DOMINANT LOGICS IN PUBLICLY TRADED FAMILY-CONTROLLED FIRMS: A BEHAVIORAL THEORY PERSPECTIVE (SUMMARY)

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SUMMARY

DOMINANT LOGICS IN PUBLICLY TRADED FAMILY-CONTROLLED FIRMS:
A BEHAVIORAL THEORY PERSPECTIVE

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Principal Topic

Family scholars have consistently suggested that family-controlled firms (FCFs) take a long-term orientation, which reflects their familial value system. These values or dominant logics of the FCF (i.e., core logic to ensure the long-term viability of the FCF) may be seen in how the FCF operates, such as strategic risk and the use of slack resources. Recently, many scholars have suggested that FCFs sometimes do not act in the best interest of their shareholders with the family more concerned with generating and maintaining socioemotional wealth (i.e., non-economic returns, such as social benefits gained from the reputation of the firm which accrue back to the family). As such in FCFs, the management, which incorporates family members as part of the dominant coalition, should more readily adopt a long-term perspective (i.e., dominant logic) without inducement due to the manager’s family standing to lose more (i.e., socioemotional and economic wealth) than the common shareholder (i.e., economic wealth) if the firm fails.

Method

Using data from the S&P 1500 stock index in 2005 through the Compact Disclosure database for the years 1996 through 2005, we tested five hypotheses. The data collection resulted in complete data for 755 firms across those 10 years for total of 4,368 observations. We identified FCFs in our sample by cataloging non-family and family firms from company websites, proxy statements and internet searches. After adjusting our sample for selection by including the inverse mills ratio in our models, we used a generalized least squares model to estimate our results.

Results and Implications

Family managers have different dominant logics than professional managers in non-FCFs. FCFs dominant logic is to deal with strategic risk through an accumulation and division of slack resources among constituencies within the firm. Our findings indicate family dominant coalitions maintain the dominant logic of preserving socioemotional wealth through greater use of slack resources and adoption of lower risk strategies than non-FCFs. This study contributes to behavioral theory of the firm through the inclusion of family as a portion of the dominant coalition and demonstrates how the FCF is a unique form of ownership, which may require distinct governance mechanisms. Additional insights are provided in the dominant logics of FCFs, and how FCFs behave in publicly-traded firms.

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