Beyond the Steady State:

Toward a Theory-Based View of the Family Firm

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Abstract

We develop a theory-based view of family firms. We cast decision-makers as forming theories about what might create value, testing premises underlying these theories, and updating them in response to feedback. We conceptualize theory-based learning as a process that combines top-down theorizing with bottom-up feedback. We propose that family firms are strong learners within established theories. However, they tend to hold rigid theories in stable periods, struggle to test novel theories, swing to hypersensitive theories during succession, and often underweight challenging feedback from nonfamily members. We recast family control as a question of learning in a permanent quest for adaptive fitness.

1. Introduction

To a large extent, family business research is rooted in a literature that assumes a steady state. Whether scholars theorize about governance structures, resource endowments, behavioral preferences, institutional embeddedness, or family identity, the underlying imagery is one of stable configurations. Ownership structures lock in agency problems, resource bundles confer durable advantages or disadvantages, and preferences systematically tilt decisions toward socioemotional wealth (SEW) preservation. In turn, institutions embed firms in their local settings and identities are inherited from owning families and are carried forward to future generations. In each of these accounts, family firms appear as largely settled entities whose behavior and performance follow from what these firms and their controlling families are and have.[1]

The particular problem we would like to highlight is that these steady-state perspectives do not take seriously enough that family firms are dealing with highly uncertain and dynamic environments and need to make decisions whose outcomes are fundamentally uncertain (Foss & Klein, 2012; Packard, Clark, & Klein, 2017). Technological discontinuities, shifting geopolitics, and evolving consumer preferences unsettle the very configurations that steady-state accounts treat as given (Soluk, Miroshnychenko, Kammerlander, & De Massis, 2021). Predicting what creates value is a daunting task in such contexts, one for which many family firms are ill-prepared (de Groote & Kammerlander, 2023). Steady-state assumptions were perhaps appropriate when environments changed slowly and the half-life of business models exceeded the tenures of their stewards. However, these assumptions have become misleading now that recipes that once carried a firm through one generation are unlikely to carry it through

[1] A previous version of this paper is forthcoming in the *Handbook of Family Business Practice*, Edward Elgar Publishing.

the next.

Thus, what is required is a perspective of strategy that puts the problem of uncertainty center stage and addresses the question of how firms, including family firms, increase their chances of finding value in uncertain contexts head on. Our take on this question is to propose a cognitive perspective of strategy that accounts for the limitations of established perspectives and equips decision-makers—and researchers who study them—with a toolkit to learn what is a valuable strategy under uncertainty. Such a perspective has recently crystallized in the theory-based view (TBV) of the firm, which casts economic actors as scientists who form, test, and update theories about what might be of value in an evolving environment (Felin, Gambardella, & Zenger, 2024; Felin & Zenger, 2017; Zellweger & Zenger, 2023).

Studying family firms through the lens of the TBV generates important novel insights. *First*, applying the TBV to family firms moves away from static perspectives about what firms and controlling families *are* and *have* toward exploring how they *learn* and *know.* This new perspective is timely, as it accounts for the fact that decision-makers, including owners, are fundamentally uncertain about what constitutes a strategy that will be valuable in the future (Argote, Lee, & Park, 2021; Puranam, Stieglitz, Osman, & Pillutla, 2015). *Second*, applying the TBV to family firms leads us to cast key topics in family business research in new light. For instance, from a TBV perspective, the succession process can be recast as the transmission, and perhaps the redefinition, of the theory maintained by a family about how to create value. What is transferred across generations is a value theory, or what the dominant actors—the senior versus junior generations—consider critical for future value creation. Similarly, SEW can be treated as a strong prior about what is required to ensure a firm's continued success (Agrawal et al., 2026; Chavda, Gans, & Stern, 2024). This prior is often not very responsive to new information because incoming evidence is weighted against a rigid belief about what the firm is and has to create value. *Third*, for practitioners, this paper highlights that family firms' fitness and survival across generations are less a matter of preserving stocks—of wealth, resources,

control, or identity—than of sustaining a learning process. It calls owners, managers, and their advisors to remain curious about what will work and create value in the future and casts the role of governance and organizational design as tools that are deployed in the service of learning, adaptive fitness, and long-term value creation in latent and dynamic environments (Gavetti & Levinthal, 2000; Siggelkow, 2002).

2. The family business literature and its entrenchment in the steady state

Over the past decades, family business has consolidated into a field of research organized around a number of dominant theoretical perspectives. Below, we briefly revisit five of the most influential perspectives and highlight what they assume—mostly implicitly—about family firms' own stability and the stability of the world in which they operate. The point we wish to make is not that these perspectives are wrong but that they share a common theme: they explain family firms' behavior and performance by referencing comparatively stable characteristics of these firms and their controlling families while treating their environments as fixed backdrops rather than as moving targets that must continuously be understood anew.

2.1. The agency perspective of family firms

Agency scholars portray family firms as tightly controlled by their owners, which aligns ownership and management and mitigates the classic conflict between principals and agents (e.g., Anderson & Reeb, 2003; Villalonga et al., 2015). At the same time, family altruism also gives rise to agency problems, such as adverse selection and free-riding among family members, because family managers are often appointed for reasons other than competence and since parents often struggle to discipline their children (Schulze, Lubatkin, Dino, & Buchholtz, 2001).

Thus, at its core, the agency literature revolves around a setting wherein one party (the principal) mandates another party (the agent) to execute some activity on the principal's behalf. What the agency perspective isolates are the incentive and information problems involved in the *execution* of a *given* strategy—that is, the strategy set by the principal. However, the agency perspective disregards the problem of strategy *formulation* in the first place (Puranam et al.,

2015). Uncertainty is reduced to an information-asymmetry problem between the parties involved, whereby the principal lacks insights into the quality of the agent and the agent's efforts to execute the course of action defined by the principal. Note, however, that under uncertainty, the principal themself often possesses only incomplete foresight about the best course of action (Foss, Klein, Lien, Zellweger, & Zenger, 2021).

2.2. The resource-based perspective of family firms

The resource-based view (RBV) holds that the resources available to family firms are distinctly shaped by families, captured in the notion of familiness (Habbershon & Williams, 1999; Pearson, Carr, & Shaw, 2008; Sirmon & Hitt, 2003). This work suggests that the stock of family-imbued resources is the origin of family firms' competitive advantages but also their disadvantages (Carney, 2005; Chrisman, Chua, & Sharma, 2005). For instance, strong ties to community leaders, personalized relationships with workers and clients, tacit knowledge about production processes, unique physical assets, patient financial capital, and personal reputation have all been identified as sources of family firms' competitive advantages (Gjergji, Brunelli, & Sciascia, 2025).

Family firms' focus on what they own and can achieve with their resources comes with an exploitative rather than an explorative strategic posture (Chirico, Ireland, Pittino, & Sanchez-Famoso, 2025; Duran, Kammerlander, Van Essen, & Zellweger, 2016). Family firms' unique resources and capabilities may be difficult to imitate and may turn into core competencies. However, in dynamic environments, a core competence may turn into a core rigidity that stands in the way of breaking free from existing (often rather conservative) beliefs about what constitutes a valuable resource (De Massis, Frattini, Kotlar, Petruzzelli, & Wright, 2016). Reports about family firms' tendency to stick to their knitting, cautious investment in R&D and reluctance to shed resources (Feldman, Amit, & Villalonga, 2016; Sharma & Manikutty, 2005) are testimony to a lack of flexibility in family firms' resource orchestration (Helfat & Peteraf, 2003; Ljungkvist, Axell, Andersén, & Österlund, 2026). Hence, extant family business research

in the RBV tradition appears overly concerned with the management and exploitation of family firms' existing resource bases, reflecting the idea that current resource endowments will secure future success.

Note how family business research adopting the resource-based perspective corresponds to the equilibrium assumptions of the RBV. In fact, the RBV treats resources as stocks whose value is given, assuming that factor markets are efficient and that resources are perfectly priced and exhausted of possibilities for creating novel value (Barney, 1986; Leiblein, 2011). Under uncertainty, however, the value of a resource is not a property of the resource itself but of the practical usage under which the resource is deployed (Felin, Kauffman, Mastrogiorgio, & Mastrogiorgio, 2016). Patient capital, for instance, is an advantage when it funds innovation and a liability when it subsidizes the pursuit of an obsolete strategy (Tagiuri & Davis, 1982).

2.3. The behavioral perspective of family firms

Furthermore, the behavioral perspective holds that family business actors are systematically concerned with the preservation of SEW, particularly transgenerational control (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Zellweger, Kellermanns, Chrisman, & Chua, 2012). SEW explains why family firms often forgo economically attractive options that threaten family control, such as acquisition diversification (Gomez-Mejia, Patel, & Zellweger, 2015), internationalization (Cesinger et al., 2016), or workforce downsizing (Block, 2010). Family firms are typically only willing to forgo SEW under severe financial duress—namely, when a family's entire entrepreneurial legacy is at stake.

SEW has been rightly adopted as an influential concept in family business research, as it has important explanatory power for family firm behavior and goal setting (Kotlar & De Massis, 2013). It is important to note, however, that the behavioral perspective of family firms with its focus on SEW is a steady-state perspective, assuming that family firms refer to a stable reference point when making strategic decisions. Indeed, decision-making that depends on reference points gives rise to loss-averse behavior and a preference for the status quo over

alternative strategies.

2.4. The institutional perspective of family firms

Institutions—including regulatory, normative, and cognitive institutions—constitute the "rules of the game" within which (family) firms make strategic decisions (Scott, 1995). The family business literature adopting the institutional perspective treats institutional environments as relatively static background conditions or exogenous forces (Miller, Le Breton-Miller, Amore, Minichilli, & Corbetta, 2017). Institutions may well vary across countries or regions, but in a given location, they define the persistent contextual conditions family firms need to respond to and comply with. Indeed, in their review of 193 studies, Skorodziyevskiy et al. (2024) show that institutional environments systematically condition family firms' internationalization, innovation, diversification, and associated performance outcomes. Accordingly, institutional characteristics are frequently modeled as moderators of the relationship between firm attributes, such as family control, and strategic behavior (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011).

This treatment of institutional environments as static background conditions is not limited to family business research, as it is the common narrative around the role of institutions in firm behavior (Carney & Child, 2013; Khanna & Rivkin, 2001). However, what makes this static perspective particularly problematic in the case of family firms is that family firms seem to suffer to a particular extent when their institutional settings are in flux—for example, when trade regimes fracture and reconfigure, regulations are rewritten, or communities transform—such that their embeddedness flips from an asset to a constraint by tying these firms to institutional arrangements whose value is eroding (Banalieva, Eddleston, & Zellweger, 2015).

2.5. The identity-based perspective of family firms

Finally, scholars of organizational identity view family firms as reflections of the enduring personal identities of their owners (Deephouse & Jaskiewicz, 2013; Micelotta & Raynard, 2011). Family firms are typically attributed relational qualities, such as being

sympathetic, personal, trustworthy, credible, and authentic (Binz, Hair Jr, Pieper, & Baldauf, 2013). These relational qualities are a direct outflow of the enduring overlap between family and firm. In consequence, controlling families care about how their firms are perceived in the public and thus strive for consistency between who they are and what their firms do (Belenzon, Chatterji, & Daley, 2017). Nevertheless, precisely because of this enduring identity overlap between family and firm, family firms are anchored to established images and self-projections (e.g., "We are winemakers" or "We are a restaurant family"), which limit the scope of conceivable strategic options. The identity perspective thus explains why many family firms want to remain true to themselves (Astrachan, Botero, Astrachan, & Prügl, 2018), but it says less about how family firms adapt when remaining true to themselves no longer creates value or, worse, diminishes value.

Taken together, these five perspectives explain family firm behavior and performance from stable stocks of control rights, resources, preferences, institutional embeddedness, and identity. In each of them, the causal arrow runs from what family firms and families are and have toward what they do and achieve, with uncertainty largely being treated as a background effect. These perspectives, in other words, primarily speak to how family firms administer value under given conditions, yet they are less insightful about how family firms create new value under uncertainty.

Of course, the family business literature that takes a dynamic capabilities perspective (Chirico & Nordqvist, 2010; Chirico & Salvato, 2008), the insights gained from studying how innovation happens through tradition (De Massis et al., 2016), the work on ambidexterity in family-managed firms (Kammerlander, Patzelt, Behrens, & Röhm, 2020), and studies on transgenerational entrepreneurship (Habbershon, Nordqvist, & Zellweger, 2010) all contribute in important ways to our understanding of how family firms act under uncertainty. The claim we wish to make is that the family business field lacks a microfoundational learning process describing how firms come to know what to adapt toward (Table 1). It is to this idea that work

on managerial cognition and, in particular, the TBV speaks.

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3. Toward a TBV of family firms

3.1. Managerial cognition: core insights and limitations

How decision-makers come to know what is valuable in a changing environment is the topic of research on managerial cognition, broadly defined as the knowledge structures managers use to represent their environments and facilitate information processing (Walsh, 1995). This vast body of work converges around four themes (cf. Csaszar & Steinberger, 2022): (1) search and learning, (2) bounded rationality and attention allocation, (3) feedback, and (4) adaptive fitness and organizational effectiveness. We provide a brief summary of these four themes and then problematize them.

First, to become knowledgeable about their environments, managers must search and learn. They do so online through direct trial-and-error engagement with their environments (Gavetti, Levinthal, & Ocasio, 2007) or offline through mental models that allow them to "see," or rather predict, more distant and potentially more valuable parts of the landscape in which they operate (Csaszar & Levinthal, 2016; Gary & Wood, 2011). Managers are thus called to combine online and offline learning in their quest for high-value strategies (Posen & Levinthal, 2012).

Second, the managerial cognition literature highlights that managers are boundedly rationally, whereby an abundance of information creates a scarcity of attention, compelling managers to compromise in their search for effective strategies, such as by satisficing, sequentially allocating attention, or adopting fast and frugal heuristics (Bingham & Eisenhardt, 2011; Ocasio, 1997).

Third, because strategies are unlikely to be perfectly effective at any given point, managers must interpret and respond to feedback. However, feedback is often delayed, noisy, and outright misleading such that learning from feedback is prone to failure and frequently

results in erroneous inferences and suboptimal behavior (Denrell, Fang, & Levinthal, 2004; Posen, Keil, Kim, & Meissner, 2018; Sterman, 1989).

Finally, the ultimate criterion against which managerial cognition is evaluated is the fitness of a resulting strategy—its effectiveness in the environment in which the focal firm operates. However, a strategy that exhibits high fitness at one point in time may lose this quality as technology, competition, and consumer preferences evolve (Levinthal & March, 1993). In turn, financial performance is seen as a problematic, or at least an insufficient, indicator of long-term value creation (Levinthal, 2021).

Despite important progress, we suggest that the managerial cognition literature stops short of providing managers with what they ultimately require—namely, a causal understanding of their environments (Ryall & Sorenson, 2025). For instance, while the literature contrasts experiential learning with learning from mental models, it remains unclear what constitutes an effective mental model (Csaszar, 2018), particularly one that makes the world actionable and ultimately exploitable to managers. Also, the attention literature rightly emphasizes the limited quantity of attention, but it has less to say about the quality of attention—what information merits attention because it is diagnostic of how an environment works and how value can be created in it (Seidl, Splitter, & Whittington, 2026). Attending closely to an outcome does not make that outcome informative because managers may devote substantial attention to weakly diagnostic signals, attribute outcomes to the wrong causes, or mistake random variation for evidence that the strategy pursued is working or failing. The feedback literature, in turn, centers on the discrepancy between actual outcomes and some benchmark, such as aspiration levels (Gavetti, Greve, Levinthal, & Ocasio, 2012). Yet, such discrepancy measures merely indicate that something went wrong; they offer only limited insights into why things went wrong and into what should be done to repair the situation. Finally, fitness continues to be proxied by financial performance, as seen, for instance, from the interchangeable use of the terms "performance landscape" and "fitness landscape." While it is well understood that strong current

performance provides only partial insights into a firm's future fitness since it may mask an inappropriate understanding of the environment (Denrell & Fang, 2010; March, 1999), it remains open how a firm's adaptive fitness should be properly measured.

These are consequential shortcomings because managers do not hold a mandate to represent the world. Rather, they hold a mandate to intervene in it in ways that produces value. However, the production of value presupposes knowledge of the causal structure connecting action to outcome (Gopnik & Meltzoff, 1997; Pearl, 2018; Sloman & Lagnado, 2015). A manager who knows only that performance fell short of aspirations can react, yet only a manager who understands why performance fell short can intervene in a targeted manner and reliably improve the situation. Knowledge that is merely correlational or experiential supports local incremental improvement as long as the world stands still, but it applies poorly once an environment shifts and a manager must predict the consequences of novel action (Puranam et al., 2015). What the managerial cognition literature thus leaves unspecified is how managers develop, maintain, and revise a causal understanding of their environments. It is precisely this gap that the TBV addresses.

3.2. The TBV of managerial decision-making

The TBV casts economic actors, including business families, as scientists who maintain theories about what may be of value—that is, value theories (Felin & Zenger, 2017; Zellweger & Zenger, 2022). The TBV proposes that value creation originates in actors' causal mental models about how value is created in a particular environment (Gary & Wood, 2011). Rather than reading strategy off incentive systems, resource endowments, preferences, institutional demands, imprinted identities, or industry structures, actors form idiosyncratic theories of what may be of value (Felin et al., 2024). A value theory articulates a set of premises—claims about critical conditions the focal actor believes must hold for the theory to create value (Ehrig & Schmidt, 2022)—and specifies the causal relationships through which these premises are expected to produce value (Van den Steen, 2017a). Value theories so defined have four

attributes:

(1) They are *generative*, providing a novel way of seeing one's environment, which is conducive to the formation of innovative strategies (Felin & Holweg, 2024). The generative nature of theories rests on counterfactual reasoning ("What happens if we do this or that?"), whereby actors try to imagine alternative scenarios or possible new worlds (Pearl, 2018; Ramoglou, Chandra, & Jin, 2026).

(2) They are *causal*, guiding intervention in the world rather than passive correlational observation (Pearl, 2018). A theory is thus not a plan but rather an educated guess about what must happen for a strategy to succeed, which is then advanced so it can be tested and value can be recurrently produced (Van den Steen, 2017a).

(3) They are *practical* and hence directed toward solving a currently unsolved problem in an environment, thereby creating value (Kier & McMullen, 2018). The requirement for the practical usefulness of a value theory reflects the notion in managerial decision-making that "there is nothing so practical than a good theory" (Lewin, 1952).

(4) They are *tentative* and are thus of a provisional, temporary nature considering that they are constantly challenged by fleeting environments. The value of a value theory is not a given, as observed for the natural sciences wherein theories may turn into laws. Rather, value theories require ongoing calibration and confirmation.

How then do theories promote value creation? Theories support value creation because they make the search and learning process for what works and is of value in an environment more effective. Specifically, theory-based learning unfolds as a three-step process, which emulates principles of scientific inquiry (Zellweger & Zenger, 2022, 2023):

(1) Forming a theory, or specifying a set of premises about what needs to be true or work for the theory to produce value;

(2) Testing the premises in the environment by collecting feedback on their validity; and

(3) Updating the theory to achieve enhanced fitness and value.

As a normative perspective of strategic decision-making, the TBV claims that organizational intelligence, and ultimately value, is best produced when deploying the learning process outlined above. Managers and firms increase their chances of finding value under uncertainty when they make their theories explicit, articulate the premises on which these theories rest, test critical premises before making important resource commitments, and revise their theories in the face of disconfirming evidence (e.g., Agarwal et al., 2023; Camuffo, Cordova, Gambardella, & Spina, 2020; Camuffo et al., 2024; Gambardella & Messinese, 2025; Kirtley & O'Mahony, 2023).

It is important to note that the theory-based learning process sketched out above is hierarchical in nature, as it rests on top-down predictions rooted in intuitive theories or educated guesses held by managers about what is plausibly of value in their environments (Felin & Holweg, 2024; Tenenbaum, Griffiths, & Niyogi, 2007). In turn, bottom-up feedback from the environments in which these theories are tested backpropagates and confirms or challenges these beliefs.

Research in cognitive psychology, especially that under the notion of theory-based causal inference, substantiates this hierarchical view of managerial learning, as it casts human actors as prediction engines who do not passively absorb data in an attempt to compose and store perfect copies of their environments (e.g., Barrett & Miller, 2026; Gopnik et al., 2004). Such an outside-in approach to learning would be ineffective because (1) it overwhelms the computing capacity of the human brain and (2) produces unreliable results in the latent and dynamic environments in which we live. Rather, human actors adopt a more parsimonious, data- and energy-efficient approach to learning, which fundamentally rests on inside-out predictions (Griffiths, Kemp, & Tenenbaum, 2008; Lake, Ullman, Tenenbaum, & Gershman, 2017). More specifically, human actors generate plausible conjectures with underlying premises about their environments, enact and test these premises, and revise their conjectures when they encounter prediction errors—discrepancies between the predicted and encountered environments when

acting therein (e.g., Clark, 2013; Friston, 2010; Griffiths & Tenenbaum, 2009).

This line of reasoning rests on the insight that actors have a natural interest in maximizing the predictive power of their action because predictive accuracy allows them to reliably produce desired (i.e. valued) outcomes while avoiding unpleasant or dangerous outcomes (Friston, Adams, & Montague, 2012). It follows that actors will seek to minimize future prediction errors, which is equivalent to maximizing the fitness and ultimately the value of the theories they maintain (Hohwy, 2013; Zellweger & Djokovic, 2026). Prediction errors are particularly informative since they reveal what failed and why, pointing to those parts of a theory that fail to work and produce value. In turn, by testing and calibrating value theories in their environments in the quest for maximized predictive power, managers adopt a highly effective learning process, one that promotes intelligence and concomitantly enhanced fitness and value of their thinking and acting (Hohwy, 2013; Parr, Pezzulo, & Friston, 2022) (Figure 1).

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At first sight, it may appear controversial to depict managers as scientists who engage in forming, testing, and refining value theories. Nevertheless, engaging in the outlined theory-based learning process is a pragmatic way to approach the difficult search for a strategy that proves valuable in an uncertain context. In fact, managers routinely articulate causal theories when explaining their thinking and acting. Consider Ferrari, controlled by the Agnelli family. Its founder, Enzo Ferrari, compressed the firm's value theory into a single premise: Ferrari should always "sell one car less than the market demands," a rule management still cites as the basis of its 2030 strategic plan (Ferrari, 2025). John Elkann, a fifth-generation family member and chairman of Ferrari, explained the firm's record 2025 results to shareholders in exactly these causal terms:

> Demand for Ferrari's products remains very solid, with the order book extending toward the end of 2027, reflecting the strength and uniqueness of the company's offering. . . . If something is to last, it must grow steadily. That principle is a discipline that allows Ferrari to create products of extraordinary distinction by remaining in control of how it grows. (Elkann, 2026)

From a TBV standpoint, such statements articulate causal theories in the form of particular choices, circumstances, or behaviors—namely, premises—that drive value. Managers often use causal language to retrospectively explain how performance was generated, as shown above for the case of Ferrari. They also use causal language to prospectively predict how their strategies should create value in the future. Consider Walmart, the world's largest family-controlled firm, whose CEO, Doug McMillon, laid out in his 2025 letter to shareholders the causal chain through which the firm's evolving business model is expected to generate future value:

> We are building a new business model that delivers top-line growth, gives us room to invest in associate wages and lower prices, while enabling us to improve profitability and return on investment as we build it. Growing our eCommerce business, including our marketplace, advertising, fulfillment services, and data monetization enables us to serve our customers and members better while delivering for shareholders. (McMillon, 2025)

McMillon's statement provides a forward-looking causal rationale—part of the value theory he subscribes to—about what he thinks are critical premises for future value creation at Walmart. While managers may rarely label these representations as theories, causal theorizing of this kind is intrinsic to how many managers formulate, justify, and communicate their strategies.

4. Challenges in theory-based learning and new vistas for family firms' effectiveness

The above theory-based learning process motivates us to ask how family firms fare in the process of forming, testing, and modifying value theories. In trying to answer this question, we do not treat family firms as uniformly advantaged or disadvantaged. Rather, we suggest that the distinct features of family firms, particularly their transgenerational control intentions, systematically shape each step of the theory-based learning process, for better and for worse.

4.1. Challenges in forming theories

We consider two challenges that may undermine the effectiveness of (both family and nonfamily) managers' theorizing: rigid theories and hypersensitive theories.

Rigid theories. When managers hold rigid theories, they tend to have a fixed view about relevant premises and their respective contributions to value creation. Be it because of past successes, expert status, or simply a preference for upholding the status quo, holding rigid theories implies that managers maintain inflexible or even dogmatic stances about what matters and what works to produce value. We expect managers with rigid theories to be confident and often unwilling to look for counterevidence for their theories. In turn, these managers seek arguments to confirm their beliefs, to be dismissive of proposed counterarguments (Kaanders, Sepulveda, Folke, Ortoleva, & De Martino, 2022), and to focus on convincing others as opposed to evaluating arguments against the theories they maintain (Mercier & Sperber, 2011).

In cognitive psychology terms, a rigid theory suppresses prediction errors that would otherwise motivate a better theory, leading managers to overlook important facets of the problems they seek to solve, new trends, and alternative interpretations of the world (Nickerson & Zenger, 2004; Nisbett & Ross, 1980). In sum, rigid theories likely work as filters that suppress relevant information from environments, thereby undermining the effectiveness of theorizing.

Hypersensitive theories. With hypersensitive theories, owners or managers fail to develop a constrained view of the focal environment that limits their search space and equips them with a tool for effective learning (Felin & Holweg, 2024). Without a strategy-as-theory that constrains the search space, an actor's mental model has too many moving premises and parameters, which leads to superstitious learning rather than a principled understanding of what works and is of value (Martignoni, Menon, & Siggelkow, 2016). When holding hypersensitive theories, managers exhibit a tendency to falsely perceive critical premises and causal relationships in data, which yields a random, reactive theory. At best, such theories fit the situation at hand, but they have poor reliability in new environments. In other words, transitory tastes cause managers to take every datapoint at face value, overestimate the volatility of their environments, and essentially become "slaves to their senses" (Hohwy, 2013). Managers are then typically unable to put the data they receive into perspective and thus fail to grow a

trustworthy understanding about how to solve their identified problems, undermining the effectiveness of their theorizing.

The family firm angle. The family business literature suggests that family firms are particularly prone to holding rigid value theories. First, in family firms, strategies are rarely mere conjectures about value but rather carriers of family legacy, identity, and reputation (Del Barone, Annosi, Micelotta, & Buonocore, 2026). When the theory for a family business was formed by a revered founder and has sustained the family for decades, its premises tend to be elevated from testable claims to articles of faith. Questioning the strategy then amounts to questioning the founder or the family itself, its history, reputation, and the achievements of prior generations (Kammerlander, Dessi, Bird, Floris, & Murru, 2015). Second, family CEOs enjoy tenures that are often longer than those of their nonfamily counterparts (Scheef & Zellweger, 2026; Strike, Berrone, Sapp, & Congiu, 2015). Leaders who have seen their views validated over long periods of time often become unwilling to search for counterevidence and better strategies or cognitively strained from doing so (Shen & Cannella, 2002). Third, members of controlling families are recruited from a small pool of kin who share upbringing and socialization practices and have been immersed in their families' way of seeing the world since childhood (cf. Aldrich & Cliff, 2003). Such homophily and close ties are likely to foster group-think, blind spots, and family echo chambers in which agreement and familiarity are mistaken for the validity and ongoing value of the collective perspective. Family firms' legacy theories then operate as strong priors that suppress the very prediction errors that would motivate a better theory. Taken together, we thus expect the following:

Proposition 1a: Family firms hold more rigid value theories than nonfamily firms.

An important qualification concerns the succession phase. While family firms may be particularly prone to maintaining stable, even rigid, value theories during periods of continuity, succession disrupts this steady state. The incoming generation of a family firm brings different experiences, knowledge, and aspirations and is typically less invested in the views that guided

the incumbent generation. Indeed, goal diversity becomes particularly pronounced around generational transitions (Kotlar & De Massis, 2013), potentially weakening the consensus that stabilized a family firm's established value theory. At the same time, succession can increase openness to innovation and strategic renewal, as next-generation leaders want to establish their new leadership regime and often engage in punctuated change (Hsueh & Zellweger, 2026). In this vein, Rondi, De Massis, and Kotlar (2019) identify succession as an important opportunity for family firms to recalibrate their innovation posture, while Zybura et al. (2021) show that family successors can increase postsuccession innovation. This inclination to engage in profound strategic renewal upon leadership change should also be the case, perhaps even more markedly, when a family outsider takes over the helm of a firm since outsiders typically have a mandate for change upon taking on the leadership role.

From a TBV perspective, succession may therefore temporarily reverse family firms' tendency to adhere to established value theories. Incoming new leaders have less invested in incumbent value theories and stronger incentives to establish their own strategic direction. As a result, they may attach particularly high importance to information cues that question established premises and point toward alternative sources of value, motivating successors to propose novel value theories to rapidly turn firms around and make them fit for the future. Succession may thus move family firms from holding insensitive value theories to the opposite extreme, where new information generates disproportionate theory revision, detached innovation (Del Barone et al., 2026), and more radical strategic change. Accordingly, we propose the following:

> *Proposition 1b: During the succession phase, family firms are prone to developing hypersensitive value theories.*

4.2. Challenges in testing theories

We further expect variation in (both family and nonfamily) managers' capacity to effectively test value theories and assess prediction errors. Specifically, we expect variation in

how much testing contributes to value creation depending on managers' capacity to track prediction errors. Many established firms collect large amounts of data to become "data driven" (Felin & Holweg, 2024) and to control how they are "doing." However, as specified above, theory testing and related measurement efforts ideally uncover deviations between predicted and realized outcomes, which represents an insightful and forward-looking approach to measurement and control, as it tracks the progress a firm is making in understanding its environment. In line with this reasoning, Edmondson and Verdin (2017) suggest that plans should be framed as theories with underlying hypotheses. Thus, measuring what matters should not just be concerned with achieving utility gains here and now; equally important are information gains, or insights about what keeps a firm valuable in the future. The investigation of prediction errors is particularly conducive for generating such insights (Friston et al., 2015).

The family firm angle. With respect to theory testing, family firms are, on average, slower to formalize their strategic planning and control systems, and they professionalize their management practices later and more reluctantly than nonfamily firms (Giovannoni, Maraghini, & Riccaboni, 2011; Hall & Nordqvist, 2008; Stewart & Hitt, 2012). Controlling in family firms often centers on backward-looking financial stewardship—guarding liquidity and family equity (Neckebrouck, Schulze, & Zellweger, 2018)—rather than on forward-looking tracking of whether the assumptions underlying a novel value theory will generate future cash flows.

To be fair, such forward-looking, learning-oriented controlling may be of limited value in family firms given their deep knowledge about the needs in the (niche) markets in which they operate and their concern with perfecting what they have been doing over extended periods of time (Miller & Le Breton-Miller, 2005). In turn, family firms are often very good at predicting what works and what does not and should thus maintain theories that are well calibrated for the environments in which they traditionally operate, which should drive down surprises about the results produced by organizational action. Prediction errors tied to executing a well-honed theory should thus be low, consistent with evidence that family firms exhibit high-quality

financial reporting and earnings statements (Tong, 2007; Wang, 2006). We thus suggest the following:

> *Proposition 2a: Family firms are strong testers and perfectors of established value theories. They exhibit lower prediction errors than nonfamily firms when pursuing established value theories.*

Nonetheless, this advantage may turn into a liability when environmental change renders established value theories obsolete. The central cognitive challenge then shifts from knowing to learning, a transition for which family firms may be comparatively disadvantaged. Family firms' deep accumulation of experience, strong commitment to established ways of operating, and embeddedness in historically evolved organizational paths can make existing value theories particularly salient and persistent (Chirico & Salvato, 2008). While patient capital, long executive tenures, and strong stakeholder ties should make slow and valid premise tests affordable in principle, accumulated knowledge and lack of experience in theory modification could impede more fundamental adaptation when firms must question the premises on which their established value theories rest. Indeed, research on organizational change in family firms suggests that their distinctive histories, power structures, and organizational embeddedness can generate self-reinforcing processes that strengthen established strategic paths and make path breaking more difficult (de Groote & Kammerlander, 2023). Therefore, we argue that the very characteristics that allow family firms to *know well* in established environments should make it more difficult for them to *learn well* in new environments, driving up errors in predicting what will be of value as their environments change and novel value theories need to be articulated and tested. More formally stated,

> *Proposition 2b: Family firms are disadvantaged in testing novel value theories. They exhibit higher prediction errors than nonfamily firms when pursuing novel value theories.*

4.3. Challenges in modifying theories

Finally, we expect variation in how effectively (both family and nonfamily) managers

modify theories based on variation in the psychological safety inside firms' workforces and the permeability of organizational hierarchies.

Psychological safety. Psychological safety captures the extent to which members of an organization feel secure about sharing negative news and taking risky action in response to organizational challenges (Edmondson, 1999). Research consistently shows that psychological safety facilitates idea contribution, knowledge sharing, initiative taking, and organizational learning (Edmondson & Lei, 2014). Instead of entering a blame game, with psychological safety, members of an organization are willing to share bad news, such as news regarding parts of a value theory that do not work as predicted. Thus, with psychological safety, "negative" feedback is unlikely to have negative consequences for the originator. Effective theory modification requires candid communication and plain talk as well as the ability to "tell it as it is" (Siggelkow, 2002: 138), especially regarding deeply held beliefs and related failures. We thus propose that a culture of fear stifles frank dialogue, learning, and the pursuit of valuable theories.

Permeability of hierarchies. As outlined above, theory-based learning combines the top-down guidance of predictions with the bottom-up feedback of prediction errors. To enable learning, organizational hierarchies thus need to be penetrable to permit the bidirectional flow of information. We propose that the bottom-up permeability of hierarchies may be impaired when prediction errors fail to reach or are not taken seriously at higher ranks of the cognitive hierarchy underlying the theory, and by implication the organizational hierarchy.[2] For effective

[2] This argument rests on the idea that a firm's organizational structure mirrors its informational structure, in line with work that treats "organizations as brains" or "organizations as algorithms" (e.g., Beer, 1995; Csaszar & Steinberger, 2022; Glaser, Sloan, & Gehman, 2024; March & Simon, 1958; Wiener, 1948). To the extent that these metaphors of firms and related principles for learning transcend levels of analysis (from the individual level up to the firm level) (DeLanda, 2019), the theory of the firm becomes a theory of learning and computation under uncertainty (see also Simon, 1996: 27), whereby the theories upheld by managers shape firms' organizational structure (Sanchez & Mahoney, 1996). From this viewpoint, the organizational structure becomes an epistemic

learning, it is critical that the residual issues that cannot be explained and solved at lower levels do not "fall through the cracks" and remain blind spots in the upper ranks of an organization (Csaszar, 2012; Reitzig & Sorenson, 2013).

The family firm angle. Psychological safety in family firms is likely bifurcated. Within the family circle, relationships characterized by unconditional membership should typically encourage frank exchange and candor. Among family members, norms of support, respect, and openness are likely to create an environment for psychological safety to blossom (Vandekerkhof, Steijvers, Hendriks, & Voordeckers, 2018). Hence, family firms often exhibit an organizational culture that fosters feelings of psychological safety among family members.

For nonfamily employees, however, the situation is likely to differ. In many family firms, the strategy pursued often reflects the manifest beliefs of an identifiable person, such as the (grand)parent of the current leader, such that criticizing the strategy pursued is easily heard as criticizing a person, a family member, or a successful legacy. Bifurcated human resource practices that favor family members signal to nonfamily members that their standing depends on family goodwill (Madison, Daspit, Turner, & Kellermanns, 2018; Verbeke & Kano, 2012). Under these conditions, rational nonfamily members learn to withhold bad news, and the focal family risks surrounding itself with sycophants (John, Blunden, & Liu, 2019; Schulze & Zellweger, 2021; Van den Steen, 2017b). More formally, we propose the following:

> *Proposition 3a: Family firms exhibit high levels of psychological safety among family members to challenge the value theories pursued by these firms.*
>
> *Proposition 3b: Family firms exhibit lower levels of psychological safety among their workforces than nonfamily firms.*

The permeability of hierarchies is likely similarly bifurcated in family firms. The

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architecture determining which feedback and errors are transmitted, amplified, attenuated, or suppressed.

peculiar power positions of family members often superimpose particularly steep hierarchies onto family firms wherein senior family leaders typically sit at the apex. Their authority is often simultaneously formal, moral, and financial. Family members may have preferential access to these powerful leaders and thus be in a position to highlight their concerns about a chosen strategy and what is not working as expected.

However, for nonfamily members, it may be more challenging to make themselves heard by senior family leaders and to escalate deviations between expected and experienced outcomes from enacting a strategy. If nonfamily members seek to report what fails to work, senior family leaders may discount or outright disregard the challenging feedback from them, particularly those from lower ranks. Family leaders may regard employees' feedback of prediction errors on the theories pursued by their firms as inadequate interference and a form of transgression in matters that do not concern these employees. Accordingly,

> *Proposition 3c: Family firms' hierarchies are permeable for challenging feedback from family members.*
>
> *Proposition 3d: Family firms' hierarchies are more impermeable for challenging feedback than those of nonfamily firms.*

In sum, our above arguments depict a mixed picture about family firms' capacity to engage in theory-based value creation. The propositions portray family firms as strong but narrow learners. They are good at testing and refining established value theories, not least because family members should feel safe to challenge family firms' theories through permeable hierarchies. Family firms' weaknesses are rigid theories, difficulties in testing novel theories, and hypersensitive theories during succession. Nonfamily employees tend to experience less psychological safety in family firms and face impermeable hierarchies such that challenging feedback from outside families has trouble reaching the top and is often disregarded in theory revision (Figure 2).

---------- Insert Figure 2 about here ----------

5. Illustrative family business cases

In the following, we introduce two cases of family firms that serve as illustrations and extensions of the arguments presented above.

5.1. LEGO: inherited theory, hypersensitive overreaction, and successful updating

LEGO illustrates the full arc of theory-based learning in a family firm, here in the form of an inherited theory, hypersensitive overreaction to environmental change, and finally successful updating of the value theory. LEGO has been owned by the Kirk Kristiansen family since 1932, when the firm's original value theory was formed by its founder Ole Kirk Kristiansen and compressed into the motto "Only the best is good enough." Its core premise holds that superior play value for children flows from a universal, high-quality building system—the brick.

By the late 1990s, this inherited theory came under pressure. The patents for the brick had expired; low-cost imitators entered the market; video games competed for children's time; and, in 1998, LEGO posted the first loss in its history. Kjeld Kirk Kristiansen, LEGO's third-generation owner and CEO since 1979, drew a far-reaching conclusion. In the firm's 1999 annual report, he explained that going forward, he wanted to pursue "a much broader commercial foundation and a wider platform for our brand values" and that LEGO needed to "increasingly sell brand experiences that stimulate creativity and imagination" (Lego, 1999). Persuaded that "kids were getting older younger" and that digital natives would abandon physical construction toys, the family effectively replaced its inherited theory with a new one: value would no longer arise primarily from the building system but from leveraging the LEGO brand across a broad set of experiences. The enactment of this new theory was delegated to a nonfamily executive, Poul Plougmann, hired in 1998 as COO with a mandate to shake up the firm (Robertson & Breen, 2013). What followed was hypersensitive theorizing. The firm chased nearly every cue the environment emitted about what might be valuable: theme parks, apparel, watches, software, television. The number of unique elements rose to more than 12,000. Some

of these bets, notably the Star Wars license (1999) and Bionicle (2001), turned out to be genuinely valuable choices. However, the theory as a whole was tested poorly. The firm did not track profitability at the product level and, as its later CFO recalled, did not know where it made money (Robertson & Breen, 2013). Sales spikes in 1999 and 2002, when the Star Wars and Bionicle movies were released, as well as the inventories retailers built up in response masked the accumulating prediction errors. When no movie came in 2003, retailers cut inventories, and the errors arrived all at once: revenue fell by 29 percent, and Kjeld Kirk Kristiansen asked his board in late 2003, "How long can we sustain this?" (Lunde & Holten, 2012).

The diagnosis that motivated frank premise testing and theory modification came from lower in the corporate hierarchy. Jørgen Vig Knudstorp, a 34-year-old nonfamily director of strategy, together with the newly hired CFO Jesper Ovesen, told the board in 2003, "We are on a burning platform, losing money with negative cash flow and a real risk of debt default, which could lead to a breakup of the company" (Robertson & Breen, 2013). The family hierarchy proved permeable to this challenging feedback. Rather than discounting the messengers, Kristiansen dismissed Plougmann in January 2004, took operational charge himself to initiate the action plan, and handed the CEO position to Knudstorp in October 2004. In addition, KIRKBI, the family holding, granted the firm a subordinated loan of DKK 800 million (Lego, 2004). Patient family capital thereby financed the testing of a revised theory rather than subsidizing the failed one. Knudstorp himself was open to acknowledging the errors that were backpropagated through the organization: "I am leading a company that finds itself in a deep, deep crisis" (Politiken, 2005).

The recovery was an exercise in testing and discarding premises. The turnaround team asked why the LEGO Group exists, built a costing system that revealed which products actually earned money, reversed some of the rebranding after retailers and consumers reported they could no longer find the products they knew, sold the theme parks despite their emotional value to the family, and cut the element palette from more than 12,000 to about 7,000. Designers, previously

free to create at will, were now required to work within the core system and to justify each new element. Premises that had survived testing, including story-based lines, such as Star Wars and Bionicle, were retained and rebalanced against the classic play themes (Lego, 2004). Reflecting on the episode a decade later while holding a 2 x 4 brick, Knudstorp summarized the update in a single sentence: “We just remembered what we’re really about” (Ringen, 2015).

In the terms of the conceptual arguments developed above, LEGO’s crisis was not caused by a rigid inherited theory but by its hypersensitive abandonment—a family firm that took every environmental datapoint at face value. Its recovery, in turn, shows the conditions under which family firms learn well: prediction errors that reached the apex, an owner willing to let a nonfamily voice challenge the established theory, and family capital that was redeployed and patient enough to finance the formation and testing of a revised value theory. Kirk Kristiansen’s decision to hand the CEO role to an outsider who had falsified the family’s theory can, in effect, be seen as succession as theory review.

5.2. Schlecker: a rigid value theory behind an impermeable apex

Schlecker is a case of theory rigidity with an impermeable family-only apex of the firm. The German drugstore chain Schlecker was founded by Anton Schlecker in 1975. The firm grew into Europe’s largest drugstore retailer, with more than 14,000 stores and some 50,000 employees at its peak, based on a value theory that rested on a few premises: (1) customers buy drugstore goods wherever they are cheapest and nearest; (2) stores should be small, spartan, and numerous; (3) stores should maintain relentless frugality; and (4) tight owner control keeps costs below that of any rivals. For two decades, the environment confirmed this value theory, hardening it into dogma.

In the late 1990s, the environment moved as competitors dm and Rossmann rebuilt their value theories around larger and brighter stores, service quality, and employee commitment. The prediction errors at Schlecker were visible in eroding store-level revenues years before the firm’s collapse. However, the firm’s apex was constitutionally unwilling to listen, hear, and act.

Anton Schlecker ran the firm as a registered sole trader (e.K.) with full personal liability. Schlecker refused outside capital and voices alike and gave practically no interviews in four decades. Contemporary accounts record that he “clung to his concept of small, unappealing stores” and that external advisers “despaired and gave up” (Brauns, 2017). Nonfamily managers had neither the psychological safety nor the hierarchical access to escalate what every store manager could see.

Schlecker lacked an information architecture capable of systematically testing its theory. Insolvency administrator Arndt Geiwitz later recalled that the company operated without an electronic merchandise-management system. Individual stores still ordered merchandise by sending lists via fax. “How do you want to lead such a corporate group effectively?” he asked retrospectively (Brauns, 2017). The problem was therefore not simply that Schlecker generated disappointing outcomes. Rather, the firm lacked the very apparatus through which disappointing outcomes could have been detected, aggregated, and transformed into learning.

When Anton’s two children were finally admitted to the apex, they attempted a value theory update. In 2010, Lars and Meike Schlecker launched a rebranding effort, brightening stores and softening the discount logic. The next generation recognized that the environment had changed and that the inherited value theory thus needed updating. However, the theory revision came too late, and in January 2012, Schlecker filed for insolvency. Standing before the press, Meike Schlecker needed one sentence: “There is nothing left” (Stock, 2012). Most revealing is how Anton Schlecker described the episode five years later at his trial before the Stuttgart regional court: “For me, there was no entrepreneurial failure. I had been very spoiled by success. . . . I do not recall liquidity problems that I would have considered insurmountable” (Schlecker, 2017). Even after years of deteriorating performance, failure remained outside the subjective model of the possible: “The idea that this company could actually go under was completely unimaginable to me” (Schlecker, 2017). A prior validated by decades of success had become impervious to disconfirming evidence even in hindsight.

In the paper's conceptual terms, Schlecker held a rigid value theory elevated beyond testability, excellent execution of the established theory while it still fit the environment but mounting errors once novelty was required, short communication paths but low permeability of the firm's hierarchy, and psychological safety that was reserved for the inner family circle.

The contrasting trajectories of LEGO and Schlecker illustrate two opposite failures of theory-based learning. Both firms entered periods of environmental change with value theories that had been validated by decades of success, yet the two firms responded very differently to emerging problems. LEGO repeatedly revised its theory, at times reacting too readily to changing signals before eventually converging on a more disciplined understanding of its core sources of value. Schlecker, by contrast, remained attached to a historically successful theory despite accumulating evidence that its premises were losing validity and began fundamental revision only after the financial capacity to do so had largely disappeared. The comparison thus illustrates that effective theory-based learning requires neither preservation nor continuous theory revision but instead disciplined calibration of theory revision to diagnostic feedback from the focal environment.

6. Discussion

6.1. Implications for research

This paper began with the observation that family business research is entrenched in a steady-state paradigm. Extant theoretical perspectives explain family firm behavior and performance from stable stocks of control rights, resources, preferences, embeddedness, and identity and thereby do not sufficiently account for the pervasive uncertainty under which family firms operate today. Existing perspectives predominantly explain what family firms prefer, possess, or preserve, but we lack an explicit microfoundation for how family firms develop a new understanding of where future value may come from. As a counterpoint to the established steady-state views, this paper develops a TBV perspective of the family firm that shifts attention from what family firms are and have toward exploring how they learn and know.

In line with this agenda, the TBV suggests that family firms should be evaluated not so much by the resources they possess, preferences they pursue, or governance structures they maintain but by their adaptive fitness: their capacity to form plausible value theories, subject their premises to informative tests, recognize prediction errors, and revise their theories when those errors reveal their theories no longer create value. From a TBV perspective, family firms are characterized as perfectors of established value theories, with these theories often being inherited from previous generations and stabilizing as dogmas that are frequently impervious to challenging feedback. While family firms are astute perfectors of existing value theories, they are likely less competent in formulating and testing new theories. Their bifurcated organizational hierarchies and cultures typically give priority to insights and feedback propagated by family members, while feedback from nonfamily members typically travels bottom up through these corporate hierarchies with more difficulty.

Our considerations suggest that many of the characteristics that allow family firms to know well can simultaneously make it difficult for them to learn well. Long tenures, accumulated experience, close customer relationships, concentrated authority, strong identities, and deep commitment to an established business model can generate exceptionally accurate predictions as long as a firm's environment remains consistent with its established value theory. In such settings, family firms may operate with remarkable efficiency and reliability. However, these same characteristics can strengthen priors about what creates value and establish an endogenous, or self-created, barrier for learning, raising the evidentiary threshold required to question these priors. When environmental change invalidates established theories, yesterday's accumulated knowledge can consequently become today's impediment to learning. The relevant question is therefore not whether family influence is inherently advantageous or disadvantageous but whether the epistemic architecture created by family control remains capable of revising family firms' theories when their predictions cease to create value.

The contrasting trajectories of LEGO and Schlecker illustrate this distinction. Both firms

entered periods of environmental change with value theories validated by decades of success, yet their learning processes differed markedly in the sensitivity with which they responded to emerging problems and in their capacity to translate those problems into revised theories. Family ownership, from this perspective, does not determine adaptive fitness and value directly. It shapes the informational architecture and organizational culture through which a firm learns what will create future value.

The arguments proposed cast several of the family business field's classic questions in epistemic terms. For example, succession appears as the intergenerational transfer of value theories. Succession fails when value theories are pushed down from one generation to the next without the openness to challenge and perhaps revise them. A theory inherited from a firm's previous generation may lose its validity over time and need to be rejuvenated or outright discarded by the next generation. Furthermore, our arguments on hypersensitive theories highlight an underappreciated source of problems—namely, the nonreflective adoption of any environmental trend during the succession process—which prevents a principled and reliable understanding of where future value lies. Hence, what is required is calibrated theory updating as a middle ground between a rigid and a hypersensitive theory, whereby theory updating and concomitant exploration is warranted only if the firm and its managers learn in parallel where future value lies.

Similarly, SEW can be reinterpreted as a strong prior that is not very responsive to new information because incoming evidence is interpreted through and weighted against a prior that is updated only with difficulty. Consequently, large and persistent prediction errors—in other words, significant performance shortfalls from executing an existing theory—are required to trigger meaningful theory revision. Note the distinction between behavioral arguments about problemistic search and strategy revision under performance shortfalls versus the TBV argument about prediction error–induced theory revision. Prediction errors may arise and theory revision be triggered before there is a performance shortfall. In consequence, theory-based

strategic decision-making is particularly productive for identifying early signals of a failing strategy.

Furthermore, familiness can be similarly recast in epistemic terms. In the TBV, resource value is defined by a resource's practical utility for solving the problem highlighted by a value theory. As long as family-specific resources are practically useful for solving market problems, family firms should have a competitive edge. However, when a family firm–specific value theory needs to be altered in light of shifting market demand, family-influenced resources turn into competitive disadvantages if they cannot be redeployed toward solving the newly identified demand. The implication is that many family-firm advantages are endogenously (i.e., by themselves) capable of becoming disadvantages.

The paper stresses that a primary challenge that firms, including family firms, face today is generating intelligence of what works and is of value in ever-changing environments (Csaszar & Steinberger, 2022; March, 2006; Posen & Levinthal, 2012). This line of reasoning treats the financial performance of firms not as an end goal but as a precondition for preserving their adaptiveness fitness and long-term value creation. Here, it seems important to point to the correspondence between this theoretical focus and the prominent concern among family firms for long-term independence and survival before a concern for maximized performance. This overlap between theoretical focus and practical phenomenon speaks to the promise of the TBV for studying family firms.

Future research could test the propositions outlined in this paper, which would require operationalizing the concepts introduced. Further, researchers could assess the extent to which managers use theory-informed causal language in explaining their strategies (Ryall & Sorenson, 2025) and the stability of such reasoning (Aerts & Zhang, 2014; Fiol & Huff, 1992; Markíczy & Goldberg, 1995; Zhang, Aerts, & Pan, 2019). Prediction errors could be assessed by analyzing the discrepancy between sales or earnings forecasts and the outcomes achieved (Hirst, Koonce, & Venkataraman, 2008; Rogers & Stocken, 2005). In sum, there are rich opportunities for future

research that promise novel insights for academia but also for practitioners.

6.2. Implications for practice

We argued that the transgenerational success of family firms is a matter of sustaining a learning process. First, by writing their value theories and underlying premises down and debating them within their families and top management teams, family firms can convert inherited theories from dogmas to be preserved into theories to be tested. Second, our arguments put governance in the service of learning. Boards and family councils should not confine themselves to monitoring compliance and financial results. Rather, they should institutionalize the formation of new theories, determine the underlying premises, ask how recent surprises bear on their value theories, and charge individual members with challenging dominating theories. Third, family firms should protect the messengers of bad news. Family leaders should deliberately separate person from argument and even reward the bearers of disconfirming news. When next-generation family or nonfamily members question a founder's theory and assumptions for a business, this should not be equated with questioning the founder as a person. Fourth, families in business should treat succession as an opportunity for theory review. Next-generation members should not merely be taught a firm's theory but should be allowed, even required, to challenge it and articulate rivaling new theories that need to be tested in the firm's environment. In sum, there is nothing so practical as a good theory, including in the context of (family) firm's strategic decision-making.

6.3. Concluding remarks

The question this paper raises is how family firms remain learning organizations across generations—hungry for what keeps them adaptively fit and prosperous in ever-changing environments. We hope this paper will be the steppingstone for more research around this timely topic. For family firms, we conclude that when they treat a strategy as a theory to be tested, they honor their legacy in the most meaningful way: by keeping their firms—and thus their families' entrepreneurial projects—alive.

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8. Table and Figures

Table 1. Theoretical perspectives on family firms, their steady-state assumptions, and the TBV reframing

Perspective	Core explanatory focus	Implicit steady-state assumption	Reframing under the TBV
Agency	Concentrated control rights; alignment and altruism problems	The strategy is given; the problem is its execution under information asymmetry	Principals may be insecure about the value of the strategies they ask agents to execute; the principal-agent relationship is a distributed hierarchical learning process
Resource-based	Family-imbued resource bundles (familiness)	Resource value is a property of the amount possessed; endowments today secure success tomorrow	Resource value is contingent on the value theory pursued
Behavioral (SEW)	Stable reference point of SEW	Preferences and reference points are fixed; the family and firm defends an existing endowment	SEW is a strong prior that dampens theory revision
Institutional	Embeddedness in given rules of the game	Institutions are exogenous static backdrops with which firms comply	Institutional change challenges and often invalidates value theories
Identity-based	Enduring overlap of family and firm identities	The firm remains true to an inherited self-projection	Identity is the self-defined core of a value theory; premises are treated as untestable articles of faith

Figure 1. Theory-based value creation as a hierarchical learning process

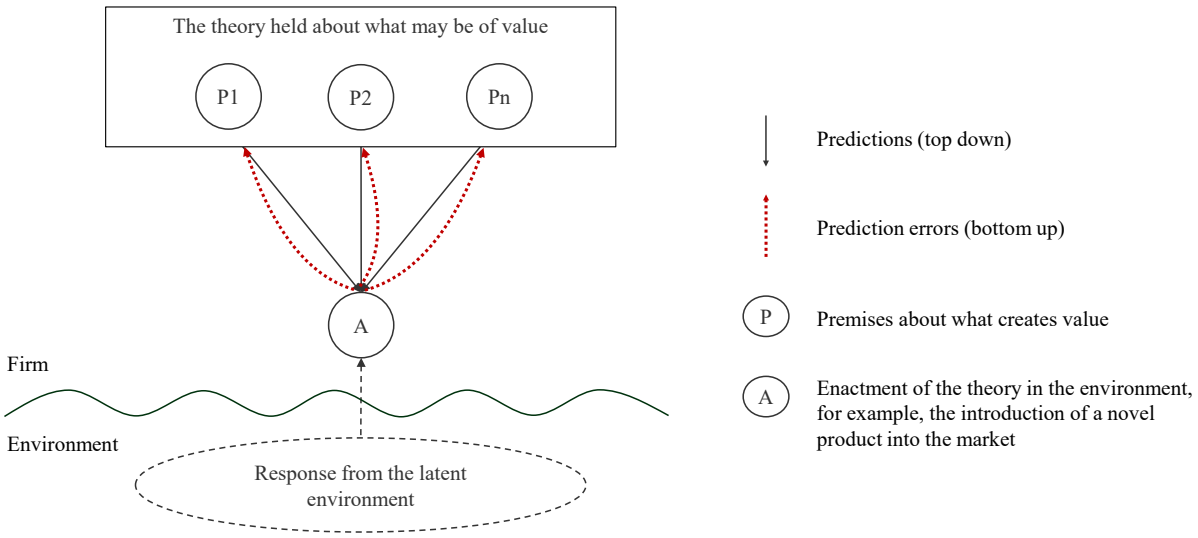
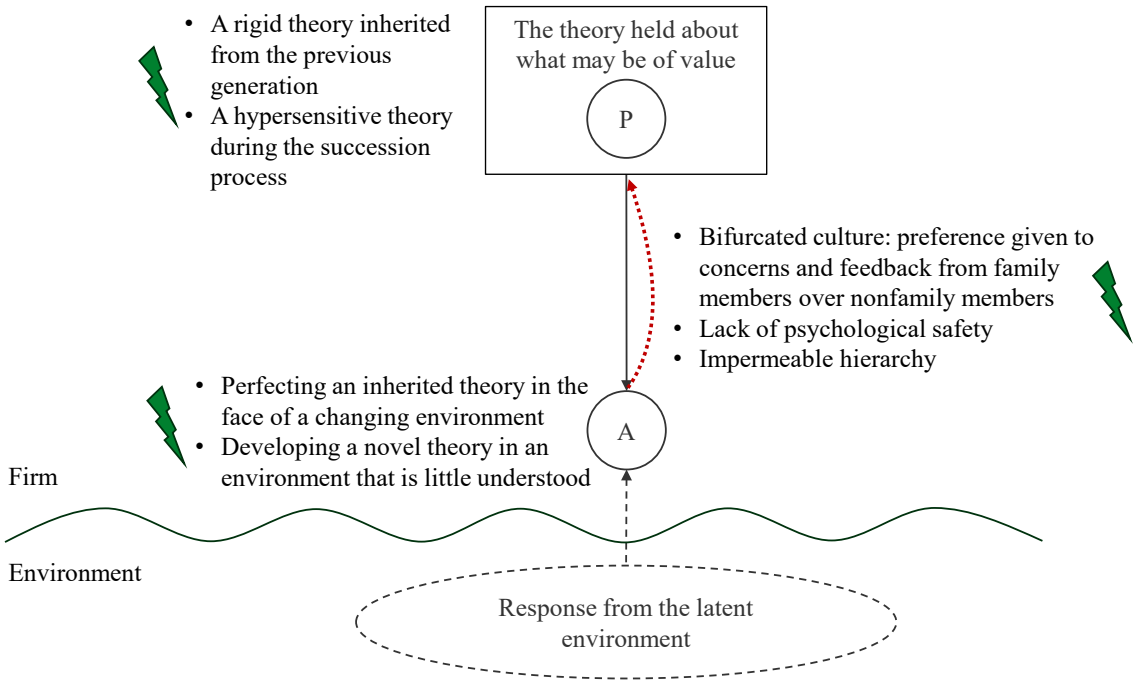


Figure 2: Typical challenges for theory-based value creation in family firms



P: premises underlying the value theory, A: enactment of the value theory in the environment (e.g., introduction of a novel product into the market), top-down arrow: prediction, curved bottom-up arrow: prediction error