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DO FAMILY FIRMS EXIT LESS? (SUMMARY)

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Principal Topic

Research has recently acknowledged the need to study not only how owners create firms, but also their ultimate exit from firms. Meyer and Zucker (1989: 19,45) explain there are “organizations whose performance, by any standard, falls short of the expectations of owners, members, and clients, yet whose existence continues”. Such firms can be depicted as permanently failing. Business exit – the process by which owners remove themselves, in varying degrees, from the firm they have created, for instance via dissolution (i.e. shut down) or merger and split (M&S) – is thus prevented. Research has shown that individuals may fall into a ‘commitment entrapment’ (CE), i.e. “escalated commitment to [an] ineffective course of action” beyond an economically rational point in spite of negative feedback. We argue that owners’ emotional attachment to a business is essential in advancing our understanding of commitment escalation and exit.

The family firm is a promising context for the study of emotional attachment and divestment decisions. They are characterized by strong identity, extraordinary emotional commitment and a desire to keep the firm alive across generations. Gomez-Mejia et al. (2007) argue that for family firms the most important reference point when framing major strategic decisions is the loss of socioemotional wealth (SEW). Our study seeks to understand if and why family firms are less likely than non-family firms to exit from the business (i.e. shut down, merger, split) while performance deteriorates.

Method

We rely on a longitudinal dataset from Statistics Sweden (96,410 firms in the 2004-2008 periods). To distinguish firms in financial distress from more well performing firms we used Altman’s Z-score model. For hypothesis testing we relied on a multinomial logit model.

Implications

Our results suggest that CE based on SEW makes family firms less likely than non-family firms to exit by dissolution independently from the firm’s financial situation. Also, the probability of exit by dissolution decreases in family firms while increases in non-family firms as performance deteriorates. However, family firms are more likely than non-family firms to exit by M&S to avoid firm shut down and thus the total loss of SEW. Additionally, as performance declines the probability of exit by M&S increases in family firms while decreases in non-family firms.

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