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NEW HOT PAPERS - 2009

May 2009

PDF

Danny Miller talks with *ScienceWatch.com* and answers a few questions about this month's New Hot Paper in the field of Economics & Business.

Article Title: Are family firms really superior performers?
Authors: Miller, D;Le Breton-Miller, I;Lester, RH;Cannella, AA
Journal: J CORP FINANC
Volume: 13
Issue: 5
Page: 829-858
Year: DEC 2007
* HEC Montreal, 4642 Melrose Ave, Montreal, PQ H4A 2S9, Canada.
* HEC Montreal, Montreal, PQ H4A 2S9, Canada.
* Univ Alberta, Montreal, PQ H4A 2S9, Canada.
* Texas A&M Univ, Mays Sch Business, College Stn, TX 77843 USA.
* Arizona State Univ, Dept Management, WP Carey Sch Business, Tempe, AZ 85287 USA.

SW: Why do you think your paper is highly cited?

Perhaps because the topic is important and the findings require a reinterpretation of influential prior studies. The relationship between governance and performance has been a perennial issue. Unfortunately, earlier research has suffered from inattention to the social context of those who govern. This paper begins to fill that gap by comparing family ownership—even within the founding generation—to lone founder ownership. The differences in the social contexts and hence, in the natural agendas and conduct of such owners, may indeed have an important connection to market performance.

SW: Does it describe a new methodology?

The methods used in the paper do not constitute dramatic departures from practice. However, they are unusually painstaking in assessing the robustness of these findings and at discovering exactly why the results of this paper differ from those of previous researchers. Specifically, we replicated the results of others using our data and then show how our more fine-grained governance measures and distinctions generate more accurate and differentiated findings.

We were also careful in analyzing not only the typical Fortune 1000 firms but also a random sampling of 100 much smaller public enterprises. Moreover, we employed a variety of multivariate techniques and comparisons to confirm our findings, and conducted checks to guard against sample selection bias and endogeneity. Finally, we were careful not to impute causal directions in the relationships that we found.

SW: Would you summarize the significance of your paper in layman's terms?

The previous claims that family-owned firms outperform other public companies are incorrect. As soon as there is more than one family member acting as a major owner or officer within the firm, even within the founding generation, any performance advantage disappears. It is only lone founders who outperform, perhaps because they are unencumbered by family concerns such as nepotism, conflict, conservatism to keep the business in the family, and appropriation of business resources for family purposes. However, family firms do not under-perform other public companies, perhaps because of their owner-manager agency advantage.

SW: How did you become involved in this research, and were there any problems along the way?

We had written a book, *Managing for the Long Run* (Harvard Business School Press, 2005), about outstanding, long-lived family businesses—enduring success stories. But along the way we discovered many special challenges of these and other family organizations that were based in family motives—nepotism, hyper-conservatism, and asset appropriation among them—that tended to detract from shareholder value. We thus began to question if for the breed as a whole, the agency advantages would outweigh the disadvantages.

The major problem in conducting the research was coding the proxies—some family members' names might change, and families might control their firms through trusts and family banks. Therefore great care had to be taken to track down family ownership.

Finally, as an added challenge, we should say that our career disciplines are strategy and organization theory, not finance, and we were trying to publish in a finance journal for the first time. The co-editor of the *Journal of Corporate Finance*, Harold Mulherin, who is also a Professor in the Department of Banking and Finance at the Terry College of Business at the University of Georgia, was kind enough to take us by the hand and show us how to develop, confirm, and present our findings for a readership of financial scholars. We are in his debt.

SW: Where do you see your research leading in the future?

We hope there will be more studies of family firms to determine the strategic and organizational conduct that issues from governance distinctions and also underlies and differentiates performance outcomes.

SW: Do you foresee any social or political implications for your research?

Family firms may enjoy reduced owner-management agency costs and competitive advantages such as "patient capital"—equity provided by family business founders or successors—and a long-run orientation. But some companies have undermined these advantages with owner-owner forms of appropriation and parochial family agendas. It would be useful to determine the governance controls and arrangements that might limit the latter and free family firms to become a truly superior form of public enterprise.

Danny Miller
Research Chair in Family Enterprise and Strategy
HEC Montréal and University of Alberta
Montréal, Canada

KEYWORDS: WESTERN-EUROPEAN CORPORATIONS; OWNERSHIP STRUCTURE; AGENCY COSTS; BOARD COMPOSITION; MANAGEMENT; CONSEQUENCES; SHAREHOLDERS.