

An organizational economics approach on the pursuit of socioemotional and financial wealth in family firms

Socioemotional and financial wealth

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Are these competing or complementary objectives?

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Abstract

Purpose – The purpose of this study is to analyze the contribution of the paper by Martin and Gomez-Mejia and propose complementary approaches and ways to test their hypotheses.

Design/methodology/approach – This study compares different theoretical approaches that complement socioemotional wealth to explain manager's decisions and firm performance.

Findings – The authors of this study argue that progress could be achieved by combining Martin and Gomez-Mejia's propositions with elements of existing organizational theories that are grounded on economics such as the resource-based view, transactional cost and property rights.

Originality/value – This study provides a new perspective of the work of Martin and Gomez-Mejia published in this issue.

Keywords Property rights, Family firms, Endogeneity, Transaction cost, Socioemotional wealth

Paper type Research paper

Resumen

Propósito – Analizar la contribución del artículo de Martin y Gomez-Mejia y proponer aproximaciones complementarias y modos de contrastar sus hipótesis.

Diseño/metodología – Análisis comparado de diferentes aproximaciones teóricas que complementa a SEW para explicar las decisiones de los gerentes y los resultados empresariales.

Resultados – El comentario argumenta que es posible progresar combinando las proposiciones de Martin y Gomez-Mejia con elementos de teorías organizativas ya existentes y que tienen sus raíces en la economía tales como la teoría basada en recursos, los costes de transacción o los derechos de propiedad.

Originalidad/valor – El comentario proporciona una nueva perspectiva al trabajo de Martin y Gomez-Mejia publicado en este número.



Palabras clave Riqueza socio-emocional, Costes de transacción, Derechos de propiedad, Endogeneidad, Empresas familiares

Tipo de artículo Trabajo de investigación

Resumo

Objetivos – Analisar a contribuição proposta por Martin e Gomez-Mejia por meio de uma abordagem teórica complementar e de alternativas para testar empiricamente as hipóteses propostas pelos autores.

Desenho/metodologia – Análise comparada de diferentes abordagens teóricas que complementam a perspectiva da riqueza socioemocional (SEW) de forma a explicar o comportamento dos gestores e seu impacto no desempenho da empresa familiar.

Resultados – O artigo propõe uma abordagem conceitual integradora que inclui a proposição teórica de Martin e Gomez-Mejia enriquecida com outras perspectivas econômicas como, por exemplo, a visão baseadas em recursos, a teoria dos custos de transação e a teoria do direito de propriedade.

Originalidade/valor – Este comentário traz uma nova perspectiva para o trabalho de Martin e Gomez-Mejia publicado a nesta edição.

Palavras chave Riqueza socioemocional, riqueza financeira, endogeneidade, visão baseada em recursos, teoria dos custos de transação e teoria do direito de propriedade, empresas familiares

Tipo de artigo Trabalho de pesquisa

In their article “The Pursuit of Socioemotional and Financial Wealth in Family Firms: Are These Competing or Complementary Objectives?”, Martin and Gomez-Mejia (this issue) re-visit the socioemotional wealth (SEW) dimensions and their relationship with firm performance. Their main purpose was to understand whether, and how, SEW dimensions affect family firms’ decision-making that ultimately affects firm performance. Based upon [Berrone *et al.*'s \(2012\) FIBER model](#), the authors develop several theoretical propositions that are valuable to researchers of family businesses, outlining three out of five FIBER’s dimensions that are directly related to firm performance such as:

- (1) family reputation, image and binding social ties;
- (2) family control, involvement and influence; and
- (3) dynastic succession.

Although the theoretical propositions are not empirically tested by the authors, they open new avenues for future research and a valuable addition to the family business literature.

As the study underlines, we believe that socioemotional framework integrates several family business issues into a single framework, allowing us to examine different and, sometimes, conflicting family motivations and their effects on organizational outcomes. In particular, because of it being based on the behavioral agency model (BAM) ([Wiseman and Gomez-Mejia, 1998](#)), the SEW perspective not only extends the agency-based arguments of potential dysfunctional behavior of family owners (and managers) to incorporate families’ economic and non-economic goals ([Chrisman *et al.*, 2004](#)) but also provides a plausible logic to explain family behavior toward maximizing firm’s long-term performance and survivor ([Berrone *et al.*, 2012](#); [Gomez-Mejia *et al.*, 2011](#)). Because of BAM roots on economic thinking, we miss a deeper conceptual discussion of an integrative framework that jointly considers not only an extension that incorporates the first-order SEW preservation effect and the second-order economic

effect (e.g. “mixed gambles”) but also other economic thoughts that may enrich and potentially unify an economic approach to the family firms. Indeed, the resource-based view as well as the transactional cost economics and “modern” property rights theory have been discussed in the strategic management (Kim and Mahoney, 2005) and family firms’ literature (Gedajlovic and Carney, 2010; Shukla *et al.*, 2014) as alternative theoretical logics that may jointly provide a unified and holistic framework for understanding family firms’ bivalent qualities and motivations.

In this commentary, and in line with Martin and Gomez-Mejia’s propositions, we believe that different dimensions of SEW perspective and their relationships with financial performance are endogenously determined, which calls for, at least, two alternative approaches. First, we can recognize that there is a two-directional effect between SEW dimensions and financial wealth and assume that it is an empirical rather than a theoretical issue. Second, as Martin and Gomez-Mejia suggest, we try to develop an integrative theoretical framework that informs family firms’ socioemotional–financial wealth relationship.

Our contribution is twofold. Empirically, we discuss the drivers of family firm performance heterogeneity and the endogenous nature of the problem, providing additional insights on the testable conditions of Martin and Gomez-Mejia’s propositions. Theoretically, we suggest that financial wealth in family firms is not only related to the SEW but also to family assets, family firms’ transactional costs and contractual advantages and constraints.

The SEW framework has advanced our understanding of the behavior and performance of family firms. Martin and Gomez-Mejia’s piece further advances this framework, discussing how financial and SEW (i.e. family’s preferences) interact to explain family firm behavior. In this commentary, we claim that, to reach a better comprehension and to advance our knowledge, it will be interesting to combine Martin and Gomez-Mejia’s propositions with other elements of existing organizational theories, specifically those that come from the economic tradition.

Family firms’ performance as an endogenously determined outcome

The literature on family business has been trying to answer whether and how family and non-family firms’ differences matter for performance. The results, depending on the specific performance measures, have shown differences in favor of family firms (Anderson and Reeb, 2003; Essen *et al.*, 2015), in favor of non-family firms (Faccio *et al.*, 2001) or simply the lack of significance differences between them (O’Boyle *et al.*, 2011). Amit and Villalonga (2014) review the empirical literature on financial performance of family firms and propose that the observed variation is mainly because of family firm definition, geographic location, industry affiliation and economic conditions.

When performance in family firms is larger than non-family counterparts, the arguments of long-term commitment, better managerial incentives, ownership involvement or simply the founder values have been used to justify the observed differences (Anderson and Reeb, 2003; Villalonga and Amit, 2006). When family firms underperform non-family firms, aspects such as nepotism, family goals, lack of management abilities or wrong succession processes are usually in the list of explaining differences (Kellermans *et al.*, 2012; Wang, 2006). However, the difficulty to measure management involvement, succession processes and other family-related constructs are assumed to explain the observed differences.

In this context, the SEW arose as a framework that captures the family preferences and characteristics as control, identification, social connections and emotional attachment of the succession to explain family firm's decision-making. The monolithic concept of SEW that acknowledges family features and explains differences in performance between family and non-family firms is difficult to measure and test empirically, even though the literature assumed the concept as a plausible explanation of the family firms in relation to non-family firms.

The SEW perspective assumes that although, in general, non-family firms focus on economic and financial goals, family firms tend to maximize socioemotional and non-economic goals driven by the family firms' preferences. This line of research focuses on explaining whether and how family firms outperform non-family firms under the socioemotional versus financial economic goals of family firms. Effectively, the SEW literature suggests that the family firms' superior economic and financial gains would be at the expense of the socioemotional goals, like non-family firms do (Berrone *et al.*, 2012). On the flip-side, pursuing socioemotional goals is assumed to be at the sacrifice of financial outcomes (Kellermans *et al.*, 2012).

Martin and Gomez-Mejia (this issue) introduce a novel approach trying to solve the above-mentioned paradox by looking into the interaction of both financial and socioemotional goals. Among the possible explanations are the mutually reinforcing outcome of financial and socioemotional goals or the family firms focus on socioemotional endowments under a minimum threshold of prospective financial wealth.

Assuming that Martin and Gomez-Mejia's approach captures socioemotional and financial wealth effect on firm performance, the question that arises is how to empirically test their theoretical propositions. Considering that socioemotional and financial wealth relationship with corporate performance shares most of the empirical issues regarding the corporate governance and finance literature such as omitted variables, simultaneity and measurement errors, we foresee two alternative sets of estimation strategies.

First, to rely on a clear exogenous variation for identifying the coefficients of interest through instrumental variables or regression discontinuity designs or by using difference-in-difference estimators. For example, Bennedsen *et al.* (2007), using a sample of Danish firms, define the gender of the firstborn child of a departing CEO as an instrumental variable to establish that family CEOs negatively affect family firms' performance. In their sample, male firstborns are determinants of family CEO succession. To be a good instrumental variable, it must be correlated with the key explanatory variable (family CEO), but it cannot be correlated with the error term in the variable of interest (i.e. performance). Such "instrument" ideally generates exogenous variation in the focal variable (i.e. family CEO) overcoming endogeneity problems, allowing family researchers to estimate the causal effect of the family presence (CEO) on performance. Gompers *et al.* (2010) use a variable to capture if the person's name appears in the company's name at the time of the IPO, as an instrument for the endogeneity between ownership structure and firm value in a sample of American firms. In practice, it is hard to find valid instruments that meet these criteria[1].

Second, to use econometric techniques that are based on modeling assumptions instead of a clear exogenous variation. In this case, researchers may rely on panel data methods, matching methods or structural equation estimations. For example, dynamic panel methods are increasingly being used to solve endogeneity issues in corporate governance research, assuming that there exists a dynamic relationship between

governance variables and firm performance, as well as to consider independent variables laggings as instrumental variables in the absence of a clear exogenous variation (Roberts and Whited, 2013; Wintoki *et al.*, 2012). Bhagat and Jefferis (2005) propose that simultaneous equations methods are a useful econometric technique to address endogeneity issues. Indeed, Bhagat and Bolton (2008) formulate a system of simultaneous equations to specify the relationship among corporate governance, management turnover, firm performance, capital structure and ownership structure to disentangle mixed findings on the effects of corporate governance on firm performance (Gompers *et al.*, 2003; Bebchuk *et al.*, 2009).

Finally, as suggested above, and according to the family business scholars, measurement is one of the greatest challenges in the field (Litz *et al.*, 2012). One the one hand, most empirical studies looking at performance measures use observed financial indices such as accounting profits or market value (Amit and Villalonga, 2014). These measures differ in terms of time perspective (e.g. accounting variables measure what the management has done, whereas market-oriented measures focus on what management is expected to accomplish) and who is measuring performance, that are likely to capture different aspects of family firm's behavior.

On the other hand, Gomez-Mejia *et al.* (2007) propose that family firms are different than non-family firms because they derive not only economic utility but also non-financial objectives, so-called "affective endowment", such as family reputation, heritage or political interests. This theoretical approach highlighted that family businesses frame performance as the sum of economic and non-economic benefits, giving rise to new ways of measuring performance in family firms. The main characteristic of non-economic goals is that they are often non-observed, latent variables. In this regard, content analysis (McKenny *et al.*, 2012), surveys (Basco and Perez-Rodriguez, 2009; Debicki *et al.*, 2016) and, more recently, psychometric testing (Pearson *et al.*, 2014) have been used to measure the SEW constructs. Therefore, better measures that capture latent conceptual perspectives of the SEW need to be developed to allow the family business literature to evolve.

From the exposed, in an attempt to empirically test Martin and Gomez-Mejia's propositions, family business scholars should carefully deal with endogeneity issues that are pervasive in the family firms context as well as with measurement difficulties. Therefore, the recognition of endogeneity issues in the first place along with the rigorous use of econometric methods and measures that target these issues will help to inform future research and practitioners on the evidence about family firm performance.

An integrative approach to understand socioemotional and financial wealth in family firms

Based upon the behavioral agency theory (BAM) (Wiseman, and Gomez-Mejia, 1998), the SEW view proposes that family firms frame strategic choices in terms of assessing how actions will affect potential gains and losses of socioemotional endowment (i.e. affective-related value or non-financial utility of family members) regardless of firm's financial outcomes (Gomez-Mejia *et al.*, 2011). The SEW logic assumes that family decision-makers are loss-averse with respect to SEW and that gains or losses of this endowment are evaluated toward a reference point, in which losses loom larger than gains. The BAM advances the agency logic to incorporate behavioral assumptions of

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bounded rationality embedded in the prospect theory, relaxing the agency's strong assumption of perfect rationality.

Martin and Gomez-Mejia (this issue) extend the BAM logic to propose that there will emerge a "mixed gamble" as a response to the trade-off between socioemotional and financial wealth, in which the family will compute the sum of prospective gains and losses when deciding whether to proceed with a particular decision. Families will, therefore, take SEW-oriented decisions if the prospective gains exceed the prospective losses by a large amount. The mixed gamble approach has been empirically tested in different contexts such as executive stock options (Martin *et al.*, 2013), merge and acquisitions (Gomez-Mejia *et al.*, 2015) and CEO incentives in family firms (Gomez-Mejia *et al.*, 2016), supporting the logic that agents are confronted with a mixed gamble in which they can both gain and lose wealth, affecting their loss aversion depending on the relative level of prospective gains and losses.

Even though the mixed gamble approach is a sound and strong extension to the BAM, allowing to jointly consider the socioemotional and financial wealth, it does not capture the mutual forces that arise from socioemotional and financial wealth concerns in family firms that may affect firms' performance.

In line with recent calls from organizational economics literature (Kim and Mahoney, 2005; Shukla *et al.*, 2014), we briefly discuss whether and how BAM, resource-based theory, transaction costs theory and property rights can be joined to generate a compelling theoretical approach to explain performance variance in family firms. To do so, we use the Spanish family firm's decision to join an olive oil mills cooperative, as described in Gomez-Mejia *et al.* (2007). The olive oil mills cooperative context is the perfect laboratory to discuss different contracting situations where the cooperative oil parties are confronted with asset specific investments, and information asymmetry, but at the same time, with potential gains of economics of scale and scope as well as public policies subsidies and support, which may have conflicting effects on family firm's performance (Dios-Palomares *et al.*, 2013).

According to Gomez-Mejia *et al.* (2007), the decision to join a cooperative (hereafter, coop) is voluntary and rests entirely on the family firms' owners. Once the decision to join a coop is made, the family loses the control and decisions over the olive oil mills production and management, such as the decision about what technology to use, the cultivation methods, quality levels, pricing and marketing policies and the use of pesticides. In sum, the family agrees to abide by the directives and business policies defined by the coop's CEO, its board of directors and the general assembly. In addition, Spanish coops are ruled by the "one member one vote" principle in which the family, no matter the size of their land or wealth, accounts for one vote in the general assembly. At the same time, there are several economic advantages of joining a coop. For example, coops have not only tax reductions but also subsidies for acquiring plant, equipment and other inputs. The economies of scale and scope, by sharing a large amount of oil mills with different crops and qualities, generate additional competitive advantage toward individual mills. Additionally, the scale effect serves also to increase bargaining power with suppliers of physical as well as financial resources.

Given that there are economic benefits and costs associated with the decision to join a cooperative, family firms will face a trade-off that can be informed by alternative theoretical lenses that, eventually, preclude the SEW interpretation of the focal phenomenon. In Table I (adapted from Kim and Mahoney, 2005), we compare the BAM

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Theoretical perspectives	A: BAM (mixed gamble)	B: Resource-based	C: Transaction costs	D: Property rights
Unit of analysis	Oil mills owners (principal); <u>cooperative</u> management (agent)	Inter-organization/ <u>cooperative</u> resources: network of firms	<u>Cooperative</u> contractual transaction	<u>Cooperative</u> as an institution
Focal issue	Incentives of <u>cooperative</u> management may diverge from oil mills family owners	Valuable, rare, inimitable and non-substitutable resources as means for rent generation	Interdependence of oil mills (asset specificity), coordinating resources to minimize transaction costs (vertical and horizontal integration)	Defining the property rights to oil mills, to minimize conflicts and costs
Cost concern	Monitoring costs, decision-making inefficiencies and imperfect incentive alignment	Governance costs and coordination diseconomies	Maladaptation costs and potential holdout problems	Rent-seeking through public policy subsidies and support
Contractual focus	Ex-ante incentive mechanism (principal: mill owners, agent: <u>cooperative</u> /CEO)	Relation-specific investments, interfirm knowledge-sharing routines, complementary resource endowments and effective governance	Efficient governance mode (hierarchy as a coordinating mechanism)	Maximize joint profit, common pool resource problem and individual versus collective rationality
Theoretical logic	Optimal contract under asymmetric information and non-observability	Network barriers to imitation	Comparative assessment: choices between integration (vertical and horizontal) forms	Comparative assessment: alternative institutional arrangements
Market frictions	Asymmetric information, non-observable actions and clashing interests of the owners	Asset specificity and collective trading parties	Asset specificity and information asymmetry	Interdependence tracts, coordination rules, information asymmetry (sharing rules) and non-proportional voting rights
Potential effect on financial performance of family firms	<i>Positive: current wealth and future prospects socioemotional and financial wealth gains overcomes, at least by 2.5 times the losses.</i> <i>Negative: current wealth and future prospects socioemotional and financial wealth gains overcomes less than 2.5 times the losses.</i>	<i>Positive: causal ambiguity, interorganizational asset stock interconnectedness, partner scarcity, resource indivisibility and institutional environment</i> <i>Negative: time to align and combine resources to achieve VRIN and high coordination costs</i>	<i>Positive: reduce inputs cost, access to markets and economies of scale and scope</i> <i>Negative: high coordination costs of integration activities</i>	<i>Positive: Public policy subsidies and tax reductions</i> <i>Negative: No transferability of residual claims reduces liquidity issues and control over assets; future generations lack liquidity</i>

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Table I.
Comparing theories: an application to family firms' olive oil mills cooperatives

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with resource-based view, transaction costs theory and property rights theory using the case of olive oil mill [cooperatives](#) in terms of the unit of analysis, the focal issue, cost concerns, contractual focus, theoretical logic, market frictions and performance effect.

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Martin and Gomez-Mejia (this issue) focus on the costs and benefits of socioemotional and financial wealth and how they relate to the firms' performance by looking at the interplay among family's reputation, control and dynastic succession, under current and prospective financial concerns. In this regard, under the mixed gamble logic, when making a decision to join a [cooperative](#), the family will face two potential outcomes (Table I, Panel A). First, if they decide not to join the coop, they increase their current SEW because of greater family control and influence and reduce prospective SEW because of future decline in financial performance. Second, if they decide to join the coop, they are likely to increase their current SEW because of enhanced financial performance and reduce prospective SEW because of loss of family control and influence.

The resource-based view proposes that resources are heterogeneously distributed and organized across firms and that firms that accumulate valuable, rare, inimitable and non-substitutable resources are more prone to gain competitive advantage (Barney, 1991). Family firms, through their human and social capital, enjoy advantage positions, particularly in economies where there are considerable uncertainties related to the reliability and trust of business partners (Shukla *et al.*, 2014). At the same time, family conflict may have a contagion effect on firm's operations, with negative consequences to the firm (Lester and Canella, 2006). In this regard, both positive and negative sides of family effect on firm's resources may be coordinated for a positive impact when joining a [cooperative](#) (Table I, Panel B). This is because conflicting families no longer have the ultimate voice over oil mills' decision-making, while still may help to deliver social and human capital to the [cooperative](#). In this regard, not only the SEW but also the financial wealth is maximized.

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From the transaction cost economics perspective, joining a [cooperative](#) is not a financial insurance against potential performance hazard in stand-alone oil mills (Table I, Panel C). There are contractual features that have different assumptions and consequences to family firm's performance. For example, transaction cost economics postulates that high asset specificity such as the olive oil mills (e.g. olive trees are a long-term investment that may require more than 10 years to produce any yield) demands integration and coordination under a hierarchical structure (i.e. [cooperative](#)) to achieve efficiency while reducing transaction costs. In this case, although the asset specificity problem is mitigated by the [cooperative](#), the necessity of an efficient coordination structure may generate a potential holdout problem that makes family firms to postpone the decision to join the coop. That is to say that the Martin and Gomez-Mejia's (this issue) second-order gains due to financial performance may not happen in the case of holdout problem.

Beyond resource-based and transaction costs perspectives, property rights theory analyzes contractual relationships and the role of institutions aiming to provide alternative solutions for contractual agreements (Libecap, 1989; North, 1990). A carefully designed initial allocation of property rights can align objectives as well as economic incentives between contractual parties, that, otherwise, may impede economic exchange. In our example (Table I, Panel D), the property rights' unit of analysis is the [cooperative](#) contract as a potential viable institution that efficiently allocates residual rights of control that maximize joint profit. This theory claims that family firms profit-maximizing incentives, including potential holdout motives, induce to inflexible business and political positions that difficult contracting agreements (Kim and

AQ: 8 Mahoney, 2005). In the case of olive oil mills cooperative, the higher the number of mills that join the cooperative, the lower the residual control of families and their influence over the coop's decision-making. Additionally, large and small mills, large and small families, the different family life cycle and other idiosyncratic differences make any form of consensus more difficult to achieve. To deal with cases where oil mills fail to arrive at a cooperative contractual arrangement, the property rights suggests two economic elements of ownership: the residual control rights (Grossman and Hart, 1986) and the residual rights to income (Alchian and Demsetz, 1972). On the one hand, when joining a cooperative, the family lose their residual control rights to mitigate ex-post contractual problems and empower the cooperative governance mechanisms such as the assembly, the board and the management. On the other hand, properly aligning residual rights to income mitigates ex-ante contractual conflicts. For example, imagine a family oil mill with a high reputation for quality that has a strong brand name. The family may negotiate, ex-ante, the terms of a contractual residual right to income that may accommodate their SEW tied to branding and quality concerns.

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Finally, we also believe that non-linear effects of SEW might exist on firms' decisions and outcomes derived from the conflicting predictions inside the SEW dimensions that may also be further explored. For example, in a recent study, Kabbach *et al.* (2016) find an inverted U-shaped effect of family ownership on non-compliance with governance codes in European family firms. Although the family influence and control dimension leads to high levels of non-compliance, socio-worthiness derived from image and reputation decrease non-compliance.

In sum, we applaud Martin and Gomez-Mejia (this issue) by making a remarkable development of the BAM to include the mixed gamble approach that provides an explanation for conflicting empirical results in the family business literature. At the same time, we consider that such an economic-based approach would be further enhanced by considering alternative perspectives such as the resource-based view, transactional cost and property rights, that jointly explain the existence and performance of family firms from an organizational economics point-of-view.

Note

1. For more detail on these econometric techniques, please refer to Roberts and Whited (2013).

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Further reading

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1

AQau—Please confirm the given-names and surnames are identified properly by the colours.

■ = Given-Name, ■ = Surname

The colours are for proofing purposes only. The colours will not appear online or in print.

AQ1— Please check the edits made in the following sentence, and correct if necessary: Original: In particular, because of its grounds on the behavioral agency model (BAM) (Wiseman, & Gomez-Mejia, 1998), the SEW perspective not only extends the agency-based arguments of potential dysfunctional behavior of family owners (and managers) to incorporate families' economic and non-economic goals (Chrisman, Chua, & Litz, 2004) but also provides a plausible logic to explain family behavior towards maximizing firm's long-term performance and survivor (Berrone *et al.*, 2012; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). Revised: In particular, because of it being based on the behavioral agency model (BAM) (Wiseman and Gomez-Mejia, 1998), the SEW perspective not only extends the agency-based arguments of potential dysfunctional behavior of family owners (and managers) to incorporate families' economic and non-economic goals (Chrisman *et al.*, 2004) but also provides a plausible logic to explain family behavior toward maximizing firm's long-term performance and survivor (Berrone *et al.*, 2012; Gomez-Mejia *et al.*, 2011).[↓](#)

AQ2— Please note that the following citations are not listed in the reference list. Please provide full details for these citations: Chrisman *et al.*, 2004; Gedajlovic and Carney, 2010; Barney, 1991; Lester and Canella, 2006.[↓](#)

AQ3— Please provide the spelled-out form of the following abbreviation: IPO.[↓](#)

AQ4— Please note that the following sentence is unclear as given. Please consider revising the sentence for clarity: From the exposed, in an attempt to empirically test Martin and Gomez-Mejia's propositions, family business scholars should carefully deal with endogeneity issues that are pervasive in the family firms context as well as with measurement difficulties.[↓](#)

AQ5— Note that you have stated that cooperative is referred to "coop" hereafter. However, you have used "cooperative" and "coop" inconsistently thereafter. Please amend as necessary.[↓](#)

AQ6— Note that in Table I, we have revised "Interdependence of oil mills (asset specificity), coordinating resources no minimize transaction costs (vertical and horizontal integration" to "Interdependence of oil mills (asset specificity), coordinating resources to minimize transaction

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2

costs (vertical and horizontal integration". Please check if the edit conveys your intended meaning. Moreover, the meaning of the *Positive* and *Negative* points under "Potential effect on financial performance of family firms" for panel A are unclear. Please amend as necessary.␣

AQ7— Please check the edits made in the following sentence, and correct if necessary: Original: Resource-based view proposes that resources are heterogeneously distributed and organized across firms and that firms that accumulate valuable, rare, inimitable, and non-substitutable are more prone to gain competitive advantage (Barney, 1991). Revised: The resource-based view proposes that resources are heterogeneously distributed and organized across firms and that firms that accumulate valuable, rare, inimitable and non-substitutable resources are more prone to gain competitive advantage (Barney, 1991).␣

AQ8— Please note that the following sentence is unclear as given. Please consider revising the sentence for clarity: This theory claims that family firms profit-maximizing incentives, including potential holdout motives, induce to inflexible business and political positions that difficult contracting agreements (Kim and Mahoney, 2005).␣

AQ9— Please check the edits made in the following sentence, and correct if necessary: Original: On the other, by properly aligning residual rights to income mitigate ex-ante contractual conflicts. Revised: On the other hand, properly aligning residual rights to income mitigates ex-ante contractual conflicts.␣

AQ10— Please provide volume and issue number for the following references: Gomez-Mejia *et al.*, 2015, 2016.␣

AQ11— Please provide publisher location for the following reference: Roberts and Whited, 2013.␣

AQ12— Please provide issue number for the following reference: Berrone *et al.*, 2010.␣
