitudinal	10 years of shareholder letters: 2250 FF and NFF on S&P 500, 1460 letters of family and nonfamily SMEs	FF benefits more from humility rhetoric than NFF. Humility rhetoric leads to more positive returns for FFs when media coverage is negative and more positive returns for NFFs when media coverage is positive

Table 1 (continued)

Authors	Topic	Theory/concepts	Theory of the family firm	Level of analysis	Research design	Sample	Findings
Song and Schwienbacher	Impact of family and nonfamily co-founder teams on novice entrepreneurs	Founding teams and habitual entrepreneurship	How family and nonfamily partners affect habitual entrepreneurship (comparative)	Individual	Longitudinal	1000 novice entrepreneurs over 10 years	Novice entrepreneurs with nonfamily cofounders were more likely to become habitual entrepreneurs. However, the type of cofounders (family or nonfamily) did not matter in terms of capital structure, managed assets, growth, etc
Stommel et al	Reference points of family, nonfamily managers	Prospect theory	Effect of reference points on FF and NFF investments (comparative)	Individual	Cross-sectional	108 managers: 57 FM, 23 NF in FF, 28 NF in NFFs	Managers in FFs have lower reference points and are less sensitive to investments' price volatility than managers in NFFs. No difference in sensitivity to price volatility between FM and NFM in FFs
Blanco-Mazagatos et al	Impact of noneconomic goals on FF debt financing	Social-emotional wealth importance ($SEW_{i)}$	How SEW importance affects family firm debt financing (heterogeneity)	Firm	Cross-sectional	126 unlisted family firms (FFs) in Spain	The importance of Continuity is positively related to debt financing but the importance of Enrichment is not significant. The importance of Prominence is negatively related to debt financing for FF with lower levels of debt financing

Table 1 (continued)

Authors	Topic	Theory/concepts	Theory of the family firm	Level of analysis	Research design	Sample	Findings
Markin et al	Noneconomic performance	Agency theory and SEW	How SEW reduces other noneconomic goals and thereby threatens family firms' existence (comparative)	Firm	Cross-sectional	1492 franchise restaurant outlets (641 family, 646 lone-founder, 205 company-owned	Family-owned franchises had a significantly higher number of health code violations than lone-founder franchises and company-owned outlets. No difference between lone-founder franchises and company-owned outlets

held family firms in China who responded to the Chinese Private Enterprise Survey in 2008–2009. The authors sought to investigate how government involvement, which they termed state logic, influences the probability of intrafamily succession intention and how the political power of family members and the strength of local market institutions moderated that relationship. He et al. hypothesized that the prevalence of a state logic would have a negative influence on intrafamily succession intention, the political power of family members would offset the negative impact of state logic, and that the principle moderating effect of the family's political power would occur in regions with less developed market institutions.

The authors obtain support for all three of their hypotheses. These findings suggest that the institutional environment can have an important effect on succession intentions and indeed potentially contradict the wishes of the incumbent leaders in the firm. Interestingly, the findings are consistent with the theoretical predictions of Burkart et al. (2003) regarding how family firms will handle succession in environments with moderate property rights protections (China ranks 69th out of 112 countries according to the International Property Rights Index of the Property Rights Alliance in 2009). This is in spite of the fact that He et al. do not make use of Burkart et al.'s work and the rationale for the succession decision does not match between the two works. Indeed, Burkart et al. (2003) suggest that the family hires a nonfamily manager while retaining ownership for economic reasons whereas He et al. propose that the family will likely not maintain the intention for family succession because of potential conflicts between state logics and socioemotional wealth (SEW) unless they wield sufficient political power to combat the pressures to forego the exploitation of the private benefits of ownership. Of course, the fact that the two sets of authors arrive at essentially the same predictions from two different starting points, predictions that are empirically supported, suggests that the reasons underlying intrafamily succession may be even more complicated than originally believed, especially in environments with moderate to weak property rights protections.

Theory of the family firm He et al.'s study shows that the heterogeneity of family firm behavior is influenced by both internal and external forces which can sometimes reinforce one another and sometimes render the other irrelevant. For example, their study suggests political power is not really necessary for intrafamily succession when the institutional environment is strong but it appears to be essential, and effective, when the institutional environment is weak. Similarly, although Burkart et al. suggest that ownership and management will remain in the hands of the family when the institutional environment offers ineffectual property rights protections, He et al. provide empirical evidence that such an environment is likely to have the opposite effect, potentially leaving what would have been second generation family firms vulnerable to state control. Clearly, more theory and research are needed on these subjects since the pace and direction of development of emerging economies are at stake.

3.2 Informal institutions, family governance, and performance (Pinelli et al.)

Long-term orientation (LTO) is thought to be a defining feature of family firms because of its association with the transgenerational sustainability of family control (e.g., Chua et al., 1999; Lumpkin & Brigham, 2011). Adopting an institutional economics perspective, Pinelli et al. (2024, this issue) add to knowledge on this topic by investigating the relationship between cultural LTO, family-intensive governance arrangements (FGA), and firm performance. They study a sample of 838 family and 2383 nonfamily firms (3221 firms in total) from 2017 in 19 countries. They hypothesize a positive relationship between cultural LTO and FGA and a negative association between FGS and firm performance, measured using Tobin's Q. They also expect that a country's cultural LTO will reduce the negative relationship between FGS and performance.

To combat the nested structure of the data and enable the estimate of the within and between variability of the dependent variable, Pinelli et al. conducted multi-level mixed effects ordered logistic and linear regression to test their hypotheses. The authors find support for hypothesis H1 that cultural LTO positively influences FGA, and hypothesis H2a that FGA is negatively related to performance. However, hypothesis H2B could not be supported. Instead, additional analysis indicated that FGA fully moderates the relationship between cultural LTO and firm performance. They surmise that cultural LTO makes the adoption of family governance less costly and therefore more efficient from a local perspective. However, they also argue that a high reliance on family governance reduces the legitimacy of the firm in global markets, which decreases Tobin's Q. Of course, another way to think of this is that LTO does not impact the main drivers of financial value whereas family ownership and control increase the probability of owner-owner agency costs which lead to a discounted valuation in the market.

Theory of the family firm The contributions of Pinelli et al. to the development of a theory of the family firm are relatively straightforward. Although stronger family governance offers long-term survival benefits to family firms, it comes at the cost of constraints to their scale and scope because investors become more wary about the possibility of family appropriation of the returns of the firm. As Pinelli et al. seem to suggest, the benefits of family governance may be largely felt at the local level or in environments where competition is limited. On the other hand, the detrimental aspects of family governance may come into play more on a global scale because the potential for opportunistic behavior of firms with high levels of family ownership and control becomes more apparent to investors and other stakeholders who have greater choices about where to invest their financial and human resources.

3.3 Family firm humility and abnormal returns (Sanchez et al.)

Family firms are thought to be more trusted and respected than nonfamily firms. Previous work has suggested that this trust and respect sometimes translates into a greater willingness of individuals to invest in family firms even when its economic performance might suggest investors should do the opposite (Lude & Prugl, 2019). Similarly, Sanchez et al. (2024, this issue) provide evidence that the performance of family firms benefits more than the performance of nonfamily firms when the rhetorical language used in annual reports shows evidence of humility.

Sanchez et al. content analyzed 10 years of shareholder letters, a total of 2250 in all, produced by family and nonfamily firms in the S&P 500. They constructed a unique dictionary of terms and compared the impact of humility rhetoric on the cumulative abnormal stock returns of family and nonfamily firms over a 7-day window using media coverage as a moderator in the analysis. Overall, they find that humility rhetoric has a greater positive impact on performance for family firms than nonfamily firms. Likewise, Sachez et al. find that the humility rhetoric has a stronger positive impact on the stock returns of family firms (nonfamily firms) when media coverage is negative (positive). In a supplementary analysis, the authors compare the performance impact of humility rhetoric on a sample of 264 small and medium-sized family and nonfamily firms using 1400 letters obtained over 10 years. Although they were unable to assess the impact of favorable or unfavorable media coverage, they were able to confirm that the effects of humility rhetoric were stronger among family firms.

Theory of the family firm The literature indicates that family firms are more likely to experience owner-owner agency problems than nonfamily firms (e.g., Villalonga & Amit, 2006), which suggests not only that minority shareholders will suffer from appropriation but also potential investors will discount the value of the firm (Jensen & Meckling, 1976). By contrast, the article by Sanchez et al. in this special issue shows that one potential remedy for family firms is to signal their ability to restrain and moderate any supposed tendency to appropriate value from minority owners and other stakeholders. Although the results from this study are cross-sectional and preliminary, the authors may have uncovered a competitive weapon that could enable family firms to capture more of the value that they create by providing an indirect assurance to stakeholders that they can trust family firm owners and managers to protect their investments. Put differently, humility may be one of the bases for the generation of social capital between family firms and their stakeholders, which helps explain why the family form of organization exists.

3.4 Co-founders and novice entrepreneurs (Song & Schwienbacher)

The study by Song and Schwienbacher (2024, this issue) investigates the impact of family and nonfamily co-founders on 1000 novice entrepreneurs over 10 years. Their study focuses on how co-founders affect habitual entrepreneurship, individual ownership, leverage, and firm size measured in terms of total assets. They hypothesize that novice entrepreneurs with more co-founders are more likely to become habitual entrepreneurs but that the effect of nonfamily co-founders is stronger than the effect of family co-founders. They also expect that more co-founders will decrease the entrepreneur's personal ownership and firm leverage and that ventures with family co-founders will have fewer total assets than ventures with nonfamily co-founders. The authors test their hypotheses using a variety of probit, OLS, and Tobit regression models.

Song and Schwienbacher find that novice entrepreneurs with more co-founders are more likely to become habitual entrepreneurs. They also show that nonfamily co-founders significantly increase the likelihood that novice entrepreneurs will become habitual entrepreneurs whereas family co-founders have no such effect, perhaps because family co-founders have less entrepreneurial experience to begin with. Song and Schwienbacher also discover that there is no significant difference between the effect of family and nonfamily co-founders on venture ownership, leverage, or size. Unfortunately, they do not attempt to further compare the impact of different types of family co-founders even though Brannon et al.'s (2013) work suggests that copreneurs and biologically linked teams exhibit differences in their ability to achieve first sales and in the impact of financial investments on that ability.

Theory of the family firm Song and Schwienbacher show that in comparison to ventures with nonfamily teams or mixed family and nonfamily teams, the exclusive involvement of family members on entrepreneurial teams has a constraining effect on corporate strategy, as measured by habitual entrepreneurship. However, there is no discernable impact on business strategy, as measured by the growth in size or financial resources of the original venture. Put differently, family teams seem to have no direct impact on the firm scale but do appear to constrain firm scope. This is evident in the sense that the involvement of family co-founders does not seem to lead novice entrepreneurs to spawn more ventures after creating the first, at least in comparison to nonfamily co-founders.

3.5 Reference points and family firms' financial decisions (Stommel et al.)

Following the logic of prospect theory, Stommel et al. (2024, this issue) investigate the effects of price volatility on the reference points for decision-making of family and nonfamily managers. Reference points are an indicator of a manager's return expectations and presumptions about risk. Higher reference points indicate higher risk-return trade-offs and lower reference points suggest lower return expectations and less perceived risk (Kahneman & Tversky, 1979). The authors hypothesize that after accounting for purchase price, current price, and average price, higher price volatility leads to higher reference points. Since family firms attach value to nonfinancial aspects of the firm, particularly current and transgenerational control, they tend to be more patient investors and focus on the long term. Consequently, the authors hypothesize that family managers have lower reference points than nonfamily managers, regardless of whether the latter work in nonfamily firms or family firms. However, because managers are likely to be influenced by the context of the firm, Stommel et al. hypothesize that nonfamily managers in family firms will have lower reference points than nonfamily managers in nonfamily firms.

The authors apply an experimental design to test their hypotheses. In all, the decisions of 108 managers (57 family managers, 23 nonfamily managers in family firms, and 28 nonfamily managers in nonfamily firms) are studied. As expected, family managers have lower reference points than nonfamily managers in nonfamily firms. Furthermore, the reference points of nonfamily managers in family firms are also lower than the reference points of managers in nonfamily firms. However, there is no difference in the reference points of family and nonfamily managers in family firms. These findings suggest that there is a strong cultural element in family firms that overcomes what might be seen as a natural inclination of nonfamily managers toward short-term decision horizons. Of course, it is also possible that managers who are attracted to work in family firms are long-term oriented or that managers learn their time orientation throughout their careers depending on the type of organization in which they work. Research is needed to determine the extent to which the propensities of managers and the culture and training of organizations influence managers' time orientation and risk orientation.

Theory of the family firm The work of Stommel et al. is consistent with Osakwe et al. (2022) who argue, among other things, that family firms will trade off economic and noneconomic benefits and consequently will have a lower cost of capital. Whether one wishes to think that family firms are willing to accept lower returns because their reference points are lower or because their cost of capital is lower, the point is that owing to the acceptance of noneconomic returns the opportunities available to family firms will be more numerous. Thus, Stommel et al.'s work helps explain why family firms are so prevalent and resilient (they will accept opportunities offering lower returns). Of course, since investors seek returns that exceed those that are acceptable to family firms, Stommel's et al. paper also helps explain, from a different vantage point, the external constraints to the growth of the scale (if not necessarily the scope) of family firms.

3.6 Debt, socioemotional wealth, and family firms (Blanco-Mazagatos et al.)

Family firms are thought to place priority on noneconomic goals that generate socioemotional wealth (SEW) for the family (Gómez-Mejía et al., 2011). However, prior to the development of the SEW importance scale (SEW_i) by Debicki et al. (2016), SEW was measured as a stock variable even though it was treated as a goal. The article by Blanco-Mazagatos et al. (2024, this issue) corrects this oversight by examining the relationship between the three dimensions of the SEW_i scale and debt financing in privately held family firms in Spain.

The study of debt financing in family firms is important. Although family firms seem to use less debt financing than nonfamily firms, they are more likely to seek debt financing than equity financing when new capital is sought (Michiels & Molly, 2017). This preference is attributed to the family's desire to maintain control over the firm. Nevertheless, many family firms also possess a long-term orientation that typically involves both intrafamily succession and growth (cf., Chrisman & Patel, 2012), which may be better served by equity financing. Thus, more research on how noneconomic goals impact the use of debt financing in family firms is needed.

Blanco-Mazagatos et al. hypothesize that family continuity (the importance of goals pertaining to the preservation and sustainability of the family in the firm) is positively related to the family firm's level of debt financing (total debt/book value of assets). They also hypothesize that family *prominence* (the importance of the family's image and reputation associated with the firm) and family enrichment (the importance of ensuring the happiness and well-being of family members inside and outside the firm) are both negatively related to the family firm's level of debt financing.

Blanco-Mazagatos et al. use a cross-sectional survey of 1000 randomly selected family firms. They achieved a 15.5% response rate, but after eliminating subjects with missing data, they were left with 126 usable responses. They analyzed the data using OLS regression, followed by Tobit and GLM regressions to ensure the robustness of the findings. Overall, their analysis shows that family firm goals related to continuity were positively related to debt financing but goals pertaining to prominence and enrichment were not significantly associated with debt financing.

Theory of the family firm Debt financing facilitates growth so the differences in family firms regarding the importance of continuity goals, and consequently the level of debt financing obtained, suggests that noneconomic goals create heterogeneity among family firms regarding their scale and scope. Furthermore, Blanco-Mazagatos et al. finding regarding continuity goals leads to the interesting but unstudied question of whether family firms that do not seek long-term family control eschew debt financing because their risk aversion leads them to pursue policies that avoid default risk and hence limit the growth of their scale and scope or because they prefer equity financing to achieve faster growth and the opportunity to sell out. Indeed, fast growth, higher valuations, and the opportunity to sell out may be exactly what family firms without continuity goals are seeking.

3.7 Noneconomic performance among family franchisees (Markin et al.)

Although researchers have long recognized the importance of noneconomic goals to the behavior and performance of family firms, there have been few studies that investigate the noneconomic performance among family firms or in comparison to nonfamily firms. Markin et al. (2024, this issue) attempt to fill this gap by examining the health code violations of 1492 franchise restaurants (641 family-owned, 646 lone-founder-owned, and 205 company-owned) from three large chains in the Southeastern US Health code violations are indicators of the attention paid to factors that do not directly impact the firm's bottom line but that can have major implications for its reputation and long-term viability.

Markin et al. (2024) use a combination of agency theory and the theory underlying the SEWi scale of Debicki et al. (2016) to develop their hypotheses. The authors argue that the concentration of ownership and control and the concern for socioemotional goals increase the long-term orientation of the franchise leading to great attention to noneconomic outcomes. Interestingly, they suggest that the importance of SEW can apply to both family firms and lone-founder firms, presumably because lone-founder firms sometimes behave like latent family firms that overtly evolve into family firms at a later date if and when the owner decides to bring family members into the firm.

Markin et al. (2024) hypothesize that family-owned franchises will receive fewer health-code violations than either lone-founder firms or corporate-owned restaurants. They also hypothesize that lone-founder franchises will receive fewer health-code violations than corporate-owned restaurants. Interestingly, not only were all their hypotheses rejected, but the direction of the relationship for those involving family firms was in the opposite direction. Thus, family-owned franchises have significantly more health code violations than either lone-founder franchises or company-owned franchises. However, there was no significant difference in the number of violations received by lone-founder franchises or company-owned restaurants.

Theory of the family firm Markin et al.'s findings suggest that perhaps because of asymmetric altruism between family owners and managers (Schulze et al., 2001), family-owned franchises either monitor less or monitor less effectively than other types of franchises. This would seem to have negative implications for the scale and scope of these franchises since (in) actions that lead to an unfavorable reputation of the franchisee and/or the franchise system can constrain the ability of the family-owned franchise to increase the size of its outlets or the number of outlets the family is permitted to manage. Taken to the extreme, such behavior may even lead the franchisor to revoke the family's franchise ownership. On the other hand, this study adds to the existing evidence about the superiority of the lone-founder ownership form (e.g., Markin et al., 2022; Miller et al., 2007). Since lone-founder firms that continue to exist beyond the retirement or death of the founder must be transformed into a family firm or assume some other governance arrangement (e.g., a widely held public firm or a closely held private firm), more work is needed to understand the conditions that explain their existence and evolution.

4 Discussion

A primary goal of this special issue was to encourage scholarly efforts in developing an economic theory of family business. An economic theory of family business should aim to address three core questions: (1) why family firms exist, (2) what factors determine their scale and scope, and (3) what influences the heterogeneity within the family business population. Here, we take stock of the knowledge gleaned from the articles in this special issue and offer reflections on potential avenues for future research.

An economic theory of family firms should begin by addressing why they exist. This involves identifying the distinct advantages that family firms have over non-family firms. Family businesses can prevail when their organizational form allows them to obtain additional economic and non-economic benefits or when it helps them avoid losses. These advantages may take the form of reducing principal-agent problems (agency theory), providing valuable resources (resource-based view), creating affective value through owning the business (socio-emotional wealth perspective), protecting against expropriation in underdeveloped economies (institutional economics), fostering better community relations (stakeholder theory), or offering a quicker, more decisive response to risks (prospect theory).

Building on this foundation, analyzing the scale and scope of family firms involves linking these advantages to the size and range of the business, and determining when growth in either dimension might start to diminish benefits or amplify losses. It is assumed that as a family business expands, there will be a point where the increase in size begins to erode the benefits of family governance or introduces additional costs. A family business is considered to have reached its optimal scale and scope when the marginal benefits can no longer outweigh the marginal losses incurred due to increased size.

Finally, examining family business heterogeneity entails identifying internal and external factors that can influence the advantages and disadvantages of the family form of governance. In other words, the study of family firm heterogeneity is meant to investigate the characteristics of the family and the types of association they have with the firm that influences its behavior and performance. Some family firms may be more prevalent than others because they can secure more advantages. Similarly, some family firms may be able to achieve a larger optimal scale and scope if they possess characteristics that yield higher benefits or lower costs. Likewise, variations in the characteristics of family firms may lead to variations in performance. The question is what characteristics or configuration of characteristics cause these differences?

Considering the three questions together, one may recognize that they are intrinsically linked. The second question connects the first question to variations in firm size, while the third investigates the nuances of the first two with a focus on internal and external contingencies. This suggests that understanding the differences between family and non-family firms is of fundamental importance, because it provides the foundation for the study of scale and scope, as well as heterogeneity, within the family business sector. When we examine these questions in the context of the papers published in this special issue, we find the following insights.

4.1 Reasons for the existence of family firms

Stommel et al. (2024) and Sanchez et al. (2024) provide nuance to the understanding of why family firms exist alongside nonfamily firms. Stommel et al.'s study suggests that family firms will be able to pursue a broader set of opportunities than nonfamily firms because their reference points are lower and more opportunities will be perceived as favorable. However, since emotional, social, and interpersonal factors are more tightly intertwined with reference points, the decision-making processes in family firms must balance business growth with the risk of losing control. Furthermore, Sanchez et al. find that family firms that engage in humility rhetoric can achieve stronger cumulative abnormal stock returns than nonfamily firms. Their study also suggests that family businesses can prevail not only because of their inherent characteristics or chosen actions but also because of how those characteristics and actions are perceived by stakeholders. Interestingly, it can be inferred from both studies that while the potential economic and noneconomic benefits of higher reference points and humility can contribute to the survival prospects of family firms, they can also constrain the growth possibilities available to them, hence potentially limiting their scale and scope. Future research should investigate whether there are other characteristics that have a similar impact.

4.2 Limits to the scale and scope of family firms

The articles by Pinelli et al. (2024), Song and Schwienbacher (2024), and Markin et al. (2024) contribute to knowledge about the scale and scope of family firms. Pinelli et al. show that family governance is facilitated by a culture that values long-term perspectives but family governance itself reduces performance. They argue that family governance is more efficient locally but reduces legitimacy on a broader environmental scale. This research is consistent with the conclusions drawn above that family involvement provides survival benefits but acts as a constraint to the expansion of the scale and scope of family firms.

On the other hand, Song and Schwienbacher (2024) find that family co-founders have no effect on the ability of nascent entrepreneurs to obtain resources or to achieve a scale that supports their ventures. However, family co-founders do seem to reduce the propensity of nascent entrepreneurs to become habitual entrepreneurs, which seems to place some limits on their scope. One could also interpret their findings as another indication that family involvement is more valuable for survival than growth. Song and Schwienbacher work also reveals the significance of the founding team's composition as an additional factor to consider in the development of an economic theory for family firms. Furthermore, their findings highlight the lasting influence of a family firm's history on the business, suggesting that an economic theory of family business should account not only for the immediate benefits and costs of family involvement but also those that emerge over time.

Finally, Markin et al.'s (2024) research uncovers the perplexing situation among family-owned franchises concerning their disinclination to invest to achieve noneconomic outcomes. We interpret these findings to be an indication of lower willingness or ability to monitor firm behavior but it could as easily be an indication that family-owned franchises are more concerned with short-term profits than the less certain longer-term benefits of noneconomic investments. Regarding the limits to the scale and scope of family firms, Markin et al.'s (2024) article suggests that some of the limits might be self-inflicted. Overall, their study suggests that future research should not overlook the importance of economic goals when assessing the impact of noneconomic goals on family firm behavior.

4.3 The heterogeneity of family firms

The articles by Blanco-Mazagatos et al. (2024) and He et al. (2024) enhance comprehension of how heterogeneity in the behaviors and resources of family firms affects their ability to survive and grow. Blanco-Mazaagatos et al. (2024, this issue) findings indicate that certain dimensions of SEW_i may yield benefits that contribute to the unique advantages of family businesses over nonfamily businesses, while other dimensions have no impact at all. Of course, they only investigated the impact of SEW_i on debt financing so there is much more work to be done before we will fully understand the full range of outcomes associated with SEW_i. Still, it is clear from their study that the importance of SEW (and presumably its influence on firm behavior) varies among family firms and those that value continuity are more likely to be willing and able to access debt financing. But as noted above, the importance of SEW may be a two-edged sword regarding survival and growth and choices between debt and equity financing.

Finally, He et al.'s (2024) work indicates how institutional environments and political power can be sources of family firm heterogeneity. They show that some environments can greatly limit the ability of family firms to survive as family firms unless they possess certain attributes, whereas in other environments, the same attributes do not have any effect. Here, we find evidence suggesting that different types of family firms have large advantages in some situations whereas in other situations, the same advantages may have little economic or noneconomic value.

5 Conclusions

In conclusion, this paper and the related special issue advance the development of an economic theory of family firms, with a focus on elucidating the sources of their differences and the boundaries of their advantages. In this special issue, we have outlined what we believe are the central questions that need to be answered to develop a theory of the family firm. We have also provided summaries of the articles on the special issue and linked them individually and collectively with those questions. This effort leads us to conclude that at least some of the characteristics of family firms simultaneously generate survival benefits and limits to growth. In the future, we advocate for interdisciplinary research endeavors, fostering initiatives that draw from the disciplines such as economics, management, sociology, and psychology to further examine this proposition. This multi-disciplinary approach is expected to yield valuable insights into the intricate dynamics governing family businesses, facilitating a comprehensive understanding of the economic behaviors, decision-making frameworks, and performance of these organizations.

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