Family firm failure

A descriptive research into explaining family firm cessation

In January 2018 Kenny Jongen graduated from the Tilburg School of Economics and Management at Tilburg University. Kenny followed the Master Strategic Management and wrote his master thesis in the area of family firms. The following text is a summary of the MSc thesis.

Family firms have gained increasing interest among researchers for the past years. However, the problem is that researchers were only eager to investigate the positive sides of family firms and reasons why they outperform other non-family firms. This research made an attempt to describe the other side of family firms. Thus, investigating the key reasons that led to the failure of family firms in terms of involuntary bankruptcy. It is necessary to fill this literature gap because of the importance of family firms for the national and even the global economy. In order to fill this gap the following problem statement has been formulated: What are key reasons for involuntary family firm cessation?

The main characteristic of a family firm is that they are known for a high level of concentrated ownership. Furthermore, three main categories have been used to identify several sub factors that could influence the continuity of family firms, namely external, internal, and family factors. Thereafter, data has been obtained from 60 family firms in the Netherlands in the form of bankruptcy reports in combination with news articles for ten cases. Additionally, only bankruptcy reports have been collected for 50 smaller cases in order to create a more extensive sample. The collected data are analyzed through content analysis.

Results show that the sample has been taken during an economic downturn which indicates that the external economic environment has had an impact on almost every firm in the sample. However, some industries are less sensitive to external forces than others. But the main problem of family firms is that they are rather short-term orientated, which is reflected in a decision-making preference towards the status quo of the family firm. Therefore, they are extremely vulnerable to dynamic environments. In addition, family firms often lack succession planning which makes them even more vulnerable to disruptive events such as illness or death regarding the director of the family firm. Results are in line with the expectancy that family firms struggle to survive on to the second and third generation of the family. In addition, succession planning is a crucial factor for family firm continuity that should be arranged in order to prevent cessation of the firm in times of disruptive family events.

If you are interested in the master thesis you can contact the Tilburg Institute of Family Business via tifb@tilburguniversity.edu and request a pdf file.