

FAMILY FIRM VALUATION BY FAMILY CEOS: THE ROLE OF SOCIOEMOTIONAL VALUE

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Abstract

The influence of emotional attachment on economic decisions has been well documented in the marketing and economics literature. In this study, we provide direct evidence that such emotional attachment creates socioemotional value in family firms, and that this increases the financial value of the firm as perceived by family member CEOs. The results show that the perceived socioemotional value increases with the duration of association and desire for transgenerational sustainability, a distinctiveness of family firms.

1. Executive Summary

Using a sample of 70 CEOs of family firms in Switzerland, this article examines how owners of family firms subjectively value their firms in monetary terms, when asked at what price they are willing to sell out. Our primary focus is on how family business owners' desire for sustainable firm ownership across family generations affects the price at which the owner is willing to sell the family firm. Through the endowment effect lens of prospect theory we show that family firm owners gain socioemotional benefits from firm ownership and that these benefits positively influence their perceptions of the financial value of the firm. We further show that family firm age has a positive impact on the family owner's valuation of the firm, as suggested by the possession attachment literature in marketing.

Our investigation indicates that family firms do indeed appear to generate socioemotional value for family owners as suggested in the literature (e.g., Gomez-Mejia, Hynes, Nunez-Nickel, and Moyano-Fuentes, 2007; Jaskiewicz and Astrachan, forthcoming; Sharma, Chrisman, and Chua, 1997). Our study also confirms the predictions of prospect theory regarding the endowment premium of ownership and the importance of the frame of reference in which individuals make decisions. Put differently, family owners tend to perceive an increase in the

financial value of the firm in accordance with their perceptions of the socioemotional value it generates.

For practice our study indicates that family firms may be particularly hard to sell or buy when the firm provides socioemotional value to family firm owners. The inability to consummate exchanges because of a wide divergence about the perceptions of the value of the firm by the seller and buyer can be better understood through our study. Furthermore, our findings also have implications for family firm owners who face failure. Efforts must be made to decouple emotional attachments from economic realities if anything is to be salvaged for later generations. However, this is exactly what prior research indicates that family firms find so difficult to do (Gomez-Mejia et al., 2007). Our results also suggest that due diligence on the part of buyers and non-financial negotiation mechanisms may be particularly important in the purchase of a family firm since sellers are likely to systematically overestimate the firm's monetary value. In short, to the extent that socioemotional value is an important consideration in firm valuation, our findings help in better understanding the difficulties associated with transitions of corporate control in the context of family firms (cf., Howorth, Westhead, and Wright, 2004).

2. Introduction

A central premise of the field of family business studies is that family and non-family firms behave differently owing to family control of the dominant coalition in the firm (Chua, Chrisman, and Sharma, 1999). A manifestation of these differences frequently mentioned but seldom systematically addressed in theory or research is the propensity for family owners to display stronger emotional attachment to the family business (Corbetta and Salvato, 2004; Sharma et al., 1997; Shepherd, forthcoming; Tagiuri and Davis, 1992). Marketing researchers have shown that emotional attachment can develop through long-term possession rituals and that such attachment makes the asset more valuable to the owner (e.g., Belk, 1988, 1992; Schultz-Kleine and Menzel-Baker, 2004). Economists, on the other hand (e.g., Kahneman, Knetsch, and Thaler, 1990; Kahneman and Tversky, 1979; Knetsch and Sinden, 1984; Knez, Smith, and Williams, 1985; Thaler, 1980), show that aversion to loss raises the value of an asset to the owner. These two sources of value differ in that the first strengthens with the duration of possession while the second can arise as soon as parting with the asset is perceived as a loss. If, as family business researchers believe, family firm owners have strong socioemotional attachments to their businesses (Gomez-Mejia et al., 2007), then that attachment should affect family firm owners' valuations of their businesses. Whether socioemotional value exists is important to the theory of the family firm because efforts to secure or protect socioemotional value (e.g., Jaskiewicz and Astrachan, forthcoming) can influence decision-making as well as economic performance (Chrisman, Chua, and Sharma, 2005). Furthermore, it can affect a family's decision to sell or keep the ownership and control of their firm.

The purpose of this study is to investigate the extent to which socioemotional value exists for owners of family firms. The study proposes and shows that, corresponding to findings in the

marketing and economics literature on possession attachment and the endowment effect, respectively, socioemotional value in family firms has two sources: the family's duration of association with the business and the family's desire or intention for the transgenerational sustainability of family involvement. The positive relationship between socioemotional value and management's long-term association with the firm may exist to some degree for non-family firms as well; but the positive relationship between socioemotional value and intention for transgenerational sustainability is very significant because, in terms of family business theory, the desire or intention for the transgenerational sustainability of family involvement is the primary distinguishing factor between family firms and non-family firms (Chua et al., 1999).

This study contributes to the family business literature by providing direct evidence that family involvement can in fact create socioemotional value for family firms and that this influences the families' perceptions of the financial value of the firm. To this point, the existence and importance of the socioemotional value of a firm to its owning family has only been used as a theoretical rationale to explain variations in the behaviors of family and non-family firms (e.g., Gomez-Mejia et al., 2007). Second, the study contributes to family business research by showing that socioemotional value can arise from a family firm's desire for transgenerational sustainability – a distinctiveness of family firms vis-à-vis non-family firms. This finding has implications for the development of a theory of the family firm since it further emphasizes the importance of non-economic considerations in family firm decision making. Third, the results have implications for research on family business succession, the most researched topic in the family business literature (Chua, Chrisman, and Sharma, 2003). By affecting the acceptable price for the business, socioemotional value can play an important part in the family's choice between intra-family succession and selling the business.

3. The Financial Value of a Family Firm

It is commonly understood, as any introductory finance textbook would state, that the financial value of a firm is theoretically equal to the present value of the expected future cash flows to the owners. Technically, the present value is determined by discounting the expected future cash flows at an appropriate discount rate that increases with the riskiness of the expected future cash flows. Thus, at the fundamental level, the value of the firm should increase with cash flows, increase with the growth and sustainability of the cash flows, and decrease with risk.

In addition to financial value, however, the finance literature also provides evidence that the dominant coalition may be able to extract additional value from firm ownership at the expense of the other shareholders (Morck, Shleifer, and Vishny, 1988). These so called private benefits have been well documented for firms in countries around the world (Nenova, 2003). What financial research has therefore shown is that the dominant coalition's shares can have a greater value than reflected simply in their percentage ownership. As defined by Chua et al. (1999), the family business is one whose dominant coalition is controlled by the family. The studies on which the above observations have been based, however, were conducted on large publicly owned firms where the agency problem between controlling and non-controlling shareholders tends to be serious. Whether the conclusions also apply to smaller and private firms has not been tested.

4. Socioemotional Value and Hypotheses

The socioemotional value of an asset to its owner is the difference between the owner's perceived value of the asset and the asset's economic value. The general existence of this additional value has been well documented by both marketing and economics researchers and shown to arise from emotional attachment to the asset.

The marketing literature contains extensive evidence that the perceived value of an object to its owner can increase with emotional attachment such that the perceived value is higher than the object's economic value. Emotional attachment first requires psychological appropriation – a sense that the object is “mine” (Belk, 1992). In addition, possession rituals over time, such as using and caring for an object, give the owned object a personal meaning that connects it with an individual (Belk, 1988; Watson, 1992) resulting in a perceived singularity of the person-object relationship (Belk, 1991; Grayson and Shulman, 2000; Schultz-Kleine, Kleine, and Allen, 1995). For example, research indicates that heirlooms can become part of a family's legacy or symbolize self-continuity and thereby maintain affective meaning across time (Price, Arnould, and Folkman-Curasi, 2000). Although these studies have been conducted on inanimate objects, it is not unreasonable to draw parallels with the attachments of family owners to their firms.

The family business literature suggests that owners of family firms are often attached to their organizations for socioemotional reasons such as tradition, status, and family legacy (Corbetta and Salvato, 2004; Sharma et al., 1997; Sharma and Manikutty, 2005; Shepherd, forthcoming; Sorenson, 1999; Stafford, Duncan, Danes, and Winter, 1999; Tagiuri and Davis, 1992). For example, studies about family firm succession report that incumbents have problems letting go owing to their emotional ties to the firm (Le Breton-Miller, Miller, and Steier, 2004). Chrisman, Chua and Steier (2003) further argue that these family-related elements have value to family owners and influence their business decisions.

Family owners do “care for” their family business as they nurture it through start-up and growth. They also “use” the firms to receive benefits from it. By interacting over time with the family business, the family extends itself into the business as marketing researchers observe owners extending themselves into the objects in their possession (Belk, 1988). Furthermore, akin

to a singularized person-object relation, family members develop a strong sense of identification with the family business (Davis and Herrera, 1998) and can have difficulty separating their mental concepts of the business from the family (Gersick, Davis, Hampton, and Lansberg, 1997). Because possession attachment theory suggests that this identification will grow stronger over time, we hypothesize that:

Hypothesis 1: *There is a positive relationship between the length of time that a family owns and controls a family firm and the firm's value to the family.*

Economists have documented what they call an endowment effect which increases the value of an asset when an individual owns or controls it relative to the value that the individual would place on the same asset when attempting to acquire it (Thaler, 1980). In other words, the endowment effect causes the minimum price that an individual demands for parting with an asset to be higher than the maximum price the same individual is willing to pay to acquire the same asset (Kahneman et al., 1990; Kahneman, Knetsch, and Thaler, 1991).

This endowment effect has been studied for a wide range of goods (Horowitz and McConnell, 2002) and can be subsumed within the general concept of loss aversion as specified in prospect theory (Kahneman and Tversky, 1979, 2000; Tversky and Kahneman, 1986, 1992). Loss aversion means that individuals systematically attach greater weight to possible losses than possible gains. Individuals normally evaluate possible outcomes as gains or losses relative to some frame of reference rather than evaluating them according to the expected values of the alternatives and this affects decision-making (Kahneman and Tversky, 1979, 2000; Tversky and Kahneman, 1986, 1992).

Research has shown that the endowment effect can be immediate and that individuals will hesitate to relinquish their endowment even when given the choice of an alternative asset that they might otherwise prefer if endowments were not a part of the potential exchange

(Kahneman et al., 1991). Thus, as Kahneman et al. (1991, p. 197) note, “the main effect of endowment is not to enhance the appeal of the good one owns, only the pain of giving it up.” Put differently, the endowment effect indicates that individuals frame the sale of an asset from the perspective of the loss of that asset rather than the gain of monetary compensation or the acquisition of a different asset. This suggests that possessors form emotional attachment to their assets that color their framing of the decision to sell or not and, consequently, make them more averse to completing an exchange (Knetsch and Sinden, 1984).

While there is reason to believe that the endowment effect influences the perceived value of any potential seller for any good or entitlement in his or her possession, the work of Gomez-Mejia et al. (2007) suggests that the extent of that effect will be different for family and non-family firms because of the former’s stronger desire to preserve socioemotional value. Gomez-Mejia et al. (2007) used the concept of socioemotional value and the endowment effect of prospect theory (e.g., Kahneman et al., 1990; Kahneman and Tversky, 1979) to suggest that family firms are more likely than non-family firms to seek the preservation of socioemotional value, which they characterize as non-pecuniary considerations in the form of authority, discretion, values, and social capital accruing to the family through its continued control of the firm. Although they do not provide direct support for the existence of socioemotional value, their empirical evidence is interpreted to imply that this tendency to preserve socioemotional value makes family firms more willing than non-family firms to assume performance hazard risk and less willing to assume venturing risk.

Regarding the endowment effect as a source of socioemotional value, we focus on the family’s desire for the transgenerational sustainability of family firm involvement. Although socioemotional value can have many and varied facets (Gomez-Mejia et al., 2007),

transgenerational sustainability of family control distinguishes the family firm from non-family ones (Chua et al., 1999). In addition, research has found that succession is the most important concern of family business owners (Chua et al., 2003). Therefore, since transgenerational sustainability implies intra-family succession, it appears to capture the central aspect of the socioemotional value generated by a family firm.

Thus, the family business and prospect theory literatures together suggest that the endowment effect, as measured by transgenerational sustainability desires, will positively affect the socioemotional value family firm owners attach to their firms. This can be summarized as follows: The owners of a business will receive compensation when they sell the business. Assuming that the compensation is fair in the sense that it reflects the financial value of the firm then it could be argued that the owners suffer no loss from that point of view. But once the owning family has formed a desire or intention for the transgenerational sustainability of family involvement with the business, parting with the business for only its fair financial value would constitute a loss. Therefore, we expect that, in the presence of a desire to pass on the firm within the family, it will take a more favorable offer to make the owning family forgo the socioemotional benefits flowing from the family's continued association with the firm.

***Hypothesis 2:** There is a positive relationship between the desire for transgenerational sustainability of the firm and the value of the family firm to the family.*

5. Method

Using a mailing list from a family business center affiliated with a Swiss university, a questionnaire was sent to 1250 privately held family firms. In order to ensure that our sample was composed of family firms, we verified that the firms in the mailing list had identified themselves as family firms to the family business center (Westhead and Cowling, 1998), the family held a controlling interest, and the firm employed at least two family members (e.g., Eddleston and

Kellermanns, 2007; Eddleston, Kellermanns, and Sarathy, 2008).

A key informant approach (Kumar, Stern, and Anderson, 1993; Seidler, 1974) was employed because we believe that family firm CEOs are best able to assess the price the family would be willing to sell the family firm, since they tend to hold significant personal ownership (as one of our controls indicated) and are knowledgeable of the family firm's financial position and future prospects.¹ Indeed, relying on key-informants is common in studies of family firms (e.g., Kellermanns, Eddleston, Barnett, and Pearson, 2008; Zahra, 2005). However, as suggested in the literature (e.g., Eddleston and Kellermanns, 2007), to validate our multi-item constructs we collected data from additional family members employed in the organization for a subset of the sample (n=39). For this subset, we calculated the coefficient of agreement (r_{wg}) (James, Demaree, and Wolf, 1984, 1993). The r_{wg} values for our two independent variables were acceptable, which indicated that it is appropriate to rely on the family firm CEOs as the key informants (Eddleston et al., 2008).

We obtained 219 questionnaires from two mailings, representing 179 distinct family firms. Thus, our overall response rate was 14.3%, a rate that is comparable to similar studies (e.g., Chrisman, Chua, Chang, and Kellermanns, 2007). However, only 70 CEOs provided valuation estimates, owing to the sensitive nature of the question. While unfortunate, substantial missing data is a common problem in family firm studies that rely on primary sources (Chrisman, Chua, and Litz, 2004; Schulze, Lubatkin, Dino, and Buchholtz, 2001).

To explore the possibility of non-response bias in the absence of objective data for the privately held firms in our sample, we compared the data obtained from early and late respondents using an ANOVA. This test is based on the assumption that late respondents are

¹ In most small and mid-sized family firms in Switzerland, which constitute the majority of our sample, the CEO is also the president of the governance board, which further supports our approach to use the CEO as our key informant.

more similar to non-respondents (c.f., Chrisman et al., 2004; Oppenheim, 1966). No statistically significant differences were discovered, thus mitigating non-response concerns.

The potential for multicollinearity, heteroscedasticity, and common method bias were also addressed. First, we investigated the correlations between our variables. We found that the Variance Inflation Factor did not exceed 1.5 and the Condition Index did not exceed 16.2. These values suggest multicollinearity was not a concern in this study (Hair, Anderson, Tatham, and Black, 1998; Tabachnick and Fidell, 1995). Second, although heteroscedasticity can sometimes be a problem in valuation research, our tests indicated it was not an issue in this study.

We further performed the single-factor test for common method bias suggested by Podsakoff and Organ (1986). All items used to measure our independent and control variables were entered into a factor analysis. Six factors were extracted with Eigenvalues greater than one. These factors accounted together for 73.8% of the variance; the first factor accounted for 19.9% of the variance. Since no common factor emerged and no single factor accounted for the majority of the variance explained, common method does not appear to be a problem.

5.1 Dependent Variable

The objective of our study is to test whether socioemotional value exists in family businesses by determining whether owners' perceptions of their firms' financial value varies positively with the family's duration of association and desire for transgenerational sustainability. There is no way to collect reliable data directly on the socioemotional value of a business without actually performing individual market valuations for each firm and comparing this value with the value perceived by owners. Instead, we test for the existence of socioemotional value through its relationship with the perceived value of the firm after controlling for the determinants of financial value. Consequently, the dependent variable for our

study is the family firm CEO's perceived total value of the family firm. We asked the CEOs of the sample firms: "What is an acceptable sales-price at which you are willing to sell 100% of your company's equity to a non-family member?"

This question made it clear that we were (1) looking for the value of the firm's equity, (2) that we were looking at the whole firm, and (3) that we were looking at a sale outside the family. A pilot study of 29 entrepreneurs provided assurance that family firm owners would understand this question. The variable was characterized by high positive skewness and kurtosis (Hair, Black, Babin, Anderson, and Tatham, 2006). In order to achieve a more normal distribution we took the logarithm of the perceived total value (Tabachnick and Fidell, 1995).

5.2 Independent Variables

The length of time that the family has been associated with the family business is measured through an open-ended question about the age of the family firm. Since the founding families were still in control of the sample firms, firm age is equal to the length of time the family has been associated with the business.

We measured *transgenerational sustainability* with two items on a 7-point Likert-type scale ($\alpha = .832$). These included questions on desire and opportunities to pass the business to future generations and the importance of family legacy as a firm goal. The items were added and the total divided by two to obtain the final variable used.

5.3 Control Variables

To test the existence of socioemotional value, we controlled for the financial determinants of firm value. Thus, our control variables included proxies for current cash flow, growth and sustainability of performance, risk, and private benefits that the dominant coalition may extract from the business.

To collect cash flow data we asked subjects: “What is the free cash flow of your business (Profit + Write-Offs – Investments)?” Given that these firms are limited liability companies, the financial data is subjected to an annual professional audit. Audited data are available to owners and CEOs, thus assuring the ability of the respondents to provide reliable responses. Indeed, we obtained objective data (balance sheets and income statements) for a sub-sample of 39 firms as part of a benchmarking project. We then calculated the correlation between the free cash flows as indicated in the questionnaires and the free cash flows from the objective source. The correlation of the objective and subject data was 0.86.

For growth and sustainability of performance, we asked four questions regarding growth in sales, growth in market share, return on equity, and the ability to fund growth from profits (e.g., Eddleston et al., 2008). Subjective performance evaluations are common in family firms, since no public information is available (Love, Priem, and Lumpkin, 2002). However, subjective measures have been shown to correlate highly with objective performance data (Dess and Robinson, 1984; Love et al., 2002; Venkatraman and Ramanujam, 1987). Since outperforming competitors is the surest guarantee of continued growth and sustainability, respondents were asked to indicate if their performance in the last three years were much worse, about the same, or higher than their competitors. Each performance indicator was measured on a five-point scale. The alpha for the growth and sustainability measure is 0.75.

Because of the difficulties in directly measuring risk for privately held firms, two separate proxies were used: size and industry. Risk tends to decrease with the size of the business, measured by number of employees. Risk, and consequently, value, also tends to vary by industry. We classified the firms by industry using two categorical variables representing construction and service firms, which, collectively, made up the majority of firms in the sample.

For private benefits we asked the respondents to rate on a 5-point Likert scale their agreement with the statement: family members derive attractive perks from the firm.

Finally, we controlled for the ownership stake of the family, since higher levels of ownership can imply higher levels of control, involvement, and attachment to the firm (Gomez-Mejia et al., 2007). This was measured as the percentage of the firm owned by the family.

6. Results

The means, standard deviations, and zero-order correlations are shown in Table 1. The hypotheses proposed in the research model were tested using multiple regression analysis (see Table 2). We entered the control variables in Model 1 and the independent variables in Model 2.

INSERT TABLES 1-2 HERE

Model 1 shows that family CEOs' perceived value of their family firm is significantly related to the determinants of financial value. Perceived value is positively and significantly related to current cash flow ($p < 0.001$), growth and sustainability of performance ($p < 0.01$), and size ($p < 0.01$). Value has, however, a negative and significant relationship with private benefits ($p < 0.05$). Adjusted R^2 is .448 and highly significant. Taken together, these results validate the dependent variable as a measure of a firm's financial value.

Model 2 shows that, as hypothesized, perceived value is positively and significantly related to firm age ($p < 0.05$) and desire for transgenerational sustainability ($p < 0.05$). The adjusted R^2 increased from .448 to .546. The change in R^2 of .101 is highly significant ($p < 0.001$). Thus, hypotheses 1 and 2 are supported.² It is also worth noting that the absolute value of the beta weight for transgenerational sustainability ($\beta = 0.222$) is slightly higher than the beta weight of family firm age ($\beta = 0.208$). This suggests that transgenerational sustainability is relatively more important than

² We also entered the interaction between transgenerational sustainability desire and firm age to the model. Neither the R^2 increase nor the interaction was significant, suggesting that the effects are only additive as argued.

firm age in influencing firm valuations. We again stress the importance of this finding because transgenerational sustainability distinguishes family firms from non-family firms.

To conclude our analysis we checked for the possibility of endogeneity between our independent and dependent variables (e.g., Hamilton and Nickerson, 2003). Since family firm age cannot be caused by firm value there is no reason to suspect endogeneity between those variables. However, there is a possibility that firm value may affect the desire for transgenerational sustainability. To assess potential reverse causality we re-estimated Model 2 with two instrumental variables for desires for transgenerational sustainability using two-stage least square regression. Our results indicate endogeneity is not a problem.

7. Discussion and Conclusions

Using a sample of 70 CEOs of family firms in Switzerland, this study embarked on an investigation of the price at which owners of family firms are willing to sell their firms. Invoking the endowment effect from prospect theory in the economics literature (Thaler, 1980), and socioemotional value from the family business literature (Gomez-Mejia et al., 2007), we hypothesize that the desire for transgenerational sustainability of family involvement, a distinctive characteristic of family firms, positively influences the valuations of family firms by family owners. Using the concept of possession attachment from marketing research (e.g., Belk, 1988; Belk, 1991; Belk, 1992), we also hypothesize that perceived firm value increases with the duration of the family's association with the family firm.

Our results indicate that family firms do indeed appear to generate socioemotional value for family owners as suggested in the literature (e.g., Gomez-Mejia et al., 2007; Sharma et al., 1997). Moreover, our study confirms that socioemotional value is a function of possession attachment and an endowment effect, as predicted by the marketing and economics literatures,

respectively. These results are important because efforts to secure or protect socioemotional value can influence decision-making (Chrisman et al., 2005; Jaskiewicz and Astrachan, forthcoming) as well as economic performance (Chrisman et al., 2005). By showing that socioemotional value exists and can be captured by an essential, almost definitional, characteristic of the family firm, our study adds to the justification and legitimacy of family business studies and indicate that economic explanations of family firm behavior cannot form the sole basis for a theory of the family firm. Finally, the results have important implications for family business succession because the presence of socioemotional value could affect the controlling family's decision to sell the business or pursue intra-family succession options.

7.1 Limitations

Before discussing implications for research of the current study we need to mention its principal limitations. First, our study utilized a cross-sectional design; therefore, while endogeneity does not appear to be a problem we can still only infer rather than conclusively demonstrate causality. Second, the potential for non-response bias and common method bias still exist despite the test results indicating absence of these problems.

Our sample size is also relatively small, which raises questions about statistical power and the possibilities of Type II errors, i.e., incorrectly sustaining the null hypothesis (Mazen, Hemmasi, and Lewis, 1987). However, we found support for our main effects and a post hoc analysis of our regression results showed acceptable power levels = .92 ($f^2=.35$, alpha .05 and $N=70$ with 9 predictors) (Cohen, 1988). Finally, we need to mention that our sample was composed of firms located in Switzerland, which may have important cultural differences from firms in the U.S. and other nations (Hofstede, 2001). While we have no reason to believe that either of these factors biased our results, they do suggest that more research is needed before we

can be confident of their generality. However, in that regard, business practices between Europe and the US have become more comparable (Carr, 2005).

7.2 Research Implications

Aside from attempting to overcome the limitations of our study by conducting longitudinal research, obtaining data from multiple sources, and confirming or refuting our findings with larger samples and in different cultural settings, there are a number of fruitful directions future research might take. First, the literature's emphasis on the importance of non-economic goals in family firms needs to be more fully investigated. Gomez-Mejia et al. (2007) contributed to the literature by specifying the preservation of socioemotional value as a critical non-economic goal of family firms. But because they did not provide direct evidence of the existence of socioemotional value, whether socioemotional value is indeed the cause of the observed family business behaviour has not been substantiated.

By contrast, this study provides direct evidence on the existence and dependencies of socioemotional value in family firms but does not attempt to establish linkages between socioemotional value and family firm behavior. Further research on how socioemotional value affects family firm decision-making therefore appears warranted. For example, aside from the willingness to take strategic risks (Gomez-Mejia et al., 2007) and sell out (Howorth et al., 2004; Jaskiewicz and Astrachan, forthcoming), socioemotional value may also influence family firms' ability to shed individual assets (Sharma and Manikutty, 2005) and institute professional management practices (Gedajlovic, Lubatkin, and Schulze, 2004). Socioemotional value may of course also have significant implications for management succession (Chrisman, Chua, and Sharma, 2003; Shepherd and Zacharakis, 2000).

Second, socioemotional value seems to be multi-dimensional and we make no pretence that this study addresses all its relevant components. Thus, the extent to which an individual's personal identity is fulfilled through family control also deserves attention as does the family's social status and social capital (Arregle, Hitt, Sirmon, and Very, 2007). The relationship between family altruism (Schulze et al., 2001), stewardship (Corbetta and Salvato, 2004; Eddleston and Kellermanns, 2007), and socioemotional value also needs to be studied. Socioemotional value might, for example, provide an impetus for altruistic behavior or act as a brake when extreme asymmetries in altruism exist between family owners and family managers. It might also help explain variations in stewardship behavior among family members.

In addition, our application of one concept from prospect theory (Kahneman et al., 1991; Kahneman and Lovallo, 1993; Kahneman and Tversky, 1979; Tversky and Kahneman, 1974) will hopefully inspire additional applications. Thus, besides the endowment effect, the certainty, status quo, and isolation effects may all figure into the decision-making of family and non-family firms in different ways owing to differences in their frames of reference. For example, the isolation effect implies a tendency to judge the risks of each situation individually rather than in the context of the firm's other activities. This may lead to over or underestimating the risks of appointing individual family or non-family managers, or pursuing a particular corporate venturing initiative even though such decisions would be better made if considered from the perspective of the impact on the entire management team or the total set of diversification opportunities available. Again, there appears to be a number of research directions that would increase our knowledge about family firms from taking a prospect theory perspective.

Finally, the significant negative relationship between perceived value and the private benefits of controlling ownership deserves a brief discussion. Although the relationship between

these variables does not affect our principle findings, financial theory and evidence from large public companies suggest that the relationship should be positive. Moreover, the possible absence of agency problems between controlling and non-controlling owners in small family firms is not a valid explanation because this should lead to an insignificant relationship, not a significant negative one. An alternative conjecture that deserves further study is that family owners of small family firms are parsimonious in managing the firm's resources (Carney, 2005) and therefore perks, or anything that increases costs, lower the value they place on the firm. At a minimum, however, the unexpected relationship found in this study suggests that caution should be exercised when applying evidence gathered from large public companies to small privately held family firms.

7.3 Implications for Practice

Since the perceived value of a family business, including its socioemotional value, ultimately reflects the perceived net benefit of owning the firm (Carmon and Ariely, 2000), it is relevant in determining the price that family owners are willing to accept to sell their firms (Carmon and Simonson, 1998). Our findings thus provide insight into the cost-benefit considerations of family firm owners. Simply put, socioemotional value considerations, such as those captured through transgenerational sustainability colors perceptions of firm value, which in turn will influence the likelihood that a family firm can and will be sold. For practitioners our findings indicate that family firms may be particularly difficult to sell or buy when the firm provides substantial socioemotional value to family owners. The inability to consummate exchanges because of a wide divergence in the buyer's willingness to pay and the seller's willingness to accept also has implications for family firm owners who face failure. Efforts must be made to decouple emotional attachments from economic realities if anything is to be salvaged

for later generations (e.g., Shepherd, forthcoming; Shepherd, Wiklund, and Haynie, forthcoming). However, this is exactly what prior research indicates that family firms find so difficult to do (Gomez-Mejia et al., 2007).

Our results also suggest that due diligence on the part of buyers is particularly important in the purchase of a family firm since sellers are likely to systematically overvalue it. However, given that socioemotional value can materially influence the negotiations between buyers and sellers, practitioners should also be aware that the non-financial terms of the deal might be as important as the financial terms. For example, retaining the original name of the firm, providing continued employment to key family and non-family members, and otherwise preserving aspects of the family legacy might be used as levers of negotiation for the benefit (or ill) of one or both parties (e.g., Howorth et al., 2004). In short, to the extent that socioemotional value is an important consideration in firm valuation, our findings take a step toward providing a better practical understanding of the difficulties associated with transitions of corporate control in the context of family firms.

7.4 Conclusions

In conclusion, our paper shows that socioemotional value can be a powerful frame of reference in family firms and provides crucial insights on the role and meaning of family firms to their owners. Taken individually and together the concept of socioemotional value and the precepts of prospect theory add new possibilities for useful research that can broaden our understanding of family firm behavior and performance.

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Table 1: Correlation Matrix, Means and Standard Deviations

Variables	Mean	SD	1.	2.	3.	4.	5.	6.	7.	8.	9.
1. Current cash flow	2578160	7396331									
2. Cash flow growth and sustainability	4.87	1.06	.16								
3. Firm Size (Employees)	97.62	164.81	.18	.09							
4. Industry 1 (Construction)	.32	.47	.08	.20 [†]	.04						
5. Industry 2 (Service)	.28	.45	.12	-.141	-.14	-.43***					
6. Family ownership	86.07	26.73	.07	.08	-.04	.03	-.02				
7. Private benefits	3.22	1.63	.03	.13	-.15	-.04	.25*	-.08			
8. Firm Age	61.38	31.59	.11	-.07	.17	.31**	-.27*	.07	-.13		
9. Transgenerational Sustainability Desires	5.09	1.63	.22 [†]	.05	.04	.06	.18	.02	.07	.23 [†]	
10. LN Acceptable Sales-Price	15.60	1.88	.55***	.35**	.37**	.13	.01	.17	-.19	.32**	.382***

N = 70, [†] p < .10; * p < .05; ** p < .01, *** p < .001

Table 2: Results of Regression Analysis¹

Variables	Model 1	Model 2
Controls:		
Current Cash Flow	.439***	.375***
Cash flow growth and sustainability	.280**	.314***
Firm size (Employees)	.252**	.217*
Industry Dummy 1 (Construction)	.067	-.013
Industry Dummy 2 (Service)	.117	.108
Family ownership	.115	.098
Private benefits	-.213*	-.213*
Independent Variables		
Firm Age		.208*
Transgenerational sustainability desire		.222*
ΔR^2		.101**
R^2	.504	.606
Adjusted R^2	.448	.546
F	9.009***	10.239***

N = 70, [†] p < .10; * p < .05; ** p < .01, p < .001

¹ Standardized Regression Weights