Chapter 6
The Role of Family Ownership in Survival and Bouncing Back: Good and Bad News?

María Iborra
https://orcid.org/0000-0001-7140-799X
University of Valencia, Spain

Vicente Safón
University of Valencia, Spain

Consuelo Dolz
University of Valencia, Spain

ABSTRACT

The latest global economic and financial crisis has been a litmus test for companies, especially for SMEs. These companies have had to demonstrate their ability to be resilient, surviving first and then recovering. This chapter studies the role of family ownership in the survival and recovery of SMEs during a stressful event. From a perspective based on the complementarity or substitutability of goals that family firms pursue, the authors propose that family ownership has a positive effect on survival but a negative effect on recovery. Furthermore, they propose that the risk of bankruptcy before a crisis moderates the relationship between family ownership and survival. Hypotheses have been tested with a dataset of 3,133 Spanish manufacturing MEs finding evidence for the positive role of family ownership in survival and for the moderating effect of previous bankruptcy risk. The empirical data confirms good news for family-owned firms.

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INTRODUCTION

Family-owned SMEs (small and medium-sized enterprises) account for a large part of the world economy. Thus, it seems logical that the effect of family ownership on different dimensions of firm performance remains a core area of research (Chua, Chrisman, De Massis & Wang, 2018; Dyer, 2018; Wagner, Block, Miller & Schwens, 2015) and that specific advances have been made to understand its role in SMEs (De Massis, Kotlar, Campopiano & Cassia, 2013). In this regard, several studies focus on how family ownership affects classical indicators of performance and highlight its positive effect on SME profitability, while its effects on other dimensions such as SME innovation or growth are far from being clearly positive.

However, during a threatening and stressful external event, such as the most recent world financial and economic crisis, new dimensions of performance have emerged as being relevant. Under this kind of pressure, whereas some firms survive and recover, demonstrating resilience, a large number of other SMEs disappear or are incapable of regaining their previous level of activity because they cannot adapt to the challenges of the environment (McGuinness, Hogan & Powell, 2018). In business and management research, resilience is a well-known area of interest (for reviews, see Linnenluecke, 2017; Williams et al. 2017). Throughout their existence, organizations are exposed to stressful disruptions, abrupt changes and extreme events – both internal and external – from which some firms are able to recover quickly, while for others it takes longer to bounce back, and some never recover and eventually disappear. Therefore, understanding which type of firms become resilient and how they do so is a relevant topic.

SMEs have particular difficulties or weaknesses when it comes to achieving resilience; first, because the strain and disruption caused by internal or external disturbances is greater for these firms than for large firms (Linnenluecke, 2017)[1]; and secondly, because they do not have complex and costly systems to prevent crises (Harries, McEwen & Wragg, 2018; van der Vegt, Essens, Walshtröm, & George, 2015).

Thus, in an SME context, the close relationship, involvement and position of family members in family-owned-firms can be crucial for decision making when dealing with a stressful external event. The researchers of this chapter argue that, during these events, in the case of SMEs, the characteristics related to family ownership shape the actions and behaviors of the firm; the authors of this manuscript base their arguments on the socioemotional wealth (SEW) theory. As Carney (2005) highlights, this form of governance implies that family owners enjoy certain control rights over the firm's assets and may use these rights to influence decision-making. Family research states that family firms consider both financial and emotional goals in their actions and behaviors. Following Chua et al. (2018), the authors of this chapter state that SMEs will benefit from family ownership when survival is at stake, because the financial and emotional goals of the family-owned firm become complementary; however, when focusing on recovery, both goals (financial and emotional) may have a substitute relationship, and a negative effect can be expected from family ownership.

This study makes several contributions. First, it contributes to family firm research by offering a theoretical explanation for the complementary and substitute effect between financial and non-financial family goals proposed by Chua et al. (2018) in a context of financial and economic crisis, providing strong empirical support for the complementary effect. Second, this research contributes to the growing literature on organizational resilience by investigating its antecedents, a topic that demands researchers' attention (Linnenluecke, 2017), in particular, the role of SMEs' family ownership in resilience (survival and recovery).

In the next section, the literature is reviewed and hypotheses are presented. The authors examine the relationship of family ownership with survival and recovering in SMEs under an economic and financial