Corporate Governance: An International Review, 2015, 23(3): 167–183

The Resilient Family Firm: Stakeholder Outcomes and Institutional Effects

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ABSTRACT

Manuscript Type: Empirical
Research Question/Issue: Our study seeks to explain the relationship between publicly listed family-controlled firms (FCFs) and investor and employee outcomes before and during the global financial crisis. Theoretically, we develop hypotheses suggesting that FCF resilience is beneficial to both investor and employees. Employing a large firm-level data set of 2,949 firms across 27 European countries, we test the hypotheses that FCFs' long-term orientation makes them resilient to the effects of economic shocks. In addition, using hierarchical linear modeling we evaluate family firm investor and employee outcomes, and the moderating impact of legal institutions protecting minority investors and employees.
Research Findings/Insights: We find that FCFs financially outperform non-FCFs during the financial crisis, beginning in 2007 and reaching its lowest point in 2009, but show no significant differences during the stable-growth period between 2004 and 2006. We evaluate two employee outcomes: downsizing and wage decreases. We find that FCFs are less likely to downsize their workforce or cut wages in both pre-crisis and crisis conditions. Based upon hypotheses founded in the comparative capitalisms logic, we find significant institutional effects that are contrary to our predictions. Our findings suggest that investors and employees of FCFs achieve more favorable outcomes for their interests when the rules pertaining to investor protection and their enforcement are poorly developed.
Theoretical/Academic Implications: We contribute to the emerging literature on the institution-based view of comparative corporate governance by demonstrating that family-controlled firms' stakeholder outcomes are contingent upon legal protection for employees and investors under contrasting economic circumstances.
Practitioner/Policy Implications: Family owners, employees and minority investors should consider both firm-level and country-level governance institutions when investing in different countries, especially in times of economic crisis as jurisdiction-level institutions and firm ownership choices produce variable outcomes for different stakeholders in both crisis and non-crisis conditions.

Keywords: Corporate Governance, Family-Controlled Firms, Financial Crisis, Stakeholder Outcomes, Resilience

INTRODUCTION

Following the onset of a financial crisis, are publicly listed family-controlled firms (FCFs) more resilient than other types of firms in their capacity to sustain performance? If so, does FCF resilience come at the expense of the interests of investors and employees? Does the quality of the legal institutions protecting stakeholders help or hinder FCF resilience? While there is consensus that FCFs differ from firms controlled by other types of owners (i.e., firms with dispersed ownership or non-family-controlled firms, N-FCFs), a growing body of empirical studies yields mixed and conflicting results over the value of publicly listed FCFs (Carney, van Essen, Gedajlovic, & Heugens, 2014; van Essen, Carney, Gedajlovic, & Heugens, 2014). Several scholars, for instance, propose that due to their owners' long-term commitment to firm welfare, FCFs represent a more durable organizational form that is more resilient than other organizational forms to disruptive economic shocks (Bloch, Kachaner, & Mignon, 2012; Sraer & Thesmar, 2007; Villalonga & Amit, 2010). Yet to date, there is relatively little empirical evidence in support of this proposition (Chrisman, Chua, & Steier, 2011). Resilience, defined as a firm's capacity to perceive, avoid, absorb,

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doi:10.1111/corg.12087

adapt to, and recover from environmental conditions that could threaten their survival, is subject to similar contentions (Lengnick-Hall & Beck, 2005). Exacerbating this position is the reality that family firms around the world are embedded in environments characterized by different levels of institutional development and by variations in corporate governance practices. To address the problem of mixed and conflicting findings, family firm scholars have recently begun to consider the potential moderating effects of institutional factors on the behavior and performance of family firms (García-Castro, Aguilera, & Ariño 2013; Gedajlovic, Carney, Chrisman, & Kellermans, 2012; Peng & Jiang, 2010). Given that multi-country comparative studies are sparse, institutional perspectives hold much promise in throwing light on conflicting theoretical perspectives and findings currently littering the field of family business (Schulze & Gedajlovic, 2010).

Crisis conditions provide a natural experiment for evaluating competing narratives about the value of family ownership because difficult economic conditions accentuate both the beneficial and negative characteristics inherent in family control. One prominent view suggests that concentrated owners have increased motivation to misappropriate minority investors and protect their own interests in times of crisis by "tunneling" resources out of the firm (Baek, Kang, & Park, 2005; Jiang & Peng, 2011; Johnson, Boone, Breach, & Friedman, 2000; Mitton, 2002). An alternative and opposing perspective emphasizes the resilience of family firms to economic shocks and their willingness to "prop up" the firm by injecting private resources into a financially troubled firm to assure long-run survival (Villalonga & Amit, 2010). Other evidence suggests that FCFs may also be less sensitive to economic shocks because their long-term involvement in the firm enables owners to enter into credible but implicit contracts with employees in which owners gain greater cooperation in exchange for assurances concerning employment continuity (Sraer & Thesmar, 2007). In this study we focus on outcomes for two types of stakeholders, investors and employees, whose interests are likely to be impacted by the onset of a crisis. We reason that in periods of stable economic growth stakeholders can more readily accommodate one another's interests, but with the onset of economic contraction both investor and employee interests may be threatened. We hypothesize that how the relative outcomes for minority investors and employees actually play out will depend upon both family ownership and the quality of legal institutions protecting investor and employee rights.

While agency theory represents the dominant paradigm for evaluating the positive and negative aspects of family ownership, we expect that there is much potential in incorporating a comparative governance perspective into the debate about the value of family ownership. Whereas agency theory emphasizes distributional conflicts and self-interested competition between stakeholders for their share of corporate value (van Essen, van Oosterhout, & Heugens, 2013b; Zingales, 1998), institution-based comparative governance perspectives draw attention instead to the potential for owners and employees to coordinate their respective interests by entering into mutually beneficial agreements that expand the size of the pie available to them both (Blair & Stout, 2006; Ostrom, 2010; van Essen et al., 2013b). One body of thought conceptualizes corporate governance as a bundle of national institutional and firm-level governance mechanisms whose functioning is influenced by national history, culture, and politics, as well as a society's openness to the influence of international rules and norms (Aguilera & Jackson, 2010; Hall & Soskice, 2001; Schiehll, Ahmadjian, & Filatotchev, 2014). Other institutional perspectives suggest that the capacity for entering cooperative governance arrangements depends upon the extent to which actors know and trust one another (Ostrom, 2010) and their capacity for developing shared understandings regarding appropriate behavior (Witt & Redding, 2008).

Our hypotheses are founded on the institutional logic of the comparative capitalisms, or varieties of capitalism literature (Hall & Soskice, 2001). Based on this perspective domestic firms can gain a competitive advantage by adjusting their governance structures and labor management processes to become isomorphic with prevailing national level institutions. In particular, Hall and Soskice (2001) distinguish between liberal market and coordinated market forms of capitalism: the former are investor-friendly jurisdictions where national institution bundles cohere to foster investor-oriented corporate governance. In contrast, coordinated forms of capitalism encourage greater employee involvement in decision making and foster stakeholder-oriented forms of corporate governance.

In this paper we seek to apply the comparative capitalisms perspectives to consider the effects of variations in the strength of legal institutions protecting investor and employee rights across 27 European countries. We reason that because the quality and strength of governance institutions show significant variation across Europe (Botero, Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2004; Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2008; van Essen et al., 2013b), they are likely to moderate the potential positive and negative aspects of family control and therefore influence investor and employee outcomes. Empirically, we consider the moderating impact of both general and specific legal institutions, including the specific institutional regimes protecting minority investor rights against majority owners (Djankov et al., 2008), as well as rules protecting employees (Botero et al., 2004). We also consider the general quality and efficiency of the legal environment that provides for the *de facto* enforcement of more specific rights (Kaufmann, Kraay, & Mastruzzi, 2009). To test our hypotheses we compile a large firm-level data set of 2,949 publicly listed firms located in 27 European countries from the years 2007–2009, a period of severe economic contraction across all European economies. Since researchers have established that investor and employee protection regimes have a significant effect on firm-level corporate governance mechanisms, employee outcomes and financial performance during stable economic conditions (Atanassov & Kim, 2009; Dyck & Zingales, 2004; La Porta, Lopez-de-Silanes, & Shleifer, 2008), we test the robustness of our findings by comparing the effects with data drawn from the years 2004–2006, a period of generally stable/growth conditions in Europe. Our sample is particularly appropriate for these purposes as FCFs are especially prevalent among European publicly listed companies (Faccio & Lang, 2002). Moreover, European jurisdictions

represent an appropriate context for comparative study because there is significant diversity in institutional regimes protecting the rights of investors and employees. This diversity provides for further examination of the relationship between the resilience of family ownership and investor and employee outcomes.

We make several contributions to the FCF and comparative corporate governance literatures. First, whereas the literature on FCFs largely neglects the role of institutions, typically focusing on FCFs versus N-FCFs in a single-country setting during stable economic conditions (Anderson & Reeb, 2003; Cruz, Gómez-Mejia, & Becerra, 2010), we bring in an explicit and comparative institutional perspective. Second, scholars who have studied FCFs across institutional contexts in a crisis have focused on Asia, and in jurisdictions with relatively weak institutional protection for investors and/or employees. Furthermore, most emphasize the effects on shareholder value or accounting returns (e.g., Boubakri, Guedhami, & Mishra, 2010; Heugens, van Essen, & van Oosterhout, 2009). In turn, we emphasize both investor and employee outcomes in relatively mature institutional contexts where the levels of institutional and economic development and firm-level governance can be expected to be effective, yet where a sufficient variation in institutional rules exists, such that we are able to test for the impact of cross-country differences in institutional features (van Essen et al., 2013b). Third, much of the FCF governance literature in mature institutional contexts is based on samples of US firms. Our paper answers calls for more comparative research on non-US samples (Le Breton-Miller, Miller, & Lester, 2011; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Hence, the particular contribution of this paper is to shed light on how FCFs located in different jurisdictions manage the stakeholder trade-offs and the extent to which they achieve mutually beneficial outcomes during stringent economic conditions. To the best of our knowledge this is the first study that simultaneously focuses on the impact of institutional- and firm-level mechanisms on stakeholder outcomes in both crisis and non-crisis periods.

THEORY AND HYPOTHESES

A firm's ownership structure and the institutional background of the country it operates in are key determinants of corporate governance practices in the firm (Shleifer & Vishny, 1997). Because ownership is nested within a specific jurisdiction, we expect that institutional conditions will influence firm level outcomes. Nonetheless, the dominant paradigm applied to studies of firm-level corporate governance is agency theory, which typically ignores not only contextual effects but also its institutional background (Judge, 2011). Research has shown that *specific* protection offered by legal institutions is important in mitigating agency conflicts and has a positive impact on firm performance (Engelen & van Essen, 2010; Heugens et al., 2009). However, as a point of departure and to establish a baseline comparison, we begin by considering the conflicting agency theory perspectives on the performance of family firms. We proceed by framing our primary hypotheses in terms of an alternative FCF stakeholder/resilience perspective, emphasizing the positive attributes of family ownership (Chrisman et al., 2011). We then introduce three pairs of hypotheses pertaining to the effects of different legal institutions on the relationship between family control and investor versus employee outcomes, and consider how these institutions influence our main relationship in crisis conditions.

The classic principal-agent (PA) view of agency theory identifies agency costs arising from the separation of ownership and control. In the PA agency theory perspective, concentrated family ownership in publicly listed firms is viewed positively as FCFs exemplify the unification of ownership and control that provides owners with high-powered incentives for vigilant oversight of the firm, while a public listing provides for the vigilant oversight of the controlling owners by external parties (Anderson & Reeb, 2003; van Essen et al., 2014). However, in a subsequent refinement, a principal-principal (PP) view of agency theory identifies agency costs stemming from a controlling owner's capacity to expropriate wealth from minority investors, especially where capital markets and investor protection rules are underdeveloped (Young et al., 2008). Much recent family firm research attempts to determine the net performance effects of PP costs and PA benefits by teasing out the influence of particular corporate governance arrangements such as the involvement of the family in management (Villalonga & Amit, 2006), the structure and composition of the board of directors (Anderson & Reeb, 2004), compensation arrangements (Gómez-Mejia, Larraza-Kintana, & Makri, 2003), and how the balances of agency costs and benefits vary across successive generations of family control (Pérez-González, 2006).

In an emerging stream of research, scholars have departed from the PA and PP perspectives of agency theory in the belief that the explicit assumptions of actor self-interest and information asymmetry may not hold in FCFs due to close and long-lasting ties between owners, executives, and employees. In particular, information asymmetries may be attenuated in situations when employees and owner managers have a long experience of one another's behavior and can develop shared expectations about appropriate conduct (Ostrom, 2010). Similarly, Cruz and her colleagues (2010: 69) propose that: "the assumption of agent opportunism may not necessarily hold in a proximal agency relationship wherein the parties are highly interdependent, work closely with each other, and may be emotionally attached." Emotional attachments tend to diminish opportunistic behavior as FCFs come to develop and value their social and reputational capital with key stakeholders such as employees, customers, suppliers, and minority investors (Lester & Cannella, 2006). Due to the family's superior abilities in cultivating and leveraging their social and reputational capital (Arregle, Hitt, Sirmon, & Very, 2007; Gedajlovic et al., 2012), FCFs are viewed as possessing value enhancing advantages compared with N-FCFs.

Furthermore, there is a growing consensus that FCFs differ from N-FCFs in their expanded decision-making time horizons (James, 2009; Kappes & Schmid, 2013). Because family owners hold a transgenerational intent, that is the desire to pass on control of the firm to their offspring, they typically give much greater emphasis to balancing short- and long-term outcomes (Le Breton-Miller et al., 2011). The

long-term horizon is manifested in aspects such as CEO tenure, which tends to be up to three times longer in FCFs than in N-FCFs (Zahra, 2005), and incentives, where FCF CEO compensation in family firms is less likely to be linked to short-term earnings (Ali, Chen, & Radhakrishnan, 2007). Moreover, due to their strong ownership position, family CEOs enjoy greater freedom to use their social and reputational capital by, for example, engaging in benevolence (Cruz et al., 2010), engaging in stewardship toward stakeholders (Le Breton-Miller et al., 2011), and practicing greater social responsibility (Berrone, Cruz, Gómez-Mejia, & Larraza-Kintana, 2010). Because family owners are better able to develop long-lasting relationships, the exercise of social capital is likely to engender trust and reciprocity amongst firm stakeholders. With the expectation of extended time horizons, both owners and stakeholders will be more likely to eschew opportunism and exercise forbearance in their relationships with one another (Blair & Stout, 2006), resulting in a more resilient organizational culture (Chrisman et al., 2011).

Resilience may also be manifested in a preference for temporal "earnings smoothing" (Villalonga & Amit, 2010). In a survey of French family firms, Bloch and his colleagues (2012) found that FCFs may forgo profitable opportunities during rapid growth conditions in order to conserve resources and increase the probability of survival during hard times. By emphasizing long-term goals FCFs may choose to operate with more organizational slack; while potentially inefficient, slack increases the robustness of the firm with respect to unanticipated shocks such as a severe decline in revenue (Sraer & Thesmar, 2007; Villalonga & Amit, 2010). Preserving organizational slack also provides the basis for sustaining long-term investment projects across boom-and-bust economic cycles. Zellweger (2007) finds that FCFs pursue fewer new projects but persevere longer with their chosen ventures. Nevertheless, operating with greater organizational slack and making stewardly accommodations with labor may entail trade-offs such as incurring higher operating costs, which may harm their financial performance compared with more cost-sensitive N-FCFs.

In contrast, the tenure of CEOs and top management team members in N-FCFs is typically short, and the incentive component of their compensation is quite significant (Gómez-Mejia et al., 2003). Thus management attention in N-FCFs is often focused on short-term profit maximization goals. Hence, in stable growth conditions professional executives can be expected to intensively exploit all available growth opportunities and maximize short-term earnings. Similarly, to enhance their returns, investors place pressure on management to repurchase stocks and leverage their capital structures; however, generally, the profits of highly leveraged firms are squeezed during the financial crisis (van Essen, Engelen, & Carney, 2013a). Executives in N-FCFs are likely to respond to deteriorating performance through aggressive cost reduction strategies, including downsizing the workforce and resisting employee salary demands (Cascio, Young, & Morris, 1997).

Accordingly, we expect the benefits of FCF resilience to accrue in crisis conditions. The existence of organizational slack provides a cushion that helps to absorb and adjust to crisis conditions. In particular, we expect the culture of stewardship and reciprocity in FCFs to provide advantages over N-FCFs in terms of both financial performance and employee outcomes. We expect that due to the family's long-term affiliation with the firm, minority investors may be less likely to liquidate their stock, which will serve to underpin stock value. Employees too are not easily able to diversify their employment risk (Wright, Mukherji, & Kroll, 2001) and are more likely to have their interests regarding risk aligned with those of owners (Rock & Wachter, 1999). Moreover, FCFs are more likely to consider the interests of their employees (Cruz et al., 2010), and we expect FCFs to be less likely to engage in employee downsizing or wage reductions. Instead, we expect owners and managers to involve employees in decision making (Gospel & Pendleton, 2005). In this way, incorporating employee voice in decision making during a crisis may lead to greater flexibility, affording them more opportunity to develop productive responses to difficult conditions. Thus a resilient organizational culture may enable mutually beneficial outcomes that preserve or enhance returns to investors and employees (Charny, 1999; Rock & Wachter, 1999). Accordingly, we advance our baseline family "resilience" hypotheses that can be stated as:

Hypothesis 1a. During a crisis FCFs have a positive impact on firm performance relative to N-FCFs.

Hypothesis 1b. During a crisis FCFs have a positive impact on employee outcomes relative to N-FCFs.

Country-Level Governance Moderator Effects

There is a growing literature recognizing that the agency theory paradigm cannot in itself explain the cross-country effects of firm-level corporate governance on firm performance (e.g., Aguilera & Jackson, 2003, 2010; van Essen et al., 2013b). Following scholars who advocate the institution-based view (Carney, Gedajlovic, Heugens, van Essen, & van Oosterhout, 2011; Peng & Jiang, 2010; van Essen, Heugens, Otten, & van Oosterhout, 2012), we argue that the strength of the relationship between FCFs (compared to N-FCFs) and stakeholder outcomes will be influenced by jurisdiction-specific governance mechanisms that privilege certain stakeholder interests over others. The functioning of country-level governance mechanisms are likely to be influenced by factors such as the historical origins of the country's legal and financial systems (La Porta et al., 2008), the distribution of political power among social classes (Roe, 2003), the cognitive orientations of executives and employees (Witt & Redding, 2008), and the level of a country's economic development and experience with capitalist institutions (Yoshikawa, Zhu, & Wang, 2014).

To capture the effects of country-level institutions, we apply the logic of the comparative capitalism's perspective to develop our moderation hypotheses (Hall & Soskice, 2001). This perspective is explicit in its assertion that different jurisdictions generate coherent governance bundles favoring particular stakeholder outcomes. Hall and Soskice's (2001) approach aims to furnish an institutional explanation of firm competitive advantage. In contrast with agency theory, Hall and Soskice propose that the way firms mitigate uncertainty, moral hazard, and opportunism is often based

on enforcement devices that are located beyond the firm in its broader institutional environment. The authors' core proposition is that when firms adapt their governance systems and other organizational practices to fit or become isomorphic with the national governance bundle, they can gain competitive advantages that those institutions provide. Offering a relational view of the firm, Hall and Soskice contend that "the quality of the relationship the firm is able to establish both internally with its own employees and externally with a range of other actors" (2001: 6) will influence the firm's capacity to create and exploit core competencies. Hall and Soskice's (2001) analysis proposes that institutions in the corporate governance, financial, labor, and industrial relations sectors in the coordinated market economies of northern Europe and Scandinavia provide an environment conducive to firms whose competitive advantage is oriented toward high-quality production and reliance on skilled and well-compensated labor. A corollary of the theory is that firms who fail to achieve isomorphism with local institutions will confront institutional disadvantages. For example, family-controlled Walmart developed its lean retail model in the context of investor-friendly USA, and the firm stumbled badly following its investment in Germany – an institutional environment that provides much greater protection for employees (Christopherson, 2007).

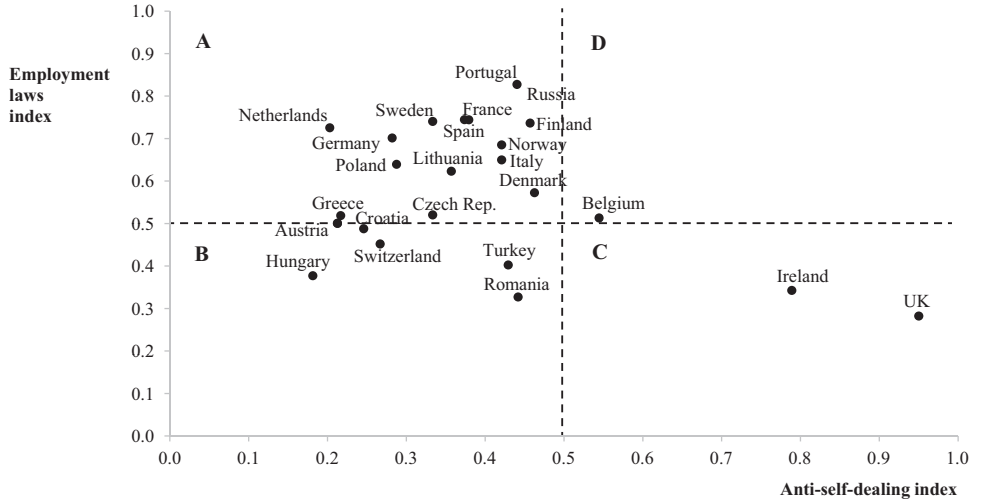
Following Hall and Soskice, we distinguish between institutional environments that provide strong investor protection and those that feature strong employee protection. Figure 1 juxtaposes Djankov et al.'s (2008) "*anti-self-dealing index*", and Botero et al.'s (2004) *employment laws index*. Quadrant A represents the employee-friendly jurisdictions and is primarily populated with North European economies, while quadrant C, the investor-friendly jurisdiction contains the liberal market-oriented UK and Irish economies. Quadrant B contains jurisdictions that provide little formal protection for either employees or investors and has a mixed population of countries. Quadrant D is primarily empty, suggesting jurisdictions face a trade-off in protecting employees and investors.

Investor Protection

The specific legal institutions protecting minority investors from expropriation from dominant owners are captured by the strength of the jurisdiction's anti-self-dealing laws (Djankov et al., 2008). Self-dealing practices include excessive compensation, transfer pricing, self-serving financial transactions, and the theft of corporate assets (Djankov et al., 2008; Shleifer & Vishny, 1997). Anti-self-dealing laws protect and empower minority investors by allowing them to seek resolution through the courts and the penalization of majority owners and insiders who expropriate by imparting fines or criminal sanctions (Shleifer & Vishny, 1997). Such laws focus on enforcement mechanisms, including disclosure, approval, and litigation that govern specific self-dealing transactions (Djankov et al., 2008).

During bouts of financial and economic crises, agency conflicts between concentrated owners and minority investors may be particularly salient (Baek et al., 2005; Jiang & Peng, 2011; Johnson et al., 2000; Mitton, 2002). According to PP versions of agency theories, in such circumstances legal protection for minority investors will increase in importance because concentrated owners found in FCFs are more likely to engage in opportunistic behavior in a crisis through various forms of self-dealing. However, consistent with the comparative capitalisms literature, we expect that strong investor protection laws will undergird shareholder value logic and constrain family owners' abilities to tunnel resources out of the firm, with a resulting positive effect on share values. Conversely, where such protections are lacking, FCFs can more easily expropriate minority investors.

FIGURE 1
European Countries Trade-Off between Investor and Employee Protection Law



Moreover, we reason that in crisis conditions strong investor protection will reduce FCFs' abilities to engage in stewardship toward employees. Because minority investors are empowered by strong investor protection, they are better able to pressure FCFs into engaging in shareholder wealth maximization strategies. Such pressure may work against the interests of employees. For example, in a crisis minority investors wishing to sustain an acceptable rate of return may prefer that the firm engages in cost reductions, either by downsizing or resisting employee wage demands. In short, strong investor protection negatively moderates FCFs' preferences for engaging in resilient behavior, with an equally negative impact upon employee outcomes. At the same time, and as indicated in Figure 1, jurisdictions with strong investor protection laws typically provide *less* protection for employees, further weakening their ability to protect their interests. Hence, we reason that strong specific investor laws will weaken the potency of FCFs' resilience in crisis conditions. Accordingly we advance a pair of "investor primacy" hypotheses that can be stated as:

Hypothesis 2a. During a crisis stronger investor protection rules positively influence the FCF-performance relationship relative to N-FCFs.

Hypothesis 2b. During a crisis stronger investor protection rules negatively influence the FCF-employee outcomes relationship relative to N-FCFs.

Employment Protection

The role of labor, in addition to institutional support for skills, training, and unemployment benefits, are key elements of the comparative capitalism perspective (Hall & Soskice, 2001). Central to this perspective is the tenet that coordinated economies provide strong employment protection. The continental European model is unique in protecting employment rights whereby it places constraints on the autonomy of employers "to a degree unknown elsewhere in the world" (Hyman, 2005: 11). Employment laws protect employee rights by regulating individual employee contracts such as working hours, termination rights, and flexibility of employment conditions (Botero et al., 2004). In light of a growing understanding of the functioning of labor-oriented institutions, scholars are now recognizing that labor has a significant influence on firm-level corporate governance, especially in European countries (Roe, 2003; van Essen et al., 2013b).

The law and finance literature views strong employment laws as having a negative effect on investor returns because they reduce flexibility and limit executive discretion. For example, strong employee protection inhibits a firm's abilities to pursue restructuring strategies that will enhance firm performance (Atanassov & Kim, 2009; van Essen et al., 2013b). However, while the law and finance literature also accept that strong employment laws protect incumbent employees, they do so by increasing the cost of employment, which may harm labor interests as a collective group. In these respects the law and finance literatures point to the potential negative consequences of strict employment regulation in the form of higher youth unemployment, a larger informal economy, and a lower female participation rate. In particular, the law and finance literatures predict that strong employment protection is likely to have worse welfare outcomes in countries where it is most strongly enforced (Botero et al., 2004).

However, we reason that at the firm level of analysis employee outcomes in FCFs are likely to be favored under crisis conditions. Thus, while minority investors will typically favor greater returns, because employees' objectives with regard to employment and salary security are strongly protected by statutory legislation, their interests are more likely to persevere in the face of a crisis. Moreover, because jurisdictions with strong employee protection typically provide lower protection for investors, minority investors will have little institutional leverage to pursue their interests. In the absence of legal pressures protecting minority investors, and consistent with our resilience perspective, we reason that FCFs will be freed from institutional pressures to maximize shareholder wealth and instead will be able to indulge their preferences for resilience-oriented responses to environmental conditions. For example, they may be more likely to encourage employee continuity by attaching greater value to their employees' investments in firm-specific human capital (Blair & Stout, 2006).

As noted by Jackson, Höpner, and Kurdelbusch (2005: 96) "family ownership binds capital to the long-term fate of the firm, and stresses long-term strategic interests of the firm over short-term pressure for financial results." Consequently, free from strong capital market pressures to deliver short-term financial results, FCFs' long-term performance orientation enables the toleration for reduced financial performance in a crisis. This tolerance may not be shared by minority investors who prefer to see the value of their shareholdings maintained. Such divergent interests represent a form of PP conflict between controlling and minority investors with different preferences with regard to short-term financial performance (Young et al., 2008). Accordingly, we reason that in crisis conditions strong employment protection accentuates the FCFs' resilience characteristics. We therefore hypothesize an employee primacy hypothesis that can be stated as:

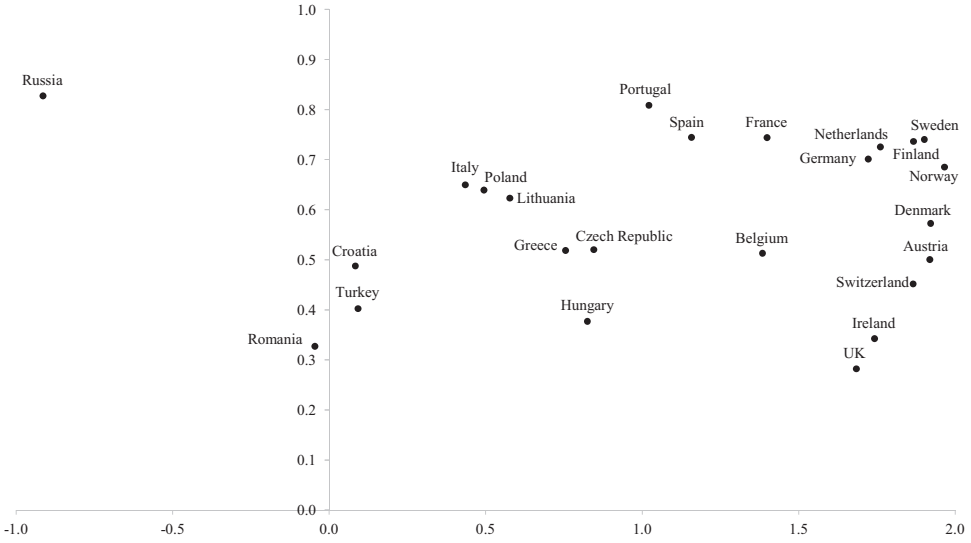
Hypothesis 3a. During a crisis stronger employee protection rules negatively influence the FCF-firm performance relationship relative to N-FCFs.

Hypothesis 3b. During a crisis stronger employee protection rules positively influence the FCF-employee outcomes relationship relative to N-FCFs.

General Quality of Legal Environment

While the comparative capitalism perspective parsimoniously distinguishes important differences between the Anglo-Saxon and continental European institutional regimes, it represents a binary model of national governance bundles[1] (Hall & Soskice, 2001) that may fail to adequately capture important institutional and governance features found in other jurisdictions (Allen, 2004) (e.g., jurisdictions with distinctive political and social histories and less experience with capitalist institutions and West European legal traditions). Scholars of comparative capitalism have begun

FIGURE 2
Rule of Law and Employee Protection



to identify distinctive models of capitalism in East European countries (Nölke & Vliegenthart, 2009) as well as a Mediterranean variety of capitalism (Amable, 2009). In these European jurisdictions experiments with socialism and/or experience with nondemocratic military rule have disrupted or inhibited the gradual coevolution of complementary institutions that are characteristic of the advanced economies found in the Anglo-Saxon and North European jurisdictions that feature in Hall and Soskice's (2001) analysis.

A substantial body of research points to the primary role of strong rule of law in more advanced economies and the weakness in rule of law in transitional and less developed economies (Haggard & Tiede, 2011; Levitsky & Murillo, 2009). We recognize that there may be significant variation in the extent to which both employee and investor protections are actually enforced in practice. While legal protection offered to business owners, minority investors, and employees consists of both *general* and *specific* degrees of protection (Gilson, 2006; Heugens et al., 2009; van Essen et al., 2013a), *rule of law* represents the *general* degree of legal protection offered to all stakeholders (Kaufmann et al., 2009). The rule of law captures "the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police and judiciary" (Kaufmann et al., 2009: 6). For example, a jurisdiction may have sophisticated investor protection legislation, but the costs of enforcing legitimate claims may be prohibitive due to inefficiencies in the legal process. In essence, the rule of law index measures the quality and efficiency of the legal system within a particular country and also incorporates other related background institutions such as levels of corruption and the efficiency of the public bureaucracy (Shleifer & Vishny, 1997). Strong rule of law represents the likelihood that specific "rules on the book" that are designed to protect particular stakeholder interests will in fact be enforced (Levitsky & Murillo, 2009).

Compared with Figure 1, Figure 2 provides a contrasting picture. In Figure 2 employee protection is juxtaposed against rule of law, which is an indicator of the extent to which rules "on the book" are likely to be enforced. We see that both liberal market and coordinated market countries with high rule of law are more likely to rigorously enforce the rules on the books irrespective of whether they favor investors or employees. Conversely, where rule of law is weaker (e.g., in formerly socialist countries such as Poland and Russia as well as some eastern Mediterranean economies such as Croatia and Turkey), employees are provided with significant formal or other benefits.

We reason that both investors and employees will benefit from higher quality legal institutions in the context of a crisis when the potential for conflict may be accentuated. Accordingly, we advance a pair of institutional enforcement hypotheses that can be stated as:

Hypothesis 4a. During a crisis stronger rule of law positively influences the FCF-performance relationship relative to N-FCFs.

Hypothesis 4b. During a crisis stronger rule of law positively influences the FCF-employee relationship relative to N-FCFs.

METHODS

Sample and Variables

Our sample consists of firms from 27 European countries from 2000 until 2009, though our analysis focuses on the period 2004–2009. We manually collected the ownership information and used digital sources including Datastream, MINT Global/ORBIS, Thomson One Banker, and Worldscope to obtain firm-specific control variables. Country-specific data such as the general quality of legal background institutions, investor, and employee protection

TABLE 1
Number of Firms and Average Cumulative Stock Return in Each Country

Countries	Number of firms	Cumulative return in crisis (%)	Cumulative return in pre-crisis (%)
Austria	67	–31	35
Belgium	150	–30	23
Croatia	14	–19	20
Czech Republic	16	–19	25
Denmark	124	–22	29
Finland	37	–8	16
France	194	–21	22
Germany	871	–9	25
Greece	8	–25	28
Hungary	6	–24	30
Ireland	12	–46	23
Italy	45	–8	15
Lithuania	3	–5	33
Luxembourg	3	–24	30
Malta	8	14	30
Netherlands	25	–24	19
Norway	14	–3	36
Poland	76	–22	27
Portugal	3	–16	14
Romania	5	–24	32
Russia	86	–11	76
Serbia	5	–8	26
Spain	48	–16	25
Sweden	199	–19	25
Switzerland	110	–5	16
Turkey	140	–5	26
United Kingdom	680	–16	16

laws were obtained from Kaufmann et al. (2009), Djankov et al. (2008), and Botero et al. (2004). The total sample consists of 2,949 firms listed on the stock markets of the following countries: Austria, Belgium, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Spain, Sweden, Switzerland, Turkey, and United Kingdom. Table 1 provides an overview of the number of firms per country along with average cumulative stock returns during the pre-crisis and crisis economic conditions. Table 1 also indicates the cross-European variation in the extent to which a country's investors were impacted by the crisis.

Definition of Dependent Variables

We used *cumulative market adjusted stock returns* during the financial crisis period to measure firm performance. Following Fahlenbrach and Stulz (2010), van Essen et al. (2013a), and Yeh, Chung, and Liu (2011), we measured the crisis period from the beginning of 2007 to 2009. We used two measures for employee outcomes. Our first dependent variable, *workforce decreased* (downsizing), is a variable that takes the value of one if the total number of employees was reduced by more than 1 percent compared with the previous year and the value zero otherwise (Block, 2010; Cascio et al., 1997). Our second independent employee outcome is wage reduction that takes the value of one if firm total wages was reduced by more than 1 percent compared with the previous year and the value zero otherwise (for a discussion of measurement issues with enterprise level wage costs reductions, see Greenberg, 1990).

Definition of the Independent Variables

All of our firm- and country-level independent variables lag the dependent variable and are measured before the financial crisis to avoid possible confounding effects that are associated with the crisis (Durnev & Kim, 2005; Peng & Jiang, 2010). We identified a *family-controlled firm* as a firm where the family controls at least 5 percent of the voting rights and is the largest owner (Anderson & Reeb, 2003). We assessed the jurisdictional level of legal protection against self-dealing with Djankov et al.'s (2008) "*anti-self-dealing index*".

In Following Atanassov and Kim (2009), we use the "*employment laws index*" (Botero et al., 2004; van Essen et al., 2013b) as an indicator of employee protection. The employment laws index measures the economic protection of *individual* workers in a given jurisdiction by capturing the incremental cost to employers of deviating from a hypothetical contract in which job conditions are fully specified and workers cannot be fired. To measure the impact of the overall quality of the legal background of institutions in the various European jurisdictions in our sample, we used Kaufmann et al.'s (2009) "*rule of law*" measure. The rule of law variable measures the extent to which agents have confidence in, and abide by, the rules of society (Kaufmann et al., 2009).

Control Variables

In order to control for the impact of other firm characteristics, we collected the following control variables: *firm size*, measured as the log-value of total sales (Mitton, 2002), and *industry concentration*, defined using the Herfindahl Index as the sum of the squares of the market shares of the 50 largest firms (or summed over all the firms if there are fewer than 50) within the industry (Capozza & Lee, 1996; Kwoka, 1977). *Leverage* is defined as the total debt divided by the total debt plus equity. To capture the riskiness of the firm we use the Capital Asset Pricing Model (CAPM): firm $\text{return}_{i,t}$ – risk-free $\text{return}_t = \text{alpha} + \text{beta} \times \text{market risk premium}_t + e_{i,t}$, where the risk-free return and the market risk premium are measured for the country of the firm under consideration, i, at time t. *Beta (market risk)* is a measure of the firm's risk (i.e., the correlation between the firm's returns and the returns of the overall market in which they are headquartered). Comparable to Miller, Wiseman, and Gómez-Mejia (2002), we also controlled for systematic and unsystematic firm risk (Sig R and Sig E). The former (Sig R) is defined as the variance of the total shareholder returns (stock price changes plus dividends) and the latter (Sig E) is estimated as the variance of the residual from the estimation of the CAPM, $\varepsilon_{i,t}$. To control for the firm's *prior performance*, we included return on assets (ROA) operationalized as net income divided by the value of total assets. For firm growth we use the cumulative growth rate for sales over the past three years, and to capture the growth in the local market we use the cumulative return over the past three years for the main market on which the company's shares trade. Finally, we controlled for industry effects; *industry dummies* were also included. The industry is identified using the two-digit SIC code. Table 2 reports descriptive statistics and all correlations for the dependent and independent variables in our regressions.

ANALYSIS

We analyzed the data using hierarchical linear modeling (HLM). HLM was used because of the hierarchical nature of the data where firms are nested within countries. Hierarchical modeling is an increasingly common method to handle nested data in the finance (e.g., Engelen & van Essen, 2010; Kayo & Kimura, 2011) and management literatures (e.g., Grosvold & Brammer, 2011; Misangyi, Elms, Greckhamer, & Lepine, 2006). Nesting is a form of dependence which occurs when there are multiple levels present in the data and when lower level units are members of a higher level group. It is important to include this in the model as our firms share characteristics of the higher level group (the country) and are therefore not fully independent from each other (Bliese & Ployhart, 2002). Firms within a country will be more alike, on average, than firms from different countries (e.g., because they share the same legal systems) and using this as a level in HLM is that it explicitly recognizes and corrects for this (Holcomb, Combs, Sirmon, & Sexton, 2010). Moreover, our data is a time series of panel data, so we have multiple observations for the same firm over time. Consequently, we pool the standard errors for each firm over time. To capture the industry-specific effects and the year effects related to changes in macroeconomic and political conditions that were common to all firms we use fixed effects.

In our empirical model we use a hierarchical structure with two levels, each of which is represented by its own regression equation. The level 1 model predictors are firm-specific variables, while the level 2 model predictors are country-specific variables. The slopes and intercept at the level 1 model are allowed to differ across countries, an advantage that cannot be obtained through utilizing ordinary linear regression. Analytically, the level 1 model is expressed as:

$$Y_{ij} = \beta_{0j} + \beta_{1j} X_{1ij} + e_{ij} \quad [1]$$

and the level 2 model as:

$$\beta_{0j} = \gamma_{00} + \gamma_{01} Z_{1j} \quad [2]$$

$$\beta_{1j} = \gamma_{10} + \gamma_{11} Z_{1j} \quad [3]$$

where Y_{ij} is cumulative market adjusted stock return, Xs are firm-specific variables and Zs are country-specific variables. In this study, we used White's (1980) modified standard error estimates to correct for possible heteroskedasticity.

Empirical Results

Table 3 displays the results for the tests of our hypotheses. Model 1 presents the direct effects of family control, as well as the moderating effects of the institutional indexes measures for the entire population of firms and three interaction terms of the family ownership and institutional measures on performance. Models 2 and 3 present the same effects on the two indicators of employee outcomes, downsizing and wage cuts. The models fit the data very well.

Resilience Hypothesis. The results for model 1 provide marginal significant support for the baseline resilience hypothesis H1a that FCFs financially outperform the reference category during a crisis ($p < .10$). Moreover, in the robustness data reported in Table 4 this outperformance effect is seen to be crisis-specific. Specifically, Table 4 reports that FCF financial performance is no different from the reference group in stable growth or non-crisis conditions.

TABLE 2
Descriptive Statistics: Pearson Correlations between Variables in Our Model

Variable	Mean	Std Dev	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1 Size (ln(Sales))	11.305	2.815	1.00																		
2 Herfindahl	0.038	0.058	–0.20**	1.00																	
3 Leverage	0.231	0.160	0.06**	0.02	1.00																
4 Total risk	0.148	0.161	–0.13**	0.00	0.02	1.00															
5 Non-systematic risk	0.138	0.158	–0.17**	0.00	0.02†	0.99**	1.00														
6 Beta	0.694	1.012	0.14**	0.01	–0.02†	0.15**	0.12**	1.00													
7 ROA	2.118	16.665	0.26**	–0.08**	0.08**	–0.22**	–0.23**	–0.01	1.00												
8 Sales growth past 3 years	–0.653	2.443	–0.04**	0.28**	–0.03*	–0.02*	–0.03*	0.02	–0.02†	1.00											
9 Return on local index past 3 years	0.453	0.486	–0.04**	0.01	0.02†	–0.09**	–0.09**	–0.06**	0.12**	–0.09**	1.00										
10 Family-controlled firm	0.087	0.281	0.12**	0.19**	–0.02*	–0.06**	–0.06**	0.02†	0.13**	0.12**	–0.05**	1.00									
11 Anti-self-dealing index (ASDI)	0.471	0.248	0.20**	–0.18**	–0.09**	–0.07**	–0.08**	0.09**	0.06**	–0.12**	–0.14**	–0.09**	1.00								
12 Employment laws index (ELI)	0.556	0.189	–0.20**	0.10**	0.09**	0.08**	0.09**	–0.08**	–0.06**	0.07**	0.13**	0.04**	–0.79**	1.00							
13 Rule of law (ROL)	1.426	0.656	0.03**	0.12**	–0.04**	–0.06**	–0.06**	0.04**	–0.01	0.11**	–0.41**	0.10**	0.13**	–0.23**	1.00						
14 ASDI × Family-controlled firm	0.032	0.116	0.17**	0.18**	–0.04**	–0.06**	–0.07**	0.04**	0.15**	0.10**	–0.10**	0.92**	–0.01*	–0.05**	0.12**	1.00					
15 ELI × Family-controlled firm	0.047	0.165	0.13**	0.19**	–0.02†	–0.05**	–0.05**	0.03*	0.12**	0.12**	–0.05**	0.96**	–0.13**	0.11**	0.11**	0.79**	1.00				
16 ROL × Family-controlled firm	0.144	0.473	0.15**	0.19**	–0.01	–0.06**	–0.07**	0.03**	0.14**	0.12**	–0.06**	0.98**	–0.09**	0.03**	0.12**	0.92**	0.94**	1.00			
17 Performance	–0.005	0.014	–0.04**	–0.37**	0.06**	0.00	0.00	0.00	–0.01	0.01	–0.05**	0.02*	0.00	0.01	0.05**	0.03*	0.02*	0.03*	1.00		
18 Decrease wages	0.710	0.454	–0.07**	0.08**	–0.02	0.01	0.01	0.03*	–0.14**	–0.17**	–0.03*	–0.15**	0.14**	–0.07**	–0.17**	–0.16**	–0.17**	–0.16**	–0.02†	1.00	
19 Decrease employment	0.687	0.464	–0.08**	0.09**	0.01	0.01	0.01	0.00	–0.16**	–0.18**	–0.08**	–0.19**	0.14**	–0.03*	–0.10**	–0.19**	–0.20**	–0.20**	–0.01	0.59**	1.00

†p < .10
*p < .05
**p < .01 (two-tailed test).

TABLE 3
Effect of Family-Controlled Firms During the Crisis

Variables	Performance	Decrease wages	Decrease employment
Constant	–0.691**	1.066**	1.251**
Control variables			
Size (ln(Sales))	–0.010**	–0.006	–0.001
Herfindahl	–4.509**	1.672**	1.338*
Leverage	–0.079**	–0.152*	–0.178*
Total risk	–0.073	0.382	0.197
Non-systematic risk	–0.004	–0.122	0.109
Beta	–0.004	–0.016	–0.034*
ROA	0.000	–0.005**	–0.006**
Sales growth past 3 years	–0.001	–0.018**	–0.013**
Return on local index past 3 years	0.008	0.145	0.046
Hypothesized main effects			
Family-controlled firm	0.168†	–0.713†	–0.940*
Country characteristics			
Anti-self-dealing index (ASDI)	0.215**	0.049	–0.211
Employment laws index (ELI)	0.129**	–0.289†	–0.443**
Rule of law (ROL)	0.083**	–0.204**	–0.210**
Hypothesized interaction effects			
ASDI × Family-controlled firm	–0.021	0.178	0.603*
ELI × Family-controlled firm	–0.052	0.222	0.460†
ROL × Family-controlled firm	–0.080*	0.266*	0.227†
N	4728	4728	4728
Pseudo R^2	0.57	0.35	0.59

†p < .10
*p < .05
**p < .01 (two-tailed test).

Another way of putting this is that families' preferences for resilience become salient in difficult conditions. Additionally, the results in models 2 and 3 also support our resilience hypothesis H1b that in FCFs employee outcomes will be superior in a crisis. Specifically, employees in FCFs are less likely to encounter wage decreases (p < .10) or downsizing (p < .05) compared with the reference group in a financial crisis. Hence, our results show that the direct effects of family control among the entire population of European FCFs for both investors and employees are superior compared with the outcomes experienced by the stakeholders of N-FCFs during the financial crisis.

Investor Primacy Hypotheses. The results presented in Table 3 provide no support for hypothesis H2a. Table 3 shows that for the entire population of firms, stronger investor protection laws significantly improve financial performance compared with jurisdictions with weaker investor protection (p < .01). The interaction term for family control and investor protection is negative but insignificant, suggesting that family firms may not benefit more in terms of financial performance from strong investor protection laws. In contrast, Table 3 furnishes some support for hypothesis H2b which suggested that during a crisis stronger investor protection rules negatively influence the FCF-employee outcomes relationship relative to N-FCFs. In the general population, strong investor protection is not significantly related to either wage cuts or downsizing (p > .10). Interestingly, the interaction term for family control and investor protection is positively associated with improved risk of downsizing (p < .05), suggesting that investor protection laws encourage FCFs to reduce their labor forces during a crisis.

Employee Primacy Hypothesis. Table 3 provides no support for hypothesis H3a which suggested that the financial performance of FCFs located in jurisdictions with high levels of employee protection would be more negatively moderated. The results show that for the population as a whole, strong employee protection actually has a surprisingly positive effect on financial performance (p < .01), while the interaction effects of FCFs in similar jurisdictions is negative but insignificant, again suggesting the stronger legal constraints are offset by family control (p > .10). Likewise, there is no support for H3b that predicted positive moderation effects for the employees of FCFs located in high employee protection jurisdictions. Predictably, in the population as a whole, strong employee protection negatively moderates the risk of wage cuts (p < .10) and downsizing

TABLE 4
Effect of Family-Controlled Firms before the Crisis

Variables	Performance	Decrease wages	Decrease employment
Constant	–0.511**	0.908**	0.707*
Control variables			
Size (ln(Sales))	–0.008**	0.002	0.004
Herfindahl	–5.910**	1.303†	1.406*
Leverage	–0.054**	0.027	–0.085
Total risk	–0.336	–2.249*	–1.817†
Non-systematic risk	0.324	2.084*	2.028†
Beta	–0.008*	0.027*	0.005
ROA	0.000*	–0.005**	–0.006**
Sales growth past 3 years	0.000	–0.023**	–0.017**
Return on local index past 3 years	0.030†	–0.329**	–0.076
Hypothesized main effects			
Family-controlled firm	0.015	–0.838†	–0.950*
Country characteristics			
Anti-self-dealing index (ASDI)	0.179**	–0.226	–0.111
Employment laws index (ELI)	0.077†	–0.362*	–0.188
Rule of law (ROL)	0.071**	–0.006	–0.114†
Hypothesized interaction effects			
ASDI × Family-controlled firm	0.103	0.078	0.288
ELI × Family-controlled firm	0.062	0.513†	0.406
ROL × Family-controlled firm	–0.061†	0.251†	0.270*
N	3861	3861	3861
Pseudo R^2	0.35	0.22	0.48

†p < .10
*p < .05
**p < .01 (two-tailed test).

(p < .01). However, the interactive effect of family control is insignificantly associated with the risk of wage cuts (p > .10) and, contrary to hypothesis H3b, family control marginally significantly and positively increases the risk of employee downsizing (p < .10). Again the implication is that family control offsets the positive impact of strong institutions within the general population of firms. Another way of putting this is that FCFs may do a better job of protecting employee security in jurisdictions with weak employee protection.

Enforcement Hypothesis. Table 3 also provides no support for either of our enforcement hypotheses H4a and H4b. A strong rule of law generally associated with the strict application of legal protection positively moderates the financial performance in the general population of firms while the interaction term shows that in the conditions of strong law enforcement family control negatively affects financial performance (p < .05). That is, FCFs may perform better in jurisdictions with weak rule of law. With regard to employee outcomes, strong law enforcement is associated with reduced risk of wage cuts and downsizing in the population as a whole but the opposite effect is found in the interaction term for family control (p < .05; p < .10). These significant results that show signs opposite to the ones predicted by our institutional moderation hypotheses warrant explanation, a point to which we return in the discussion.

Robustness

To better understand whether our results are unique to the financial crisis or represent more enduring features of FCFs, we estimated the same models shown in Table 3 for the stable pre-crisis period from 2003 to 2005 (see Table 4). With regard to our baseline resilience performance hypotheses, as noted above, the FCF outperformance result is crisis-specific; in stable growth conditions FCFs performance is no different from the general population. However, H1b pertaining to superior employment outcomes is not crisis-specific. Compared with N-FCFs the population of European FCFs is less likely to decrease wages or downsize employees in both crisis and pre-crisis periods. Moreover, the results for investor and employee protection primacy effects also tend not to be crisis-specific. That is, strong investor protection has a positive moderating effect on the performance of all types of firms in both crisis and non-crisis settings while having no significant impact on employee outcomes relating to wage cuts or increases in employment.

There are a few notable exceptions with regard to employee outcomes to this set of findings. First, with respect to wage cuts in the population of firms, strong employee protection rules matter in both crisis and non-crisis conditions. However, strong employee protection rules matter most in a crisis for the population of firms. In the pre-crisis conditions employment laws do not significantly moderate the risk of downsizing. Generally, the effect of strong employee protection is to secure wages regardless of economic conditions, whereas strong employee protection rules become especially important for employment security during crisis conditions. Second, the interaction term for family firms and employee protection is non-significant in crisis conditions, while it is otherwise positive in the pre-crisis stable growth conditions. In other words, compared with their nonfamily counterparts, FCFs in environments with strong employee protection are more likely to apply downward pressure on wages in stable growth conditions. The implication is that during stable growth periods FCFs seek to be parsimonious in their wage settlements in strictly regulated employment environments; however, their frugality tends to be moderated during difficult economic conditions.

In order to assess the generalizability of our findings we conducted three additional robustness tests. First, in order to account for the fact that the literature has viewed the United Kingdom and Ireland as examples of the dispersedly owned corporate governance system rather than the control-based continental European corporate governance system (van Essen et al., 2013b), we ran analyses without the United Kingdom and Ireland data points. We found that the exclusion did not significantly change our main results. Second, we used an alternate control for industry differences. Following Anderson and Reeb (2003), we ran additional regressions excluding all the industries that only have either FCFs or non-FCFs. Again, we found no changes in the main results. Third, we ran analyses using diverse definitions for FCF, firm performance, and different time periods. For family ownership, we changed the thresholds for family ownership to a much stricter level, namely we defined a family firm when a family has at least 25 percent of voting rights and is the largest owner. For firm performance, we conducted additional robustness checks using accounting measures including log of earnings, net profit margin, operating profit margin, return on assets, and book value on common equity. Another important robustness check concerns the non-crisis/pre-crisis period. Although the sets of years differ for crisis and non-crisis periods, in order to ensure that the measures of goodness of fit are comparable, we used the same number of years for both periods. Throughout the main analysis, the pre-crisis period is 2003–2006 and the crisis period is 2007–2009. As a robustness test we ran analyses using pre-crisis periods of 2004–2006, 2004–2005 and 2005–2006 and crisis periods of 2007–2009, 2007–2008 and 2008–2009. The results are very similar for each of these sets of years with respect to our variables of interest. We performed a final robustness check on our family firm-downsizing relation by running the analysis using a logit estimation. We obtain similar results with no significant changes to the main results.

DISCUSSION

Our study is motivated by several unresolved questions about the advantages, and in particular the resilience, of FCFs. The primary motivations are (1) to test the competing narratives described by classic agency theory and resilience perspectives on the value of family ownership for different stakeholders, and (2) to examine the extent to which firm value and stakeholder outcomes are contingent on the institutional context in which the firm is situated.

Family Firm Resilience

Our resilience hypothesis does not imply that FCFs will always outperform N-FCFs. On the contrary, we expect that FCFs will underperform in stable growth conditions due to a preference for maintaining organizational slack and their likely reluctance to pursue fewer available growth opportunities (Bloch et al., 2012). Rather, our resilience hypothesis predicts that family preference for sustainable and stable performance over long time periods will be most beneficial in a crisis. On average, and after correcting for several key factors, our findings that FCFs weakly significantly outperform N-FCFs in a crisis but show no significant difference during stable-growth conditions provide some support for this view. Resilience is also suggested by the more favorable employee outcomes (reduced risk of wage cuts and downsizing) in FCFs. However, these favorable employee outcomes are not crisis-specific but are common to both stable-growth and crisis conditions, suggesting that FCFs typically demonstrate greater stewardship toward their employees regardless of economic conditions (Le Breton-Miller et al., 2011). Hence, FCFs must find other means of accomplishing equivalent financial performance. Our findings that FCFs demonstrate greater commitment to their employees suggests that they develop alternative sources of competitive advantage, perhaps based upon a more cooperative and trusting employer-employee relationship (Ostrom, 2010) that provides incentives to employees to invest in valuable firm-specific assets (Blair & Stout, 2006). However, while our findings are consistent with this view, further research on the sources of FCFs' competitive advantage is warranted.

Institutional Moderation

Our institutional moderation hypotheses were inspired by the comparative capitalisms literature and the proposition that advanced European economies develop cohesive bundles of complementary institutions (Hall & Soskice, 2001). We reasoned that when these distinctive institutional bundles are combined with FCFs' preference for resilience, we should expect different stakeholder outcomes in jurisdictions favoring either investors or employees. These hypotheses were not supported.

More generally, taking the population of European firms as a whole, we find much support for the law and finance hypotheses (La Porta et al., 2008). In particular, we find that strong investor protection and rule of law significantly and positively moderate investor returns in all types of firms in both crisis and non-crisis conditions. Similarly, strong employee protection negatively moderates the risk of wage

cuts and employee downsizing, with the latter being particularly important under crisis conditions. However, we found no support for our moderation hypotheses with regard to FCF stakeholder outcomes. Indeed, contrary to our hypotheses we found that in FCFs (i) strong investor protection negatively moderates the relationship with firm performance, albeit non-significantly, (ii) strong employee protection positively moderates the risk of downsizing, and (iii) strong rule of law negatively moderates financial performance and positively moderates downsizing and wage decreases. One interpretation of these effects is that in addition to resilience to economic crises, FCFs are also resilient to weak institutional conditions as FCFs' performance and some stakeholder outcomes are better in environments where there is little legal protection.

Based upon the assumptions undergirding the comparative capitalisms perspective, we have assumed a logical institutional complementarity between the strength and quality of institutions and their effects on firm outcomes. Institutional complementarity postulates that strong institutions will accentuate or complement firms' positive behavioral tendencies while attenuating their negative attributes. However, a rival and causally opposing theory is found in the theory of institutional substitution (Peng & Jiang, 2010). In this perspective firms are seen as developing value enhancing attributes that help them compensate, or substitute, for deficiencies in their institutional environment. Gilson (2007) advances a legal substitution hypothesis suggesting that in a regime of weak commercial law, long-lived FCFs who actively cultivate a reputation for honesty in their transactions with business partners will gain a competitive advantage over opportunistic firms whose behavior will be detected and penalized in a market for corporate reputation. Similarly, an extensive business group literature is predicated on the concept of institutional voids and the ability of families to form internal markets to substitute for deficient factor markets (Carney et al., 2011; Khanna & Rivkin, 2001). Our findings that strong rule of law and investor protection negatively moderate FCF investors and employees outcomes, are consistent with a legal substitution explanation.

Our institutional findings that are contrary to a comparative capitalisms explanation may be attributable to a broad range of jurisdictions represented in our sample. Whereas the comparative capitalisms perspective has predominantly focused its analysis on the advanced market and coordinated economies of the US, UK and Northern Europe, we have included a wider range of transitional East European and Mediterranean economies whose institutional foundations may be somewhat incoherent and not fully formed (Amable, 2009). In these latter jurisdictions legal institutions may be weak or go unenforced (Levitsky & Murillo, 2009). By enlarging the range of jurisdictions included in our analysis, we have likely incorporated economies whose institutions consist of contradictory and incoherent institutional bundles. Indicative of this dysfunction are the transition economies of East and Central Europe that have become heavily dependent on foreign direct investment from multinational corporations (MNEs), primarily in low-cost manufacturing facilities (Nölke & Vliegenthart, 2009). In these partially formed institutional bundles MNEs typically prefer labor flexibility, and because they depend on parental financing they have little interest in promoting the development of either minority investor or employee protection rules (Schneider, 2009).

One theoretical implication of our study for the comparative capitalisms literature suggests that once a broad range of jurisdictions are incorporated into this perspective, one begins to observe the existence of non-complementarity between country-level institutions and firm-level governance mechanisms. The main streams of the comparative capitalisms literature (e.g., Hall & Soskice, 2001; Whitley, 2007) typically assume the existence of an "emblematic firm" (Boyer, 2005), which is a prevalent corporate form that is best adapted to benefit from opportunities provided by the particular institutional environment. In market economies the emblematic firm is the managerially controlled dispersed ownership form and in coordinated market economies it is a main bank-governed corporation. Our focus on the distinctive behavior of FCFs compared with N-FCFs points to the heterogeneity in the population of major publicly listed corporations across European jurisdiction. Furthermore, it highlights the theoretical and empirical insights that arise from a comparative governance literature that is alert to potentially unique advantages of certain types of firms and their characteristic ways of interacting with specific institutional conditions.

We suggest that future research on the efficacy of national corporate governance bundles should consider the effects of concentrated family ownership on factors such as firm competitive advantage, economic growth, and the subsequent development of national institutions. Research in the agency theory tradition on this latter point tends to view FCFs in a negative light, and is especially suspicious of coordinated action between FCFs and nonmarket actors (Morck, Wolfenzon, & Yeung, 2005), finding that FCFs have injurious effects on economic growth and the development of governance institutions (Fogel, 2006).

A contrasting view is found in the literature on the role of coordination between state and family-controlled business groups as a mechanism for fostering economic and social development in many regions of the world (Amsden, 1989; James, 2009; Schneider, 2009). Especially relevant in the context of the study is James' (2009) historical depiction of a European model of family capitalism in which elite German, French, and Italian families, closely intertwined with the political establishment, played a central role in the creation of continental Europe's s industrial capacity in the 19th and 20th centuries. In this perspective Anglo-Saxon market economies with their reliance on capital market oversight of managerially controlled firms represent an anomalous governance bundle. Nevertheless, it is an open question for future research to determine whether the continental European model of family capitalism depicted by James (2009) represents a more viable national governance bundle for the European transitional and eastern Mediterranean economies who are seeking to upgrade and enhance their industrial capacities.

ACKNOWLEDGEMENTS

Vanessa Strike acknowledges the support of the ERIM Early Career Talent Programme at the Rotterdam School of

Management, Erasmus University. Michael Carney and Stephen Sapp acknowledge the financial support of Canada's Social Science and Humanities Research Council.

NOTE

1. Other binary categorizations of corporate governance system include shareholders versus stakeholder models (Hansmann & Kraakman, 2000), and market versus bank centered systems of governance (Levine, 2002).

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