Documenting the "Family Effect" on Family Business Research

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While numerous prior studies compared the financial performance of family and nonfamily firms, Dyer (2006) argues that those studies fail to clearly differentiate the "family effect" from other variables that may influence family firm performance. Relying on agency theory and the resource-based view of the firm, Dyer attempts to isolate the unique attributes a family brings to a firm that might affect its performance. Specifically, this article discusses how family goals, relationships, and resources affect a family firm's governance, characteristics, and management.

According to Dyer (2006), family firms can either experience higher or lower agency costs, depending on the nature of the familial ties among family members. In some cases, agency costs can be reduced as family owners need not monitor family managers/employees they implicitly trust. Furthermore, family cohesion and mutually shared values and goals can reduce the need for costly monitoring. Alternatively, family firms can be ripe with strife, conflict, and battles over ownership, roles, compensation, and responsibilities. Furthermore, altruism can lead to family manager/employee freeriding and create an unwillingness of the family to discipline or remove ineffective family members from their positions in the firm. Thus, while familial ties can lead to common goals and values and enhance performance, differences in those goals and values within the family can seriously undermine it.

Families also bring unique human, social, and physical/financial assets to family businesses. While valuing human assets, such as motivation and commitment to the family firm, can foster firm performance, family firms that rely too heavily on family managers, or do not well integrate nonfamily managers into the firm, may find themselves disadvantaged in terms of their quality of human capital relative to their rivals. Family firms may, however, possess unique and valuable social capital as they have the ability to develop and maintain long-standing relationships with key stakeholders. These long-term relationships can engender trust and enhance the family firm's reputation across generations. Furthermore, family firms may be able to foster strong ties with its employees, creating another source of competitive advantage. However, overly strong familial bonds can also create an insular, self-interested firm where family outsiders are distrusted. Finally, families may bring "survivability capital" to the firm, a factor that can not only protect the firm from during economic difficultly but also encourage the launching of new business ventures. Alternatively, families can use their ownership and control of family businesses to extract personal wealth and benefits from the firm, putting its success at risk.

Based on these observations, Dyer (2006) forwarded a typology of family businesses based on two dimensions: (1) high/low agency costs and (2) high family assets/high family liabilities. Four types of family firms were identified: (1) Clan Family Firm, (2) Professional Family Firm, (3) Self-interested Family Firm, and (4) Mom and Pop Family Firm. He further proposed that Clan Family Firms will outperform the other family and nonfamily firms, and Professional Family Firms and nonfamily firms will outperform the Self-interested Family Firm.

Since its publication, Dyer (2006) has been cited more than 850 times (according to Google Scholar). This article's criticism of prior research, which often failed to explain, model, or measure the causal mechanisms leading to differences in the financial performance of family and nonfamily firms, encouraged researchers to focus on the "family effects" when documenting the actions and outcomes of family businesses. Hence, Dyer's (2006) article contributed significantly to the

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family business field by refocusing the performance debate from a dichotomous categorization (family vs. nonfamily firms) toward addressing the "how" and "why" questions concerning the family effect on performance. Furthermore, in order to open the black box of the "family firm effect," the article sets out some promising routes to go when searching for an answer on the question through which variables the family factor on performance is likely to be mediated. Besides industry and firm characteristics, such as the stages of the life cycle or human resource systems, management and family governance characteristics were commonly the focal topic of numerous studies during the last decade. These more recent studies indeed confirmed that certain (combinations of) governance mechanisms have an impact on the degree of agency problems in family firms, which may make them a valuable resource under specific circumstances. Dyer's deeper investigation of several important dimensions of family firm heterogeneity illuminated the combinations of family assets, liabilities, and agency costs that were likely to enable them to outperform their nonfamily counterparts, thereby setting a research agenda for many other papers that looked for more fine-grained typologies of family firms. Dyer's article not only provided a host of factors related to family goals, relationships, and resources that reveal those differences but also suggested that different levels of amount of these factors could have differentiating effects on the performance of the family firm, based on their relative intensity. Furthermore, by stressing the importance of considering family goals when trying to understand family firm performance, Dyer's article pointed to a fundamental aspect of what later became the most dominant theoretical paradigm in the family business field, that is, the socioemotional wealth perspective (Gomez-Mejia, Haynes, Nuñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). Furthermore, this article was also influential in subsequent calls for studies to consider goal variance within family business firms. Indeed, Dyer's (2006) article acknowledges that family members "may have competing goals and values" (p. 260), which very recently led to the investigation of differences in family members assessments and goals and the relationship with firm and team outcomes.

Finally, Dyer's discussion of the advantages of social capital also pointed to the extension of goodwill beyond the family to nonfamily employees. Recent studies suggested that this kind of social capital may help in explaining the stronger resilience and performance of family firms in times of crisis (e.g., Van Essen, Strike, Carney, & Sapp, 2015).

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