



A meta-analysis of the financial performance of family firms: Another attempt



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ABSTRACT

This study presents the results of a meta-analysis of the financial performance of family firms. Drawing on a sample of 380 studies, we find that family firms show an economically weak, albeit statistically significant, superior performance compared to non-family firms. Furthermore, we find moderating factors to significantly condition the relationship. These results show that the positive effect of family firms on financial performance is more pronounced in samples of public and large firms and when an ownership definition of family firms is used. It is also notable that family firms do best when their performance is assessed by ROA, a measure that is not as influenced by financial structure as ROE. Based on the broad empirical evidence obtained, we discuss implications and avenues for future research.

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Introduction

There has been a long and controversial debate in family business research about the performance differences between family and non-family firms. Scholars have presented arguments both in favour of and against the superior performance of family firms. Family altruism and family nepotism proponents, for example, suggest a negative effect of being a family firm on performance (Bloom & Van Reenen, 2007; Pérez-González, 2006), whereas those insisting on a long-term orientation and lower owner-management agency costs suggest a positive effect (Audretsch, Hülsbeck, & Lehmann, 2013; Miller & Le Breton-Miller, 2005). These conceptual differences have been mirrored in the many empirical works on the topic.

In attempting to reconcile such conflicting findings, O'Boyle, Pollack, and Rutherford (2012) conducted a meta-analysis of the performance differences between family and non-family firms. In aggregate, they found a small and insignificant positive effect of family involvement on firm performance (effect size = 0.006). In addition, they detected little evidence of moderating influences on

the country, firm, or study levels. Two related but more restrictive meta-analyses were conducted on family firm performance effects for large public US firms by Carney, van Essen, Gedajlovic, and Heugens (2013) and van Essen, Carney, Gedajlovic, and Pursey (2014). Given the weak statistical results and the relatively small sample sizes of these prior meta-analyses,¹ We believe that the question of whether family firms differ from other firms in performance has not yet been answered conclusively. We attempt to contribute to the debate in the present paper.

Our meta-analysis incorporates 380 primary studies from 41 countries. Thus, the likelihood that we would not find a statistically meaningful effect due to small sample size is greatly reduced. Our results show that in 61% of our primary studies, a positive effect of family governance on financial performance is observed (Table 3). Our meta-analysis also confirms that this effect is statistically significant but economically relatively small. More importantly, there is much heterogeneity in effect sizes, and some significant conceptual and study-specific moderators influence the relationship between family firm governance and financial performance. For example, the superior performance of family

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¹ There were 95 studies in O'Boyle et al. (2012), 78 studies in Macheck, Brabec, and Hnilica (2013), 48 studies in Carney et al. (2013), and 74 studies in van Essen et al. (2014).

firms becomes stronger when an ownership definition of family firms is used. Other important moderators are firm size, public listing, and the performance measure used. The breadth and depth of studies included in this analysis and the painstaking consideration of moderating factors adds credibility to our contribution.

The remainder of our paper is organised as follows. The next section introduces our dataset of primary studies, our variables, and the specific meta-analysis method employed. The section that follows shows our results, which are then discussed in the final section.

Data and method

To obtain articles on the performance of family firms, we undertook a comprehensive literature search, encompassing four steps. First, we used the procedure of ancestry by searching and tracking the references of related previously published meta-analyses or review articles (Basco, 2013; Carney et al., 2013; O'Boyle et al., 2012; Stewart & Hitt, 2012) and two highly cited journal articles on family firm performance research (i.e., Anderson & Reeb, 2003; Villalonga & Amit, 2006). Second, we conducted a comprehensive keyword search in various bibliographic electronic databases including Google Scholar, JSTOR, EBSCOhost, and China National Knowledge Infrastructure (<http://www.cnki.net/>). To obtain as many potentially relevant articles as possible, we employed broad search terms.² Third, we conducted a manual issue-by-issue search of scholarly journals that publish family business research.³ Fourth, we corresponded with authors who participated in a leading family business conference (The Annual Conference of the International Family Enterprise Research Academy (IFERA) in 2012 and 2014) and sent out emails via mailing lists (e.g., the Academy of Management Entrepreneurship List), explaining the goal of our research and asking for unpublished or in-press articles on our topic. After obtaining the papers, we examined each one for potential inclusion in our study. To be included in our meta-analysis, the paper had to report either a correlation or a regression coefficient that showed the focal relationship between family firm governance and performance. We excluded papers that used self-reported performance measures because we sought to focus our investigation on objective outcomes. Table A1 in the appendix lists the primary studies that were included in our analysis. An overview of the inclusion and exclusion criteria is presented in Table 1. The full references of our primary studies are available on the website www.familyfirms.de.

After identifying the papers for inclusion in our meta-analysis, we coded each one. Our coding was designed to extract as much information as possible from each primary study. A senior researcher and two junior researchers coded the primary studies and checked the information drawn. The senior researcher created a coding protocol to extract the relevant information from the primary studies. The junior researchers were trained on how to use the coding protocol to ensure that the coding would be consistent among the three coders. All primary studies were carefully coded by the first coder (the senior researcher) and checked consecutively by the two other coders.

In our coding, we differentiated among family ownership, family management, a combined measure of the two, and self-reported family business classification. For the performance measures, we distinguished among ROA, ROE, ROS, sales growth and market-to-book value. We coded several conceptual moderators: a firms' listing

Table 1
Inclusion and exclusion criteria for primary studies.

A. Inclusion criteria	
1.	Primary studies showing either correlation and/or regression coefficients between the focal variables were considered.
2.	Family firms were explicitly defined in primary studies and measured by dummy, percentage, or self-reported variables. Both ownership, management, and combined definitions of family firms were considered.
3.	Studies with a wider definition of family firms that also include founder firms were considered and marked by an indicator variable. Studies without a family firm measure and only a founder firm measure were <u>not</u> considered.
4.	Performance was measured in primary studies with ROA, ROE, ROS, sales growth, or market-to-book value.
5.	We included effect sizes from peer reviewed articles, working papers, PhD theses, and master's theses and effect sizes calculated from relevant unpublished datasets.
6.	No restriction regarding time, language, research field, and geography were applied.
7.	Primary studies with public, private and mixed samples were included.
B. Exclusion criteria	
1.	Qualitative primary studies were excluded.
2.	Studies with only founder firm measures were excluded.
3.	Studies with self-reported performance measures were excluded.
4.	Studies with extreme effect sizes were removed as a result of the outlier diagnostics.

on the stock market, firm size, and Hofstede's cultural dimensions (Hofstede, Hofstede, & Minkov, 2010) to investigate the effect of country differences on family firm performance. We also coded study-specific moderators (publication status, year of publication, and journal quality). Table 2 presents the construction of the variables used in our meta-analysis.

Our focal measures in the primary studies were correlation and regression coefficients. To compare regression and correlation coefficients, we converted the former into partial correlations using the Peterson and Brown (2005) formula. To justify the aggregation of these coefficients into a composite variable, we conducted a *t*-test. It revealed no significant difference between the correlations and partial correlations ($t = -0.41, p = 0.68$). Thus, the aggregation was justified (O'Boyle et al., 2012). Because some primary studies reported multiple effect sizes, we followed Hunter and Schmidt (2004) and averaged these to compute the general mean effect size per study to achieve independence among effect sizes for different studies. In the final step, we transformed effect sizes into Fisher's *z* measures to reduce the skewness of the distribution.

We employed the Hedges and Olkin Meta-Analysis technique (HOMA), opting for a *random effect* analysis to estimate the mean effect size of a distribution of effects (Borenstein, Hedges, Higgins, & Rothstein, 2009). This approach allows us to make a more realistic unconditional inference of an overall average effect size of a population of studies that is larger than the set of sampled studies (Field, 2001). In addition, we addressed the possible variation in the mean effect size of our *random effect* meta-analysis with subgroup and sensitivity analyses based on our moderator variables. The residual heterogeneity is accounted for by the restricted maximum likelihood estimator. Although the *random effects* model overestimates variability and yields larger confidence intervals, it represents the more conservative approach (Overton, 1998) because its estimators are approximately unbiased and efficient (Raudenbush, 2009; Viechtbauer, 2005). For the analysis we employed the R metafor package described in Viechtbauer (2010).

Results

Outliers, publication bias, and distribution of effect sizes across primary studies

As the first step in our empirical analysis, we computed outlier statistics. The analyses consisted of standardised residuals

² Search terms included families, family business, family control, family corporate governance, family financial performance, family founder, family management, family ownership, family performance, family succession, firm control, firm corporate governance, firm financial performance, firm founder, firm management, firm ownership, firm performance, and firm succession.

³ The journals included Family Business Review, Entrepreneurship Theory and Practice, the Journal of Business Venturing, the Journal of Family Business Strategy, the Journal of Small Business Management, and the Journal of Corporate Finance.

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