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What Do We Know About Private Family Firms? A Meta-Analytical Review

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The universe of family firms is heterogeneous, and findings gleaned from publicly listed firms may not apply to the ubiquitous, but less frequently studied, privately held family firm (PFF). As PFFs are insulated from capital market pressures, owner-managers have greater latitude in setting strategic goals, which may result in different strategic choices and performance outcomes. By employing meta-analytical techniques on 48 studies conducted in nine countries, we synthesize prior PFF research. We show that PFFs prefer more conservative strategies, but contrary to received wisdom, this risk aversion does not hurt their performance. We conclude with an agenda for future research.

Introduction

Family firm research has grown rapidly in the last two decades, but the developing literature has left many gaps. Much attention has been given to financial performance differentials between publicly listed family firms and public nonfamily firms (Anderson & Reeb, 2003a; Miller, Le Breton-Miller, Lester, & Cannella, 2007; Van Essen, Carney, Gedajlovic, & Heugens, 2010). However, the population of family firms around the world is heterogeneous (Chua, Chrisman, Steier, & Rau, 2012), and there is a growing body of evidence that different types of family firms vary with respect to their strategic choices and relative performance (Miller, Le Breton-Miller, & Lester, 2011; Schulze, Lubatkin, & Dino, 2003). Compared with the large body of empirical research on public firms, the literature on private family firms (PFFs) is less well developed, and it lacks inferences on the strategic and financial consequences of retaining private ownership and control in a family.

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At present, a considerable gap remains in our understanding of how strategic choice mediates the relationship between family control and performance outcomes. Several studies have examined the relationship between family control and strategic choices with regard to international and product diversification, research and development intensity, and capital structure (Anderson & Reeb, 2003b; Fernández & Nieto, 2005; Gómez-Mejía, Makri, & Kintana, 2010). Furthermore, a great number of studies have assessed the direct relationship between family control and financial performance. However, to our knowledge, only a few studies (e.g., Sirmon, Arregle, Hitt, & Webb, 2008) have examined the mediating role that strategy plays in the family control–firm performance relationship. This lack of attention to mediation effects is a genuine source of confusion in the family firm literature. For example, several scholars have found that family-controlled firms are less diversified than nonfamily firms. Due to missing mediation tests, however, they disagree on how these observed differences are related to firm performance. In one view, lower diversification in family firms is motivated by noneconomic goals like the protection of socioemotional wealth, such that it likely affects firm performance negatively (Gómez-Mejía et al.). In contrast, Anderson and Reeb (2003a, p. 659) ascribe lower family firm diversification to positive agency effects of family control. Specifically, economically rational owner-managers would "forgo corporate diversification because of its substantial negative effects." However, neither study actually tests whether family firms' diversification strategy has a positive or negative effect on performance.

The primary contribution of this study is to articulate and address several open research questions concerning the unique strategic choices made by PFFs and their performance consequences relative to private nonfamily firms (PNFFs). In particular, we investigate the mediating role of strategic choices related to research and development expenditure, international diversification, and capital structure. The broad picture of the PFF that emerges from these analyses is that of a conservative economic actor searching for a risk-averse strategic profile. However, in contrast to the conventional wisdom that risk aversion harms performance (Amit & Livat, 1988; Fiegenbaum & Thomas, 1986), PFFs on average generate similar returns to PNFFs that pursue more aggressive strategies. In addition to these theorized relationships, we also investigate in a more exploratory fashion how PFF performance is impacted by intergenerational transitions within the family and by the legal system of the country in which the PFF is incorporated. The second contribution pertains to the growing body of literature suggesting that the performance of family firms is moderated by the quality of the institutional environment, especially with respect to the origins of the legal environment and the quality of rule of law (Carney & Gedajlovic, 2002; Gilson, 2007; La Porta, López-de-Silanes, Shleifer, & Vishny, 1998). Contending theories suggest that the quality of the institutional environment positively and negatively moderates the performance of family firms (Gedajlovic, Carney, Chrisman, & Kellermanns, 2012). However, cross-national and comparative studies of PFF performance that could potentially shed light on these claims are very rare, and there are no tests of institutional moderation hypotheses. We address this gap theoretically and empirically. Thus, a second contribution of the study is its examination of how family firm performance is influenced by local institutional environments, an area where the body of empirical research is largely silent.

To address these open questions, we use several advanced meta-analytical techniques to synthesize available primary studies and extend current theoretical insights on the relationships between family control, firm strategy, and, ultimately, firm performance. First, we use Hedges-and-Olkin-type meta-analysis (HOMA; Hedges & Olkin, 1985) to assess the balance of evidence on the direct association between family control and firm performance. We also use HOMA to disaggregate these effects into several

country-specific findings. Due to the absence of readily available financial data, studies of PFFs are relatively rare compared with the larger body of research on the performance of publicly listed family firms. Moreover, most PFF studies have an exclusive focus on the United States. Nevertheless, we managed to assemble a database of 48 primary studies conducted in nine countries, comprising over 450,000 firm-years of observations on the relationship between family control and firm performance.

Second, to address our primary research question concerning the PFFs' unique strategic choices, we use meta-analytic structural equation modeling (MASEM; Carney, Gedajlovic, Heugens, Van Essen, & Van Oosterhout, 2011; Cheung & Chan, 2005). MASEM allows us to take meta-analysis out of the realm of research synthesis, or the aggregation of primary research findings, and bring it into the realm of research extension, or the testing of research ideas that are novel to an existing body of literature (Eden, 2002; Van Essen, Van Oosterhout, & Carney, 2012).[1] We specifically use MASEM to address open and understudied questions about the mediating role of strategic choices in the family control–firm performance relationship in the context of PFFs (Aguinis, Bergh, & Joo, 2011; Eden). We hereby follow Mazzi (2011), who suggested that family firm scholars move beyond the study of direct relationships, because the link between family control and firm performance is complex and likely mediated and moderated by contingencies that are all too often excluded from the analysis. Specifically, we use MASEM techniques by incorporating important strategy variables such as (1) investments in research and development (R&D), (2) international diversification, and (3) capital structure (leverage) and subsequently assessing their impact on the family control–firm performance relationship.

Third, we use meta-analytic regression analysis (MARA; Lipsey & Wilson, 2001) to model extant variance in the effect size distribution. We use MARA to trace this international variance to a concise set of institutional moderating variables. Specifically, we examine whether PFFs do especially well in contexts with a common-law tradition (La Porta, Lopez-de-Silanes, & Shleifer, 1999) and where the rule of law is better developed (Kaufmann, Kraay, & Mastruzzi, 2008), based on the view that stakeholders of the firm are better protected against the type of behavioral agency problems to which PFFs are prone (Gómez-Mejía, Cruz, Berrone, & De Castro, 2011).

Agency Costs and Benefits in Private Family Firms

PFFs are enterprises that are partly or wholly owned and/or managed by a family; their equity shares are not freely floated on a public stock exchange, and they are usually

1. One recent meta-analysis, based on a mixed sample of public and private family firms, provides a research synthesis of the family control–firm performance literature (O'Boyle, Pollack, & Rutherford, 2012). Yet we go beyond this research-synthesizing attempt in a variety of ways. Consistent with O'Boyle et al., we find no significant effect of family control on firm performance. Yet, in contrast with O'Boyle et al., we unpack this aggregated result by showing that PFFs and PNFFs achieve similar performance outcomes by following significantly different strategies, a phenomenon we describe as strategic equifinality. This is striking, especially because the strategies followed by PFFs are decidedly more conservative. Second, we go beyond the aforementioned study by undertaking a series of robustness tests to control for possible moderating effects of different definitions of family firms, generational effects, different operationalizations of firm performance, methodological and study artifacts, and characteristics of the institutional context. Third, while O'Boyle et al. study a mixed sample of private and public family firms, we focus exclusively on PFFs relative to a control group of PNFFs, in recognition of the fact that the universe of family firms is heterogeneous and that PFFs in particular are understudied relative to their ubiquity.

Figure 1

Agency Costs and Benefits in Family and Nonfamily and Private and Public Firms

	Family ownership and control	Nonfamily ownership and control
Public firms	**Quadrant 1** Cost: Mixed ownership dilutes high-powered financial incentives Cost: Aggravation of principal–principal agency problems Benefits: Public listing in a well-regulated capital market attenuates principal–principal agency problems	**Quadrant 3** Cost: Accentuated principal–agency problems from uninvolved arm's-length investors Benefit: Competent leadership due to the involvement of professional management Benefit: Meritocracy rather than dynastic survival as a guiding leadership selection principle
Private firms	**Quadrant 2** Cost: Altruism, loss aversion, and pursuit of noneconomic goals are unmoderated by capital market forces Benefits: Pure ownership accentuates high-powered financial incentives Benefits: Absence of capital market pressure enables long-term orientation	**Quadrant 4** Cost: Short-termism due to economic performance focus and lack of transgenerational intent Benefits: Concentrated owners face high-powered incentives to improve firm performance Benefits: Lone-founder economic rationality increases firm efficiency

only obliged to disclose rudimentary information about their financial condition and performance. Their private status shields PFFs from the oversight and performance pressures normally exerted by public equity markets, and there is typically less external interest and involvement in their governance. The available literature on PFFs suggests that they are subject to specific types of agency costs and benefits, which distinguishes them from other types of organization. We reason that these agency costs and benefits in PFFs are likely to result in different patterns of strategic decision making and in distinct sources of competitive advantage and disadvantage. In other words, we propose that PFFs should be seen as a distinct organizational form. To identify their inherent agency costs and benefits, we distinguish PFFs from both publicly listed family firms and public and private nonfamily firms (see Figure 1).

Private Family Firms Versus Publicly Listed Family Firms

Publicly listed family firms (Figure 1, Quadrant 1) are characterized by mixed ownership (Boardman & Vining, 1989), where ownership is usually split between a

blockholding family and other nonfamily blockholders or minority investors. One of the agency costs of mixed ownership concerns the dilution of a concentrated owner's high-powered financial incentives to optimize the performance of the firm for private benefit that otherwise accrue from rights to the full stream of residual returns (Jensen & Meckling, 1976). Specifically, the dilution of residual return rights creates perverse incentives for concentrated owners to reduce effort levels and increase on-the-job consumption (Fama, 1980). Mixed ownership can furthermore also generate principal–principal agency costs, because a family may use its insider status or dominant ownership stake to expropriate value from minority investors (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Expropriation risk may reduce firm value in publicly listed family firms because minority investors discount family firm equity shares to reflect the risk of holding these assets (Claessens, Djankov, Fan, & Lang, 2002).

While the literature on the value of publicly listed family firms is somewhat divided, there is growing support for the view that, despite the risk of expropriation, a public listing in a well-regulated capital market is "an effective organizational structure" (Anderson & Reeb, 2003b, p. 680; Van Essen et al., 2010). This arrangement combines (semi)strong incentives for family owners to monitor the firm, while external investors monitor the firm's family owners (Anderson & Reeb, 2004), which may attenuate their ability to expropriate. Public status exposes listed family firms to the pressures of capital markets as well as to the demands of diversified minority shareholders calling for improved short-term returns and greater risk-taking. Minority shareholders also lobby for greater legal protection for their property rights, which can lead to ever-more-stringent corporate governance standards (Bruno & Claessens, 2010). Isomorphic pressures from active minority investors and stringent institutional constraints may also depersonalize and diminish the particularistic qualities of the founding family's influence over the firm. As a consequence, public family firms may come to resemble their managerially controlled counterparts in terms of strategic choices and performance characteristics (Hansmann & Kraakman, 2004). However, the effectiveness of the publicly listed family firm may be dependent upon country-specific effects, such as the type and robustness of legal institutions that limit a family's ability to engage in expropriation activities (Young et al., 2008).

In contrast, PFFs (Figure 1, Quadrant 2) are a "pure" ownership form and less susceptible to the type of principal–principal agency problems commonly found in their publicly listed counterparts. The absence of capital market oversight does, however, facilitate the pursuit of noneconomic goals (Chrisman, Chua, Pearson, & Barnett, 2012), which makes PFFs prone to other types of agency costs. For example, owners may be excessively altruistic to their children (Schulze, Lubatkin, Dino, & Buchholtz, 2001), which can generate inefficiency and "agency problems with oneself" (Jensen, 1998, p. 48). Moreover, a behavioral agency model suggests that loss aversion in family firms arises from the desire of families to preserve their socioemotional wealth, which can harm firm efficiency (Gómez-Mejía, Cruz, et al., 2011). However, PFFs may simultaneously enjoy compensatory agency benefits compared to publicly listed family firms. Due to their frequently substantial if not exclusive ownership, controlling families are entitled to substantial residual returns, which create high-powered incentives to monitor the firm, scrutinize expenditures, and maximize profitability. Private status furthermore frees PFFs from short-term pressures from minority investors (Laverty, 1996) and provides owners with the discretion to adopt a more balanced temporal orientation with due attention given to both short- and long-term contingencies (Lumpkin & Brigham, 2011).

Private Family Firms Versus Private Nonfamily Firms

Agency costs and benefits also differ between PFFs and PNFFs (Figure 1, Quadrant 4). The PNFF category is also heterogeneous, including sole proprietorships, private firms managed by lone founders, and limited liability companies. In sole proprietorships and in firms managed by lone founders, private individuals are typically unconcerned with transgenerational intent, as they do not typically view the firm as a family firm (Miller et al., 2011).[2] Unlike other PNFF types, private limited liability companies frequently have separated ownership and control. This makes them prone to classic principal agency conflicts between owners and management (Jensen & Meckling, 1976). Like PFFs and other PNFFs, they are exempt from equity market oversight, but we expect that such professionally managed PNFFs will be subject to more rigorous monitoring by concentrated private owners (Daily & Dollinger, 1992).

The private limited liability company thus similarly appears to be an effective organizational structure (cf. Anderson & Reeb, 2003b), in the sense that professional managers ensure competent leadership while concentrated ownership guarantees managerial monitoring. For example, public firms that have been privatized through leveraged or managerial buyout processes fall into this category. In these private firms, professional executives are subject to strict supervision and are often incentivized to generate short-term efficiency gains to improve firm profitability (Wright, Hoskisson, Busenitz, & Dial, 2000). Furthermore, entrepreneurial startups funded by venture capital are assisted and monitored by their private equity partners with a view to fostering strategic innovation and generating substantial value gains in a future initial public offering (Engelen & Van Essen, 2010). In contrast, private lone-founder-managed firms are not typically monitored by third parties, but are more likely to adopt the role identity and business logic of the entrepreneur (Miller, Le Breton-Miller, & Lester, 2010). In each of these different types of PNFFs, stakeholders such as business partners, creditors, and customers are likely to have a salient influence on decision-making processes, and there will be less influence from the emotional and personal demands of family members. We therefore reason that due to a prevailing economic rationality, PNFFs are less likely to be burdened with the type of behavioral agency costs that are frequently encountered in PFFs, in which the pursuit of noneconomic goals is more likely to harm efficiency (Gómez-Mejía, Cruz, et al., 2011). The downside of PNFFs' focus on economic rationality and lack of transgenerational intent, however, is that they concentrate decidedly more on the short term than do corresponding PFFs (Miller & Le Breton-Miller, 2005).

Private Family Firms Versus Publicly Listed Nonfamily Firms

Perhaps the most dramatic contradistinction in terms of agency costs and benefits arises between PFFs and publicly listed nonfamily firms (Figure 1, Quadrant 3). Publicly listed nonfamily firms are enterprises administered by a hierarchy of professional managers (Chandler, 1977) that may have one or several controlling blockholders in their ownership structure but are frequently dispersedly owned (La Porta et al., 1999). Due to their public character, they are subjected to deep-rooted disclosure obligations and

2. Recent research has established that lone-founder firms exhibit considerable performance differences compared with firms with greater family involvement and second-generation family firms. Ascertaining whether lone founders consider their firms to be family firms requires empirical verification, which is typically absent in studies using archival data.

extensive monitoring by parties like stock market authorities, security analysts, the news media, and investor watchdog organizations (Pagano & Roëll, 1998).

From the perspective of agency theory, professional leadership is one of the greatest benefits of the publicly listed nonfamily firm. Professional managers tend to be adequately trained and frequently have years, if not decades, of relevant industry and firm experience before taking the helm of a public firm. Moreover, they tend to be appointed primarily on a meritocratic basis, and only talented managers are expected to rise to the top of publicly listed nonfamily firms, where they can provide effective leadership and make significant contributions to their organizations' performance. In contrast, in many PFFs, new leaders are not appointed exclusively on the basis of merit, but because of their kinship relations with the organizational founder or the prior leadership generation. Viewed from an economic wealth maximization perspective, a characteristic agency cost for PFFs is therefore the potential for inefficiency by managers who possibly lack talent, training, determination, and experience. In terms of agency costs, publicly listed nonfamily firms are primarily hampered by classic principal–agency problems (Jensen & Meckling, 1976). Especially in dispersedly owned firms, professional managers lack day-to-day monitoring (Eisenhardt, 1989) and can frequently co-opt external board members who are nominally representing the interests of the firm's owners (Bebchuk & Fried, 2004). Consequently, professional managers often enjoy substantial freedom to pursue self-serving courses of action, which may include building large and diversified corporate "empires," enjoying extensive managerial perquisites, ratcheting up their own pay and making it less contingent upon firm performance, and pursuing entrenchment even after documented poor job performance (Amihud & Lev, 1981; Berger, Ofek, & Yermack, 2012; Fama, 1980). A concrete agency benefit of PFFs is that they are far less prone to such principal–agency problems, primarily because firm ownership and control are far less separated in this type of enterprise. Concentrated residual rights thus provide the owner-managers of PFFs with powerful incentives to avoid the type of wasteful managerial behaviors to which managers of publicly listed nonfamily firms are prone.

We conclude that PFFs represent a distinct organizational form with broad latitude to set their own strategic focus and performance goals (Combs, 2008). However, the influence of their pronounced and inherently familial characteristics is not fully developed in the existing literature, resulting in a range of open questions regarding their strategic choices, financial outcomes, and other moderating factors that we now address. Note that in developing the logic for these research questions, we necessarily draw upon literature that does not explicitly distinguish between public and private types of the family firm. However, we reason that the arguments found in the generic family firm literature will be accentuated in PFFs, as the absence of stringent external capital market constraints reduces isomorphic pressures and highlights identity characteristics that are congruent with family businesses in their pure form (cf. Hambrick, Finkelstein, Cho, & Jackson, 2004).

Open Questions in the Literature on Private Family Firms

The sparse literature on PFFs currently leaves us with a number of open questions. A first unsettled question is whether PFFs do better or worse than PNFFs with respect to their financial performance. Currently, the empirical findings are ambiguous, which pleads for a meta-analytic effort to aggregate and synthesize the available evidence (Lipsey & Wilson, 2001). Theoretically, there is still confusion as to whether the absence of external shareholder and institutional pressures on PFFs accentuates agency costs due

to a relatively greater pursuit of noneconomic goals (Gómez-Mejía, Cruz, et al., 2011) or attenuates them due to owner-managers' freedom and incentive to maximize their personal economic wealth.

The divergent and rival theories of family firm agency costs and benefits and their relationship to performance is a dilemma and raises the question of how rival theories might be reconciled. Should we expect agency costs and benefits in family firms to combine such that, on balance, they cancel out and neutralize one another? Alternatively, should we expect persistently positive or negative factors to prevail, producing a stable pattern of either under- or overperformance relative to other corporate forms? The veracity of rival theories might be resolved by purely empirical means, but this is unsatisfactory because the empirical findings often appear to be mixed and conflicting. We propose an alternative logic based on the idea that the efficiency of corporate ownership attributes will be contingent upon other, often unspecified, factors that mediate or moderate the relationship.

A second open question we address is whether PFFs and PNFFs select different strategies and, overlapping with the first open question, whether these differences have performance consequences (Mazzi, 2011). We identify several strategic choice preferences commonly attributed to PFFs and consider their impact on firm performance. We utilize strategy-relevant variables that are used frequently in empirical studies as controls. The development of MASEM (Cheung & Chan, 2005; Van Essen, Van Oosterhout, et al., 2012) and the availability of strategy-related control variables in the existing empirical estimates provide an opportunity to harvest and analyze their mediating effects on the family control–firm performance relationship in PFFs. Family firms are commonly characterized as possessing distinct preferences concerning strategic choices, such as those regarding *investment in R&D* (Chrisman & Patel, 2012; Gómez-Mejía, Hoskisson, Makri, Sirmon, & Campbell, 2011), *international diversification* (Gómez-Mejía et al., 2010), and *capital structure* (Molly, Laveren, & Jorissen, 2012) (see Table 1 for the operationalization of the three variables). We selected these three variables for analysis because they have been identified as three of the most important organizational determinants of firm financial performance (Capon, Farley, & Hoenig, 1990). Additionally, these three variables are commonly used as controls in the primary studies of PFF performance, and there are sufficient observations to provide the necessary statistical power for MASEM. Recent meta-analyses of strategy mediation effects also incorporate these strategy variables (Carney et al., 2011; Van Essen, Van Oosterhout, et al., 2012).

R&D Expenditure

Conventional agency theory predicts that family firms are risk-averse in their strategic choices because much of their principals' wealth is concentrated in a single enterprise, and the family's collective welfare will be damaged if high-risk investments produce poor results (Mishra & McConaughy, 1999). Consequently, because R&D investments are inherently risky, family owners will tend to underinvest in them. Similarly, research based upon a behavioral agency model, a variant of agency theory, suggests that principals may be simultaneously capable of risk willingness and risk aversion in their strategic choices (Wiseman & Gómez-Mejía, 1998). This can occur because the firm may prefer to avoid a loss even if this means bearing a higher risk. In the context of the family firm, principals place a high value on socioemotional wealth, such as the value associated with maintaining close control over the firm's activities. In this view, R&D expenditures are associated with highly specialized activities that require families to rely upon outside expertise. This,

Table 1

Description of the Variables

Variable	Description
PFF	Indicates whether the firm is a PFF or a private nonfamily firm.
Ownership definition of PFF	A dummy variable, coded (1) if the researcher(s) classified a firm as a family firm because family members hold a certain level of ownership.
Management definition of PFF	A dummy variable, coded (1) if the researcher classified a firm as a family firm due to family involvement in its day-to-day management operation.
Ownership and management definition of PFF	A dummy variable, coded (1) if a family is involved in day-to-day operation and holds a certain ownership stake.
Ownership, management, and generation definition of PFF	A dummy variable, coded (1) if a business is governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.
Self-reported PFF	A dummy variable, coded (1) if the respondents classified the firm as a family firm.
First generation	A dummy variable, coded (1) if there is involvement by the first generation of the family.
Second or later generation	A dummy variable, coded one (1) if there is involvement of the second or later generation in the firm.
Accounting measure	Any indicator of the financial performance of the firm that is expressed in the form of an accounting-based measure of firm profits (ROA, ROE, ROS, ROI, EPS, or PM).
Sales growth	A performance indicator measured as the percentage growth in reported sales.
Firm size	An indicator of the size of the firm, commonly measured as a firm's total assets, sales, or employees.
R&D	A variable that reflects the ratio of the research and development expenditure to total revenues.
Leverage	A variable that reflects the degree of leverage of the firm, commonly measured as the ratio of total debts to total assets or debt-to-equity.
International diversification	A variable that reflects the degree of the firm's international scope in terms of the presence of foreign direct investment (number of foreign subsidiaries) or the intensity of international trade (ratio of exports to total sales).
Rule of law	A variable that measures the extent to which agents have confidence in and abide by the rules of society in 2002. These include perceptions of the incidence of violent and nonviolent crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts (source: Kaufmann et al., 2008).
Common-law country	A variable that identifies the legal origin of the company law or commercial code of each country. It is a binary variable that distinguishes countries whose legal origins derive from English common-law traditions versus other (French, German, and Scandinavian) legal traditions (source: La Porta et al., 1998).

PFF, private family firm.

in turn, puts family members at a disadvantage and threatens their control. Hence, family firms underinvest in R&D, not because they are risk averse but because they are loss averse. This intuition receives strong support from a recent major study of R&D investments, which finds that family firms generally invest less in R&D (Chrisman & Patel, 2012). Nevertheless, R&D expenditures are typically associated with performance-enhancing outcomes, such as improved process innovation and new product development (Hill & Snell, 2006; Mosakowski, 1994). However, while research has determined that family firms typically underinvest in R&D, the performance consequences of these decisions remain untested.

International Diversification

Some agency theory accounts of strategic choice suggest that family firms will seek to diversify their business activities in an effort to offset the financial risks associated with

concentrating the family wealth in a single firm (Amihud & Lev, 1999). Zahra (2003) finds support for the view that family firms actively pursue international opportunities to strengthen their market base, provide momentum for growth, and involve family members in the firm's activities. Zahra further argues that family firms can capitalize on their well-established name recognition and on their connections to family businesses in foreign markets, a view consistent with the argument that family firms have unique advantages in the creation and exploitation of reputation and social capital (Gedajlovic & Carney, 2010; Sirmon & Hitt, 2003).

However, the more established view holds that family firms will avoid international diversification due to the additional cost and complexity of managing a geographically dispersed organization (Fernández & Nieto, 2005; Gómez-Mejía et al., 2010). In parallel to their accounts of family firm R&D underinvestment, Gómez-Mejía, Hoskisson, et al. (2011) find that family firms are less internationally diversified than nonfamily firms, which they attribute to a desire to retain family control and protect socioemotional wealth. Successful international diversification requires access to external resources, such as risk capital and professional management, but resource assembly implies opening the family to external influences on its management and governance (Arregle, Naldi, Nordqvist, & Hitt, 2012). While there is much agreement that family firms are less internationally diversified than nonfamily firms, there is equal consensus that international diversification has a positive impact on financial performance. This occurs because firms gain access to lower-cost resources and are able to leverage their firm-specific capabilities across a wider range of product markets. However, while the literature holds that international diversification will have a positive effect on the firm's performance *and* that family firms are disinclined to internationalize, the empirical relationship between the two remains untested in the literature.

Capital Structure

There is much agreement that family firms are less likely to use debt financing and that their debt aversion results in a less levered capital structure (Mishra & McConaughy, 1999). The reason is that highly leveraged capital structures threaten family control, since debt covenants transfer specific decision rights to external financiers, and heavy leverage increases bankruptcy risk (Anderson & Reeb, 2003a). Advocates of the behavioral agency model suggest that sustaining family harmony and preserving socioemotional wealth influence capital structure choices, since debt acquisition may exacerbate the possibility of family conflict (Gómez-Mejía, Cruz, et al., 2011). While there is agreement that family firms are debt-averse, the financial performance implications of a less leveraged capital structure remain to be determined; whether debt aversion helps or harms firm profitability is an open question.

In one view, underleveraging a firm's capital structure can result in failure to seize profitable growth opportunities (Mishra & McConaughy, 1999). On the other hand, a stewardship perspective, which emphasizes long-term profitability and the adoption of prudent business practices (Miller, Le Breton-Miller, & Scholnick, 2008), suggests that heavy leverage is detrimental to financial performance. This is because executives of highly leveraged firms must focus on meeting short-term goals and preventing defaults rather than focusing upon maximizing the long-term value of the firm (Smith & Warner, 1979). In this view, debt avoidance represents sound business practice consistent with positive long-term performance.

Legal Environment

A third and final open question we address is whether well-developed legal institutions can attenuate the specific agency costs of PFFs. PFFs are prominent in many economies around the world, and scholars suggest that the presence or absence of institutional factors, such as the quality of the legal environment, may account for their relative success (Gilson, 2007). As noted, we observe significant cross-national differences in PFF performance, ranging from contexts where PFFs clearly outperform NPFFs (e.g., Finland and the United States), through locales in which the performance of these two distinct organizational forms is on par (e.g., Norway, Switzerland, and Australia), to jurisdictions in which PFFs notoriously underperform (e.g., Italy and Spain). A recent set of comparative studies has demonstrated that this type of variability in the distribution of focal effect sizes can fruitfully be modeled as a function of differential institutional development across primary sample contexts (cf. Carney et al., 2011; Heugens, Van Essen, & Van Oosterhout, 2009; Van Essen, Heugens, Otten, & Van Oosterhout, 2012). In terms of their functional specification, institutional variables can be considered as moderators affecting the strength of the focal relationship (Gedajlovic et al., 2012). We similarly take a comparative approach in which we use institutional variables as moderators, taking full advantage of the unique property of meta-analysis that allows us to combine multiple single-country studies into a single multi-country study.

Concretely, we will explore the moderating effect of two institutional variables on the strength of the family control–firm performance association. First, we will explore the legal origin of a given jurisdiction's corporate law tradition, as prior research has shown that common-law institutions in particular have a particularly strong isomorphic harnessing effect that attenuates agency problems across a broad variety of organizational forms (Dyck & Zingales, 2004; La Porta et al., 1998). We therefore expect that PFFs in countries with corporate law traditions with common-law roots will outperform their counterparts from countries with corporate law anchored in the several traditions building on Roman codified law. Second, we will assess the effect of the overall development of the rule of law in a specific context (Kaufmann et al., 2008). Higher scores on the rule-of-law variable signify a more effective and equitable court system. Court effectiveness acts as an additional check on PFF performance, as it allows a broad variety of inside and outside stakeholders to hold the owner-managers of the PFF accountable for their behavior and to develop justified expectations of being compensated in case they are confronted with culpable effects of agency conflicts (Shleifer & Vishny, 1997). We therefore expect PFFs from countries with a well-developed rule-of-law tradition to display better performance than PFFs from countries with weaker courts.

Methods

Sample and Coding

To identify the population of studies on PFFs, we used four complementary search strategies. First, we examined five electronic databases—(1) ABI/INFORM Global, (2) EconLit, (3) Google Scholar, (4) JSTOR, and (5) SSRN—using the following search terms: "families," "family business," "family control," "family firm," "family ownership," "founder," and "founding family." Second, we conducted a manual search of the 20 most relevant journals in the fields of economics, finance, and management. Illustrative examples include the Academy of Management journals as well as *Entrepreneurship Theory and Practice*, *Family Business Review*, and *Journal of Business Venturing*. Third, after collecting an initial set of studies, we used a two-way "snowballing" technique that

involved backward-tracing references reported in the articles and forward-tracing all the articles that cited the original articles, using Google Scholar and ISI Web of Knowledge. This process yielded 40 published studies. Finally, we corresponded with 44 researchers seeking missing effect size information and additional unpublished studies. This step uncovered an additional eight unpublished studies, bringing our final sample up to 48 primary studies conducted in 9 countries. The studies are representative of PFFs located in advanced OECD countries, but PFFs from less developed and emerging markets are underrepresented due to a dearth of available primary studies from these contexts. We finished the search for data in October 2012. Table 1 provides a description of the variables harvested from the primary studies that are included in our meta-analyses.

HOMA Procedure

The effect size statistics we used for the HOMA are the Pearson product-moment correlation r and the partial correlation coefficient $r_{xy.z}$. The measure r is commonly used in meta-analysis because it is an easily interpretable and scale-free measure of linear association. The measure $r_{xy.z}$ represents the strength of the relationship between two variables, controlling for the influence of other variables (Carney et al., 2011; Doucouliagos & Ulubaşoğlu, 2008). In order to extract partial correlation coefficients from primary studies, the studies must use firm performance as a dependent variable (Doucouliagos & Ulubaşoğlu).[3] To arrive at an appropriate estimate of the meta-analytic mean effect size, we had to account for the differences in precision across effect sizes plus the variability in the population of effects (Lipsey & Wilson, 2001). These differences derive from the varying sample sizes of the underlying primary studies on which the effect sizes are based plus a constant that represents the variability across the population effects. Hedges and Olkin (1985) demonstrate that the optimal measure of precision for a given effect size is the inverse variance weight w: the inverse of the squared standard error value of the effect size.[4] With the help of these weights, we can subsequently calculate the meta-analytic mean effect size, its standard error, and the corresponding confidence interval.[5]

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3. The partial correlation coefficient is calculated as follows: $\sqrt{\frac{t^2}{\left(t^2+\mathrm{df}\right)}}$, where t is the t-statistic and df represents the degrees of freedom. Note that this formula will always produce positive numbers, so it is necessary to convert them to negative numbers if the regression coefficients are negative (see Greene, 2008, chapter 3).

4. w is calculated as follows: $w_i = \frac{1}{\mathrm{SE}_i^2 + \hat{v}_\theta}$, where SE is the standard error of the effect size and $\hat{v}_\theta$ is the random-effects variance component, which is in turn calculated as follows: $\mathrm{SE}(z_r) = \frac{1}{\sqrt{n-3}}$, and the formula of random effect variance is: $\hat{v}_\theta = \frac{Q_T - k - 1}{\sum w - \left(\frac{\sum w^2}{\sum w}\right)}$.

5. The meta-analytic mean (effect size) is calculated as follows: $\overline{\mathrm{ES}} = \frac{\sum (w \times \mathrm{ES})}{\sum w}$, with its standard error computed as follows: $\mathrm{SE}_{\overline{\mathrm{ES}}} = \sqrt{\frac{1}{\sum w}}$, and with its 95% confidence limits computed as follows: $\text{lower} = \overline{\mathrm{ES}} - 1.96\left(\mathrm{SE}_{\overline{\mathrm{ES}}}\right)$, $\text{upper} = \overline{\mathrm{ES}} + 1.96\left(\mathrm{SE}_{\overline{\mathrm{ES}}}\right)$.

MASEM Procedure

We used MASEM, which combines the techniques of structural equation modeling with those of meta-analysis (Cheung & Chan, 2005; Viswesvaran & Ones, 1995), to test the relationship between PFFs and their strategic decisions (Fernández & Nieto, 2005) and to examine the mediating role of strategy in the family control–firm performance relationship. The technique is ideally suited to analyze mediation effects because it permits testing of the direct effect of selected family firm strategic choices on firm performance, along with essential control variables affecting those strategic choices (Aguinis et al., 2011). We apply MASEM to explore the mediating effects of three strategy variables in the relationship between PFFs and firm performance while controlling for firm size. See Table 1 for definitions. Where studies employ different measures of strategy variables, they are pooled to produce a synthetic estimate of the construct consistent with Carney et al. (2011) and Van Essen, Van Oosterhout, et al. (2012) and as detailed in Viswesvaran and Ones. Jointly, this yields the following system of structural equations, where ε is the error term:

$$\text{R \& D} = \beta_1\ \text{PFF} + \beta_2\ \text{size} + \varepsilon \tag{1}$$

$$\text{International diversification} = \beta_3\ \text{PFF} + \beta_4\ \text{size} + \varepsilon \tag{2}$$

$$\text{Leverage} = \beta_5\ \text{PFF} + \beta_6\ \text{size} + \varepsilon \tag{3}$$

$$\begin{aligned}\text{Performance} = {} & \beta_7\ \text{PFF} + \beta_8\ \text{size} + \beta_9\ \text{R\&D} \\ & + \beta_{10}\ \text{international diversification} + \beta_{11}\ \text{leverage} + \varepsilon\end{aligned} \tag{4}$$

The advantage of MASEM is that it avoids biased estimates due to possible correlations among dependent variables. We conducted our structural equation modeling by using a two-stage procedure. In the first stage, effect size information for all possible correlations between independent and dependent variables was combined into pooled estimates to produce a meta-analytic correlation table. In the second stage, this meta-analytic correlation matrix was treated as the observed correlation matrix and subjected to regular maximum-likelihood structural equation modeling routines to test the aforementioned hypotheses (Cheung & Chan, 2005). In this procedure, the harmonic mean number of observations of all included effect sizes was treated as the observed number of observations. In this way, correct and conservative *t*-values for the model parameters were estimated (Geyskens, Steenkamp, & Kumar, 2006). The data were analyzed using the full-information maximum-likelihood method with the LISREL 8.80 software package.

MARA Procedure

Following Lipsey and Wilson (2001), we employed MARA to evaluate the robustness of our results. MARA is a special type of weighted least squares (WLS) regression analysis, designed to assess the relationship between effect size and moderator variables as well as the model's previously unexplored heterogeneity in the effect size distribution (Lipsey & Wilson). To obtain correct parameter estimates, the effect sizes must be weighted by their precision, so we employed WLS regression. Again, the preferred weighting variable is *w* (Hedges, 1982; Hedges & Olkin, 1985). We used a modified type of WLS because most statistical packages provide correct estimates of regression coefficients but incorrect standard errors and significance levels for MARA (Lipsey & Wilson).

We estimated regression parameters using mixed-effects models (Geyskens, Krishnan, Steenkamp, & Cunha, 2009). These attribute effect sizes vary according to systematic between-study differences and firm-level sampling error (as in fixed-effects models) and to a remaining unmeasured random component (as in random-effects models).

In a recent paper, Aguinis et al. (2011) explain that MARA is similar to familiar multiple regression approaches in that MARA constructs a linear or regression model involving a set of predictors (i.e., potential moderators; in our case these are the definitions of the family firm and performance variables, study characteristics, and legal-institutional variables) and a criterion (i.e., observed effect sizes, in our case the observed correlation between family control and firm performance in each sample) that are weighted by their inverse variance weight to account for differences in terms of the precision of the information contained in them. In other words, the primary-level study effect sizes are regressed onto a set of moderators (also see: Carney et al., 2011; Lipsey & Wilson, 2001; Stanley & Jarrell, 2005). The statistical significance of each individual moderator (i.e., predictor) can be assessed by computing a Z-statistic for each coefficient in the MARA models. In addition, confidence intervals can be created around each slope coefficient. Regarding the size of a moderating effect, similarly to with subgroup analysis for categorical moderators, meta-analysts can compute an R^2 value, which indicates the proportion of variance of the total between-group variance (τ^2) that is explained by the moderator variables. Also, an examination of the individual regression coefficients provides an estimate of the strength of the relationship between each moderator and the effect sizes.

Variables

To test whether the quality of the legal system in a given nation impacted the associational strength of family control–firm performance relationship for PFFs, we included two variables. First, we included a dummy variable capturing whether a country's legal system had its roots in the common-law (1) or codified law tradition (0) (La Porta et al., 1998). Second, to assess the overall quality of a country's legal institutions and court system, we included each country's score on the rule-of-law index (Kaufmann et al., 2008).

To test for the moderating effect of focal variable operationalization, we added three (sets of) dummy variables. First, we included a dummy variable indicating whether firm performance was measured through an accounting-based performance measure (1) or through another type of performance measure (0). Second, we included a dummy variable indicating whether firm performance was assessed via a self-report procedure through which respondents were asked to rate their firm's performance relative to that of related competitors (1) or established from archival sources (0). Third, we differentiated between the most commonly used definitions of family control: an ownership definition (1), a combined ownership and management definition (1), or a subjective definition (0), based on whether respondents perceived their firm to be a family firm.

To control for the influence of possible methodological study artifacts, we included three further variables. First, to test for the "file drawer problem" (Rosenthal, 1979), we included a dummy variable denoting whether a study was published (1) or a working paper (0) at the time we ran our analyses. Second, to control for the possibility that the focal relationship would change over time, we added publication year to identify time-varying effects. Third, we controlled for the response rate of survey-based studies.

Table 2

Correlation-Based HOMA Results for the Family Control–Firm Performance Relationship

Predictor	*k*	N	Mean	SE	95% CI	Q test (*p*)
Family control–firm performance relationship	37	461,032	.00	.01	−.02 to .02	956.51 (.00)
Accounting measure	28	241,304	.00	.01	−.02 to .03	179.32 (.00)
Sales growth	7	218,291	−.03	.02	−.07 to .02	15.57 (.02)
Different performance measures	2	1,437	−.00	.03	−.06 to .05	.54 (.46)
Ownership definition	11	447,349	.01	.02	−.03 to .05	824.16 (.00)
Management definition	3	1,988	.01	.09	−.17 to .19	32.67 (.00)
Ownership and management definition	10	5,023	.03	.02	−.02 to .08	18.89 (.03)
Ownership, management, and generation definition	2	1,646	−.04	.05	−.13 to .06	3.57 (.06)
Self-reported private family firm	11	5,026	−.02	.03	−.09 to .05	59.15 (.00)

HOMA, Hedges-and-Olkin-type meta-analysis; *k*, number of samples; N, total sample size; mean, estimate of population correlation; SE, standard error of the mean effect size; 95% CI, 95 percent confidence interval around the meta-analytic mean; Q test, Hedges and Olkin (1985) χ^2 test for heterogeneity.

Table 3

Partial Correlation-Based HOMA Results for the PFF–Performance Relationship

Predictor	*k*	N	Mean	SE	95% CI	Q test (*p*)
Family control–firm performance relationship	11	5,438	−.02	.03	−.07 to .03	32.53 (.00)
Accounting measure	8	3,671	−.04	.03	−.10 to .02	24.37 (.00)
Growth measures	3	1,767	.02	.04	−.05 to .10	3.81 (.15)
Ownership definition	7	3,051	−.02	.03	−.09 to .04	21.00 (.00)
Management definition	1	620	−.11	—	—	—
Ownership and management definition	1	121	.17	—	—	—
Ownership, management, and generation definition	2	1,646	.00	.02	−.04 to .05	.80 (.37)
Nonlinear terms						
Linear ownership term	5	2,783	.03	.05	−.07 to .12	24.77 (.00)
Squared ownership term	5	2,783	−.05**	.02	−.10 to −.01	6.51 (.16)

** $p < .05$
HOMA, Hedges-and-Olkin-type meta-analysis; *k*, number of samples; N, total sample size; mean, estimate of population correlation; SE, standard error of the mean effect size; 95% CI, 95 percent confidence interval around the meta-analytic mean; Q test, Hedges and Olkin (1985) χ^2 test for heterogeneity.

Results

Tables 2 and 3 report the bivariate correlation and partial correlation HOMA results for the family control–firm performance relationship, which was the first open question we raised in this article. In addition to the meta-analytic mean, we report the number of samples (*K*), the total sample size (*N*), the standard error of the mean effect size (*SE*), the 95% confidence interval around the meta-analytic mean, and the Hedges and Olkin (1985)

Table 4

Meta-Analytic Correlation Matrix

Variable	Private family firm	Firm size	R&D	International diversification	Leverage	Firm performance
Private family firm	—	277,564 (38)	12,954 (5)	28,947 (11)	242,753 (10)	461,032 (37)
Firm size	**–.08 (.02)**	—	11,255 (2)	24,930 (6)	19,499 (7)	13,530 (17)
R&D	**–.03 (.01)**	**–.01 (.13)**	—	21,158 (2)	10,579 (1)	676 (1)
International diversification	**–.05 (.02)**	**.20 (.04)**	**.12 (.02)**	—	23,165 (3)	3,036 (3)
Leverage	**.01 (.02)**	**–.00 (.04)**	.00	**.02 (.02)**	—	8,048 (5)
Firm performance	**.00 (.01)**	**–.03 (.03)**	.13	**.03 (.12)**	**–.12 (.09)**	—

Note: Cells below the diagonal contain mean correlations with standard errors in parentheses. Cells above the diagonal contain the total number of observations (*N*), with the number of samples (*k*) in parentheses. Bold font indicates a significant χ^2 test, suggesting the presence of moderator variables.

χ^2 test for heterogeneity (*Q*). The results show that there is no significant difference between PFFs and the control group of PNFFs. The mean correlation of the focal relationship is .00 for the bivariate correlation ($K = 37$) and −.02 for the partial correlation ($K = 11$). The confidence intervals include zero, indicating that the effects are nonsignificant. The results are robust across all the definitions of the family firm and across all the available measures of firm performance that are used in the primary studies. However, Table 3 reports a significant curvilinear effect for the ownership definition, albeit in a small number of studies, suggesting that initially, private family ownership has a positive effect upon performance, but at higher ownership levels the relationship becomes significantly negative.

Tables 4 and 5 provide several insights into the second set of open questions we raised previously concerning the mediating relationships in the family control–firm performance relationship. Table 4 reports a meta-analytical correlation matrix showing that PFFs are significantly smaller (−.08) than nonfamily firms. Table 4 also shows that PFFs are less internationally diversified (−.03) and commit fewer resources to R&D (−.05). The MASEM results in Table 5 show that PFFs' undercommitment of resources to international diversification and R&D hurts their performance, since internationalization (.02) and R&D (.13) are significantly and positively related to firm performance. Table 5 furthermore shows that PFFs make neither more nor less use of debt (increased leverage) than their nonfamily counterparts (.01), but, as detailed in Table 5, more reliance on debt in PFFs significantly harms their performance (–.12). Figure 2 depicts the relationships graphically. Note that the results are not driven by firm size, since we control for size in each estimated equation.

Table 6 contains our MARA results, which address the third open question we identified, concerning institutional moderating effects on the associational strength of the family control–firm performance relationship. Interestingly, it shows that the quality of the legal institutions in a given jurisdiction positively moderates the focal relationship, suggesting that PFFs perform better in countries with a more strongly developed rule of law and in jurisdictions where institutions are grounded in common law. We will return to this point of the discussion.

Table 5

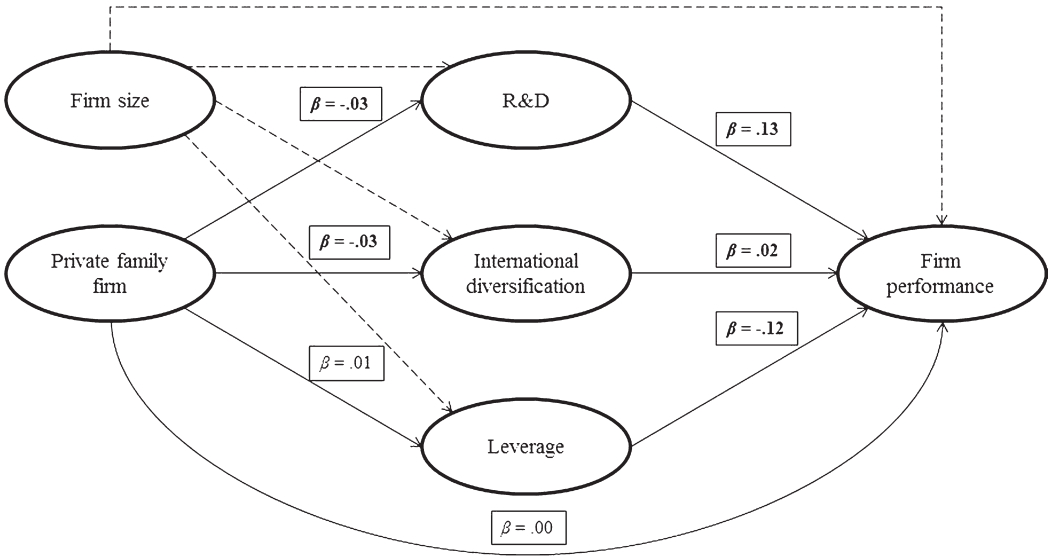
MASEM Results

Predictor	R&D	International diversification	Leverage	Performance
Private family firm, *p* (*t*)	−.03 (−2.40)	−.03 (−2.70)	.01 (.78)	.00 (.28)
Firm size, *p* (*t*)	−.01 (−.97)	.20 (15.57)	.00 (.06)	−.03 (−2.56)
R&D	—	—	—	.13 (10.00)
International diversification, *p* (*t*)	—	—	—	.02 (1.89)
Leverage, *p* (*t*)	—	—	—	−.12 (−9.50)
Harmonic mean N		6,015		
χ^2		94.44		
Goodness-of-fit index		.99		
Root mean square residual		.027		

MASEM, meta-analytic structural equation modeling.

Figure 2

MASEM Results for Strategy Mediation Effects



Control variable coefficients are not reported; significant coefficients are printed in bold.

Robustness Tests

To test the robustness of the direct main effect, we reran the HOMA, breaking out the sample to examine for country and generational effects, since there is a substantial literature that claims family firms enjoy competitive advantages in certain national contexts (Peng & Jiang, 2010; Young et al., 2008) and that family firm performance worsens

Table 6

Mixed-Effects MARA Results

Variable	Model
Performance definition	
Accounting measure	.08 (.01)***
Related competitors	.08 (.08)
Family firm definition	
Ownership definition	−.00 (.04)
Ownership and management definition	.03 (.05)
Self-reported	−.16 (.07)
Study characteristics	
Published	.04 (.02)
Publication year	.01 (.01)*
Response rate	.23 (.12)*
Institutions	
Common-law country	.12 (.07)*
Rule of law	.05 (.03)*
R^2	.90
k	37

* $p < .1$, *** $p < .01$
Note: Unstandardized regression coefficients are presented for study moderators and substantive moderators, with standard errors in parentheses. The variable *k* is the total number of effect sizes.
MARA, meta-analytic regression analysis.

Table 7

Country-Specific HOMA Results

Country	*k*	N	Mean	SE	95% CI	Q test
Australia	10	4,905	−.04	.04	−.10 to .03	53.96 (.00)
Canada	1	676	.00	—	—	—
China	1	296	.08	—	—	—
Finland	2	4,014	.09**	.02	.06 to .12	.20 (.66)
Italy	2	1,240	−.10**	.05	−.20 to −.00	3.35 (.07)
Norway	2	430,698	−.02	.04	−.10 to .07	770.63 (.00)
Spain	3	8,172	−.03**	.01	−.06 to −.01	2.14 (.34)
Switzerland	2	1,918	−.04	.02	−.08 to .01	.85 (.36)
United States	14	9,113	.05**	.02	.00 to .09	44.19 (.00)

** $p \leq .05$
HOMA, Hedges-and-Olkin-type meta-analysis; *k*, number of samples; N, total sample size; mean, estimate of population correlation; SE, standard error of the mean effect size; 95% CI, 95 percent confidence interval around the meta-analytic mean; Q test, Hedges and Olkin (1985) χ^2 test for heterogeneity.

in later generations (Amit & Villalonga, 2006; Pérez-González, 2006). The country-specific results reported in Table 7 show mixed findings. Table 7 reports a significant and positive relationship between family control and firm performance for private firms in the United States (.05) and Finland (.09) and a significant and negative relationship in Italy

Table 8

Correlation-Based HOMA Results for Generation Effects

Relationship	*k*	N	Mean	SE	95% CI	Q test
Performance variables						
First generation to firm performance	16	4,673	.00	.01	−.02 to .02	12.23 (.84)
Successor generations to firm performance	23	15,334	.00	.01	−.01 to .02	22.62 (.42)
Substantive strategy variables						
First generation to leverage	3	1,198	.11	.10	−.08 to .30	12.36 (.00)
Successor generation to leverage	7	11,909	−.08**	.02	−.11 to −.04	13.64 (.00)
Successor generation to international diversification	2	21,258	.01	.01	−.01 to .03	1.91 (.17)

** $p < .05$

HOMA, Hedges-and-Olkin-type meta-analysis; *k*, number of samples; N, total sample size; mean, estimate of population correlation; SE, standard error of the mean effect size; 95% CI, 95 percent confidence interval around the meta-analytic mean; Q test, Hedges and Olkin (1985) χ^2 test for heterogeneity.

(−.10) and Spain (−.03), while studies of PFF performance in other countries find a mix of nonsignificantly negative, positive, and null effects.

Table 8 sheds light on the generational effects in studies of PFFs. The results reported in this table compare first-generation-led PFFs with those led by second or subsequent generations. Unlike the data reported in the other tables, in which the reference group is PNFFs, Table 8 only contains PFF data, divided over generational groupings. Contrary to findings in publicly listed family firms, our results show that later-generation PFFs do not underperform firms controlled by the founding generation (.00). Table 8 thus shows the absence of either positive or negative generational effects in PFFs. Interestingly, Table 8 reports that the single difference between first- and succeeding-generation PFFs is that the latter make significantly less use of debt (−.08), which suggests that successor generations are more debt-averse than founders but that this characteristic does not harm their performance.

Through MARA, we also examined the potential effects of conceptual and methodological moderating factors as a means of further establishing the robustness of the main family firm performance effect. We consider a comprehensive range of potential conceptual moderators frequently raised in the literature, including differences in the definition of family firms, performance measures, study characteristics, and legal institutional effects.

The MARA results reported in Table 6 show that the definition of the family firm, whether based on ownership, ownership combined with involvement in management, or a subjective self-report, has no significant impact on the family control–firm performance relationship. This finding is consistent with the HOMA results reported in Tables 2 and 3. Similarly, the perceptual assessment of performance has no significant effect, suggesting that the inclusion of these studies has not introduced a self-report bias. However, studies relying on accounting measures of performance show a significant and positive effect on the focal relationship, the implication being that the use of subjective and objective performance indicators introduces complexities that must be better accounted for by theory and hypothesis development. With regard to study characteristics, Table 6 shows that the focal relationship is not subject to publication bias. However, the focal relationship is not totally stable over time, since there is a modest (.01) but

significant publication-year effect, with more recent studies showing a more positive relationship. Moreover, there is a strong (.23) response rate bias: Studies showing a higher response rate find a stronger positive association in the family control–firm performance relationship. As this finding is likely indicative of self-report or common-method bias, we recommend that future studies should be based on archival data.

Discussion

Strategic Equifinality Between Private Family Firms and Private Nonfamily Firms

Assessing the impact of family ownership and management on firm financial performance has been characterized as resembling a search for the Holy Grail (Gómez-Mejía, Cruz, et al., 2011). Much of this research rests on the premise that family firms differ from other types of firms and that these differences matter for their performance (Gedajlovic et al., 2012). The agency-costs-and-benefits approach used in this paper implies that differences between family and nonfamily firms will produce either significantly better or worse performance for family firms compared with nonfamily firms. But the results of our meta-analysis of 48 primary studies of the family control–firm performance relationship robustly find no significant direct performance differences. However, the body of these primary studies is unlikely to identify and account for strategic choice factors that could theoretically influence the extent of agency costs and benefits in PFFs relative to other corporate forms. Our MASEM results indeed show that the focal relationship is mediated by strategic choices. Two strategic choices in particular—R&D spending and international diversification—act as conduits that channel the effect of family control on firm performance. Since the PFFs' lower R&D expenditure and lower international diversification are both negatively related to PFF performance, the overall nonsignificant performance difference between PFFs and PNFFs hints at the presence of compensatory agency benefits elsewhere (see Figure 1, Quadrant 2).

A number of explanations may account for the overall performance equivalence between PFFs and PNFFs we find in the empirical literature.[6] First, the benefits of strong incentives and long-term orientation may be neutralized by an aversion to investments in R&D and international diversification. Secondly, PFFs could exhibit greater selectivity in choosing and exploiting a more limited range of opportunities but manage to generate better outcomes with the ones they implement. For example, Zellweger (2007) finds that family firms generate value equivalent to nonfamily firms by persevering longer with their chosen investments. A third possibility could be that the agency costs that manifest themselves in the form of PFFs' risk avoidance and strategic conservatism may be offset by agency benefits such as greater frugality and a longer-term orientation than commonly observed in NPFFs (see Figure 1, Quadrant 4). Finally, an alternative interpretation not considered in this paper is that family firms exhibit much greater variability with respect to their strategic preferences compared with nonfamily firms (Chrisman & Patel, 2012; Gedajlovic, Lubatkin, & Schulze, 2004). For example, family firms may vary greatly in their preference for economic versus noneconomic performance. If family involvement in the firm is inherently variance-enhancing due to the absence of isomorphic checks and balances on the family's strategic choices, then comparing the difference in performance

6. We thank editor Jim Chrisman for these observations.

means between family and nonfamily firms may obscure much underlying variance. The hypothesis warrants greater attention from family firm scholars.

In other words, if PFFs perform at least as well as, or no worse than, the benchmark sample, then they may possess some compensating competitive advantages that allow them to overcome their performance deficiencies due to their evident aversion to R&D-intensive and international activities. If so, then PFFs could exhibit *strategic equifinality* with respect to their performance. Much of the family firm literature implicitly assumes that what is good for publicly listed family firms (and nonfamily firms) must also be good for PFFs. However, if the universe of family firms is heterogeneous, then strategic equifinality may represent an overriding characteristic of the population. Strategic equifinality means that there is no "one best way" of organizing economically productive activities and that different configurations of strategic choices by PFFs may achieve functional equivalence with strategic configurations enacted in other types of organizations (Gresov & Drazin, 1997).

Recently, family business scholars have advanced new theories suggesting that family firms can embody socially complex and causally ambiguous organizational processes related to their dual economic and social motives (Gedajlovic et al., 2012), which enhance their abilities to develop and utilize tacit knowledge, social capital, and reputational assets (Dyer & Whetten, 2006; Gilson, 2007; Sirmon & Hitt, 2003). Other scholars emphasize advantages arising from the parsimonious use of assets (Carney, 2005) and from organizational social capital (Arregle, Hitt, Sirmon, & Very, 2007), which support firm longevity (Miller & Le Breton-Miller, 2005) and resilience to economic shocks (Villalonga & Amit, 2010). Taken together, these ideas point to plausible compensating advantages that might explain why PFFs do not underperform NPFFs (Gedajlovic & Carney, 2010).

Unfortunately, empirical tests of these new theories are not yet common, and only a few have made their way into the empirical literature on PFFs (e.g., Chrisman, Chua, Kellermanns, & Chang, 2007). Meta-analysis can identify gaps in the empirical literature, but without a body of empirical work that tests the theorized compensating advantages, meta-analysis cannot determine the extent to which the hypothesized advantages matter or not. Accordingly, we recommend that future research should empirically address the recent theories that posit the existence of performance-enhancing characteristics in family firms. Indeed, it is precisely because recently minted and theoretically appealing theories of family firm advantage are gaining traction that the field of family business is such an exciting field of research. Scholars have exhibited great ingenuity with archival data in creating new measures and tests of hypotheses regarding firm temporal orientation and responses to shocks. For instance, Souder and Bromiley (2012) imaginatively use depreciation data from firm financial statements to determine the quality and durability of firm capital investments and to explain their decision horizons. Nevertheless, empirical assessment of new theories of PFF advantage will bring unique measurement challenges because comparable archival data is frequently unavailable. Further insight into the competitive advantages of PFF will call for novel methodological and measurement research designs (Sharma & Carney, 2012).

Generational Performance Effects: How Private and Public Family Firms Differ

Our finding that second- and later-generation PFFs do not underperform founder-managed family firms but make significantly less use of debt is intriguing in the light of accumulating research that finds founder-managed publicly listed family firms to

outperform second- and later-generation family firms (e.g., Pérez-González, 2006; Villalonga & Amit, 2006). One interpretation is that, compared with mature publicly listed family firms, PFFs are spared minority shareholder pressure to overleverage their capital structure to generate near-term profitability and instead can place greater emphasis on balancing short-term necessity and long-term durability (Lumpkin & Brigham, 2011); alternatively, they may pursue less ambitious growth objectives depending upon their preference for economic versus noneconomic goals.

Moreover, our finding that PFFs become less leveraged in later generations may be attributable to unique contingencies faced as a result of retaining a private status. The leaders of later-generation PFFs may recognize the need to accumulate and retain slack and underutilized resources in order to "prune" family ownership by purchasing the interests of distant and uninvolved family members. Similarly, family firms may accumulate slack resources to meet foreseeable inheritance and estate taxes that come due with the passage of time. Rather than exhibiting "irrational" loss or risk aversion, financially conservative PFFs' capital structure choices may reflect prudent financial planning to meet the financial contingencies that are particular to private family ownership. The family owners of publicly listed family firms, in contrast, do not encounter such contingencies, since they may meet their unfolding financial needs by gradually liquidating their ownership stakes at a time of their own choosing. Indeed, recent research finds that the family owners of publicly listed family firms gradually reduce their ownership stakes, at least in countries with liquid and well-regulated capital markets (Franks, Mayer, Volpin, & Wagner, 2012).

PFF Performance in a Comparative Perspective

The mixed country-specific family control–firm performance findings point to the possibility that the failure to account for national-level contextual contingencies may obscure environmental factors that influence PFF agency costs and benefits. The relationship between national institutions, strategy, and performance is a burgeoning area of research, much of it gathering under the banner of the institution-based view of business strategy (Carney et al., 2011; Peng & Jiang, 2010; Van Essen, Heugens, et al., 2012). A core prediction in this literature is that family firms will be prevalent in less developed economic regions (Chang, Chrisman, Chua, & Kellermanns, 2008), because they enjoy competitive advantages in the context of underdeveloped legal frameworks and inefficient public administration (Gedajlovic et al., 2012). Gilson (2007) argues that family firms enjoy advantages in regimes with weak commercial law due to their capacity for leveraging their reputations for fair dealing, since relational contracting may function as an alternative contract enforcement mechanism. More generally, family firms, with competitive advantages relating to social capital (Sirmon & Hitt, 2003) and relational contracting (Gómez-Mejía, Nunez-Nickel, & Gutierrez, 2001), can outperform nonfamily firms because these assets help firms fill institutional voids (Miller, Lee, Chang, & Le Breton-Miller, 2009).

Our finding that both a strong rule of law and corporate law rooted in the common law system positively moderate the family control–firm performance relationship is at odds with this line of reasoning; the finding points to the possibility that stronger legal institutions are positively associated with PFF performance, which is broadly consistent with Anderson and Reeb's (2004) observation that publicly listed family firms outperform nonfamily firms in jurisdictions with well-developed institutions. However, the literature on the costs and benefits of family firms' evident advantages from relational contracting in institutionally less developed jurisdictions is divided. One school of thought holds that

relational contracting is beneficial, indicating a capacity for filling institutional voids (Miller et al., 2009), while others believe that relational contracting is associated with cronyism (James, 2008) and rent-seeking (Morck & Yeung, 2004). Reflecting the extant body of research, the majority of the studies in our sample were conducted in OECD economies, such as Australia, Switzerland, and the United States, which are characterized by high-quality legal institutions. Consequently, our analysis of the institutional-voids argument is incomplete due to the underrepresentation of studies in countries that would provide a representative range of data points along the institutional dimension. Nevertheless, the meta-analysis identifies an absence of studies of family firms in emerging markets and reveals a significant gap in the empirical literature. Accordingly, future research should examine strategy and performance in institutional contexts for which competing and provocative theories suggest that family control can be either helpful or hurtful to firm performance.

Limitations and Contributions

Inevitably, some degree of skepticism exists in conversations about the characteristics of PFFs due to concerns about obtaining reliable and valid performance data. Due to incentives to understate the reported income, data are difficult to obtain, and income-based measures of performance may be unreliable (Daily & Dalton, 1992). There are few large national databases to be relied upon, as in most countries there is no legal obligation for PFFs to disclose information about their activities. Researchers must frequently depend upon survey and self-reported data, which are often hindered by low response rates and perceptual biases. Consequently, we note that a potential limitation of this study is that our meta-analysis may be applied to a corpus of research containing some unreliable primary studies.

Notwithstanding the potential limitations arising from the underlying quality of the primary research, we believe that our meta-analysis of the relatively understudied but quintessential PFF makes several contributions to the literature on family firms. First, we contribute to the growing stream of literature regarding the heterogeneity of family firms' governance and capabilities with respect to factors such as internationalization, R&D, and capital structure. While public family firms are subject to extensive nonfamily involvement in their governance (Arregle et al., 2012), the PFFs studied in this review are less subject to the beneficial effects of nonfamily involvement in their governance, and their inherently familial characteristics are likely to be accentuated. Our findings suggest that despite the encumbrance of accentuated agency costs arising from the pursuit of noneconomic goals and preservation of socioemotional wealth, PFFs can attain performance parity with PNFFs through enacted processes of strategic equifinality with respect to the types of competitive advantage they can foster. Nevertheless, the extent and dimensions of these characteristics require further research. Second, we applied a variety of the most well-established meta-analytical techniques to the largest body of empirical research on PFFs ever assembled, and we robustly established that, contrary to the consensus of existing theory, there is no discernible difference between the performances of PFFs and PNFFs. However, we established that the direct relationship is mediated and moderated by strategic and institutional factors that warrant further investigation. Third, we outlined some broad avenues for future research, calling for the application of theories that are alert to the moderating effects of institutional contexts and the mediating effects of strategic differences among family firms functioning at different stages of their organizational life cycle.

Conclusion

So, what do we know about the performance characteristics of PFFs? Compared with their publicly listed counterparts, we know relatively little. The inherent opaqueness of PFFs and their attendant data quality has made the field a tough one to plow. Nevertheless, we are confident that this synthesis between the foundations provided by the existing literature and the new theories currently gaining traction will reward researchers who approach the subject with better theory and more appropriate comparative methodologies. In this regard, we advocate the adoption of perspectives that identify and test the contingent quality of PFFs' competitive advantage. Data and methodological issues remain paramount; thus, we urge family firm researchers to take up the challenges posed by this globally ubiquitous and economically important organizational form.

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