



## What's in a name? An analysis of the strategic behavior of family firms

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### ABSTRACT

Family firms play a significant role in the U.S. economy. Not all family firms, however, use their family name as part of their firm name. For example, while Dell Inc. and Gap Inc. are both family firms, Dell Inc.'s name includes the name of the founding Dell family, but Gap Inc.'s name does not include the name of the founding Fisher family. This research explores differences in strategic behavior between family firms that use their family name as part of their firm name (termed family-named firms, or FN firms) and those that do not (termed non-family-named firms, or NFN firms). The authors also investigate whether FN firms perform better than NFN firms, and whether or not their superior performance is mediated by differences in their strategic behavior. Findings based on a multi-industry sample of 130 publicly listed U.S. family firms over a five-year period (2002–2006) show that, compared to NFN firms, FN firms have significantly higher levels of corporate citizenship and representation of their customers' voice (i.e., presence of a chief marketing officer) in the top management team. FN firms also have a higher strategic emphasis (i.e., a greater emphasis on value appropriation relative to value creation) compared to NFN firms. Furthermore, FN firms perform better (i.e., have a higher ROA) than NFN firms, and their superior performance is partially mediated by their higher corporate citizenship levels and higher strategic emphasis. The authors highlight the significance of these findings for both theory and practice.

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### 1. Introduction

Wal-Mart Stores Inc., Nike Inc., Ford Motor Company, Dell Inc., Walgreen Co., FedEx Co., Marriott International Inc., and Gap Inc. are some of the most well-known and successful firms in the U.S. Interestingly, all of these are family firms, where a family firm is one in which the founder, or a member of the founder's family by either blood or marriage, is an executive officer, director, or blockholder, either individually or as a group (Anderson & Reeb, 2003).<sup>2</sup> Family firms play a significant role in the U.S. economy, as they (a) make up about one-third of the companies listed on the S&P 500 and Fortune 500 indices (Anderson & Reeb, 2003); (b) constitute about 90% of U.S. firms, in general (Colli, 2003); (c) contribute about 65% of U.S. GDP (Astrachan & Shanker, 2003); and (d) employ about 60% of the U.S. workforce (Astrachan & Shanker,

2003). Family firms are also the leading players in emerging markets (Aldrich & Cliff, 2003), especially in Asia and the Middle East, where they make up around 95% of all firms (Kets de Vries, Carlock, & Florent-Treacy, 2007).

Surprisingly, despite the importance of family firms, marketing literature on family firms is limited. Although there is some work that has established differences between *family* firms and *non-family* firms in such factors as job satisfaction (Beehr, Drexler, & Faulkner, 1997), innovation (Tanewski, Prajogo, & Sohal, 2003), and corporate social responsibility (Dyer & Whetten, 2006), this work treats family firms as a homogeneous group displaying similar kinds of behavior. It does not explore differences in strategic behavior *within* family firms. Do all family firms behave similarly, or are there different types of family firms that behave differently? To answer this question, perhaps we need to look no farther than firms' names. Some family firms, such as Dell, Ford, Walgreen, and Marriott, use their founding family's name as part of their firm name; others like Nike, FedEx, Progressive, and Gap, do not.<sup>3</sup> We refer to the former group as family-named firms (FN firms), the latter as non-family-named firms (NFN firms), and explore

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<sup>2</sup> This definition has been used by several recent academic studies on family firms such as Anderson & Reeb, 2003; Anderson, Mansi, & Reeb, 2003; Villalonga & Amit, 2006; Ali, Chen, & Radhakrishnan, 2007.

<sup>3</sup> Nike, FedEx, Progressive, and Gap, were founded by the Knight, Smith, Lewis, and Fisher families, respectively. Members of the founding families are still directors, executive officers, or blockholders of their respective firms.

differences in strategic behavior between these two types of family firms.<sup>4</sup>

One wonders what's in a name. Why would we expect a family firm whose name includes the name of its founding family to behave differently from a family firm whose name makes no mention of its founding family? The answer possibly lies in the differing visibility of the family-firm linkage for the two types of family firms. A firm name like Dell Inc. explicitly communicates that the firm is a family firm and puts the founding family in the spotlight. For a FN firm, then, damage to the firm's reputation is also expected to damage the family's reputation. One would expect FN firms, then, to be relatively more concerned about protecting their reputation. Indeed, Rubenstein (1990) found that senior managers of some 20% of FN firms chose "keeping respect for the family name" as one of their top three priorities, versus 9% of NFN firms.

We expect that this greater emphasis in FN firms on safeguarding the firm's reputation may lead them to behave differently from NFN firms across a number of strategic factors. In this article, we focus on three such factors: the customers' voice in the boardroom (i.e., the choice of including a chief marketing officer in the top management team), strategic emphasis<sup>5</sup> (i.e., relative emphasis on value appropriation versus value creation), and corporate citizenship (i.e., level of corporate social responsibility). Admittedly, FN firms and NFN firms may differ across other strategic factors. Nevertheless, given the early stage of development of this research domain, we focus on these three factors for two reasons: (1) All three factors are clearly linked to firms' emphases on protecting their reputations, a key theme in our article, and (2) We extend existing research on family firms by exploring differences *within* family firms and, in doing so, focusing on the factors that researchers studying family firms have largely ignored.

We address the following questions: (1) How are FN firms and NFN firms likely to differ in terms of customers' voice in the boardroom, strategic emphasis, and corporate citizenship? (2) Do FN firms perform better than NFN firms? (3) If so, is their superior performance mediated by their different strategic behavior? In answering these questions, we contribute to the literature on corporate reputation and firm identity by exploring the reasons that lead different firms to place different degrees of emphasis on protecting their reputations and the effect this emphasis has on their behaviors. We also contribute to the scant literature on family firms by demonstrating that family firms are not a homogeneous group. Instead, different types of family firms behave differently, and a straightforward way of segmenting family firms is by observing their names. Finally, we contribute to the literature on firm valuation by demonstrating that a family firm's name makes a difference to its performance.

Our results reveal that compared to NFN firms, FN firms have significantly higher levels of corporate citizenship and representation of their customers' voice in their top management team. FN firms also have a higher strategic emphasis, allocating a greater proportion of their resources to advertising versus R&D. Furthermore, FN firms perform better (i.e., have a higher ROA) than NFN firms, and their superior performance is mediated by their higher corporate citizenship levels and higher strategic emphasis. Next, we formally articulate our hypotheses.

## 2. Theory and hypothesis

In this section, we hypothesize a strategic profile of FN firms and provide arguments for the consequences of family-name presence on firm performance.

### 2.1. Strategic factors related to family-name presence

#### 2.1.1. Boardroom composition: Voice of the customer in the boardroom

For FN firms, the link between the firm and the family is expected to be more explicit in customers' eyes.<sup>6</sup> An explicit firm-family connection means that if the firm image becomes damaged, the image of the family is also expected to suffer. FN firms are therefore expected to place a greater emphasis on ensuring that their customers have a favorable image of the firm and a positive perception of the corporate brand.<sup>7</sup> This emphasis makes it especially important for FN firms to have a customer advocate present in their top management team (TMT). A chief marketing officer (CMO) has been identified as the customer advocate in the firm's upper echelons (McGovern, Court, Quelch, & Crawford, 2004), to the degree that the CMO's responsibilities include developing consumer insights and managing customer relationships (Hyde, Landry, & Tipping, 2004; Kerin, 2005). Given the CMO's role and the criticality of maintaining a positive firm image for FN firms, we would expect such firms to be more likely to have a CMO in their TMT.

Furthermore, FN firms may find it especially advantageous to be customer-centric (versus product-centric). A greater emphasis on customer-centricity (versus product-centricity) makes sense if the firm's customers are more responsive to intangible factors, such as reputation, image, and trust, rather than tangible product offerings (Berthon, Hulbert, & Pitt, 1999). Extant research shows that when customers identify a firm as being a family firm, they tend to trust the firm more (Fukuyama, 1996). Indeed, consistent with the resource-based view of the firm (Barney, 1991), inasmuch as a family name extends the trustworthy image of most families owning businesses, the family-brand identity is a rare, valuable, imperfectly imitable, non-substitutable resource (Carney, 2005; Zahra, Hayton, & Salvato, 2004). It especially makes sense, then, for FN firms to leverage this

<sup>6</sup> We conducted a survey, the results of which supported our conjecture that, generally speaking, a FN firm is more likely than a NFN firm to be recognized by consumers as being a family firm. We randomly selected 20 family firms from our sample, 10 FN firms and 10 NFN firms. We ordered these firms randomly and asked 123 undergraduate students whether or not they considered each firm to be a family firm or a non-family firm. Definitions of "family firms" and "non-family firms" were provided. On average, for each of the 20 family firms that students evaluated, 29.6% of students correctly identified the firm as a family firm. However, students were more likely to consider a FN firm as a family firm. On average, each FN firm was identified as a family firm by 45.0% of the students (the highest was Hilton Hotels Corp., whom 91.1% of students identified as a family firm). By contrast, on average, each NFN firm was identified as a family firm by only 14.0% of students (the lowest was Gap Inc., whom only 3.3% of students identified as a family firm). This difference in proportion between FN firms and NFN firms was statistically significant ( $\chi^2(1) = 31.6, p < .001$ ).

<sup>7</sup> A question can be raised: "Relative to FN firms, are NFN firms likely to be less concerned about their reputation in the eyes of investors and employees as well?" While this remains an empirical question, the scope of which goes beyond this article, we conjecture that the difference in recognition of FN firms and NFN firms as being family firms may be larger among customers than among investors and employees. According to the efficient market hypothesis, investors are likely to be aware of all value-relevant, publicly available information about firms in which they invest, including whether or not these firms are family firms. Similarly, relative to customers of NFN firms, employees of NFN firms, because of their greater interaction with the founding family and more thorough knowledge of their firm's background, may be more likely to recognize their firms as family firms. Thus we hesitate to predict whether or not NFN firms' lower concerns about their reputations, as compared to FN firms, would extend to the case of investors and employees as well. We encourage future researchers to address this question empirically.

<sup>4</sup> In our classification, both FN firms and NFN firms are family firms. We neither study nor hypothesize about the behavior of non-family firms. Hence our classification of FN firms does not include firms such as Walt Disney Co., Procter & Gamble, and Nestlé, whose names are based on founding families but whose founding families are no longer involved in the management or ownership of the firms.

<sup>5</sup> Strategic emphasis is a relative term that captures the additional resources a firm allocates to differentiation (advertising) versus innovation (R&D). The term was first used by Mizik and Jacobson (2003).

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