TO REAP OR TO SOW?
GOVERNANCE, STRATEGY AND PERFORMANCE
IN FAMILY VERSUS FOUNDER BUSINESSES

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Abstract

Corporate governance can have a profound impact on business conduct and performance. It may influence whether a business will be managed to sow value for all shareholders or to reap utility for only some. We argue that certain types of family businesses are especially prone to utility maximizing because many family owners divide their loyalties between the business and their family. This may result in harvest strategies and modest growth and returns. By contrast, businesses closely held by lone or *unrelated* founders are unencumbered by family distractions. They are argued to align owner incentives and capabilities with business value maximization. This results in growth strategies and superior growth and returns. The present research compares family- and founder firms to other businesses in the Fortune 1000. It finds family businesses in general and second generation family businesses in particular to embrace harvest strategies and perform modestly. Founder businesses, by contrast, pursue growth strategies and outperform in growth and returns.

KEYWORDS: Corporate governance, strategy, performance, family firms

Corporate governance and type of ownership can affect strategy. Businesses in which ownership is personal or concentrated are said to be quite different from those owned only by remote and diffuse shareholders, not only in conduct but also performance (Demsetz, 1988; Jensen & Meckling, 1976). Indeed, there has been abundant empirical research on the performance implications of ownership in general (Morck, Shleifer & Vishny, 1988), and family business ownership in particular (Anderson & Reeb, 2003; Maury, 2006; Villalonga & Amit, 2006). Much has been made, in this work, of the differences in owner-manager agency costs between widely held and tightly held companies (Ang, Cole & Lin, 2000; Jensen & Meckling, 1976). It has been argued that in the former, managers can use their superior information to exploit small shareholders, whereas in the latter, large owners have the incentive, knowledge and power to monitor managers effectively and thus outperform financially (Shleifer & Vishny, 1997). It has also been argued, however, that major owners may neglect smaller ones and favor parochial agendas that limit firm performance (Demsetz, 1983; Morck, Wolfenzon & Yeung, 2005). *This paper will maintain that because major owners differ in their affiliations, and thus their motives and constraints, the strategy and performance of their businesses will also vary*. It will study Fortune 1000 companies, examining family businesses and those with unrelated founders, and comparing each of these categories to widely held firms.

Because of their kinship ties, major *family* owners, under certain circumstances, are expected to cater to the satisfaction or “utility” of family members -- to the possible detriment of the business. The primary strategic evidence of this may be in *harvest* strategies (Porter, 1980) that neglect investment in the business, eschew risk and market development, and extract generous dividends. This strategy may make superior performance unlikely. By contrast, firms in which the founders are alone or unrelated to one another or to other corporate executives -- we call these founder businesses -- will be argued to have a greater incentive and capacity to pursue value maximization for all shareholders. This initiative may take the form of *growth* strategies characterized by profound investment in the products, capabilities and markets of the business (Kirzner, 1979). The result is expected to be superior revenue and share appreciation, albeit with greater risk.

Scope and Contributions

Although corporate governance structures have been viewed mostly from an economic orientation, we believe a social perspective can add insight (Granovetter, 1985; Uzzi, 1996). Specifically, we will attempt to relate the kinship affiliations of founder and principal owners and officers to the strategies and performance of their firms. Notwithstanding useful conceptual work in the area (e.g. Grassby, 2001; James, 2006), rigorous studies of foreign family firms (e.g. Claessens et al., 2002; Gomez-Mejia et al., 2006), and performance studies of public family companies (Anderson & Reeb, 2003; Villalonga & Amit, 2006), systematic research is lacking on the governance-strategy relationship within major American family firms [1].

Furthermore, all previous empirical research that has been done on U.S. public firms has treated as "family" businesses all firms in which there are large personal bloc holders or founders (Anderson & Reeb, 2003; Holderness & Sheehan, 1988; McConnaughy et al., 1998; Villalonga & Amit, 2006). Although most of those studies distinguish between founding and other generations, *none* have made the most basic, and to us the most important distinction, even within founder businesses: namely that between firms having *multiple members of the same family* involved contemporaneously or as descendents as founders, major (>5%) owners, or owner-executives, versus firms having only a single founder present or *unrelated* founders – i.e. those with no relatives as owners or officers of the firm.

This distinction is fundamental to our thesis that the former, due to the family connections of major owners and executives, will often favor family utility maximization via harvest strategies, whereas the latter will favor shareholder value maximization through growth strategies. Unlike prior research (e.g. Anderson & Reeb, 2003; McConnaughy et al., 1998; Villalonga & Amit, 2006; Weber, 2003), we will argue that it is *not* family "founder" or first generation businesses that outperform or maximize shareholder value; rather it is businesses with one or more

[1] Although family enterprises account for over 35% of the Fortune 500, and constitute the vast majority of smaller businesses worldwide, they are examined in less than 1% of the articles in the leading management journals (Dyer, 2003). Moreover, most those articles are conceptual, anecdotal or based on highly subjective data. This intensive four year research effort has gathered data on governance, firm conduct, and performance that are objective.

unrelated founders. [2] In all cases, our comparison group will be other large public companies not closely held by families or unrelated individuals.

Finally, unlike most family business research which focuses on small family firms (e.g. Miller, Le Breton-Miller & Scholnick, 2007) or on large firms in developing or poorly regulated economies (e.g. Claessens et al., 2002), this research studies the largest 1000 U.S. publicly traded companies (revenues of $250mm to $260bln), firms that confront exacting reporting requirements, diligent oversight from regulatory agencies, and a transparent financial market. Although utility maximizing behavior of family dynasties has been documented in developing countries and those with entrenched, politically connected corporate elites (Claessens et al., 2002; Morck, Strangeland & Yeung, 2000; Morck, Wolfenzon & Yeung, 2005), such behavior has not been studied in U.S. markets where the exploitation of minority shareholders is expected to be far more difficult, and social explanations of economic and strategic conduct must withstand their toughest test.

To Reap or to Sow

In many cases, family business owners will share close emotional ties with other family participants in the business, and may be more influenced by such affiliations with family members than by relationships with other business stakeholders (Gersick et al., 1997). As a result, business policies and strategies may be colored by family traditions, needs, conflicts, and parochial altruism (James, 2006; Schulze et al., 2003). We shall argue that these influences may drive some family owners and managers towards maximizing utility for the family, rather than maximizing value for the firm. The former may take the form of "harvest" strategies characterized by inferior investment, aversion to debt, and generous dividends (Porter, 1980: 267-274). Such strategies are only modestly taxing of family finances and competencies, cater to risk aversion, and minimize controversial initiatives. The result, however, may be an inability to

[2] The distinction between family and unrelated major-owner businesses also may help to reconcile the conflicting findings between important studies such as Anderson & Reeb (2003), McConnaughy et al. (2001), and Villalonga & Amit (2006), which find some types of family businesses to outperform, and studies by Bennedsen et al. (2007), Perez-Gonzalez (2006), and Miller et al. (2007) which find family businesses to be mediocre or poor performers. The former studies incorporate unrelated-owner businesses such as Microsoft, Inc. in their family or first generation family samples, the latter do not.

attain the superior rates of revenue and share-price growth often attributed to these businesses (c.f. Anderson & Reeb, 2003; Weber et al., 2003).

By contrast, businesses founded or bought by lone or unrelated persons are not subject to family pressures: they are more at liberty to pursue value maximization via strategies of growth. Their owners' incentives will align with the economic performance and growing value of their business: as the firm grows and thrives, so do owners' fortunes, prestige, and chance to sell the firm at handsome prices (Kirzner, 1979). Significant ownership allows owners to resist anti-investment pressures from impatient shareholders, and enables them to reduce the free-rider agency costs that beset many widely held corporations (Jensen & Meckling, 1976; Shleifer & Vishny, 1997). Moreover, their business knowledge reduces uncertainty, making more practical a strategy that invests in venturesome and farsighted initiatives and is conducive to superior growth and shareholder returns (Covin & Slevin, 1998; Hofer & Schendel, 1978).

Table 1 posits tendencies among family and founder businesses along several dimensions: owners' affiliations, motives and rationales, constraints on executive action, and strategies and performance outcomes -- the latter two concerns being the subjects of our hypotheses. Significant differences are expected between family and founder firms in all of these spheres, and among different types of family businesses as well.

Insert Table 1 about here

Family Businesses: Affiliations, Motives, and Strategies

Owner Affiliations and Relationships. Families constitute the primary social group in which ties are longstanding, intimate, and emotion-laden, and encompass many activities and roles (Putnam, 2000; Arregle et al., 2007). Family relationships can engender love, loyalty, and deep commitment (Bourdieu, 1980). They also can elicit behavior that is insular and exclusionary, and that discriminates in favor of the kinship "in-group" at the expense of a broader community (Putnam, 2000: 22-24). As ties among close family members are generally strong, they may take precedence over weaker ties with "outsiders" such as business stakeholders (Granovetter, 1973).

This may be most true when family owners are influential and interact with CEOs who are beholden to them or susceptible to their influence. Then, major decision makers may be propelled by a family agenda, and economic objectives can be superseded by parochial social purposes (Schulze et al., 2001). For example, a second generation CEO who owes his job to the family may be enlisted to serve narrow family interests by a parent with moral authority or an influential sibling who is a major shareholder. [3]

Owner Motives and Rationales. Social affiliations affect motives (Coleman, 1990; Granovetter, 1985; Putnam, 2000). Family owners and family-dependent executives may confound family and business interests for both sentimental and practical reasons. First, they often want to aid their relatives, acting with altruism and providing rewards from the business to help their economic and social situations (Bubolz, 2002; Schulze at al., 2003). These rewards may include secure, high-status positions (Volpin, 2002), as well as generous benefits and dividends (Morck, Wolfeszon & Yeung, 2005). Such nepotism and generosity are natural given the intimate social ties among family members and the resulting sense of loyalty and obligation (Arregle et al., 2007; Gomez-Mejia et al., 2006; Putnam, 2000).

A more practical reason for incorporating parochial family interests in business decisions is the desire to avoid or defuse family conflicts that might hobble the firm (Anderson & Reeb, 2004; Schulze et al., 2004). In some companies, powerful family owners can stymie action if their interests are neglected, and may require appeasement with financial and vocational rewards (Claessens et al., 2002; Perez-Gonzalez, 2007).

Constraints. The family affiliations and emotional ties that exist for many leaders and owners of family businesses may limit their ability to act. Executives of family enterprises may be forced to deal with other family owners who can form influential coalitions. This interaction may be conducive to stagnation when relatives fight for control, dividends, or jobs for themselves or their children (Gersick et al., 1997, Schulze et al.,2003). Longstanding grudges may make these conflicts especially hard to resolve and can limit executive action (Kets deVries & Miller, 1984).

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[3] FN By contrast, susceptibility to such family pressures may be lower for a family founder who has fewer relatives in the business or enjoys the status, power, allies, or shares to resist their demands.

Family sentiment and a sense of obligation also can limit economic options. Family executives may decide to honor the traditions and relationships of the business's founders, and thereby mire themselves in outdated approaches (James, 2006; Miller & Le Breton-Miller, 2005). An added constraint is that some family leaders will resist initiatives that might jeopardize family control. This reaction may arise from personal or family identities which are deeply tied to the business (Ward, 2005). Finally, the concentration of family wealth in a single business encourages risk aversion (Gomez-Mejia et al., 2006). Thus risky funding and investment initiatives are avoided.

Strategy. The affiliations, motives, and constraints of family business owners and leaders can shape strategic behavior (Bertrand & Schoar, 2006). As we have seen, the family business agenda might foster nepotism, require assets to be drawn from the business, and combat risk taking and strategic initiative. The resulting limitations to executive competencies, resources and actions, respectively, may drive companies towards a harvest strategy (Porter, 1980: 267-274). Business resources, for example, may go to paying out generous dividends to please family owners. Significant borrowing may be restricted to reduce risk. Indeed, it has been argued that the mere presence of family ownership signals to investors possibilities of managerial entrenchment, thereby increasing the cost of capital (Shleifer & Wolfenzon, 2002; Stulz, 1988). Such costs, coupled with risk aversion, may discourage uncertain long-term investments in R&D, market development, and capital infrastructure (Chandler, 1990; Chadeau, 1993). Sluggish revenue and share price growth are the likely results.

Founder Businesses

Founder businesses are expected to be quite different from most family businesses in the affiliations of their founders or buyers, and therefore in their motives, constraints and strategy. We should say again that previous research has counted these founder businesses as family businesses simply because they have a founder or major personal shareholder present (e.g. Anderson & Reeb, 2003; McConnaughy et al., 1999; Villalonga & Amit, 2006; Weber et al., 2003). But we expect the behavior of these companies to differ not only from second generation family businesses, but even from those in which the family founder is present as CEO.

Owner Affiliations and Relationships. Family business affiliations play no role in founder businesses. Unrelated founders are free to pursue their economic ends without having to please family members searching for wealth or privilege. For them, the business and its economic stakeholders can be the focus, and so affiliations are more apt to be with lenders, investors, employees, clients, suppliers and even the broader community. Such relationships are more multifaceted, less driven by emotion, and more economically motivated than family ties (Putnam, 2000). They are the kinds of bridging, as opposed to bonding, relationships that present new ideas and inform about the opportunities and challenges of the business (Uzzi, 1996).

Owner Motives. One of the core motivations of unrelated founders is to build up the business. This has been a common theme in the entrepreneurship literature since Schumpeter's (1934) classic work. The more the firm thrives, the more significant the wealth and reputation of the owner (Kirzner, 1979; Wiklund et al., 2001). The agency literature too has pointed to the alignment of major owner incentives with business value maximization (Jensen & Meckling, 1976). Where such owners are influential and knowledgeable about their enterprises, as is true of many founder firms, the business is said to benefit from lower agency costs and more responsible management. These benefits are less likely in widely held public companies run by managers motivated by short term incentives. Nor are they apt to accrue to family businesses in which parochial agendas hold sway over broader economic purpose (Schulze et al., 2003).

Strategy: Given the economic focus of most founders, and the clear alignment of their financial and psychic rewards with the long term economic prospects of the business, we believe that they will prefer a growth strategy to one of harvest. Founders are free from both family loyalties and constraints, and from the pressures for quarterly results faced by executives of widely held corporations (Hitt et al., 2001). Thus they can pursue longer term growth objectives and strategies that invest generously in the future through far-sighted commitments to R&D, market development and capital projects (Covin & Slevin, 1998; 2001; Hofer & Schendel, 1978). These investments may be funded by borrowing, avoiding dividends, and accumulating liquid assets to seize opportunities (Miller, 1983). Anticipated results are superior growth in revenues and share prices, but higher levels of market risk (Kirzner, 1979).

Building on the arguments above, the next sections of the paper will develop hypotheses regarding the corporate conduct and performance of family and founder businesses, respectively.

Family Business

A Harvest Strategy

Harvest strategies are described in the classical strategy literature (Henderson, 1979; Harrigan & Porter, 1983; Porter, 1980: 267-274). Their emphasis is to reap from the business rather than to grow it, sometimes in anticipation of sale, sometimes to regularly transfer accumulating assets of the company to its owners. The strategy literature proposes several components of a harvest strategy, and we have already alluded to some of these. First there is a reluctance to invest deeply in the business, especially in speculative initiatives that are long term and are uncertain (Bertrand & Schoar, 2006). These investments represent significant risk, take long to pay off, and thus may deprive the family of current income. Typical investments in this category are research and development, market development, promotion and advertising, and long term capital expenditures. Another feature of harvest strategies is an avoidance of debt (Mishra & McConnaughy, 1999). Debt poses risk and would be unnecessary given the modest investments in the business. Moreover, it is apt be expensive given the higher cost of capital of many family businesses. Dividends are expected to be superior as they are affordable in the absence of significant investment initiatives and interest charges. Finally, harvest strategies minimize cash holdings (Dreux, 1990). War chests are not needed given the conservative business plans, and having too much cash might attract corporate raiders.

Harvest strategies might be uniquely appealing to some family business owners as they reduce competency demands, minimize risk, and place more ample resources at the disposal of the family. Thus they keep family members feeling secure and rewarded, and thereby prevent conflicts with the top managers of the firm. More specifically, harvest strategies avoid risky initiatives that might disturb family owners who have so much of their fortune invested in a single firm (Dreux, 1990; Mishra & McConnaughy, 1999). Strategic conservatism also is more apt to preserve valued family-firm traditions (James, 2006). Moreover, Spartan liquid asset profiles lessen the chances of hostile takeovers that might otherwise be induced by low levels of debt. In additions, generous dividends may please family owners who are not active in the business. Finally, the steady performance for which a harvest strategy is designed should minimize chances of losses, a boon for families with an eye to security.

H1-1: Family businesses are more apt to embrace harvest strategies than other businesses

There is no consensus in the literature for this hypothesis. Some family business scholars contend that family owners are concerned with firm longevity to sustain wealth and secure career opportunities for future generations, and thus invest especially generously. Indeed, James (2006), Kang (1998), Miller & Le Breton-Miller (2005) and Weber et al. (2003) all maintain that family businesses exceed their competition in making long term investments to build infrastructure and pursue product and market development. But some of these studies are anecdotal (James, 2006; Miller & Le Breton-Miller, 2006). Others analyze privately held businesses or combine them with publicly traded firms. The question of whether family businesses favor growth and renewal or harvest is very much an open one.

Mediocre but Stable Performance

A harvest strategy may limit performance (Miller et al., 2007). If indeed family firms draw resources from and reduce investment in the business, are risk averse, and eschew product and market research and development, they may be constrained in their ability to outperform in revenue growth and total returns to shareholders. Corporations only grow when they can keep improving their products and offerings, and deepening their competencies (Ansoff, 1965; Hofer & Schendel, 1978). This requires investment in new products and processes and in broaching new markets or more deeply penetrating existing ones. Harvest strategies deprive firms of these investments. Moreover, avoidance of financial leverage, modest liquid asset positions, and extraction of funds via dividends, all leave firms without the wherewithal to develop or expand the business. Lackluster growth in both revenues and shareholder returns are the likely outcomes.

There is one potential advantage to a harvest strategy: A conservative posture avoids risky investments in growth and new products and capabilities, thereby making performance more predictable and diminishing idiosyncratic fluctuations in share prices.

H1-2: Family businesses will fail to exhibit superior performance in growth and total shareholder returns, but will benefit from lower idiosyncratic stock price fluctuations.

Recent research on S&P 500 and Fortune 500 family businesses contradicts H1-2. It concludes that family businesses, especially in the first generation, outperform their peers along numerous measures, including return on assets, total shareholder returns, growth, and market valuations (Anderson & Reeb, 2003; Villalonga & Amit, 2006; Weber et al. 2003). Unfortunately, as noted, all prior empirical studies of public U.S. family businesses confound family and founder businesses. That is, they combine those with single or unrelated founders or owners with those having multiple founders, owners or managers from the same family. Our arguments concerning family priorities and constraints apply to the latter, but not at all to the former. Thus prior findings of family business out-performance, even during the first generation, are expected to derive only from the founder businesses in the sample, not the family businesses. We shall be putting that argument to the test.

Qualifying Conditions: Generational Effects and Family Executives

Family Generation. We have argued that family business owners' or managers' conduct and performance will reflect their family ties. Some family business actors, however, are far more deeply -- or quite differently – linked to the family and to the business than others. Family ties of owners and executives increase as relatives beyond the first generation become involved in the company. Over time, brothers, offspring, cousins, and in-laws may connect with the firm as shareholders, directors and executives (Gersick et al., 1997; Ward, 2006). This trend increases the potential for problems of family conflict, nepotism, and resource demands. Parent-sibling relationships may come into play in the business -- affiliations often colored by altruism and psychological tensions (Kets de Vries, 1996; Kets de Vries & Miller, 1984). Indeed, if, as we have argued, having multiple family members involved in a business establishes a different social context than simply having unrelated or lone founders or buyers, then a forteriori, that family context will become more demanding as new generations with emotional bonds to the old and to each other enter the business (Schulze et al., 2003). Conditions are thus ripe for the pursuit of harvest strategies that throw off ample resources for the family, and are so conservative as to avoid conflict and place few demands on family executive talent.

By contrast, conditions are apt to be less constraining in the first generation where there are normally fewer family members in the business, and those typically of the same generation (Gersick et al. 1997; Lansberg, 1999). More importantly, first generation businesses have present their founders or primary builders. Given their strong connection with the business and its growth, these individuals are generally quite caring of its well being, and less at the mercy of the whims of the family (see H1-4 below). They may be more predisposed to invest in the firm rather than merely harvest from it.

H1-3: Hypotheses 1-1 and 1-2 are more likely to be supported in second generation family businesses than in first generation family businesses.

Family Leaders. The role played by family actors also may condition our hypotheses. Compared to most passive family shareholders, a family CEO tends to be in closer touch with, more devoted to, and more knowledgeable about the business. Often, he or she has the prestige and power in the family to deflect parochial family demands. A typical family executive also is in regular contact with non-family stakeholders -- and is more able than passive owners to represent their opinions and interests. Frequent contact with customers, suppliers, managers, and even shareholders and rivals may reveal important business challenges and opportunities. It may be too that institutional influences are most likely to impinge on practicing executives than on passive owners. It is those executives, after all, whose responsibility and accountability to non-family owners require them to legitimate their actions through mimetic competitive behavior that is more consistent with market requirements than with family whims (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). For all of these reasons the drive to embrace a harvest strategy may be less prevalent.

The above arguments are especially apt to apply when the family business founder is still in charge of the firm. The family status, personal prestige, confidence and business knowledge of that person is likely to be greater than that of any later generation CEOs who owe their positions to nepotism or family influence (Gersick et al., 1997; Lansberg, 1999; Le Breton-Miller, Miller & Steier, 2004). Given that family founder CEOs have demonstrated the character, capabilities and business relationships to succeed as entrepreneurs, they may continue to favor growth over harvest. Of course, even these executives have other family owners or officers to contend with, and so are not as able as founders to pursue a course that is without social consideration.

H1-4a: Hypotheses H1-1 and H1-2 are less apt to be supported when family owners serve as CEOs. H1-4b: This is especially true if a family member is present as a founder CEO.

Founder Firms

A Strategy of Growth

Businesses with lone or unrelated founders will not be distracted by family pressures for utility maximization. For them, value maximization is apt to be more likely, not only vis-à-vis family businesses, but also vis-à-vis widely-held businesses that face higher owner-manager agency costs, and are more susceptible to pressure from shareholders with truncated time horizons (Jensen & Meckling, 1976). Founders have a significant investment in and attachment to the firm. Their emotional and financial incentives and therefore their objectives are geared towards growing the company, not reaping dividends (Shleifer & Vishny, 1997).

A classic growth strategy has two essential components – long term investment and the financing of that investment (Ansoff, 1965; Hofer & Schendel, 1978). Investments fall into three major categories: new products and technologies, market development, and capital infrastructure (Covin & Slevin, 1998; 2001; Miller, 1988). These are reflected in superior expenditures on research and development, promotion and advertising, and capital equipment, respectively. Such investments facilitate not only the growth of a firm but the renewal and enhancement of its offerings and competitive position (Davidsson, Delmar & Wiklund, 2002; Hitt et al., 2001). Of course the exact nature of the investment a given firm makes will depend on its business strategy; for example, innovative leadership may demand ample R&D while brand leadership may put a premium on promotion. We expect, however, that on average, founder businesses will be superior along all these measures. These predictions are opposite those drawn for family businesses, and to the orientation of the harvest strategy.

Superior investment requires funding and this may come from a number of sources. The first is simply from keeping funds in the business by not paying generous dividends. It is suggested that growth firms should reduce their dividends and use the money saved to invest in the business (Hofer & Schendel, 1978; Porter, 1980). Another major source of funds is debt financing. Where the business does not throw off enough cash to finance expansion, it will likely embrace debt financing. Although family businesses were argued to be risk averse in this regard, founder businesses will be less encumbered in taking on debt (Davidsson, Delmar & Wiklund, 2002; Kirzner, 1979; Wiklund, 1999). Finally, businesses on the lookout for growth opportunities, especially relating to acquisitions, will tend to build up war-chests of liquid assets (Hitt et al., 2001). Again the orientation is opposite to that predicted for family businesses and opposite to the orientation of the harvest strategy.

There are a number of reasons why unrelated founders embrace a growth strategy. First it enables them to build up capital: as the business grows, their capital and often their status and personal fulfillment tend to grow, sometimes disproportionately (Ang, Cole & Lin, 2000; Hayek, 1948; Mises, 1949). Moreover, the objective is usually long term growth as large shareholdings are difficult to liquidate. Furthermore, compared to constrained family business executives and those of widely held companies, founders' power as major owners gives them an ability to embrace growth. Growth requires investment in uncertain, farsighted initiatives, such as research, new market development, and venturesome financing. Founders often have the discretion to undertake such risks even in the face of the fears of other shareholders who may wish more lock-step returns (James, 2006). Growth, moreover, benefits from social capital in the form of relationships with investors, employees and customers (Uzzi, 1996). Many founders have had the time, discretion, and status to develop these relationships (Macmillan & McGrath, 1999). Finally, whereas growth strategies do pose risk, we believe that founder businesses are often in an advantageous position to bear it. Their deep knowledge of the business reduces decision making uncertainty, providing the confidence to make changes and extend time horizons.

H2-1: Founder firms will be more likely than other organizations to pursue growth strategies.

If indeed founder firms do focus on building their businesses, taking risks, and investing for the future, this should be reflected in their performance. Rapid growth is apt to be more common, as are higher total shareholder returns and concomitantly higher levels of idiosyncratic performance fluctuation ("unsystematic risk"). Lower agency costs will contribute to higher returns (Anderson & Reeb, 2003; Maury, 2006), as will the undivided priorities of the owners which are aligned towards economic rather than parochial social ends. Share price risks, however, will be elevated due to the venturesome initiatives that must be undertaken to achieve superior growth (Kirzner, 1979).

H2-2: Founder businesses will experience faster growth, higher shareholder returns, and higher levels of unsystematic share price risk.

Method

Sample

Our sample consisted of the *Fortune* 1000 (500 industrials and 500 service firms). We analyzed data on 898 companies due to our restricting the sample to firms with publicly accessible data for the years 1996 to 2000. For our correlation table we used five year averages of all variables and include only firms whose governance status did not change during that 5 year period. For our time series analyses we used the five years of annual data.

Variables and Sources of Data

Variables were measured at two levels and in two phases. We first compiled data on individual officers and directors, 5% blockholders, and large institutional investors. Information on share ownership, vote control, family and unrelated founder positions, use of supershares, etc. were obtained from at least three sources for each company: Compact Disclosure, individual proxies (which were the primary and definitive source of data), Hoover's, and company web-sites. Where the proxies contained insufficient information on the familial relationships between board members and managers, or officers' relationships with the founder, we approached companies directly. Data gathering from proxies was conducted by a team of five research assistants and three of the authors who worked on gathering the data for almost two years. Because some families controlled firms via their ownership of banks or other organizations, and because of the name changes brought about by marriage, two weeks of training were required to get each research assistant up to speed in coding the proxies, and constant supervision was exercised to ensure accuracy. It usually took more than four hours to code a single business.

Consistent with Anderson & Reeb (2003), Maury (2006) and Villalonga & Amit (2006), we took as the focal family the one with the most votes. In totalling family shareholdings, we included shares of co-trustees of family trusts who were directly employed by the family. However, whereas previous researchers (e.g. Anderson & Reeb, 2003; Maury, 2006; Villalonga & Amit, 2006) consider firms such as Microsoft and Amazon as first generation family businesses, we do not consider them such since there is no family involvement. Rather we classify them as founder (i.e. unrelated-founder) businesses. By contrast, firms such as Comcast and Qualcomm are considered family businesses in this study as there are multiple members of the Roberts and Jacobs families, respectively, serving as major owners or officers.

Founders either were firm founders or, in a few cases, individuals who bought the firm through leveraged buyouts. These individuals had no relatives involved as officers, directors or owners of the company. Large, non-institutional shareholders, however, were not considered founders or major owners if they accumulated their shares through compensation. Nor were large mutual fund companies such as Fidelity or Vanguard or venture capital funds that controlled large blocks of shares.

Data on individuals were aggregated to the firm level, at which we could also collect information on strategy, governance and market performance. Accounting data are drawn from COMPUSTAT, and market performance data were obtained from the Center for Research on Security Prices (CRSP). Our variables are listed and defined in Table 2, along with their sources; Descriptive statistics are presented in Table 3.

Our key distinction is between (unrelated) founder businesses and family businesses. Thus our first operationalizations are dummy variables assessing whether firms falls into the UB, FB or other category: in other words, whether a firm has 1) a single or several unrelated owners who are founders and also officers, directors or >5% owners, 2) *multiple* members from the same family who are officers, directors or >5% owners, contemporaneously or as descendents, or 3) neither -- the comparison category for our analyses. Major ownership is signalled in the proxies only when an individual owns more than 5% of the company. Additional dummy variables assessed whether a lone or unrelated owners, or a group of family members, respectively, were a) the biggest shareholders, or b) served as CEOs. Finally, for family businesses, we also distinguished founding- from later family generations. In all instances the comparison sample were other firms on the *Fortune* 1000.

Insert Tables 2 and 3 about here

Models

Dependent Variables. Our composite strategy variables are harvest and growth, which are opposite sides of the same coin: they comprise the same component variables, but with opposite polarities – high investment vs. low investment, etc. As noted, these components are derived from the classic strategy literature. Hofer & Schendel's summary (1978) characterizes growth strategies according to their superior investments in products, markets and processes, hence more R&D, promotion and investment in capital equipment. Funding is typically external, through debt, or internal, via cash generation and curtailment of dividends. Porter (1980) characterizes harvest strategies in an opposite manner – as designed to shrink product and market scope, and thereby reduce R&D and market development expenditures and capital investments. Financial leverage and cash build-ups are deemed unnecessary, and resources can be extracted from the business in the form of dividends.

We assessed the Harvest/Growth Strategy composite according to R&D / sales, advertising / sales, capital expenditures / property, plant and equipment, financial leverage (debt / debt + equity), cash (cash + liquid assets / property, plant and equipment), and dividends / earnings. Given the anticipated negative relationship between dividends and the other components, that last variable was subtracted. There were few missing values for most variables, except for advertising and R&D. Here, missing values were coded as 0, as firms were required by law to report these expenditures wherever they were significant. All variables were assessed for skewness and kurtosis, and where necessary were either log transformed and/or their outliers were converted to their respective variable's 99^{th} or 1^{st} percentile, as appropriate. Before logging, any 0 scores were converted to 0.0001. All variables were standardized before being summed for inclusion into the harvest/ growth measure.

As strategy composites were derived from theory rather than empirically, their statistical properties were evaluated. All component variables correlated as expected with all the others, except for leverage. The inter-item correlation alpha for the harvest/growth composite was 0.46 without leverage and 0.30 with it; these coefficients are deemed acceptable for any broad construct with conceptually distinct terms (Van de Ven & Ferry, 1981: 79-81). All models of Table 4 were estimated with and without incorporating the leverage component into the strategy measure. Findings were almost identical under both conditions. Therefore Table 4 presents models for the full strategy composite because of the importance of leverage to the harvest and growth themes. However, given the breadth of the strategy composite, we also present summary results for each of its components in Tables 6a and 6b, based on models incorporating the same control variables as in Table 4.

Performance hypotheses were assessed with distinct variables to reflect growth in revenues, profitability and risk in returns. These variables were annual revenue growth, total returns to shareholders, and unsystematic risk. The variables are defined on Table 2.

Predictor Variables: As predictors we used each of the previously defined dummy indicators of founder and family ownership and management. To test hypotheses H1-1, H1-2, H2-1 and H2-2 we used the family firm and founder firm dummy variables which compare each of these categories to the other *Fortune* 1000 firms. We also employed a finer cut dummy to indicate only firms in which the family or the unrelated founders were the *largest* shareholders in the firm. In order to test H1-3 we differentiated family firms according to generation. Finally, to test H1-4, we selected only family firms a) run by family CEOs, and b) run by family founders.

Control Variables. Strategy may well be a function of the industry the firm is in, as well as its age and size. For example, harvest strategies may be more common in stable industries, among larger firms, and in older businesses (Porter, 1980). For growth strategies, the opposite is apt to be the case (Miller, 1983). Thus each of our models using strategy as a dependent variable control for these factors: namely industry at the 2-digit SIC level, firm age, and the natural log of sales. The models controlled as well for a number of potentially important governance factors. These included the presence of inside directors and of major (5%) non-family or non-unrelated founder block-holders, either of whom might bring a business as opposed to a family perspective to the board (Shleifer & Vishny, 1997). We also controlled for the use of special voting shares ("supershares") which would augment family or founder control without corresponding ownership (Maury, 2006; Morck, Wolfenszon & Yeung, 2005). Finally, we incorporated the beta – or the firm's market risk, which might well favour growth as opposed to harvest orientations. Following Anderson & Reeb (2003) and Villalonga & Amit (2006), our models assessing performance hypotheses H1-2 and H2-2 control for the above variables as well as two others: capital investment / property, plant and equipment, and debt / equity.

Analyses and Robustness

Tables 4 and 5 present our time-series cross-sectional findings, reporting results from generalized estimating equation models (Liang & Zeger, 1986; Zeger, Liang & Albert, 1988). We employed autoregressive random effects panel models incorporating robust Huber-White sandwich variance estimators (Stata 8.0 XTGEE routines were used). Correlograms determined first order autocorrelation adjustments to be adequate. All models were statistically significant at beyond the 0.0001 level.

To establish the robustness of the time series findings of Tables 4 and 5, we ran parallel OLS models using 5 year averages of the same variables. (Fixed effects models were inappropriate given the stability of our governance predictors over the 5-year period of analysis). The OLS models incorporate only firms whose ownership status did not change over the 5 years of data. These analyses are available from the authors. Of the 18 cases on Tables 4 and 5, where hypothesized coefficients were significant in the predicted direction for the panel analyses, 17 were also significant in the predicted directions for the OLS analyses (the exception was unsystematic risk which was not shown to be significantly higher in a single instance for the founder firms – the t statistic was 1.60).

Selection bias and endogeneity may arise in examining the relationships between governance and performance. Not only may governance influence performance, good or poor performance might also cause a change in governance, the sale by a family or founder of the business, for example. Thus, following Greene (2003: pp. 787-790, and personal communication) we checked and controlled for endogeneity in our analyses using Heckman two-step treatment effect regressions for all our indicators of founder- and family-ownership and management. The first stage of the procedure is a probit analysis that regresses the firm governance dummies against variables that distinguish among founder-, family-, and other businesses. Following Miller et al. (2007) and Villalonga & Amit (2006), these predictor variables include supershares, firm age, sales growth, unsystematic risk, debt to equity, 2-digit SIC dummies, and the average age of directors. To establish robustness we varied the predictors for the probit analyses by dropping director age, growth and unsystematic risk. This did not significantly change the results. The second stage of the Heckman procedure regresses our dependent variables on the predicted values from the first stage, adjusting all errors for the two stage estimation process. Tables 6a and 6b summarize these findings, which are most consistent with the panel and OLS results (the detailed analyses are available from the authors).

A number of further measures were employed to establish the robustness of our findings. Multiple indicators for ownership and management were reported. However we also ran all analyses for the Chairman and CEO-Chairman positions. But these were so close to the CEO results we report that we refrain from presenting them. We also systematically varied our sets of control variables: specifically, investment, beta, and supershares individually were added to /deleted from our models with no material changes in results. Finally, we ran models for each individual component of our strategy composite, using the same control variables as on Table 4. The results are summarized on Tables 6a and 6b, and show significant convergence. In summary, the majority our findings were consistent across different sets control and component variables, and across different types of analyses (cross-sectional, panel and treatment regressions). Any material differences are reported in our results and discussed.

Findings

Tables 4 and 5 present our major findings, the first for strategy, the second for performance. The coefficients reported are from time-series cross-section regressions (random effects models with robust standard errors). The column headings specify the dependent variables, and the rows of the first column specify the predictor and control variables. SIC dummy variables were suppressed to save space.

Tables 6a and 6b summarize our robustness and endogeneity tests. They present the findings for each of the components of the growth strategy dimension (R&D, investment, dividends, etc). They also summarize the results from our Heckman two-step procedure to assess any potential problems of endogeneity. In all cases, the Heckman analyses strengthened findings in the direction of the hypotheses.

Insert Tables 4, 5 and 6 about here

Family Business Findings

H1-1: Model 1 of Table 4a shows that overall, family businesses are more apt than the comparison group of other *Fortune* 1000 firms to pursue a harvest strategy (as indicated by the negative coefficient for the harvest-growth dependent variable). When, for Model 2 of Table 4a, we increased the hurdle for defining family businesses to require the family to be the largest shareholders in the firm, the results remained equally strong. Table 6a, rows 2 to 7, summarize the results for the *disaggregated components* of the harvest strategy. It suggests that unusually generous dividends, reduced financial leverage, and less R&D and advertising expenditures were unusually common among family firms; whereas low levels of cash and investment were less in evidence. Overall, family businesses appear to favor harvest over growth.

H1-2: According to Models 1 and 2 of Table 5a, and as expected, family firms did not outperform other *Fortune* 1000 firms in total shareholder returns or growth. However, nor did they, for the most part, under-perform significantly, perhaps due to the reduced owner-manager agency costs and lower monitoring costs of concentrated enterprises. Our prediction of reduced unsystematic stock price risk was not supported in Model 3 of Table 5a, but only by the Heckman analyses (Table 6a, row 10). It thus remains unconfirmed.

H1-3: We predicted that H1-1 and H1-2 would be better supported in second-plus generations. According to Model 1 of Table 4b, harvest strategies are more prevalent in second generation family businesses than in other *Fortune* 1000 firms, but that is not true of first generation family businesses. Table 5b, Model 2 suggests that first generation family firms may even outperform other *Fortune* 1000 companies in revenue growth (but not shareholder returns, c.f. Model 1). The breadth of the generational differences in the findings can be seen by comparing the last two (Gen1 vs. Gen2) columns of Table 6a. It shows that 3 vs. 8 component hypotheses are supported in first vs. the second generation family businesses.

H1-4: Our expectation was that H1-1 and H1-2 would be less strongly supported when family businesses are managed by family CEOs. From Model 2 of Table 4b, we see that even family CEOs pursue harvest (non-growth) strategies. Thus H1-4 is not supported. However, Model 3 which discriminates generations of CEOs finds family-founder CEOs to be quite different. Founders appear to have no significant aversion to growth strategies, perhaps because of their attachments to the business and independence from the family; it is only the second generation family CEOs who do. Moreover, according to Table 5c, there is some tendency for family founder CEOs to outperform in revenue growth (Model 2) and their firms manifest elevated unsystematic risk (Model 3). Second generation family CEOs do not demonstrate these proclivities.

Founder Findings

H2-1: Table 4a, Model 1, indicates that founder businesses were indeed more apt to pursue strategies of growth vis-à-vis other businesses in the *Fortune* 1000. The disaggregated results of Table 6b, rows 2 to 7, however, suggest that not all components of the growth strategy contributed to these results. Specifically, founders did not show any greater tendency to invest in R&D or advertising. Perhaps these variables were too specialized to characterize a growth orientation as firms may engage in growth initiatives such as diversification and acquisitions having little to do with research or advertising. This we could not determine with our data. Investment in capital projects, however, may be more broadly representative of a growth orientation (row 4 of Table 6b). It does receive strong support in our analyses. Unlike our results for family businesses, founders were indeed shown to invest more deeply in their businesses.

It was hypothesized that founder businesses in funding their generous investments would employ more financial leverage, pay smaller dividends, and hold more cash than other firms. According to Table 6b, rows 5 to 7, there was support for this hypothesis, for both dividends and cash, but not for leverage. Firms embraced an average level of leverage but did not go beyond that. Perhaps the focus on large, relatively prosperous *Fortune* 1000 companies with ample alternative sources of funds helps to account for this last finding.

H2-2: We hypothesized that founder firms would experience more rapid revenue growth and bring superior total returns to their shareholders, and that these results would be associated with additional unsystematic risk in the share price. Robust support was seen in Table 5a for the first two components this hypothesis (Models 1 and 2), but the results for risk were only marginally significant (Model 3).

Discussion

Trends in the Results: Prior research has concluded that family businesses outperform regular public corporations (e.g. Anderson and Reeb, 2003; 2004; McConnaughy et al., 1998; Villalonga and Amit, 2006; Weber et al., 2003). That work classified a business as “family” even when there was no family involvement whatsoever, merely a lone or several unrelated founders. We argued that there would be a major difference in the affiliations, motives, constraints, and therefore strategies and performances of family vs. founder businesses. Our expectation was that owners of family businesses would divide loyalties between the family and the business, pursue utility maximization and harvesting strategies, and *not* outperform. By contrast, businesses with unrelated- or lone-founders were expected to enjoy agency advantages and independence from family impediments, would pursue value maximization and growth strategies, and *would* outperform. These expectations were borne out by our study.

The utility maximization orientation of family businesses manifested in superior dividend payouts vis-à-vis other Fortune 1000 firms. Family businesses also pursued a harvest strategy that under-emphasized R&D and market promotion, kept spare levels of short term assets, and avoided financial leverage. Growth and shareholder returns were only average, as was unsystematic risk.

In sharp contrast, our findings for founder businesses suggest that these firms are value maximizers for shareholders. They pursue a strategy of growth by investing in capital infrastructure, funding their growth by curbing dividends and building up cash. The result is significant out-performance in total shareholder returns and sometimes growth as well, but also enhanced unsystematic risk.

As noted, our findings that family businesses do not outperform, even in the first generation, contradict prominent studies showing their superior returns, market valuations and growth (Anderson & Reeb, 2003; McConnaughy et al., 1998; Villalonga & Amit, 2006; Weber et al., 2003). As we have already argued, we believe this conflict to be due in large part to other studies counting unrelated founder businesses, which do outperform, as family businesses, which do not.

At the same time, the discovery that family firms do not significantly *under-perform* challenges scholars condemning family business nepotism and entrenchment (e.g. Claessens et al., 2002; Bennedsen et al., 2007, Morck & Yeung, 2003; Perez-Gonzalez, 2006). This finding may in part be attributable to our sample of large and venerable family businesses -- those that successfully have made it onto the Fortune 1000. It may also be that family firms which endure across the generations have developed structures that facilitate conflict resolution, accountability, and communication (Astrachan and Aronoff, 1998; Lester and Cannella, 2006).

Of course, not all types of family businesses are created equal. Second and later generation family businesses were especially prone to utility maximization. The reverse was true for first generation family businesses in which a family owner served as CEO. It may well be that these individuals are in their positions because of merit, and close enough to the business and its stakeholders to be well informed about economic realities. Moreover, their central role in the growth of the business may render them less susceptible to family influence.

The Social Context and Strategic Implications of Governance: Our theory and evidence builds on the basic premise that ownership structure can drive managerial priorities (Demsetz, 1983; Jensen and Meckling, 1976; Shleifer & Vishny, 1997). But ownership structure alone does not provide the full picture of how influential individuals govern. Managers have varying concerns and attend to those accordingly. Very different patterns of conduct and performance emerged among family businesses and founder businesses vis-a-vis other Fortune 1000 corporations. Thus, without knowing something about owners' core affiliations, motives and constraints, the strategic and performance implications of ownership structure cannot be established.

If we examine the ownership structures in our own research: family businesses, founder businesses, and others, the leaders of each would appear to be embedded at different levels in different social constituencies. Top executives of widely held public companies may be most involved in their careers, as they move rather quickly from firm to firm, and climb the corporate ladder. The reference group that shapes their priorities may be mostly top managers of other firms and managers within their business rather than the entity of the business itself (Khurana, 2002). By contrast, founder CEOs are apt to be more closely involved with the well-being of their company: they have much at stake there financially and in personal reputation, and they tend to remain with their firms for a long time, with considerable independence to pursue their ambitions. The firm is apt to be the social collective of greatest relevance here. Finally, family CEOs of family businesses have a still more complex web of social attachments: like the founder they have a great deal at stake financially in their companies, and also personally and socially. But they also must consider family values and demands in their business decisions. They are embedded within two social collectives, and must do right by both the business and the family. They must play the most complex balancing act of all (Aldrich & Cliff, 2003; Lazonick, 1986).

However, first generation family CEOs, often founders deeply involved in and expert about their business, typically have the clout to resist family pressures, and are more able to run their business in an unencumbered way, thus resembling in some ways founders.

Granovetter (1985) argued that economic action is embedded in structures of social relations, and that to ignore this influence on organizational behavior would invite false understandings. Uzzi (1996) maintained further that embedded firms have higher survival chances, but the positive effects of such embeddedness reaches a threshold, after which the benefits decline. In similar manner, intense family ties can exert a positive influence – in extracting deep stewardship efforts, profound managerial commitment, and esprit de corps. At some point, however, family ties may distract and evoke personal social commitments that eclipse those to the business. In Granovetter's (1973) terms, a few "strong ties" to the family may threaten many "weaker ties" to the firm and its internal and external constituencies. And then any putative family business edge that stems from a natural owner-manager agency advantage disappears. In this manner and myriad others may social explanations clarify economic behavior.

Future Research Directions: It would be useful to probe more deeply the functionality of different types of corporate family involvement. There are many open questions. For example, are there optimal types of family involvement? Do particular kinship configurations give rise to typical conduct and performance outcomes? Under what conditions do family executives strike the best balance between current performance and business perpetuation? Do the most cohesive families make for the best family businesses – or the worst? Are there some managerial or stewardship roles that family members play especially well – serving as firm symbols or spokesmen, perhaps, or negotiating or forming alliances with major clients or partners?

Some founder businesses will become family businesses upon the entry of family members. Thus it would be useful to look into the succession and other processes that might preserve some of the advantageous conduct and performance of the founder business when the firm becomes a family business (Handler, 1990; Le Breton et al., 2004; Miller, 1998; Paisner, 1999). How families go about choosing the firm's leader might be quite relevant here (Bennedsen et al., 2007). Finally, care must be taken not to generalize our findings beyond those of large, publicly traded firms. Where families wholly own and run smaller businesses, there are no outside shareholders to exploit, and the association with the business may be quite intimate, thereby fostering an attitude of stewardship (James, 2006; Miller & Le Breton-Miller, 2005; 2007).

Conclusion

Research on family firm behaviour and performance has benefited of late from studies of very high quality (see, for example, Anderson and Reeb, 2003; 2004; Bennedsen et al., 2007; Gomez-Mejia et al., 2006; Maury, 2006; Perez-Gonzalez, 2006; Villalonga and Amit, 2006). Unfortunately, however, there has been a neglect of the strategy-governance relationship, particularly among U.S. public businesses with concentrated ownership. There also has tended to be a confounding of "family firms" involving multiple family members, with firms made up of founder / buyer owners with no family involved. Our study demonstrates that this distinction is important both to firm conduct and performance. We argued that this is because the social affiliations of owners and owner-managers may well influence their priorities and the strategic conduct and performance of their firms, such that family businesses favour utility maximization and harvest strategies while founders go after value maximization and growth, and thereby reap most richly from the their agency advantages.

On the one hand a public family business must compete in its markets and heed the demands and rigors of being traded on a US stock exchange, and on the other attend to the needs and demands of family members. We suggest that although benefits of family ownership may accrue to a family, this may come at some cost to the organization. Firms, in short, are in many ways socially determined, and this impetus may go all the way back to their founding and ownership characteristics, and the social affiliations of their principals.

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Table 1: Concentrated Businesses Compared

Common Orientations	Family Businesses	Founder Businesses
Owner Affiliations	Especially strong socio-emotional ties to other family owners and managers	"Economically based" ties to stakeholders
Owner Motives and Rationales	Concern for family needs and aspirations; emotional bases for some decisions	Devotion to business objectives; economic decision rationales
Constraints	Many: Limited by family parochial interests and potential conflicts where family members are numerous and influential	Fewer social constraints: Significant owner-manager discretion
Hypothesized Outcomes		
Strategies and Performance	*Utility maximization* for family: a *harvest* strategy – meager investment, resource withdrawal, conservatism; modest revenue and share price growth	*Value maximization* for shareholders: a *growth* strategy – ample long term investment, multifaceted funding of investment; superior revenue and share price growth
Qualifying conditions	Above strategic conduct and outcomes more common in later generations and with non-family CEOs	

Table 2: Variable Definitions

Variable	Definition
Family Firm	Family firm is a binary variable, 1 indicates presence of family. Firms in this category have multiple family members as insiders (officers or directors) or large owners (5% or more of the firm's equity) at the same time or over the life of the company as family descendants. Source: Firm proxy.
Founder Firm	A binary variable, 1 indicates founder involvement. Founder firms are defined as those in which an individual is one of the company's founders or buyers with no other family members involved, and is also an insider (officer or director) or is a large owner (5% or more of the firm's equity). Firms with the founder present alongside other family members are categorized as family firms. Thus a founder firm, by our definition, cannot be a family firm, nor vice versa.
Family Firm 1st Gen	A binary variable, 1 indicates a family firm with family members present from the first generation only. Family firms in this category have multiple family members present with none beyond the first generation. Source: Firm Proxy, biographies, Hoovers, firm webs.
Family Firm 2nd Gen	A binary variable, 1 indicates a family firm with family members present from multiple generations. Family firms in this category have family members present beyond the first generation. Source: Firm Proxy, biographies, Hoovers, firm webs.
Largest Owner	A binary variable, 1 indicates if the family or the entrepreneur is the largest shareholder in the firm. Source: Compact Disclosure; Firm Proxy.
CEO	A binary variable, 1 indicates that a family member or the entrepreneur holds the title of chief executive officer (CEO). Source: Compact Disclosure; Firm Proxy.
Dividends to Earnings Ratio	The sum of common and preferred dividends divided by operating income before depreciation: Source Compustat
Supershares	A dummy variables set to equal 1 when a firm has a vehicle in place which creates a differential source of power. Example: differential voting over various classes of stock. Source: Compact Disclosure; Firm Proxy
Research & Development	Research and development expenses divided by total sales. Source: Compustat.
Advertising	Advertising expenses divided by total sales. Source: Compustat.
Investment	Capital expenditures divided by plant property and equipment. Source: Compustat.

Cash holdings	Cash plus short term investments divided by plant, property, and equipment. Source: Compustat.
Leverage	The sum of long term debt plus debt in current liabilities divided by the sum of long term debt plus debt in current liabilities plus the book value of common equity. Source: Compustat.
Growth strategy	Sum of standardized scores for R&D, advertising, investment, leverage, and cash holdings minus dividends to earnings.
Unsystematic risk	Unsystematic risk is defined as the risk of a price change in a firm's market value due to firm-specific and unique circumstances. The value is derived by regressing firm-specific return on a value weighted return of the market as a whole and retaining the root mean square error from that regression. Source: CRSP.
Total shareholder returns	TSR represents a firm level market performance measure obtained by compounding each firm's daily market returns in its respective fiscal year. Source: CRSP.
Sales Growth	The percentage change in sales for the 5 year period 1996-2000 and is calculated as (net sales year 2000 - net sales year 1996) / net sales year 1996. Source: Compustat.
Beta (Market Risk)	The average value weighted returns in which the firm's daily returns are regressed against the returns of the overall market. Source: CRSP.
5% Owner	The ownership percentage of all non-family or non-entrepreneur blockholders who hold a 5% or greater ownership stake. Created by summing the non-family or non-entrepreneur 5% or greater ownership stakes and dividing this by the firm's total shares outstanding. Source: Compact Disclosure; Compustat; Firm Proxy.
Debt to Equity Ratio	Long term plus short term debt divided by the market value of common equity. Source: Compustat.
Inside Directors Ratio	The ratio of inside directors to outside directors.
Firm Age	The difference between the year 2000 and the firm's founding year. Source: Firm Proxy; Firm website; Lexus-Nexis; Hoovers.
Log Sales	The natural log of annual net sales. Source: Compustat.

Table 3: Descriptive Statistics [a]

				Pearson Correlations																	
	Variable	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	Family business	0.30	0.46																		
2	Founder business	0.19	0.39	-0.32																	
3	Growth strategy	0.07	2.69	-0.08	0.27																
4	Beta	0.56	1.01	-0.02	0.20	0.40															
5	Debt/equity	0.75	1.47	-0.09	0.03	0.02	-0.03														
6	5% owners	0.22	0.22	-0.12	-0.01	0.03	0.04	0.16													
7	Inside director ratio	0.24	0.15	0.17	0.21	0.19	0.12	0.04	-0.05												
8	Log of sales	8.32	1.03	-0.05	-0.14	-0.04	-0.10	-0.09	-0.14	-0.22											
9	Firm age	62.81	44.32	0.05	-0.37	-0.24	-0.17	-0.07	-0.11	-0.27	0.22										
10	Dividends/earnings	0.10	0.10	0.02	-0.23	-0.45	-0.29	-0.04	-0.17	-0.21	0.08	0.31									
11	Supershares	0.11	0.31	0.21	0.13	0.05	0.00	0.13	-0.01	0.11	-0.05	-0.05	-0.04								
12	R&D	0.02	0.04	-0.10	0.14	0.45	0.28	-0.16	-0.08	0.01	0.00	-0.08	-0.12	-0.06							
13	Advertising	0.01	0.03	0.06	0.00	0.32	0.00	-0.08	-0.08	0.04	0.03	0.08	0.07	0.10	0.02						
14	Investment	0.22	0.15	0.03	0.27	0.64	0.31	-0.12	-0.01	0.24	-0.11	-0.30	-0.30	0.05	0.29	0.06					
15	Cash holdings	1.44	5.21	-0.05	0.09	0.20	0.11	0.03	-0.11	0.03	0.07	0.03	-0.04	-0.05	0.00	-0.05	0.09				
16	Leverage	0.46	0.30	-0.09	-0.09	0.04	-0.09	0.45	0.12	-0.11	0.07	0.11	0.03	0.05	-0.25	-0.04	-0.30	0.04			
17	Unsystematic risk	0.11	0.04	-0.06	0.32	0.49	0.44	0.17	0.17	0.22	-0.27	-0.42	-0.42	0.06	0.18	0.01	0.44	0.02	-0.01		
18	Tot shrhldr returns	0.20	0.28	-0.02	0.19	0.29	0.29	-0.25	-0.16	0.08	0.03	-0.19	-0.17	-0.04	0.29	-0.01	0.30	0.17	-0.17	0.19	
19	Sales growth	0.32	0.39	-0.01	0.19	0.05	0.17	-0.04	-0.05	0.13	0.02	-0.25	-0.07	0.06	0.07	-0.13	0.19	0.07	-0.03	0.24	0.44

[a] Correlations greater than .07 or less than -.07 are significant at $p < .05$.

Table 4a: Time Series Cross Section Regressions of Strategy on Governance

	Dep Var: Harvest/ Growth Dimension (H1-1, 2-1)					
	Model 1			Model 2		
	Coef	SE	z*	Coef	SE	z
Family bus	-0.536	0.154	-3.47			
Unrel bus	0.596	0.218	2.73			
Fmly biggest own				-0.693	0.214	-3.24
Unrel biggest own				0.986	0.350	2.82
Beta	0.050	0.024	2.08	0.061	0.028	2.19
5% owners	-0.131	0.343	-0.38	-0.095	0.383	-0.25
Supershares	0.266	0.249	1.07	0.360	0.302	1.19
Insider ratio	1.569	0.483	3.25	1.617	0.540	2.99
Firm size	0.118	0.056	2.10	0.136	0.062	2.20
Firm age	-0.005	0.002	-3.17	-0.003	0.002	-1.82
N	4060			3061		
Wald chi-sq	2651			8783		

Table 4b: Time Series Cross Section Regressions of Strategy on Governance

	Dependent Var: Harvest/ Growth Dimension (H1-3, 1-4)								
	Model 1			Model 2			Model 3		
	Coef	SE	z*	Coef	SE	z*	Coef	SE	z*
Fmly Gen 1	-0.043	0.248	-0.17						
Fmly Gen 2	-0.699	0.160	-4.38						
Unrel bus	0.663	0.217	3.06						
Fmly CEO				-0.529	0.195	-2.72			
Unrel CEO				0.747	0.252	2.97			
Fmly CEO G1							0.301	0.339	0.89
Fmly CEO G2							-0.788	0.206	-3.82
Unrel CEO							0.777	0.252	3.08
Beta	0.049	0.024	2.07	0.063	0.024	2.59	0.063	0.024	2.57
5% owners	-0.145	0.341	-0.42	-0.226	0.338	-0.67	-0.254	0.338	-0.75
Supershares	0.259	0.251	1.03	0.120	0.273	0.44	0.191	0.278	0.69
Insider ratio	1.439	0.480	3.00	1.741	0.501	3.48	1.576	0.492	3.20
Firm size	0.121	0.056	2.16	0.147	0.059	2.51	0.150	0.058	2.58
Firm age	-0.004	0.002	-2.61	-0.003	0.002	-1.87	-0.003	0.002	-1.60
N	4068			3166			3166		
Wald chi-sq	2613			8823			8309		

*z statistic significance levels: >1.65 = <0.10, >1.96 = <.05, >2.33 = <.01, >2.58 = <.005.

Table 5a: Time Series Cross Section Regressions of Performance on Governance: Family vs. Founder Firms

	H1-2 & H2-2								
	Model 1			Model 2			Model 3		
	TSR			Revenue Growth			Unsystematic Risk		
	Coef	SE	z*	Coef	SE	z*	Coef	SE	z*
Fmly bus	-0.005	0.019	-0.25	0.015	0.025	0.58	0.011	0.021	0.53
Unrel bus	0.102	0.031	3.32	0.112	0.044	2.56	0.103	0.027	3.83
Beta	0.025	0.013	1.88	-0.075	0.093	-0.80	0.027	0.007	4.08
Investment	0.245	0.130	1.89	0.690	0.288	2.40	0.281	0.060	4.70
Debtequity	-0.152	0.009	-16.94	-0.017	0.010	-1.61	0.119	0.009	13.67
5%owner	-0.004	0.038	-0.10	0.084	0.059	1.42	0.156	0.045	3.51
Supershares	0.005	0.029	0.16	0.035	0.037	0.95	-0.015	0.031	-0.48
Insiders	-0.020	0.069	-0.30	-0.019	0.092	-0.21	0.178	0.060	2.97
Firm size	-0.028	0.009	-3.08	-0.016	0.015	-1.04	0.007	0.009	0.75
Firm age	-0.001	0.000	-2.81	-0.001	0.000	-4.48	-0.001	0.000	-6.55
N	4176			3375			4108		
Wald chi-sq	861			851			7212		

Table 5b: Time Series Cross Section Regressions of Performance on Governance: First vs. Second Generation Firms

	H1-3								
	Model 1			Model 2			Model 3		
	TSR			Revenue Growth			Unsystematic Risk		
	Coef	SE	z*	Coef	SE	z*	Coef	SE	z*
Fmly Gen1	0.027	0.036	0.74	0.064	0.036	1.77	0.058	0.035	1.65
FmlyGen2	-0.018	0.021	-0.85	-0.005	0.030	-0.18	-0.009	0.022	-0.39
Unrel bus	0.106	0.031	3.43	0.118	0.045	2.64	0.108	0.027	4.01
Beta	0.025	0.013	1.88	-0.076	0.093	-0.81	0.027	0.007	4.04
Investment	0.238	0.132	1.80	0.679	0.287	2.37	0.270	0.060	4.52
Debtequity	-0.152	0.009	-16.90	-0.017	0.010	-1.65	0.118	0.009	13.63
5% owner	-0.007	0.038	-0.17	0.081	0.059	1.38	0.153	0.044	3.45
Supershares	0.005	0.029	0.17	0.035	0.036	0.97	-0.014	0.031	-0.45
Insiders	-0.030	0.069	-0.43	-0.031	0.090	-0.35	0.164	0.060	2.72
Firm size	-0.028	0.009	-3.11	-0.016	0.015	-1.03	0.006	0.009	0.74
Firm age	-0.001	0.000	-2.63	-0.001	0.000	-4.15	-0.001	0.000	-6.18
N	4184			3380			4156		
Wald chi-sq	787			318			7274		

Table 5c: Time Series Cross Section Regressions of Performance on Governance: First vs. Second Generation Family CEOs

	H1-4								
	Model 1			**Model 2**			**Model 3**		
	TSR			**Revenue Growth**			**Unsystematic Risk**		
	Coef	**SE**	**z***	**Coef**	**SE**	**z***	**Coef**	**SE**	**z***
Fmly ceo G1	0.106	0.056	1.89	0.117	0.053	2.22	0.126	0.055	2.29
Fmly ceo G2	-0.032	0.028	-1.14	-0.017	0.032	-0.54	-0.029	0.029	-0.98
Unrel ceo	0.175	0.043	4.11	0.140	0.041	3.44	0.115	0.032	3.54
Beta	0.023	0.015	1.51	0.023	0.013	1.80	0.028	0.008	3.69
Investment	0.136	0.153	0.88	0.331	0.140	2.36	0.303	0.065	4.64
Debtequity	-0.155	0.011	-14.50	-0.009	0.012	-0.75	0.118	0.009	12.66
5% owner	0.034	0.040	0.83	0.027	0.048	0.56	0.153	0.046	3.34
Supershares	0.010	0.039	0.25	0.087	0.055	1.59	-0.032	0.039	-0.86
Insiders	-0.104	0.073	-1.43	-0.094	0.078	-1.21	0.160	0.065	2.47
Firm size	-0.024	0.010	-2.38	0.008	0.016	0.53	0.006	0.010	0.60
Firm age	-0.001	0.000	-2.01	-0.001	0.000	-4.13	-0.001	0.000	-4.97
N	3249			2610			3226		
Wald chi-sq	2388			6697			9236		

*z statistic significance levels: >1.65 = <0.10, >1.96 = <.05, >2.33 = <.01, >2.58 = <.005.

Table 6a: Robustness Checks and Summary of Results by Component Variables: Family Businesses

		Variables	Hypothesized comparisons	TSCS models confirmed	Heckman models confirmed	Gen 1	Gen 2
		Strategy					
1	H1-1	Growth Strategy	Lower	Y	Y	N	Y
2	H1-1	R&D	Lower	Y	Y	Y	Y
3	H1-1	Advertising	Lower	Y	N	Y	N
4	H1-1	Investment	Lower	N	N	N	N
5	H1-1	Leverage	Lower	Y	Y	N	Y
6	H1-1	Dividends	Higher	Y	Y	N	Y
7	H1-1	Cash	Lower	N	N	N	Y
		Performance					
8	H1-2	Growth	Average	Y	Y	N	Y
9	H1-2	TSR	Average	Y	Y	Y	Y
10	H1-2	Performance risk	Lower	N	Y	N	Y

Table 6b: Robustness Checks and Summary of Results by Component Variables: Founder Businesses

		Variables	Hypothesized comparisons	TSCS models confirmed	Heckman models confirmed
		Strategy			
1	H2-1	Growth Strategy	Higher	Y	Y
2	H2-1	R&D	Higher	N	N
3	H2-1	Advertising	Higher	N	N
4	H2-1	Investment	Higher	Y	Y
5	H2-2	Leverage	Higher	N	N
6	H2-2	Dividends	Lower	Y	Y
7	H2-2	Cash	Higher	Y	Y
		Performance			
8	H2-3	Growth	Higher	Y	Y
9	H2-3	TSR	Higher	Y	Y
10	H2-3	Performance risk	Higher	Y	Y