

The moderating effect of environmental dynamism on the relationship between family firm status and firm performance

Bachelor thesis research by Laura Hanegraaf

In June 2017 Laura Hanegraaf graduated from the Tilburg School of Economics and Management at Tilburg University. Laura followed the bachelor Business Economics and wrote her bachelor thesis in the area of family firms. The following text is a summary of the BSc thesis.

Research in the field of family firm evolved significantly over the past 15 years, but there is an ongoing debate on different aspects concerning family firms. According to Ensley, Pearce, and Hmieleski (2006) characteristics of family firms can be categorized into three groups: 1) the strong desire of family members to keep control and influence, 2) a specific attitude towards risk, and 3) a specific growth rate. Research on family firms and non-family forms is inconclusive, meaning that in some studies family firms perform better than non-family firms and in other studies family firms perform worse than non-family forms. The goal of this bachelor thesis is to explain the influence of environmental dynamism on the relation between (non-) family firms and performance. Environmental dynamism can be described as the degree of market instability over time, and environmental turbulence caused by the connections between organizations and environmental elements (Dess & Beard, 1984; McArthur & Nystrom, 1991). The expectation is that environmental dynamism strengthens the positive relation between family firm status and firm performance over time. Ward (1998) states that family firms are less affected by economic cycles because of their focus on the long run and Habbershon and Williams (1999) state that family firms respond easier to a changing business environment. In this thesis the performance of family firms and non-family firms is compared in an environmentally stable year (2015) and in an environmentally unstable year (2008). Hence, it is expected that family firms perform better than non-family firm and this performance differences is expected to be larger during an environmentally unstable year.

In order to draw conclusions, a sample of 486 family firms and non-family firms worldwide is created. The family firms are retrieved from Global Family Business Index (<http://familybusinessindex.com/>) and the non-family firms from the Fortune 500 index. Firm performance is measured by the return on assets. In this thesis, environmental dynamism is seen as the turbulence caused by the financial crisis. Therefore, performance data during a crisis (2008) and a non-crisis (2015) were collected. For each of these years, the differences in performance between family and non-family firms are tested. In addition, it is tested whether these differences were larger for a crisis than for a non-crisis year.

Results suggest that family firms do perform better than non-family firms in a stable environment. In addition, the performance of family firms in unstable environments, and throughout environmental instability could not be confirmed.

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