Abstract:
The cognitive-cultural embeddedness of family firms: Implications for prevalence, strategy, and performance

Family-controlled firms (FCFs) are dominant actors in nearly every national economy, but their prevalence, enacted strategies, and financial performance differ markedly across countries. We explain these differences through a new construct, the cognitive-cultural embeddedness of family firms (CEF), which captures the constitutive legitimacy of family control in the eyes of a country’s general population. We measure CEF for 83 countries with a newly developed formative index, based on several archival sources and validated by an independent panel of experts. Using a combination of meta-analytic and archival data, we show that FCFs are more prevalent in strong CEF countries, where the population is more likely to accept that families rather than other market participants control considerable wealth. We also find that in strong CEF countries, FCFs are more likely to follow strategies that differ from those of non-FCFs, as the population there is more tolerant of unique family firm characteristics. Finally, results show that FCFs tend to exhibit better financial performance than non-FCFs in strong CEF contexts. Identifying CEF as a contingency variable advances the family business, institution-based view, and strategic balance literatures by reconciling and contextualizing the inconclusive findings seen in earlier studies of FCF prevalence, strategy, and performance.