Belgium | 25 April 2019

Laga Newsflash
Do family firms outperform non-family firms?

There has been a long debate, both among scholars and practitioners, about the superior or inferior performance of family firms compared to non-family firms.

Both sides of the debate propose reasonable arguments.

Those who suggest a negative effect of being a family firm on performance describe altruism and family nepotism as hazardous factors.

Proponents of a positive effect highlight the beneficial impact of long-term orientation and lower owner-management agency costs.

Researchers from all over the world have conducted numerous studies on this question. This impressive body of literature allows for so-called meta-analyses, a research technique in which previous separate studies are bundled in order to analyze patterns that are more robust.

Based on a meta-analysis of the financial performance of family firms that was published in the Journal of Family Business Strategy (Wagner et al., 2015), we can provide an answer to the million dollar question:

"Do family firms outperform non-family firms?"

The answer is Yes.

Based on a sample of 380 studies including 1,561,622 firms from over 41 countries, Wagner and his colleagues found that family firms show a small—but statistically significant—superior performance compared to non-family firms. Performance was measured by 'Return On Assets' (ROA). Do note that a significant effect was not found when performance was measured by 'Return On Equity' (ROE).

This result is in itself encouraging, especially for the many countries where family firms play a huge role in the economic firmament.

A second finding from the same study however appears to be even more interesting.

A firm can be defined as a family firm based on ownership or management.

Interestingly, Wagner's meta-analysis demonstrates that the positive effect of family firms is stronger in samples when an ownership definition of family firms is used.

To explain this finding, the study suggests that owners may be engaged monitors but—especially in later generations and large family firms—may be not so good managers.

So, a more comprehensive answer to the performance question would be:

Family-firms outperform non-family firms in terms of ROA, especially when an ownership definition of family firms is used.

This second finding fits with our notion of **sustainable shareholdership**. Succession of the family firm does not necessary mean that one should take over the helm as CEO.

More importantly, we encourage each family member to take on a role that fits best with his/her competencies and passions. Whether that translates into a seat on the board of directors, asking critical questions during the annual shareholder meeting, or working as a motivated junior sales representative for the family firm is less important.

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