The effect of family involvement on firm performance
Does firm size matter?

Bachelor thesis research by Arenda Perbal

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

Family firms are considered to be the oldest and most common model of economic organization and account for a large part of businesses around the world. Family firms have some unique characteristics compared to non-family firms. They have a different ownership-control structure, a different management style, a long-term focus, and family members are widely represented in senior management. Family involvement in a firm can contribute to the performance of a family firm due to its long-term perspective and commitment. But, family involvement can also be a source of conflict and can cause succession problems, which threatens the continuity of the family firm.

The goal of this bachelor thesis is to examine how firm size influences the relation between family involvement and performance of family firms. In literature there is debate over the effect of family involvement on firm performance and previous studies have found mixed outcomes. Lee (2006) for instance argues that family involvement in the firm can have a positive effect on the company since family members are often loyal and devoted to the family firm whereas Anderson and Reeb (2004) argue that family involvement can cause substantial disadvantages. The size of firms could influence the relationship between family involvement and firm performance. Smaller family firms are better able to anticipate on changes in the environment and decision-making is faster.

To investigate the relationship an explanatory quantitative study is conducted based on a dataset of 211 of the largest family firms around the world mentioned in the Global Family Business Index (http://familybusinessindex.com/). Family involvement is measured by the percentage of directors in the board that are members of the founding family. Performance is measured by return on assets and firm size by the number of employees. Results show that more family involvement leads to less performance. Explanations for the negative relation are for instance the difficulty to balance equity and efficiency as well as the succession within the family firm (Davis, 1983) and that family firms tend to hire family members, instead of hiring the most qualified applicant for the position, which can harm the firm performance (Lee, 2006). No empirical evidence was found for the moderating role of firm size on this relationship.

Looking at the results from a managerial perspective, this research is useful because it is beneficial for a manager to know that family involvement could negatively influence the performance of a family firm. By understanding the complex dynamics of family involvement managers could reduces the effect on performance.

Literature

Anderson, R. C., & Reeb, D. M. (2004). Board composition: Balancing family influence in S&P 500 firms. *Administrative Science Quarterly, 49*(2), 209-237.

Davis, P. (1983). Realizing the potential of the family business. *Organizational Dynamics, 12*(1), 47-56.

Lee, J. (2006). Family Firm Performance: Further Evidence. *Family Business Review, 19*(2), 103-114.

If you are interested in the bachelor thesis, you could contact the Tilburg Institute for Family Business via tifb@tilburguniversity.edu and request the pdf file.