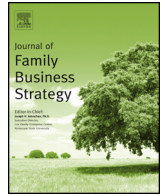




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The growth and performance of family businesses during the global financial crisis: The role of the generation in control

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ABSTRACT

This article analyses whether the Global Financial Crisis (GFC) has differentially affected the growth, risk taking and performance of family businesses depending on the generation in control. Adopting a socioemotional wealth approach, we expect that stronger emotional attachment to the firm in first-generation family businesses leads these businesses to commit more resources and take greater risks than multi-generational family businesses during crisis periods. Nevertheless, their special interest in non-financial goals leads us to predict that first-generation family businesses will perform worse during crises. Evidence from a data sample of private, unlisted and large Spanish firms (6,315) throughout Spain's particularly deep crisis over the 2006–2011 period shows that first-generation family firms grew more and increased their debt ratios significantly more than multi-generational family firms during the global financial crisis. However, based on return on equity, and consistent with our conjecture, first-generation family businesses performed worse than multi-generational family businesses during this period.

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1. Introduction

This article aims to analyze the effects that the Global Financial Crisis (GFC) has had on privately held and family-controlled firms by focusing on the potential influence (the moderating role) of the business's stage of generational control. Specifically, beginning from a socioemotional wealth approach, we investigate how growth, financial risk and performance differ between first-generation and multi-generational family businesses during the GFC.

Recent papers analyzing differences between family and non-family businesses in terms of their corporate finance decisions and their performance during the GFC after 2007 have arrived at contradictory results. For example, Lins, Volpin and Wagner (2013) found that family businesses cut their investments and underperform non-family businesses during the GFC, whereas Minichilli, Brogi and Calabró (2015) and van Essen, Strike, Carney and Sapp (2015) observed that family businesses outperform non-family businesses during the crisis period. Other papers examining the 1997 Asian Financial Crisis also exhibit inconclusive results (Amann & Jaussaud, 2012; Attig, Boubakri, Ghoul, & Guedhami,

2015; Boubakri, Guedhami, & Mishra, 2010). Meanwhile, Crespi and Martín-Oliver (2015) and D'Aurizio, Oliviero and Romano (2015) find that family businesses enjoyed better access to credit during the crisis. Notably, the majority of these papers analyze listed firms and none examine the influence of the generational stage of the family business.

We develop our research hypotheses beginning from a Socio-emotional Wealth (SEW) approach¹ (Berrone, Cruz, & Gómez-Mejía, 2012; Gómez-Mejía, Haynes, Nuñez, Jacobson, & Moyano, 2007) and by considering the moderating role of the generational stage in family businesses' growth, risk taking and performance (Cruz & Nordqvist, 2012; Eddleston, Kellermans, Floyd, Crittenden, & Crittenden, 2013; García-Álvarez & López-Sintas, 2001). Our main argument is that corporate decisions in times of financial crisis are contingent on the generation that is managing the privately held family business. Moreover, stronger emotional attachment to the firm in first-generation family businesses (Sciascia, Mazzola, & Kellermans, 2014) – together with reduced agency conflicts (Gedajlovic, Lubaktin, & Schulze, 2004; Villalonga, Amit, Trujillo, & Guzman, 2015) – facilitate greater resource commitment and risk taking during crisis periods because the first generation generally prioritizes ensuring the survival of the firm to

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pass it on to next generations of the family (i.e., preserving socioemotional wealth). Then, we expect the typical aversion of family businesses to risk to lead family businesses to a higher commitment to investment during crisis periods, particularly for first-generation family businesses. Nevertheless, the reduced access to resources and diversification that characterizes younger firms, together with their special interest in non-financial goals (SEW), leads us to expect first-generation family businesses to perform worse during crisis periods.

Beginning from the varied emotional attachments that different generations in family businesses have to the firm, we test our proposals on a database of Spanish privately held family businesses, and we propose that family businesses may behave and perform differently during economic and financial crises depending on the stage of generational control. Spain is a particularly interesting country for analyzing the effects of the GFC because of the greater depth and duration of the crisis that Spain experienced. Spain is the fourth largest economy in the euro area and the fourteenth largest economy in the world. The recession that the Spanish economy suffered was deep, and its 2007 GDP growth rate of 3.6% dropped to -3.6% in 2009, its 2007 unemployment rate of 8.6% rose to a staggering 27.2% in 2013 and its public debt grew from 39.8% of GDP in 2008 to 93.7% in 2013. In Spain, the GFC caused a significant reduction in bank funding as a result of a liquidity shock and the severe solvency problems of Spanish financial institutions. Bank loans to Spain's private sector fell by 9.2% between mid-2009 and the end of 2012, a reduction of some 172 billion euros, equivalent to 17% of GDP. This credit crunch strongly reduced domestic demand – particularly for durable and capital goods – and exacerbated the adverse effects of the crisis, delaying Spain's recovery. We aim to examine how the GFC influenced family businesses' corporate strategy and performance in a continental (civil law) European country that is highly dependent on bank intermediation. We propose that first-generation family businesses are more determined to continue growing and taking risks – even as performance worsens – to preserve their socioemotional wealth.

We pay special attention to the analysis of ownership structure and family involvement using information in our database because we posit that family businesses are not homogeneous as a group. We analyze the sample of all large privately held Spanish firms (6315) during the 2006–2011 global financial crisis period. Unlike other empirical papers that have focused on listed companies, we focus on private firms, which are in fact the majority in Spain, a civil law country (only approximately 1% of large companies in Spain are listed on the stock market). We perform a Median Difference-in-Differences (DiD) analysis, which allows us to control for the effects of unobserved time-invariant features that may reveal the different responses of first-generation and multi-generational family businesses to the GFC.

This article makes several contributions to the family business literature. First, we contribute to the Socioemotional Wealth approach by deepening the understanding of the potential differences among the weights of socioemotional goals versus financial goals for non-listed firms by examining the influence of the firm's generational stage (which has not been considered in previous research regarding the GFC and family businesses) and the firm environment, i.e., the GFC (which has not been examined in prior research on the relevance of the generational stage). Second, we contribute to the scant literature examining family business growth (Carlson, Upton, & Seaman, 2006; Casillas & Moreno, 2010; Eddleston et al., 2013; Teal, Upton, & Seaman, 2003). Whereas family business performance has been widely analyzed (Chrisman, Chua, & Sharma, 2005; Wagner, Block, Miller, Schwens, & Xi (2015), the same is not true of family business growth (Eddleston et al., 2013), although growth is crucial to firm

continuity. We add specific proposals regarding family businesses' goals (growth and risk taking) based on the generational stage in the context of the global financial crisis. Third, we contribute to the family business literature by examining how heterogeneity among family businesses (Chua, Chrisman, Steier, & Rau 2012; García-Castro & Aguilera, 2014; Melin & Nordqvist, 2007; Sciascia et al., 2014) may lead to different corporate strategies and may have performance consequences in adverse environments (e.g., the GFC). Applying insights from the socioemotional wealth perspective, this study addresses the role played by the generational stage of control of family businesses in corporate finance decisions during the GFC period and its effect on firm performance. Finally, we also add empirical research to the scarce literature on privately held family businesses, as highlighted by Mazzi (2011).

The remainder of this article is organized as follows. First, we summarize the theoretical framework and propose the hypotheses to test. We then present the database and the statistical methodology employed in the analysis. Finally, we conduct robustness tests and provide a discussion and conclusion.

2. Theoretical framework and hypotheses

2.1. The global financial crisis and family businesses' corporate decisions

Several studies to date have led to inconclusive results in attempting to analyze how family businesses face global financial crisis. Using a sample of listed firms from multiple countries, Lins et al. (2013) find evidence indicating that family-controlled businesses cut their investments and exhibit lower performance than their non-family counterparts. However, Van Essen et al. (2015) find evidence that supports the notion that family businesses' long-term orientation makes them resilient to the effects of economic shocks. Using a large data set of listed firms across 27 European countries, these authors find that family-controlled businesses outperform non-family-controlled businesses during the financial crisis (beginning in 2007) but show no significant differences during the stable growth period between 2004 and 2006. Van Essen et al. (2015) also show that listed family businesses across Europe are less likely to downsize their workforce or cut wages both before and during the financial crisis. Minichilli et al. (2015) also find that publicly listed family-controlled Italian firms exhibit better performance during the financial and economic crisis at the end of the 2002–2012 period, particularly when these firms have family CEOs and relatively lower family ownership concentration. Lee (2006) shows that there is employment stability for S&P 500 firms during a temporary market downturn over two quarters in which the U. S. economy contracted in 2001. D'Aurizio et al. (2015) do not find differences between Italian family and non-family businesses in terms of investment (either tangible or intangible), although the reduction in the number of employees is lower among family businesses after the 2008 crisis. These authors also observe that the drop in returns on equity is less severe for family businesses. Bauweraerts and Colot (2013) highlight the non-significant performance differences between family and non-family businesses during the 2005–2010 period in a sample of large Belgian firms, although they also mention that family businesses have higher investment rates during crisis periods.

In their analysis of the 1997–98 Asian financial crisis, Boubakri et al. (2010) find a higher cost of equity for family businesses after the crisis, whereas Amann and Jaussaud (2012) observe stronger resilience both during and after this crisis for a sample of Japanese listed family businesses. Attig et al. (2015) compare the dividend policies of family businesses and non-family businesses in nine East Asian economies, showing that family businesses are less

likely to increase dividend pay-outs than non-family businesses, particularly during the global financial crisis.

Crespi and Martín-Oliver (2015) analyze the effects of the 2008 financial crisis on businesses' capital structure and access to credit in a sample of unlisted high growth and solvent Spanish firms over 30 years old. They find that family businesses have easier access to debt during crises. Similarly, examining Italian firms during the crisis in October 2008, D'Aurizio et al. (2015) observe that credit contracted less for family businesses than for non-family businesses.

All of these studies consider family businesses as a homogeneous group or examine a single type of family businesses (listed family businesses or a group of firms more than 30 years old). Our research aims to contribute to current knowledge by examining privately held family businesses' growth and performance during global financial crisis, considering the potential differences based on generational stage that the socioemotional wealth perspective suggests.

2.2. Socioemotional wealth approach: differences among generations

Based on the socioemotional wealth (SEW) approach (Berrone et al., 2012; Gómez-Mejía et al., 2007; Gómez-Mejía, Cruz, Berrone, & De Castro, 2011), we hypothesize differences in the way that family businesses face the financial crisis and its effects. SEW refers to non-financial goals pursued by family businesses, such as maintaining family control and influence over the firm; identification of family members with the company; maintaining family members' status, influence and social ties; and perpetuating the firm for subsequent generations to inherit (Berrone et al., 2012; Gómez-Mejía et al., 2007; Sciascia et al., 2014).

Attempting to preserve SEW could influence family businesses' strategy and decisions. The SEW approach, agency theory and generally accepted knowledge, hold that family businesses are risk averse and avoid investment decisions that expose firm value creation to excessive risk and to losses of socioemotional wealth (Gómez-Mejía, Makri & Larraza, 2010; Hiebl, 2013; La Porta, López de Silanes & Shleifer, 1999). Empirical studies show that family businesses invest less in (risky) R&D projects (Anderson, Duru, & Reeb, 2012; Croci, Doukas, & Gonenc, 2011; Hiebl, 2013; Muñoz-Bullón & Sánchez-Bueno, 2011) and/or aim for lower levels of debt than non-family businesses, as debt might threaten survivability (González, Guzmán, Pombo, & Trujillo, 2013; Hiebl, 2013; Mishra & McConaughy, 1999). Family businesses are typically more conservative than non-family businesses because a significant portion of family wealth is concentrated in the company, particularly when the largest shareholder is an individual (Bianco, Bontempi, Golinelli, & Parigi, 2013; Heaney & Holmen, 2008;). Moreover, higher risk might endanger the goal of business succession and family business survivability (Hiebl, 2013).

The family business literature treats risk aversion as a characteristic that distinguishes family businesses from non-family businesses. Nevertheless, beginning from the different goal orientations of family and non-family businesses (Chrisman, Chua, Pearson, & Barnett, 2012; James, 1999), we expect family businesses to behave asymmetrically, depending on the economic cycle. Family businesses are characterized by "patient" capital investment that supports growth, investments in reputation-building and reinforcement of market share (Mazzi, 2011; Miller, Le Breton-Miller, & Scholnick, 2008). Families support their businesses by injecting money and taking significant risks to continue the firm legacy, although performance may be below market average (DeTienne, Shepherd, & De Castro, 2008; Gómez-Mejía et al., 2007; Pieper, 2010). Moreover, family businesses are reluctant to downsize (Stavrou, Kassinis, & Filotheou, 2007) and are less likely than non-family businesses to undertake

divestitures (Feldman, Amit, & Villalonga, 2016), even when companies are failing (DeTienne et al., 2008; Pieper, 2010). Parentalism in family businesses frequently extends to nonfamily employees, which promotes employment stability, even during market downturns (Lee, 2006). Moreover, we must bear in mind that market competition forces the family to be efficient (Lee, 2006). All this evidence is consistent with family businesses' aiming to preserve socioemotional wealth.

We expect that family businesses' long-term investment horizon, their goal of preserving firm value for future generations, their aim of behaving responsibly towards employees and creating employment opportunities for family members, and their *patient* and *survivability* capital (Bennedsen, Nielsen, Perez-Gonzalez, & Wolfenzon, 2007; Haynes, Walker, Rowe, & Hong, 1999; Le Breton-Miller & Miller, 2006; Reynolds, 1992; Sirmon & Hitt, 2003; Stavrou et al., 2007) will lead family businesses to continue providing financial and human resources even during periods of economic crisis, when it would not be a performance-maximizing strategy. It should also be noted that these arguments are particularly applicable to non-listed companies, since they do not have the pressure of capital market in the short term. By contrast, we expect non-family businesses to be more focused on economic goals and value-maximizing aims, which render them more conservative during periods of recession. Furthermore, family businesses are typically smaller and more flexible, which enables them to make faster and more effective corporate decisions in turbulent environments (Bianco et al., 2013). This asymmetric behavior on the part of family businesses regarding risk is consistent with behavioral theory (Wiseman & Gómez-Mejía, 1998) and the distinction between performance risk and venturing risk (Gómez-Mejía et al., 2007).

Theory does not go much further than saying that family principals can make decisions to preserve socioemotional wealth (SEW) even when such preservation harms financial performance (Naldi, Cennamo, Corbetta, & Gómez-Mejía, 2013). Nevertheless, the weight of socioemotional goals versus financial goals may vary across family businesses (Chrisman & Patel, 2012; Sciascia et al., 2014). Indeed, recent research demonstrates that family-controlled businesses are not homogeneous (Chirico & Bau, 2014; García-Álvarez & López-Sintas, 2001; Sharma & Nordqvist, 2008; Westhead & Howorth, 2007). These conflicting findings in empirical studies have pushed family business research to explore moderating factors regarding family businesses' heterogeneity, beyond their commonalities (Chua et al., 2012; Cruz & Nordqvist, 2012; García-Castro & Aguilera, 2014; Melin & Nordqvist, 2007). In this regard, family business generational stage is a major source of firms' heterogeneity (Cruz & Nordqvist, 2012; Eddleston et al., 2013; López-Delgado & Diéguez-Soto, 2015; Sciascia et al., 2014).

The generational stage also influences the need to preserve socioemotional wealth (Miralles-Marcelo, Miralles-Quirós, & Lisboa, 2014; Sciascia et al., 2014; Stockmans, Lybaert, & Voordeckers, 2010). Managers' and shareholders' identification with the family business and their emotional attachment to it are expected to be lower at later generational stages, as family ties weaken and differences among new family branches emerge (Le Breton-Miller & Miller, 2013; Sciascia et al., 2014). The degrees of family identification, personal investment in the firm and strategic behavior change as the firm evolves through generations (Cruz & Nordqvist, 2012; Gersick, Davis, Hampton, & Lansberg, 1997; Schulze, Lubatkin, & Dino, 2003; Sciascia et al., 2014). At later generational stages, the importance of preserving SEW diminishes, while the interest in financial wealth increases, such as the dividend payments requirement (Gómez-Mejía et al., 2007; Lubatkin, Schulze, Ling, & Dino, 2005; Sciascia et al., 2014).

To the best of our knowledge, family business research has not yet addressed the potential effect of the generation in control on

the response of family businesses to the financial crisis. The asymmetric behavior of family businesses regarding resource commitment, risk exposure, and performance impact during crisis periods might depend on the stage of generational control. Next, we present the hypotheses that we develop regarding these matters.

2.3. Family business growth during the GFC: the moderating role of generation in control

A declining propensity to make the required investments to support growth, particularly as the family business ages, is at the heart of the typical low family business survival rates across generations (Eddleston et al., 2013). Stagnation often occurs in second-generation firms, when rivalry among siblings and conflicts for control and direction lead them to block one another's actions (Eddleston et al., 2013; Miller, Steier, & Le Breton-Miller, 2003). Passive shareholders, typically prominent in third-and-beyond-generation firms, may also deter the investment process because they are typically focused on short-term performance and dividend payment (Eddleston et al., 2013; Schulze et al., 2003). We expect crisis periods to exacerbate these behaviors, especially if the company is unlisted.

As we have argued, a stronger emotional attachment to the firm is expected in first-generation family businesses than in multi-generational family businesses. Thus, we propose that the above-mentioned aim of employment stability and family business continuity will lead to higher resource commitment for first-generation family businesses during crisis periods – even when poor performance is expected. First-generation firms typically feature highly centralized authority in the founder, which facilitates decision making during turbulent periods. Moreover, crisis periods typically provide growth opportunities involving the acquisition of financially distressed companies facing liquidation. In line with these arguments, we propose the following hypothesis:

Hypothesis 1. *First-generation family businesses commit more resources to the firm than multi-generational family businesses during crisis periods (such as the GFC).*

2.4. Family business financial risk during the GFC: the moderating role of the generational stage

Risk-taking decisions may also depend on the family business and environmental circumstances (Bianco et al., 2013; Gómez-Mejía et al., 2007; González et al., 2013). Preserving socioemotional wealth may lead family businesses to engage in riskier ventures than non-family businesses, particularly when the controlling family fears losing control of the firm (Hiebl, 2013). Otherwise, the involvement of multiple family generations increases risk aversion, at least in listed family businesses (Anderson et al., 2012; Le Breton-Miller, Miller, & Lester, 2011). The competitive environment also influences the risk aversion of family businesses, with highly hostile or dynamic environments encouraging more risk taking (Casillas & Moreno, 2010).

Differences might arise in terms of the financing strategies employed by first-generation and multi-generation family businesses during the financial crisis. On average, first-generation companies typically have fewer shareholders than multi-generational family businesses (in fact, there is often one unique shareholder), which limits the possibility of raising new capital from the family. Nevertheless, family businesses typically prefer financing growth with debt over external equity financing because such financing avoids reducing ownership rights (Crocì et al., 2011; González et al., 2013; Hiebl, 2013). Issuing new debt also reduces

the need to raise equity by incorporating new shareholders and diluting family ownership (Villalonga et al., 2015).

Of course, credit restrictions during financial crisis periods will reduce a firm's capability to undertake new investment projects. Nevertheless, the long-term orientation of family businesses facilitates reduced agency conflicts between creditors and shareholders (Ang, 1992) and better access to debt financing, as a result (Anderson, Mansi, & Reeb, 2003; Crocì et al., 2011). In this stream of the literature, D'Aurizio et al. (2015) and Crespi and Martín-Oliver (2015) report a lower incidence of credit restrictions for private family businesses during financial crises. Moreover, the general tendency of family businesses to self-finance makes them less vulnerable to liquidity contractions in the financial markets.

Nevertheless, from the socioemotional wealth perspective, we expect multi-generational family businesses to be more reluctant to increase their financial risk, based on their higher interest in financial wealth preservation and their higher amount of accumulated SEW. Furthermore, we also bear in mind that multi-generational family businesses are characterized by higher agency conflicts among controlling shareholders and passive family shareholders, in addition to such conflicts with outsiders (Grossman & Hart, 1980; Villalonga et al., 2015). The higher potential for conflict in multi-generational family businesses will make it more difficult to take new economic and financial risks, particularly during crisis periods. Thus, we expect risk taking to decrease as later generations become involved in the family business.

Therefore, and also considering an expected higher growth rate for first-generation family businesses during crisis periods, we posit that first-generation family businesses will issue more debt than multi-generational family businesses during crisis periods. In formal terms, we predict as follows:

Hypothesis 2. *First-generation family businesses assume higher financial risk than multi-generational family businesses during crisis periods (such as the GFC).*

2.5. Family business performance during the GFC: the moderating role of the generation in control

Financial wealth – and therefore profitability – are expected to become more important than SEW preservation at later generational stages, which positively influences profitability (Gómez-Mejía et al., 2011; Sciascia et al., 2014). Moreover, socioemotional wealth preservation may also be an asset or a liability, depending on the environment in which the firm operates (Naldi et al., 2013). Of course, although we expect the GFC to generally affect all firms adversely, we hypothesize differences in this regard based on the generation controlling the family business.

From the SEW perspective, we expect worse performance for first-generation family businesses during global financial crisis. On one hand, at later generational stages, we expect financial goals to become increasingly more important than socioemotional goals, which will mitigate the negative effects of the crisis on firm performance. Moreover, multi-generational family businesses are expected to have greater accumulated socioemotional wealth to preserve, which will make them more risk averse, particularly during crisis periods. We would like to emphasize at this point that agency theory predicts the opposite result. In other words, as relationship conflicts lead to performance declines (De Dreu & Van Vianen, 2001; Eddleston & Kellermanns, 2007; Pieper, 2010), agency theory predicts that the increase in agency conflicts as firms pass through progressive generational control will lead to worse performance in later generational stages.

On the other hand, we expect first-generation firms to experience greater handicaps in a financial crisis, a situation exacerbated by the probability of lower diversification and higher

concentration of founder ownership, especially in private companies. However, family companies controlled by the second and subsequent generations (multi-generational businesses) that have obviously overcome generational transition have a higher probability of being diversified, in addition to having a broader group of family shareholders who can provide financial support during crises. In line with these arguments, we propose the following hypothesis:

Hypothesis 3. *First-generation family businesses suffer more from the effects of the crisis (such as the GFC) than multi-generational family businesses.*

3. Data and variables

To test the proposed hypotheses, we examine firms' growth, financial risk and performance over the 2006–2011 period for the sample of all large Spanish firms. We analyze a total sample of 6315 large Spanish firms and perform a Median Difference-in-Differences analysis (DiD), which allows us to discern the differential effect of the financial crisis among different groups of firms (first-generation versus multi-generational and family versus non-family) while controlling for the effects of unobserved heterogeneity. As discussed above in the Introduction, Spain is a particularly interesting country for analyzing the effects of the GFC given the substantial depth and duration of the crisis in this country.

Unlike other empirical papers that have focused on listed companies, we examine private firms. We conducted our research on privately held family businesses for several reasons. First, unlike Anglo-Saxon countries, listed family businesses are the exception in Continental Europe. Indeed, only approximately 1% of large companies in Spain (a civil law country) are publicly listed on a stock market. Second, founder-led listed firms may not be a representative group, as they are likely to be the very top performers among their peers (Amit & Villalonga, 2014). Third, stock markets are a special institutional environment, given the formal conditions that must be met by firms operating therein and the subsequent requirements of informational and other types of transparency (Naldi et al., 2013; Peng & Jiang, 2010;). This specialized institutional environment may also influence strategic decisions and highlight firm financing alternatives, making these environments less affected by the financial crisis than

environments dominated by bank intermediation. Using our sample of firms, which is much more representative of Spanish industry, we also contribute to the demand for further analysis on privately held family businesses (Mazzi, 2011).

3.1. Sample and data

Following the European Union Commission Recommendation, we classify a firm as large when it generates annual sales over 50 million euros and/or when it has more than 250 employees and/or total assets over 43 million euros. Our information is obtained from the SABI BvD (Iberian Balance Sheet Analysis System – Bureau van Dijk) database, which contains financial statements and ownership and management information for more than 1,000,000 Spanish firms. We use the approved data for 2011 in classifying family and non-family businesses. We examine family and non-family businesses' performance before and after the GFC by considering the 2006–2011 period.

In forming our sample, we established the following constraints:

1. We excluded financial companies, insurance firms, non-profit organizations and government companies.
2. We excluded listed companies
3. We excluded companies affected by special situations such as insolvency or liquidation and those with no business activity.
4. We focused only on limited companies and private limited companies
5. We excluded companies that did not provide financial information
6. We excluded companies that did not provide enough information to classify them as family or non-family businesses, such as the missing information regarding the Board of Directors or ownership and management structures. We also excluded companies in which ownership is evenly split between a man and a woman without information about their marital status and firms belonging to several family groups.
7. We excluded companies that fall into different age intervals in 2006 and 2011 (firms that were under 25 years old in 2006 and over 25 years old in 2011).

Table 1
Sample description.

Panel A: Large non-financial companies in Spain (2011): family vs. non-family businesses						
	No. firms	Percentage	Under 25 years old		Over 25 years old	
			No. firms	Percentage	No. firms	Percentage
Family businesses	2607	41.29%	1671	38.62%	936	47.08%
Non-Family businesses	3708	58.71%	2656	61.38%	1052	52.92%
Total	6315	100%	4327	100%	1988	100%

Panel B: Industry distribution of the sample					
Sector	Family Businesses		Non Family Businesses		Total
	First Generation	Multi Generational	First Generation	Multi Generational	
Agriculture, Forestry and Fishing	0.40%	0.32%	0.36%	0.21%	1.28%
Mining	0.08%	0.16%	0.27%	0.24%	0.74%
Construction	5.46%	3.04%	5.07%	1.62%	15.19%
Manufacturing	3.39%	4.43%	6.59%	5.48%	19.89%
Transportation, Communications, Electric, Gas and Sanitary service	1.87%	0.86%	5.61%	1.60%	9.93%
Wholesale Trade	2.38%	1.95%	4.32%	3.18%	11.83%
Retail Trade	1.20%	0.40%	2.01%	0.54%	4.15%
Real Estate	5.27%	1.71%	6.11%	1.33%	14.43%
Services	6.41%	1.96%	11.62%	2.47%	22.47%
Public Administration	0.00%	0.00%	0.10%	0.00%	0.10%
Total	26.46%	14.82%	42.06%	16.66%	100.00%

Finally, our database comprises 6315 privately held large Spanish firms. Although access to relevant information for our study is easier for listed companies, such firms are not representative of the Spanish Economy (as is typical in civil law countries, such as those in Continental Europe).

There is no official database of family businesses in Spain. We therefore developed both a semi-automated and a manual procedure to classify companies as family and non-family businesses. We conducted in-depth reviews of ownership structures, of board composition and of managerial teams. It is easier to identify family members succeeding the founder in Spain than in other countries, as the Spanish tradition involving the use of two surnames (the first from the father and the second from the mother) makes it easier to more accurately identify family members (siblings, uncles, aunts, and cousins) succeeding the founder. When shareholders were firms, we examined ownership chains to find the ultimate individual owner. We classified a firm as a family business when a family group (the founder and/or family members) holds the largest block of shares and controls the firm's board. This classification follows the Common European official definition of family business (European Commission) from the European Family Businesses Group (EFB) and the Family Business Network (FBN) in 2008, the two main international institutions representing family businesses, and also that adopted by the Family Business Institute in Spain (IEF, 2015). Among others, Basco (2013) and Sciascia et al. (2014) also follow these classification criteria in their databases of privately held Spanish and Italian firms, respectively.

Table 1 shows the distribution of the sample. Family businesses comprise 41.29% of the sample (2607 firms), whereas 58.71% of the firms in our sample (3708 companies) are non-family businesses. Although our hypotheses examine the differences among family businesses, comparing first-generation with multi-generational ones, the database also includes non-family businesses, to check the same comparisons among non-family businesses. Accordingly, we can attribute the results to the family generational stage, rather than firm age. The percentages of family businesses in our database are lower than those in small and medium-sized family businesses in Spain, typically reported to be approximately 85% (IEF, 2015), which is likely because our sample consists exclusively of large firms.

To test the proposed hypotheses regarding the effect of the generation in control, we classify all of the sample firms based on their age. We consider as first-generation family businesses those under 25 years old (following Gersick et al., 1997). Multi-generational family businesses are therefore those over 25 years old. Panel B of Table 1 also shows the industry distribution of the sample.

3.2. Variables and descriptive

Our variables of interest are firm size, financial leverage and performance. We examine firms' growth (Hypothesis 1) by considering total assets, the number of employees, and the CAPEX. We also analyze leverage ratio (Hypothesis 2), as well as firm performance, ROA and ROE (Hypothesis 3):

- We compare firm size, proxied by the natural logarithm of the book value of total assets (*Total Assets*), measured in thousands of euros. Alternatively, we also measure firm size by the number of employees (*Employees*) and proxy the firms investment behavior by their CAPEX, as annual capital expenditures in thousands of Euros (*CAPEX*).
- Leverage ratio (*Debt*) is defined as total interest-bearing debt over total assets.

- We also examine the performance consequences of the financial crisis by considering return on assets (*ROA*) and return on equity (*ROE*). Return on assets (*ROA*) is defined as the ratio of earnings before interest payments and income taxes to total assets. Return on equity (*ROE*) is defined as the ratio of the firm's net income to total shareholders equity.

Table 2 shows the descriptive statistics for family businesses and the median differences between family businesses under and over 25 years old (first-generation and multi-generational family businesses) in 2006 and 2011. As expected, first-generation family businesses are smaller than multi-generational family businesses, both one year before and four years after the onset of the financial crisis. However, there is a significant reduction in the size gap between first-generation and multi-generational family businesses, both in terms of assets and employees. The median value of total assets in 2006 is 13,959 thousand euros higher for multi-generational family businesses but only 7606 thousand euros higher in 2011. This decrease in the difference of total assets is mainly associated with the high growth in the fixed assets that first-generation family businesses experienced during the global financial crisis, which is consistent with Hypothesis 1. Regarding employment, the median total number of employees is also lower for first-generation family businesses in both 2006 and 2011, although this gap shrinks from 119 to 111 workers over the period.

The relative growth of total assets for first-generation family businesses compared to multi-generational family businesses is financed by means of a significant increase in financial leverage. First-generation family businesses increased their leverage ratio from 20% to 29% over the 2006–2011 period, whereas multi-

Table 2

Size, financial leverage and performance of family businesses categorized by generation before and during the GFC.

Panel A: 2006					
	First-generation		Multi-generational		Difference (Median)
	Median	S.D.	Median	S.D.	
Total Assets	47,332.2	199,101.7	61,291.4	321,521.3	-13,959.2***
Fixed assets	18,129.4	139,314.2	22,130.2	206,858.09	-4,000.8**
Employees	33	462	152	620	-119***
CAPEX	572.124	19093.501	1356.870	35908.153	-784.746***
Debt	0.2056	0.2592	0.2030	0.2128	0.0026
ROA	0.0430	0.1095	0.0692	0.0880	-0.0262***
ROE	0.0893	0.4441	0.1060	0.2884	-0.0167***
N Firms.	1671		936		
Panel B: 2011					
	First-generation		Multi-generational		Difference (Median)
	Median	S.D.	Median	S.D.	
Total Assets	60,633.6	259,200.6	68,240.5	351,188.6	-7,606.9***
Fixed assets	35,425.8	185,399.9	31,977.7	242,036.7	3,448.1*
Employees	36	490	144	659	-111***
CAPEX	244.356	19932.24	693.769	21659.539	-449.413***
Debt	0.2995	0.2850	0.2292	0.2391	0.0703***
ROA	0.0278	0.0862	0.0389	0.0788	-0.0111***
ROE	0.0241	0.5659	0.0438	0.4523	-0.0197***
N Firms.	1671		936		

Note: The database consists of 2607 large family businesses (1671 first-generation family businesses and 936 multi-generational family businesses). First-generation family businesses are those under 25 years old, and multi-generational family businesses are those over 25 years old. Asset data in thousand euros.

***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

generational firms increased their leverage ratio much less, from 20% to 22%. This preliminary relationship supports Hypothesis 2.

Regarding performance, multi-generational family businesses outperformed first-generation family businesses, both before and during the GFC, supporting Hypothesis 3. Return on assets (ROA) and return on equity (ROE) are both significantly higher for multi-generational family businesses. Nevertheless, first-generation firms had a relative recovery in return on assets while experiencing a simultaneous deterioration of the return on equity in relation to multi-generational firms.

4. Methodology and results

4.1. Statistical methodology

We perform a Median-Difference Wilcoxon rank-sum test to examine the possible differences in growth and performance between first-generation and multi-generational family businesses. We analyze the differential effects of the financial crisis (which began in 2007–2008) through a Median Difference-in-Differences (DiD) analysis for these two groups of family businesses, comparing observations from a year before the financial crisis (2006) and after four years of the crisis (2011). Using a DiD approach controls for the effects of unobserved time-invariant firm features. Unlike the least-squares regression, which estimates the mean of the dependent variable, the median regression estimates the median of the dependent variable, conditional on the values of the independent variables. Quantile (median) regressions are especially useful in the analysis of variables that present extreme values and do not follow a normal distribution, since the existence of outliers does not affect the median. Therefore, median regression is more robust than OLS regression to outliers.

To perform the Median Difference-in-Differences analysis, we estimate the following quantile regression model:

$$Y_{it} = \beta_0 + \beta_1 * Crisis + \beta_2 * Generation + \beta_3 * Crisis * Generation + \varepsilon_{it} \quad (1)$$

where Y_{it} represents the analyzed dependent variable. We examine the differential effect of the financial global crisis and the family business generational stage on the following firm outcomes: growth, financial leverage and performance.

The effect of the financial crisis is considered by including a dummy variable, *Crisis*, that takes a value of zero for pre-crisis (2006) observations and a value of one for the observations in the crisis period (2011). The coefficient on this time term, β_1 , captures differences over time in our dependent variable that are common

to all of the firms in our sample (family businesses in their first generation and beyond their first generation).

Generation is a dummy variable indicating whether a firm is in its first-generation (one) or beyond (zero). The coefficient β_2 in Eq. (1) captures differences between first-generation and multi-generational businesses regarding our dependent variables that are stable over time.

The coefficient of interest to test the hypotheses, β_3 , measures the differential effect of the crisis on the set of dependent variables for first-generation firms versus multi-generational firms, *Crisis*Generation*. By evaluating the firms' generational effect on the change in the outcome variable both before and after the financial crisis, we control for unobserved differences between first-generation and multi-generational firms. We thus determine whether the observed differences are caused by the different responses of these two groups of firms to the financial crisis.

In our analysis, we assume that the time trends of the dependent variables in the absence of the financial crisis are parallel for the groups of comparison (first-generation versus multi-generational family businesses).

4.2. Results

Table 3 presents the results of a median difference-in-difference analysis, estimating Eq. (1), and compares first-generation versus multi-generational family businesses, including industry controls (Dess, Ireland, & Hitt, 1990; Pérez-González, 2006), to test whether the differential effects derived from the global financial crisis are due to differences in the industrial sector to which firms are assigned within each comparison group, although these are not displayed to save space.

The interpretation of the coefficients of a median regression is similar to an OLS regression model, although quantile specific. Instead of the mean effect obtained in OLS regression, the coefficients indicate the change in the median value of the dependent variable (growth, financial risk and performance). The intercept term indicates the median value of the dependent variable for multigenerational family firms before the crisis. The coefficients on the variables *Crisis* (β_1) and *Generation* (β_2) indicate respectively the median effects on our set of dependent variables derived from the financial crisis and from the generational stage of the firms (being a young firm in its first generation versus second and beyond generation).

Finally, the coefficients on the interaction term of *Crisis*Generation*, β_3 , indicate the differential effect of the global financial crisis experienced by first-generation firms compared to multi-

Table 3

Median difference-in-differences (DiD) of size, financial leverage and performance before and during the GFC: First-generation vs. multi-generational family businesses.

	Growth (H1)			Fin.risk (H2)		Performance (H3)	
	Total assets	Employees	CAPEX	Debt	ROA	ROE	
Constant	77793.6*** (34.15)	65*** (7.88)	679.8*** (7.69)	0.363*** (19.56)	0.0586*** (22.85)	0.0939*** (14.65)	
Crisis (β_1)	6225.6** (2.51)	-20** (-2.27)	-501.9*** (-5.28)	0.0164 (0.81)	-0.0289*** (-10.35)	-0.0616*** (-8.82)	
Generation (β_2)	-16244.9*** (-7.28)	-49*** (-6.07)	-437.3*** (-5.12)	0.0145 (0.80)	-0.0186*** (-7.43)	0.0000300 (0.00)	
Crisis*Generation (β_3)	7770.7** (2.51)	23** (2.07)	291.4** (2.42)	0.0657*** (2.60)	0.0101*** (2.88)	-0.00947 (-1.09)	
N. Obs.	5214	4836	4836	5214	5214	5214	
Pseudo R ²	0.0228	0.1137	0.0178	0.045	0.0341	0.0284	

Note: This table presents the median-regression estimates of Eq. (1) predicting firms' size, financial leverage and performance using a balanced panel of firm-level data for the years 2006 and 2011. The dependent variables are as follows: Total Assets, Fixed assets, Current assets, Employees, CAPEX, Debt ratio, Short-term debt ratio, ROA, and ROE. Crisis is a binary variable that takes value 1 for 2011 and zero for 2006. Generation is a binary variable that takes a value of 1 if the family business' age is under 25 years (first-generation) and zero otherwise (multi-generational). All models include 1-digit SIC dummy variables.

***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. t-values are shown in parentheses.

generational family businesses. Having statistically significant coefficients for these interaction terms indicates the existence of a significant differential effect of the global financial crisis between the subsamples of firms compared, regarding growth (Hypothesis 1), financial risk (Hypothesis 2) and performance (Hypothesis 3).

The pseudo- R^2 statistic² displayed at the bottom of Table 3 can be interpreted analogously to the R^2 in standard linear regression, taking into account that this pseudo R^2 is quantile-specific rather than global over the whole distribution. In our case, the pseudo R^2 indicates to what extent the financial crisis (*Crisis*), the firm's generation (*Generation*) and their interaction (*Crisis*Generation*) help explaining the median levels of growth, financial risk and performance.

The coefficients for the *Crisis*Generation* interaction term in Table 3 show that first-generation family businesses have significantly higher asset growth than multi-generational family businesses during the global financial crisis. We also register a statistically significant higher growth in the number of employees and CAPEX of first-generation family businesses compared to multi-generational firms. In summary, our results indicate that first-generation family businesses significantly reduce their size gap compared to multi-generational family businesses during the crisis period. Therefore, in accordance with Hypothesis 1, first-generation family businesses grew more than multi-generational family businesses during the global financial crisis.

Consistent with Hypothesis 2, we also observe that first-generation family businesses significantly increased their debt ratios during the crisis period in comparison to multi-generational family businesses. The positive and statistically significant coefficients for the interaction terms on the financial leverage variables indicate that first-generation businesses resort to debt financing more than multi-generational family businesses to support their growth during the financial crisis.

Regarding performance, the positive and statistically significant coefficient for the *Crisis*Generation* interaction term indicates a lower decrease in asset profitability for the group of first-generation family businesses compared to their multi-generational counterparts during the GFC. Nevertheless, first-generation family businesses continue to underperform multi-generational businesses during the financial crisis. The closing of the ROA gap is not accompanied by a relative improvement in Return on Equity (ROE) for the group of first-generation family businesses compared to multi-generational firms. First-generation family businesses maintain lower values of ROE both before and during the financial crisis. The poorer performance of first-generation family businesses in comparison to multi-generational businesses, supports Hypothesis 3.

In light of the results obtained, we conclude that first-generation family businesses have faced the global financial crisis differently than multi-generational family businesses. First-generation firms have grown more. This higher growth has been accompanied by a significant increase in their financial risk and their debt ratios, in particular. These investment efforts have been rewarded with a relative increase in asset profitability, although there has not been a similar evolution in return on equity, and first-generation family businesses continue to show a poorer return on equity than multi-generational family businesses. These results support the proposed hypotheses and the prevalence of socio-emotional wealth goals for first-generation family businesses – in contrast with the prevalence of financial goals at later family generational stages – during the global financial crisis.

² Pseudo R^2 is computed as $1 - (\text{LnLfit}/\text{LnLo})$ where Lo is the log likelihood of an intercept only model and LnLfit is the log likelihood of the model of interest.

4.3. Robustness tests

Finally, we have also performed several robustness tests (Tables are not displayed to save space). We implement alternative definitions of family businesses and also different cut-off points to classify firms into first and multi-generational family businesses. We first explore the sensitivity of the results to the selection of different cut-off points when classifying family businesses into first-generation and multi-generational firms, ranging from 20 to 30 years of firm's age. We also extend our analysis by considering the alternative thresholds of 40% and 20% of family ownership to classify a firm as a family business. Our results hold for alternative definitions of family businesses' generation and levels of family control.

To ease concerns about bias caused by omitted variables, in a not-tabulated analysis we have included additional controls of turnover, capital intensity, liquidity and solvency to the models estimated in Table 3. The sign and statistical significance of the relevant coefficients remain unchanged, while the goodness of fit (Pseudo R^2) increases significantly in relation to those displayed in Table 3, reaching 3.6% in the case of total assets, 15.4% for the employees, 2.37% for the CAPEX, 9.3% for the financial leverage and 7% for the estimations of firms' performance.

We have also extended previous analyses examining the differential effects of the global financial crisis between family and non-family businesses in the same age group, regarding firms' growth, indebtedness and performance changes. Regardless of the age group considered, family businesses are smaller and present higher leverage ratios than their non-family counterparts before the financial crisis, which continues after four years of crisis. The differential effect of the global financial crisis only emerge for the group of first-generation family businesses; in comparison to their non-family counterparts, first-generation family businesses show higher increases in their debt ratios and a deterioration in their performance as measured by both ROA and ROE. Regarding firms over 25 years old, there are no differences between family and non-family businesses in terms of growth, debt ratios or performance during the crisis period. This relationship supports the socio-emotional wealth proposals enunciated in Hypothesis 3 and the prevalence of financial goals in multi-generational family businesses.

5. Discussion and conclusion

Starting from socioemotional wealth (SEW) proposals, this article analyses the effects of the global financial crisis on family businesses growth, risk taking and performance, considering the potential moderating role of the generation in control. Our findings show that first-generation family businesses have grown more than multi-generational family businesses during the global financial crisis and have significantly increased their debt ratios. We find that first-generation family businesses have also performed worse than multi-generational family businesses during crisis period.

Our study extends previous research on the comparison of listed family and non-family businesses' investment and performance during the global financial crisis (Amann & Jaussaud, 2012; Lee, 2006; Lins et al., 2013; Minichilli et al., 2015; van Essen et al., 2015) by analyzing private firms and exploring the influence of the family firm's generational stage. We highlight that SWE arguments are particularly applicable to non-listed companies, since they do not bear the pressure of the capital market in the short term. We develop hypotheses and complement previous research studying non-listed companies.

Our results are in agreement with Gómez-Mejía et al. (2007), Le Breton-Miller and Miller (2013), Lubatkin et al. (2005) and Sciascia

et al. (2014) regarding the lower weight of socioemotional goals versus financial goals during later generation stages. The importance of preserving SEW diminishes at later generational stages, whereas the interest in financial wealth increases, as family ties weaken and differences among new family branches emerge.

Contrarily to Pérez-González (2006) and Villalonga and Amit (2006), who showed lower family businesses' performance after the founder's generation, we observe that first-generation family businesses maintain lower values of ROE both before and during the financial crisis. Nevertheless this discrepancy of results, might be explained by the disparity among the samples of study. Our research examines privately held companies rather than listed companies, where founder-led public firms are a special case of family businesses, very top performers among their peers, as Amit and Villalonga (2014) indicate.

The contributions of this article to the current family business literature may be summed up as follows. First, this research contributes to the Socioemotional Wealth (SEW) literature by delving into the differences in family business SEW based on their generational stage. Our findings extend prior research showing positive relations between family management and profitability at later generational stages (Sciascia et al., 2014) by examining the influence of firm environment (such as the GFC). Our research contributes to clarify the conditions under which family involvement is risk-enhancing or risk-diminishing (Hiebl, 2013). We observe higher growth, greater risk taking and worse performance for first-generation family businesses during the global financial crisis, which is consistent with a greater determination to preserve socioemotional wealth in first-generation family businesses. Our results also support the influence of the environment on SEW preservation goals. Thus, generational stage and environment are contingency factors to the SEW approach.

Second, we contribute to the literature on family businesses' growth, which is scarce in spite of its relevance to family businesses continuity (Eddleston et al., 2013; Poza, 1988). Firm growth is essential to the competitiveness of any business, and even more for family businesses to accommodate family growth through generations and to minimize conflicts hindering firm continuity. We find that corporate finance decisions regarding investment and financing change with the economic conditions of family businesses, particularly in first-generation family businesses. First-generation family businesses invest and borrow more during the crisis period. This result is consistent with the view that families manage for the long run and strive to maintain control of their firms (Amit & Villalonga, 2014).

Third, this article also contributes to the analysis of heterogeneity among family businesses, proposing theoretical hypotheses for family business growth, risk taking and performance during global financial crisis periods, considering the influence of firm's generational stage. Family business studies are evolving from early comparisons of family and non-family businesses to finer analyses that consider family businesses' heterogeneities (Chua et al., 2012). This research aims to take a step in this direction, examining differences in corporate finance decisions during crisis periods by adopting a perspective based on firm generational stage. Our results agree with the approach that family businesses are heterogeneous and the moderating role of the generational stage. Our approach also extends previous research regarding the performance consequences of family business heterogeneity (Chen & Yu, 2011; López-Delgado & Diéguez-Soto, 2015; Miralles-Marcelo et al., 2014; Naldi et al., 2013; Sciascia & Mazzola, 2008; Villalonga & Amit, 2006). Examining the differences among family generations and the influence of the financial environment have allowed us to explore discrepancies in prior research with respect to different aspects of family business growth and performance during crisis periods. Furthermore, we add evidence of the

suitability of considering the specificity of each family business generation in scholarly research.

Finally, from an empirical perspective and as opposed to studies in the family business field that have typically focused on large listed firms (Mazzi, 2011), we employ a database that includes privately held companies, which are more representative of family businesses in civil law countries such as Spain. Our results are in line with Sciascia et al. (2014) for Italian firms regarding the role of generational stage as a key moderating variable of socioemotional wealth preservation and family business performance.

In summary, this research contributes to the family business literature by examining firm growth, leverage and performance during the global financial crisis period, considering differences based on the generation in control. Our findings encourage researchers to incorporate the socioemotional wealth perspective and the moderating role of generational stage into empirical research. Given the relatively scant literature directly related to the topic studied in this article, we propose a new approach to studying the relationship between the GFC and family-controlled businesses.

Our study has several limitations that may reveal interesting and inspiring topics in the development of future research. The difficulty in database construction constrains our analysis to only one country and a particular cultural setting, which limits the generalizability of our findings. Given that we have only considered one institutional environment, future studies should expand the analysis to other countries, examining the influence of different regulatory, normative and cultural contexts. Besides, although our sample is composed of private firms, we have only analyzed relatively large firms. It would be valuable to test the hypotheses for small and medium-sized enterprises (SMEs), considering the effect of possible higher financial constraints. Another limitation is that we have only analyzed quantitative data. A qualitative approach would be of interest, in order to study in depth different non-financial goals pursued by family businesses and the relevance at different generational stages. Further, SEW was not actually measured in our study. Family businesses may differ in the importance they place on non-financial, SEW related goals. Therefore, future studies should attempt to assess SEW and its importance through direct measures (Berrone et al., 2012; Debicki, Kellermanns, Chrisman, Pearson, & Spencer, 2016; Hauck, Suess-Reyesm, Beck, Prügl, & Hermann, 2016).

Many interesting research questions remain unanswered. Future research may wish to investigate the influence of different dimensions of SWE on corporate finance decisions and the effects on firm performance. Another interesting issue is to examine how differences among institutional environments have conditioned family firms' investment decisions, risk taking and performance during crisis periods. Multi-country studies comparing the impact of global financial crises on family businesses across different national and cultural environments are also valuable. We also find of interest to examine how the prior degree of family businesses diversification influence their performance during the global financial crisis. We encourage fellow researchers to join us in the quest to explore these and many other open questions in order to further advance family business theory and practice.

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