

Family Control and Family Firm Valuation by Family CEOs: The Importance of Intentions for Transgenerational Control

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Family firms are thought to pursue nonfinancial goals that provide socioemotional wealth, but socioemotional wealth is feasible only with family control of the firm. Using prospect theory, we hypothesize that socioemotional wealth increases with the extent of current control, duration of control, and intentions for transgenerational control, thus adding to the price at which owners would be willing to sell their firms to nonfamily buyers. Findings from two countries show that current control has no impact, and duration of control has a mixed impact. However, intention for transgenerational control has a consistently positive impact on the perceived acceptable selling price.

Key words: endowment effect; prospect theory; family business; socioemotional wealth; transgenerational control; firm valuation

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Introduction

Family business researchers contend that family firms are more likely to pursue nonfinancial goals than nonfamily firms (e.g., Chrisman et al. 2003). Gómez-Mejía et al. (2001, 2007, 2003, 2010) further suggest that the ability to achieve nonfinancial goals provides family owners with socioemotional wealth, whereas other researchers (e.g., Zellweger and Astrachan 2008) refer to emotional value to make the same point. Gómez-Mejía and his colleagues show empirically that a desire to preserve socioemotional wealth can lead to entrenchment (Gómez-Mejía et al. 2001), reduced compensation risk for family executives (Gómez-Mejía et al. 2003), a preference to preserve family control even when that increases business risk (Gómez-Mejía et al. 2007), a tendency to avoid diversification that might reduce firm risk but increase control risk (Gómez-Mejía et al. 2010), and better environmental performance when that protects against risks to the family's reputation (Berrone et al. 2010).

The idea that family members attach socioemotional wealth to firm ownership has theoretical relevance, and Gómez-Mejía and his colleagues (Berrone et al. 2010; Gómez-Mejía et al. 2001, 2003, 2007, 2010) have provided strong indirect evidence of the existence and

influence of socioemotional wealth in family firms. However, there are conceptual and empirical issues that still need to be examined. For example, the concept still needs to be tested more directly.

Conceptually, the family's control of the firm through ownership is critical to creating and preserving socioemotional wealth because such control is what allows the family to pursue its interests through the firm. In other words, control is a necessary condition and plays a critical role in the theory of socioemotional wealth. Researchers (e.g., Berrone et al. 2010, Gómez-Mejía et al. 2007) have observed, however, that the influence of socioemotional wealth varies among family firms with seemingly similar ownership and control characteristics. Our study addresses the need to understand this variation in socioemotional wealth's influence on family firm behavior. By showing that socioemotional wealth exists and is measurable, our study provides a critical step toward establishing a direct instead of imputed linkage between noneconomic goals and family firm behavior, and thus it advances family firm theory.

Specifically, this study develops and tests hypotheses on the relationship between family control and socioemotional wealth. We argue that the observed variation in the influence socioemotional wealth exerts on family

firm behavior may arise from differences among family firms with respect to aspects of firm control. We focus on how three aspects of control—the extent of current control, the length of time or duration of control, and the intention for transgenerational control—are believed to affect socioemotional wealth. Current control is important because without it, the family chief executive officer (CEO) would not have the power and legitimacy to make decisions based on nonfinancial criteria. Likewise, duration of control is important because, over time, socioemotional wealth can increase through the heirloom effect and as the family firm becomes the depository of univocal reciprocity (Janjuha-Jivraj and Spence 2009, Wade-Benzoni 2002). Finally, transgenerational control is important because it influences whether socioemotional benefits such as the perpetuation of the family dynasty and continuation of family values are feasible. More importantly, the intention for transgenerational control of the firm influences the controlling family's vision for the business and its goals for socioemotional wealth creation and preservation.

Following the family firm socioemotional wealth literature (e.g., Gómez-Mejía et al. 2007, Astrachan and Jaskiewicz 2008, Shepherd and Zacharakis 2000, Zellweger and Astrachan 2008), we developed our hypotheses using prospect theory and test these hypotheses using data from surveys of family firm CEOs in two different countries. We contribute to the literature by developing a theoretical explanation for why different aspects of control might influence socioemotional wealth and by empirically demonstrating that intention for transgenerational control of the firm is a primary driver of the socioemotional wealth perceptions of family firm owners. This is important to the theory of family business because socioemotional wealth and intention for transgenerational control have been treated as separate factors that differentiate family from nonfamily firms. Our study, in effect, provides evidence that transgenerational control intentions influence socioemotional wealth, suggesting that the two are complementary rather than alternative explanations for variations among family firms and, by implication, differences between family and nonfamily firms. We also contribute to the family firm literature by demonstrating that such wealth is quantifiable and that intentions for transgenerational control can be directly linked to variations in family firm behavior—in this case, firm valuations.

Theory Development

Before developing our hypotheses about how the three aspects of family firm control affect the socioemotional wealth perceived by the families, it is first necessary to briefly discuss the factors that influence the financial value of a firm.

Financial Value of a 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 speaking, the present value is determined by discounting the expected future cash flows at an appropriate discount rate that increases with risk. Thus, the financial value of the firm should increase with cash flows, increase with the growth and sustainability of cash flows, and decrease with risk.

In addition to cash-flow value, however, the 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 by consuming perks, investing in projects that increase the power of owners and managers rather than financial returns, shaping dividend policy to favor the coalition, and entrenching or overpaying management (e.g., Combs et al. 2010, Morck et al. 1988, Villalonga and Amit 2006). These so-called private benefits have been well documented for firms with concentrated ownership in countries around the world (Nenova 2003). What financial research has therefore shown is that the shares held by the dominant coalition (whether it is composed of family members or not) can have a greater value than what is reflected in their percentage of ownership.

In summary, the finance literature suggests that a firm's financial value has two components that apply to both family and nonfamily firms: cash-flow value and the private benefits that are available when the firm has concentrated ownership (Jensen and Meckling 1976).

Prospect Theory and the Financial Value of Socioemotional Wealth

Behavioral theorists have long suggested that firms have economic goals as well as a variety of noneconomic ones that reflect the perceptions, values, attitudes, and intentions of the coalitions in the organization (Argote and Greve 2007, Cyert and March 1963). In family firms, where the dominant coalition is controlled by family members, it seems likely that noneconomic goals related to the family itself would be especially important (Westhead and Howorth 2007). Recent developments, consistent with the behavioral tradition, propose that the pursuance of these family-centered noneconomic goals create emotional value (e.g., Astrachan and Jaskiewicz 2008, Zellweger and Astrachan 2008) or socioemotional wealth (e.g., Gómez-Mejía et al. 2007) for the family. As conceptualized, socioemotional wealth includes fulfilling needs for belonging, affect, and intimacy; continuation of family values through the firm; perpetuation of the family dynasty; preservation of family firm social capital; discharge of family obligations based on blood ties; ability to act altruistically toward family members using

firm resources (Gómez-Mejía et al. 2007); and social status (Zellweger and Astrachan 2008). These benefits differ from the private benefits discussed and documented in the finance literature because they are not *necessarily* obtained at the expense of other shareholders (Burkart et al. 2003).

Economists observe that individuals tend to evaluate the possible outcomes of their decisions relative to the status quo, for example, by considering the marginal benefits and costs of actions relative to the do-nothing scenario. In the particular case of decisions concerning possessions, this leads to the perception that parting with an asset constitutes a loss. If the parting is in exchange for something of equal financial value, there should be no net gain or loss from a financial point of view. However, Kahneman and Tversky (1979a) and Tversky and Kahneman (1986, 1991) observe that loss aversion makes decision makers attach greater weight to an asset's loss than to the financially equivalent gain, causing the minimum price that an individual demands for parting with an asset to be higher than the maximum price that individual is willing to pay to acquire the same asset (Kahneman et al. 1990, 1991; Thaler 1980). The general existence of this additional perceived financial value arising from the endowment effect is well documented by researchers across various disciplines (e.g., Boyce et al. 1992, Curasi et al. 2004, Kahneman et al. 1991, Price et al. 2000, Schultz Kleine and Menzel-Baker 2004). The effect has also been shown to persist in a variety of settings (Kahneman et al. 1990).

This has two important implications for theory. First, if family firm control provides and is a necessary condition for a socioemotional endowment, then parting with control means losing the endowment. Prospect theory therefore suggests that loss aversion would make the family reluctant to sell the firm for only its financial value. In other words, following the logic of behavioral agency theory (Gómez-Mejía et al. 2007, Wiseman and Gómez-Mejía 1998), once family owners adopt a socioemotional reference point rather than a purely financial reference point, their perceptions of the value of the firm should rise according to the amount of socioemotional wealth they attach to the firm.

Second, because endowments can be perceived to have financial value, the family should be willing to trade socioemotional wealth for an appropriate financial consideration (Astrachan and Jaskiewicz 2008, Gómez-Mejía et al. 2010, Zellweger and Astrachan 2008), suggesting that socioemotional wealth may be measurable in financial terms. If we define the total perceived value of the firm to the controlling family to be the price at which the family would be willing to sell the entire business to nonfamily members, it should then be equal to the financial value based on cash-flow and private benefits *plus* the additional value for which the family is willing to give up its socioemotional wealth endowment.

Thus, it should be possible to measure socioemotional value or wealth as the difference between the controlling family's perceived total value of the firm and the sum of its cash-flow- and private-benefit-based financial value.¹

Extent of Existing Ownership Control

Control is a necessary condition for the family to possess socioemotional wealth through the family business because without it the family would not have the legitimacy and power to manage the firm in the particularistic manner required to generate that wealth. Thus, the body of work by Gómez-Mejía et al. (2007, 2010) that provides us with the dominant portion of the evidence about socioemotional wealth ensures that the families studied had ownership control, and indeed those authors argue that obtaining socioemotional wealth is only possible through control. As Berrone et al. (2010) and Gómez-Mejía et al. (2007) observe, however, family firms with similar family ownership and control appear to behave with substantial unexplained heterogeneity, suggesting that the importance of socioemotional wealth varies.

Explaining the heterogeneity is important for the theory of socioemotional wealth and the theory of the family firm because of socioemotional wealth's role in explaining differences between family and nonfamily firms, and especially variation among family firms. To develop an explanation, we focus on how families may differ in the ways they satisfy the condition of control through the extent of current control, the duration of family control, and the family's intentions for transgenerational control.

Without existing control, the family cannot receive the benefits flowing from socioemotional wealth. Indeed, the family's emotional ties to the firm are likely to strengthen with control (Gómez-Mejía et al. 2003). If true, then the socioemotional wealth endowment derived from the emotional benefits arising from, for example, fulfillment of belonging, affect, and intimacy should increase with control. Socioemotional wealth should also strengthen with the extent of control through ownership because, in our politicoeconomic system, property rights provide controlling owners with the power to act in a particularistic manner (Carney 2005) even if that mainly reflects the values and aspirations of the owners. The more of the business the family owns, the greater the family's power to act in ways that increase its socioemotional wealth and the greater the perceived loss if control were relinquished.

In addition, socioemotional wealth should intensify with the extent of control through ownership as a result of enhanced reputation, status, and social capital. As control of the firm increases, the association of the family's name with the firm increases (Dyer and Whetten 2006). Thus, increased control heightens both the legitimacy and importance of the family's pursuit of socioemotional wealth. Furthermore, some sources of

socioemotional wealth, such as social status and family social capital, may be affected significantly by whether the family is perceived to be imposing agency costs on the firm's other stakeholders, such as by altruistically hiring less competent family members or overcompensating them (cf. Chua et al. 2009). However, the more of the business the family owns, the more the cost of particularistic behavior will be borne by the family and the less likely its reputation, social status, or social capital will be reduced by conflicts with nonfamily owners. Therefore, the legitimacy of a family's decisions in the eyes of other stakeholders should be enhanced by increasing ownership, and this will in turn increase the family's socioemotional wealth and its perceptions of the value of the firm.

In summary, for power and legitimacy reasons, the extent of the family's ownership control should positively affect socioemotional wealth. As expressed below, this suggests that as family ownership increases, loss-averse family owners will demand a higher price to relinquish their socioemotional wealth; therefore, they will perceive the total value of the firm to be higher.

HYPOTHESIS 1 (H1). There is a positive relationship between the extent of family ownership and family owners' perceptions of the total value of the firm's equity.

Duration of Control

The socioemotional endowments tied to ownership can occur instantaneously (Kahneman et al. 1991). However, research suggests that a value premium associated with ownership may also grow over time as a result of extended self-attribution (Belk 1988, Boyce et al. 1992, Watson 1992) and increasing preference for the status quo with experience (Burmeister and Schade 2007). The marketing literature contains extensive evidence that the perceived value of an asset to its owner can increase with the duration of emotional attachment such that the perceived value is higher than its financial value. Emotional attachment first requires psychological appropriation—a sense that the asset is “mine” (Belk 1992). In addition, possession rituals over time give the owned asset a personal meaning that connects it with an individual (Belk 1988, Watson 1992), resulting in a perceived singularity in the relationship between a person and an asset (Belk 1991, Grayson and Shulman 2000, Schultz Kleine et al. 1995). For example, research indicates that heirlooms can become part of a family's legacy or symbolize self-continuity, and they thereby maintain affective meaning across time (Price et al. 2000).

These studies have been conducted on inanimate objects, but it is not unreasonable to draw parallels with owners' attachment to their firms. Through involvement, owners may extend themselves into the firm just as they may extend themselves into personal assets in

their possession (Belk 1988). Because emotional attachment grows with time, the value of the family's socioemotional wealth endowment should increase with the duration of ownership. Indeed, behavioral theory suggests that an increased attachment to the firm over time will increase anticipated socioemotional wealth from continuing firm ownership (cf. Cyert and March 1963, Wiseman and Gómez-Mejía 1998).

Although it is reasonable to believe that the growth of the endowment effect over time as a result of developing emotional attachment is possible in both family and non-family firms, it is more likely in the former because the involvement of family links the firm to individuals with which owners have close relationships. Indeed, many of the attributes associated with socioemotional wealth have a relational component, i.e., belonging, affect, intimacy, the ability to fulfill family obligations, and the opportunity to behave altruistically toward kin (Gómez-Mejía et al. 2007).

Furthermore, researchers (Janjuha-Jivraj and Spence 2009, Wade-Benzoni 2002) observe that reciprocity can be univocal or of a generalized exchange type. Univocal reciprocity indicates that a member of a system who contributes to the system will expect an eventual payback even though its type, source, and timing may be unspecified. To benefit from such reciprocity, however, system members must trust that the other members of the system value their long-term relationships with each other and will eventually reciprocate. This trust is likely to exist among family members working in the family firm because of the cultural norms and potential sanctions that membership in a family imposes (Pollak 1985). That they will eventually be repaid by the system should encourage such univocal reciprocity. Over time, as the family firm accumulates more and more potential payback benefits for all family members from the univocal reciprocity behavior of family members, the socioemotional wealth from control, especially that part related to family members' altruism and discharge of family obligations, should increase.

However, Gómez-Mejía et al. (2007, p. 109) argue and present evidence that “losses in socioemotional wealth should weigh less heavily on a family firm's willingness to give up control as it moves from stage one [founding-family owned and managed firms] through stage three [extended-family owned, professionally managed firms].” This is not in conflict with the arguments made above, though, because age does not always reflect stage, and family firms do not always follow identical sequences of development (Gersick et al. 1997). Thus, if family involvement in management is held constant (albeit potentially controlled by later generations), the duration of ownership should increase perceptions of the total value of the firm owing to the heirloom effect of possession attachment rather than decrease them.

Based on the described effects, loss aversion, and the potential to measure socioemotional wealth in financial terms, we hypothesize the following.

HYPOTHESIS 2 (H2). *There is a positive relationship between the duration of family ownership and family owners' perceptions of the total value of the firm's equity.*

Intentions for Transgenerational Control

Intention for transgenerational family control plays an important role in the emerging theory of family business both conceptually and empirically. Conceptually, researchers have proposed it as the most important feature distinguishing family and nonfamily firms (e.g., Chua et al. 1999, Churchill and Hatten 1987). Empirically, studies have shown that intrafamily succession is the most important concern of family business owners (Chua et al. 2003), is associated with family influence and commitment to the business (Holt et al. 2010), and, directly relevant to this study, is an indicator of the importance attached to family-centered nonfinancial goals in family firms (Chrisman et al. 2012).

The intention is partly financial; family guardianship may create a concern and commitment to preserve career opportunities and the wealth-generating capabilities of family assets for future generations (Curasi et al. 2004). But the concern may have a personal, emotional element as well if individuals see a part of themselves enduring through the family's continued possession of the firm (Price et al. 2000). Furthermore, some components of the family's socioemotional wealth such as long-term fulfillment of family obligations, preservation of the family's dynasty and values, and altruism toward family members are contingent on the family's control of the business past the incumbent generation (Pollak 1985).

As shown by Chua et al. (2004), some family firms are “born” with transgenerational control intentions. For other firms such intentions are often triggered later in their life cycles by precipitating events such as when the owner becomes a parent, when a family member becomes involved in the firm, or when an involved family member expresses a desire to do so on a permanent basis (Hoy and Verser 1994). Conversely, the absence of family members able and willing to assume control can erase such intentions (De Massis et al. 2008). Thus, the effect of transgenerational control intentions on a family firm's perceived socioemotional wealth can be triggered instantaneously, consistent with the endowment effect proposed by prospect theory.

The extent of firm control indicates the family's existing involvement and captures its ability to influence firm decisions to provide socioemotional wealth to the family. However, ability does not ensure that the family is concerned with socioemotional wealth and will use its influence to create and preserve it. The duration of control increases the tendency to do so, but of equal if not

greater importance is the family's vision for how the firm and the family will interact in the future and its expectations about the types of value exchanges that will flow from these future long-term interactions. Thus, a vision for the future is critical in determining a family's concern and willingness to maintain its socioemotional wealth through the pursuit of idiosyncratic strategies and policies (Chrisman et al. 2003, Chua et al. 1999). In turn, such a vision depends on transgenerational control of the firm because it is through the continuing involvement of family that the vision for future interactions can be realized.

If owners have a vision for the firm that includes intentions for transgenerational control, they are likely to include socioemotional benefits that are feasible only if the family maintains transgenerational control, such as perpetuation of a family dynasty, in the calculation of their current wealth. Behavioral theory predicts that this will cause a change in the reference point that the family uses to frame decisions (Wiseman and Gómez-Mejía 1998). In other words, an intention for transgenerational control suggests that family owners count the future benefits of control as part of their current socioemotional wealth endowment. Selling the firm would then be viewed as losing a socioemotional wealth endowment that is made larger by the amount associated with transgenerational control. Applying these arguments to our assumption of loss aversion and the exchangeability of socioemotional wealth for financial consideration then leads logically to the following hypothesis.

HYPOTHESIS 3 (H3). *There is a positive relationship between family owners' intentions for transgenerational control and their perceptions of the total value of the firm's equity.*

Methods

We utilize two samples to test our hypothesis. The first sample was obtained from a mailing list provided by a family business center affiliated with a Swiss university. A questionnaire was sent to the CEOs of 1,250 privately held Swiss family firms in 2006. In 2007, questionnaires were sent to a second sample of CEOs of 4,000 family firms in Germany through a mailing list obtained with the help of a major international accounting firm.² To ensure that the firms in the two samples were family firms, we verified that the firms on the mailing list had identified themselves as family firms (e.g., 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 et al. 2008). Both studies were conducted in German. Questionnaire items were taken from the English literature, where available, and translated into German. An independent person then back-translated the German

items into English to ensure consistency with the original form. No inconsistency was discovered.

In common with other studies of family firms (e.g., Kellermanns et al. 2008), a key informant approach was employed for both samples (Kumar et al. 1993, Seidler 1974) owing to our belief that family firm CEOs are the primary decision makers. These individuals held significant personal ownership and had intimate knowledge of the firm's financial position and future prospects.³ In all cases we ensured that the respondents used in the study were CEOs, family members, and owners. As suggested in the literature (e.g., Eddleston and Kellermanns 2007), we also collected data from additional family members employed in the firm for a subset of both samples (Switzerland, $n = 40$; Germany, $n = 23$) to validate our multi-item constructs. For this subset, we calculated the coefficient of agreement (r_{wg}) (James et al. 1984, 1993). We found the r_{wg} values for both constructs used in the study to be acceptable:

$$r_{wg\text{-Transgenerational-Control-Swiss}} = 0.85,$$

$$r_{wg\text{-Transgenerational-Control-German}} = 0.93,$$

$$r_{wg\text{-Past-Performance-Swiss}} = 0.94,$$

$$r_{wg\text{-Past-Performance-German}} = 0.93,$$

which indicated that it was reasonable to rely on family firm CEOs as the key informants (Eddleston et al. 2008).

We obtained 219 questionnaires from two mailings in the Swiss sample, representing 179 distinct family firms (179 CEOs and 40 additional family members). Thus, our overall response rate was 14.3%. However, only 82 CEOs provided complete information, mostly owing to the highly sensitive nature of the valuation question. In the German sample, we obtained 349 responses after three mailings, representing 326 distinct family firms (326 CEOs and 23 other family members), resulting in a response rate of 8.2%. This sample was also reduced by nonresponse to the valuation question to only 148 CEOs. The response rates and missing data issues are comparable to similar studies of family firms that rely on primary sources for the collection of data that the respondents would consider to be highly confidential (e.g., Chrisman et al. 2004, Cruz et al. 2010, Gómez-Mejía et al. 2003, Schulze et al. 2001). The sample sizes are also comparable to studies of sales and buying prices (see Horowitz and McConnell 2002). A post hoc power analysis suggested that the power levels were acceptable (Cohen 1988).

To explore the possibility of nonresponse bias, we compared the data obtained from early (first mailing) and late (second and third mailings) respondents using analysis of variance (ANOVA). This test is based on the assumption that late respondents are more similar to nonrespondents than early respondents (Chrisman et al. 2004, Oppenheim 1966). No statistically significant differences

were found in either sample on any of the variables analyzed in this study, which at least partially mitigates non-response concerns. We further conducted an ANOVA between the respondents that answered all relevant questions for our study and the respondents who did not respond to the question used to measure our dependent variable. Here again, no significant differences emerged in either sample for any of the variables.

We were able to further evaluate the representativeness of our samples through a comparison of the respondents' age, the firms' age, and sales by industry (construction and services, the two dominant industries in our samples) of Swiss and German firms obtained from the following national studies: the 2007 Global Entrepreneurship Monitor's (GEM) Swiss report (Volery et al. 2007), the 2005 Swiss National Business Finance (SNFB) Survey (Daepfen and Roth 2005), the GEM's German Report (Sternberg and Lückgen 2005), and the German IfM study (Guenterberg 2007). As shown in Table 1, these comparisons suggest that the firms in our samples are older and slightly larger than the respondents to the larger national studies. However, the respondents themselves were similar in age. Based on these comparisons, the greatest difference appeared to be that the firms we studied are more likely to be owned by the second or later generation of the family, whereas the comparison samples were more likely to include first-generation firms. The characteristics of our samples indicate that our results may not generalize to younger family firms.

The potential for multicollinearity, heteroscedasticity, and common method bias were addressed for both samples. First, we found that the variance inflation factor did not exceed 1.65. Thus multicollinearity did not appear to be a concern (Hair et al. 2006, Tabachnick and Fidell 1996). Second, heteroscedasticity can sometimes be a problem in valuation research. Accordingly, we performed Levene tests between our independent variables and the regression residuals. Because none of the tests was significant, heteroscedasticity did not appear to be an issue ($F \leq 1.80$ for the German study, and $F \leq 1.24$ for the Swiss study). Third, in addition to the single-factor test for common method bias suggested by Podsakoff and Organ (1986), which showed no concern, we compared measurement models with method factor models as recommended by Podsakoff et al. (2003). The results showed that the fit for the method factor models (Swiss model, $\chi^2(105) = 650.151$; comparative fit index (CFI), 0.220; incremental fit index (IFI), 0.253; root mean square error of approximation (RMSEA), 0.154; German model, $\chi^2(105) = 829.841$; CFI, 0.287; IFI, 0.308; RMSEA, 0.141) were significantly worse than the confirmatory factor analysis model. These models showed acceptable fit levels considering the sample sizes and the inclusion of the single-item indicators (Swiss

Table 1 Comparison of Descriptive Statistics from GEM Swiss Report (Volery et al. 2007), GEM German Report (Sternberg and Lückgen 2005), the SNBF Survey (Daepfen and Roth 2005), and the German IfM Survey (Guenterberg 2007)

Variable	n	Mean	95% Confidence interval	
			Lower bound	Upper bound
<i>Age of respondent</i>				
Swiss study	82	51.1	48.7	53.5
German study	148	51.6	49.8	53.4
Swiss GEM data	2,148	45.5	45.1	45.9
German GEM data	678	44.2	43.5	44.9
<i>Age of firm</i>				
Swiss study: Construction	49	68.2	57.2	79.2
Swiss study: Service	33	56.8	47.2	66.4
German study: Construction	76	55.0	45.7	64.3
German study: Service	72	46.1	36.5	55.7
Swiss GEM data: Construction	550	17.6	17.4	17.8
Swiss GEM data: Service	860	15.8	15.7	15.9
German GEM data: Construction	250	18.5	18.3	18.7
German GEM data: Service	322	19.2	19.0	19.4
<i>Sales^a</i>				
Swiss study: Construction	49	50,840,225	45,775,025	55,905,425
Swiss study: Service	33	78,769,291	70,372,551	87,166,031
German study: Construction	76	122,000,000	91,445,954	152,554,046
German study: Service	72	38,100,000	36,004,706	40,195,294
SNBF data: Construction	529	46,732,000	45,027,652	48,436,348
SNBF data: Service	1,619	28,260,000	27,042,209	29,477,791
IfM data: Construction	277,054	35,500,000	35,425,526	35,574,474
IfM data: Service	1,911,445	25,500,000	25,464,558	25,535,442

^aFigures for Switzerland are in Swiss francs (exchange rate to USD at the time of study was USD 0.82/CHF 1); figures for Germany are in euros (exchange rate to USD at the time of study was USD 1.32/EUR 1).

model, $\chi^2(102) = 220.270$; CFI, 0.831; IFI, 0.839; RMSEA, 0.073; German model, $\chi^2(101) = 298.270$; CFI, 0.807; IFI, 0.813; RMSEA, 0.074). Accordingly, common method bias does not appear to be a problem in our study.

Variables

The dependent variable was identical in both samples. However, although similar, our control and independent variables varied somewhat. This was a consequence of somewhat different data collection goals as well as learning that occurred between the first study and the second. Although the results are not perfectly comparable, the differences in measures do serve to confirm the robustness of our results. We discuss the common dependent variable first and then the remaining variables.

Dependent Variable. The objective of our study is to test whether socioemotional wealth influences family owners' perceptions of a firm's total value. There is no way to measure socioemotional wealth precisely without actually performing individual valuations for each firm and comparing this value with the value perceived by owners. Instead, we test for the existence of socioemotional wealth by regressing the total perceived value of the firm on our three measures of family control of the firm, *after controlling for* the financial and nonfinancial sources of value that are not unique to family

firms. Thus, our dependent variable is the family firm owner-CEO's total perceived value of the family firm.

Following previous approaches used to test the endowment effect, we measure the *acceptable sales price* at the owner level of analysis with a single-item question (e.g., Boyce et al. 1992, Carmon and Ariely 2000). In accordance with recent guidelines pertaining to the wording of the willingness to accept question (e.g., Zellweger and Astrachan 2008), we asked the owner-CEOs of the sample firms, "What is the minimum acceptable sales price at which you are willing to sell 100% of your company's equity to a nonfamily member?" This question made it clear that we were looking for (1) the value of the firm's equity (2) when selling the entire firm (3) to parties outside the family. A pilot study of 29 entrepreneurs provided assurance that family firm owners understood the question. The variable was characterized by high positive skewness and kurtosis (Hair et al. 2006). To achieve a more normal distribution, we used the logarithm of total perceived value in our analysis (Tabachnick and Fidell 1996).

Independent Variables. We measured the *extent of family ownership* by responses to a question asking CEOs to indicate the percentage of the shares of the firm owned by the CEO's family.

The *duration of family ownership* was measured by an open-ended question about the age of the family firm. This was appropriate because in all cases, the founding families were still in control of the firms in the samples. Age of the firm is also a useful proxy for the generation of the family in control of the firm because founder-controlled firms tend to be younger than successor-controlled firms. However, as discussed earlier, although firm age and firm stage are highly correlated, they are not identical.

The primary drivers of intentions, according to the psychology and entrepreneurship literatures, are (1) opportunity or feasibility and (2) desire (Ajzen 1991, Krueger 1993). Thus, we measured *intentions for trans-generational control* using two items measured on a seven-point Likert-type scale ($\alpha = 0.83$ for the Swiss study, and $\alpha = 0.70$ for the German study) to capture opportunity/feasibility and desire. For the first item, we asked for agreement with the statement “The family faces the opportunity to pass on the business to future generations”; for the second, we asked for agreement with the statement “Continuing the family legacy and traditions is important to us.” The items were added and the sum divided by the number of items to obtain the final variable used.⁴

Financial Control Variables. Our financial control variables included proxies for current cash flow, growth and sustainability of performance, risk, and the private benefits that the dominant coalition might extract from the business. For both samples, we included cash-flow-related controls.⁵ In the Swiss sample, we collected *free cash-flow* data by asking the subjects, “What is the *free cash flow* of your business (Profit + Noncash charges – Investments)?” In the German sample, we collected *cash-flow* data by asking, “What is the cash flow of your business (Profit + Noncash charges)?” We chose the second measure of cash flow in the German study to ensure that our results were robust with respect to the definition of cash flow used. Investments are not deducted in the second measure; this guards against the possibility that firm financial value may have increased with the investment despite a temporary decline in free cash flow. As mentioned before, there was learning between the first and the second survey.

Because the financial reports for these firms are professionally audited and available to owners and CEOs, we were confident our respondents had sufficient information to respond to our questions about cash flows. Indeed, we obtained objective data from the balance sheets and income statements of 39 firms in the Swiss sample as part of a benchmarking test. The correlation between the free cash flows reported by respondents to the survey with those from the benchmarking project was 0.86, indicating high response quality and measurement validity.

Because outperforming competitors is the surest guarantee of continued growth and sustainability, respondents were asked to indicate whether their performance in the last three years (*past performance*) was much worse, about the same, or higher than competitors in terms of (1) growth in sales, (2) growth in market share, (3) return on equity, and (4) ability to fund growth from profits (shortened from Eddleston et al. 2008). The performance indicators were measured on a five-point scale in the Swiss sample ($\alpha = 0.75$) and a seven-point scale in the German sample ($\alpha = 0.82$). Subjective performance measures are often used in studies of privately held firms where public information is lacking (Love et al. 2002) and have been shown to correlate with objective performance data in family firms (e.g., Ling and Kellermanns 2010).

Because of the difficulties in directly measuring risk for privately held firms, three separate proxies were used: *size*, *industry*, and *investment risk*. Risk tends to decrease with firm size, which was measured by the number of employees and transformed by the natural logarithm. Risk and, consequently, financial value also tend to vary by industry. Firms were classified by whether they competed in construction, services, or other sectors of the economy. Two dummy variables representing firms in construction and service industries in both samples were used to control for industry. Finally, risk and returns can vary depending on the extent to which family firms invest in risky projects. We assessed the investment risk in both samples by asking subjects to respond to the following question on a seven-point scale: “Our family firm conducts investments that are more risky than those of the competition.”

To control for the *private benefits* of concentrated ownership, which are not unique to family firms, we asked the respondents in the Swiss sample to rate on a five-point Likert scale their agreement with the statement “Family members derive attractive perks from the firm.” In the German sample, we asked for the actual financial benefit of perks received from the organization. Specifically, we asked, “How high were the additional financial benefits that you obtain during one year through your organization (e.g., car, travel, gas, mobile phone, etc.)?” Because the latter values were skewed, we transformed them using the natural logarithm.

Nonfinancial Control Variable. We also controlled for the *age of the CEO* because that also might affect perceptions of firm value (Zellweger and Astrachan 2008). Individuals may form an attachment with a firm through long-term association. For example, studies show that incumbent leaders in family firms have problems letting go owing to their emotional ties to the firm (Le Breton-Miller et al. 2004).

Results

Means, standard deviations, and zero-order correlations of the Swiss and German samples are shown in Tables 2

Table 2 Correlation Matrix, Means, and Standard Deviations: Swiss Sample

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1 Free cash flow	2,215,686	3,932,339											
2 Past performance	4.80	1.01	0.24*										
3 Ln firm size (employees)	3.71	1.63	0.3**	0.20†									
4 Industry 1 (construction)	0.31	0.46	0.20†	0.22*	0.13								
5 Industry 2 (service)	0.28	0.45	0.01	-0.14	-0.09	-0.43***							
6 Investment risk	3.88	1.57	0.07	0.01	0.34***	-0.06	-0.09						
7 Private benefits	3.07	1.66	-0.28*	0.06	-0.27*	-0.06	0.09	-0.14					
8 CEO age	51.07	11.32	0.21†	0.04	0.15	0.08	0.07	0.13	-0.02				
9 Family ownership	87.87	24.57	0.07	0.08	0.06	-0.04	0.03	0.07	-0.12	0.11			
10 Duration of ownership/ firm age	67.03	34.01	0.24*	-0.14	0.47***	0.21*	-0.21*	-0.03	-0.21†	0.03	0.11		
11 Transgenerational control intentions	5.07	1.63	0.22*	0.04	0.15	0.11	0.03	0.17†	0.02	-0.06	-0.01	0.27*	
12 Ln acceptable sales price	16.09	2.77	0.49***	0.24*	0.58***	0.03	0.14	0.35***	-0.33**	0.16	0.21†	0.26*	0.31***

Notes. Figures are in Swiss francs (exchange rate to USD at the time of study was USD 0.82/CHF 1). $N = 82$.

† $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Table 3 Correlation Matrix, Means, and Standard Deviations: German Sample

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1 Current cash flow	2,227,853	6,119,088											
2 Past performance	5.28	0.98	0.14†										
3 Ln firm size (employees)	4.66	1.07	0.43***	0.06									
4 Industry 1 (construction)	0.40	0.49	0.03	0.01	0.05								
5 Industry 2 (service)	0.27	0.45	-0.10	-0.13	-0.14†	-0.43***							
6 Investment risk	3.84	1.62	-0.06	-0.16*	0.06	0.10	-0.11						
7 Ln private benefits	10.02	1.06	0.15†	0.12	0.02	0.15†	-0.07	-0.03					
8 CEO age	51.67	11.27	0.20*	0.06	0.12	0.04	0.03	-0.10	0.10				
9 Family ownership	86.83	25.00	-0.06	-0.13	-0.10	0.06	-0.02	0.01	-0.01	0.03			
10 Duration of ownership/ firm age	48.59	39.43	0.06	-0.08	0.17*	0.14†	-0.20*	0.15	0.07	-0.04	0.29**		
11 Transgenerational control intentions	4.85	1.76	-0.06	-0.01	0.04	0.01	-0.02	0.13	0.07	-0.01	0.19*	0.30***	
12 Ln acceptable sales price	15.60	1.23	0.51***	0.34***	0.51***	0.20*	-0.18*	0.11	0.15†	0.03	-0.02	0.26***	0.21*

Notes. Figures are in euros (exchange rate to USD at the time of study was USD 1.32/EUR 1). $N = 148$.

† $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

and 3, respectively. The hypotheses proposed in the research model were tested using hierarchical multiple regression analysis (see Tables 4 and 5). We entered the control variables in Models 1 and 3 for the Swiss and German samples, respectively. The independent variables were entered in Model 2 for the Swiss sample and Model 4 for the German sample.

For the Swiss sample, Model 1 shows that family owner-CEOs' total perceived value of their family firms is positively and significantly related to free cash flow ($p < 0.01$), size ($p < 0.001$), the service industry variable ($p < 0.05$), and investment risk ($p < 0.05$). Overall, the adjusted R^2 is 0.499, and the model is significant ($p < 0.001$). In Model 2 the adjusted R^2 increases to 0.521 with the inclusion of the independent variables ($p < 0.001$). Neither the extent of family ownership nor the duration of family ownership is significantly related to the dependent variable. Thus H1 and H2 are not supported. However, in support of H3, total perceived value is positively and significantly related to the intention for transgenerational control ($p < 0.05$).

The results for the German sample in Model 3 are generally consistent with the results for Model 1 in the Swiss sample. The adjusted R^2 is 0.469, and the model is significant ($p < 0.001$). Cash flow ($p < 0.001$), past performance ($p < 0.001$), firm size ($p < 0.001$), the construction industry control ($p < 0.01$), and investment risk ($p < 0.05$) are all positively and significantly related to the total perceived value of the firm. Model 4 includes the independent variables. The adjusted R^2 increases to 0.550 ($p < 0.001$), and similar to the Swiss sample, the signs and significances of the control variables generally remain stable. However, H1 is not supported; there is no relationship between the extent of family ownership and total perceived value. On the other hand, H2 is weakly supported; there is a marginal positive relationship between duration of family ownership and total perceived value ($p < 0.10$). Finally, H3 is again supported. There is a significant and positive relationship between the intention for transgenerational control and the total perceived value attached to the firm by the family CEO ($p < 0.01$).⁶

Table 4 Results of Regression Analysis for Acceptable Sale Price: Swiss Sample

Variables	Model 1	Model 2	Endogeneity test
Controls			
<i>Free cash flow</i>	0.286**	0.250**	0.256**
<i>Past performance</i>	0.136	0.124	0.136
Ln <i>firm size</i> (employees)	0.377***	0.377***	0.382***
<i>Industry dummy 1</i> (construction)	−0.016	−0.030	−0.020
<i>Industry dummy 2</i> (service)	0.216*	0.191*	0.176†
<i>Investment risk</i>	0.199*	0.162†	0.163†
<i>Private benefits</i>	−0.153†	−0.159†	−0.135
<i>CEO age</i>	0.032	0.039	0.044
Independent variables			
<i>Family ownership</i>		0.118	0.109
<i>Duration of family ownership/firm age</i>		−0.023	−0.009
<i>Transgenerational control intentions</i>		0.174*	0.179*
R^2	0.548	0.586	0.589
Adjusted R^2	0.499	0.521	0.524
ΔR^2		0.038†	
F	11.075***	9.016***	9.118***

Notes. Standardized regression weights are shown. $N = 82$.

^aReestimated variable using three instruments.

† $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Table 5 Results of Regression Analysis for Acceptable Sale Price: German Sample

Variables	Model 3	Model 4	Endogeneity test
Controls			
<i>Current cash flow</i>	0.339***	0.356***	0.348***
<i>Past performance</i>	0.300***	0.311***	0.296***
Ln <i>firm size</i> (employees)	0.343***	0.312***	0.295***
<i>Industry dummy 1</i> (construction)	0.183**	0.182**	0.190**
<i>Industry dummy 2</i> (service)	0.045	0.067	0.080
<i>Investment risk</i>	0.131*	0.098	0.109
Ln <i>private benefits</i>	0.047	0.024	0.051
<i>CEO age</i>	−0.099	−0.095	−0.085
Independent variables			
<i>Family ownership</i>		0.003	−0.015
<i>Duration of family ownership/firm age</i>		0.123†	0.124†
<i>Transgenerational control intentions</i>		0.167**	0.205*** ^a
R^2	0.498	0.550	0.562
Adjusted R^2	0.469	0.514	0.527
ΔR^2		0.052**	
F	17.220***	15.117***	15.869***

Notes. Standardized regression weights are shown. $N = 148$.

^aReestimated variable using three instruments.

† $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Robustness Tests

To supplement our analysis, we checked for the possibility of endogeneity between our independent and dependent variables (e.g., Hamilton and Nickerson 2003) using three instrumental variables in a two-stage least squares regression. In the first step, the three instruments were used to estimate our determinant of family-oriented, socioemotional wealth, transgenerational control intentions. Because identical constructs were not available across the two studies, we used slightly different instruments: pride in the family firm, status in the community, and family harmony as instruments for the Swiss sample;

and family involvement in the business, status in the community, and family harmony as instruments for the German sample.⁷ The respective results reported in Tables 4 and 5 show that the reestimated transgenerational control intentions variable remained significant in the predicted direction (German sample, $\beta = 0.205$, $p < 0.001$; Swiss sample, $\beta = 0.179$, $p < 0.05$), suggesting that endogeneity is not a problem in either sample.

Besides testing for endogeneity, we ran robustness checks to ensure that our results are not artifacts of the variables used in the study. The relationships found in our primary analysis held when CEO ownership (average

CEO ownership, 56.4%) instead of family ownership, and organizational tenure instead of CEO age, were used in the Swiss sample. Furthermore, as mentioned above, our results were also confirmed when we used a three-item measure of intentions for transgenerational control in the German sample. In addition, the results did not change after three additional items assessing growth in profitability, return on total assets, and profit margin on sales were included in our performance control variable, or when the number of family members was added to the German sample.

Finally, for the German sample, we compared owners' assessments of the minimum acceptable price at which they would be willing to sell the firm to family members and nonfamily buyers. We found that owners would be willing to sell the firm to family members for 22% less (standard deviation, 34%) than they would be willing to sell it to an external party ($p < 0.001$). We then reran our regression analysis of Model 4, using the minimum acceptable sales price at which owners would be willing to sell the company's equity to family members as the dependent variable. As expected, there is no significant relationship between the extent of family ownership, duration of family ownership, or intention for transgenerational control and the acceptable sales price for selling to family members. This finding indicates that in selling the firm to family members, a perceived need to be compensated for a loss of socioemotional wealth did not influence valuations because an intrafamily sale would preserve most, if not all, of the socioemotional wealth owners attach to the firm. In summary, both of these final robustness tests are consistent with our theoretical assertions that an acceptable selling price when selling to nonfamily members will be substantially higher than when selling to family members owing to the need to extract a socioemotional wealth premium from nonfamily buyers to compensate for the loss of family control of the firm.

Discussion and Conclusions

Invoking the endowment effect of prospect theory (Samuelson and Zeckhauser 1988, Thaler 1980) and the concept of socioemotional wealth (Berrone et al. 2010; Gómez-Mejía et al. 2007, 2010), we hypothesized that the socioemotional wealth of a family firm increases with the extent of a family's ownership control, the duration of control, and intentions for transgenerational control. The hypotheses were tested using samples of CEOs of family firms in Switzerland and in Germany. The results show that the extent of control (H1) has no relationship with perceived total value, whereas duration of control (H2) has a mixed relationship (insignificant in the Swiss sample but marginally significant in the German sample), suggesting that duration of control may have a weakly positive effect on socioemotional wealth.

Our sample was composed entirely of firms in which the family held majority ownership (a mean of 87.9% for the Swiss sample and a mean of 86.8% for the German sample). Thus, it is possible that ownership has a kinked threshold effect on socioemotional wealth. In other words, controlling ownership by a family may increase socioemotional wealth up to the threshold ownership percentage, but beyond that threshold, additional ownership no longer does so. If true, then a significant relationship between the extent of current ownership and perceived total value may be observable only when comparing family and nonfamily firms (e.g., Gómez-Mejía et al. 2007, 2010) or when comparing family firms with a wider ownership range than the ones in our two samples.

The findings with regard to duration of control differ from those of Gómez-Mejía et al. (2007), who found that among the owners of Spanish olive oil mills, the willingness to cede control by joining a co-op increased (but remained significantly negative) as the firm progressed from the earlier to later stages of ownership and management development. Their findings thus suggest that socioemotional wealth decreases as the family firm moves through the stages of development, whereas our findings suggest that the relationship between duration and total perceived value of a firm is either insignificant or positive. Aside from differences in samples (ours were composed of firms that were generally older and invariably family managed) and measures (we measured age rather than stage of development), we believe that the disparity in findings could be a function of the differences in the decisions to join a co-op and sell the firm outright. In the former, the family must give up much of its discretion in governing and managing the firm but not its involvement in ownership or management. Therefore, the family would not necessarily lose all of its socioemotional wealth. However, if the family decides to sell the firm, it must completely relinquish ownership and potentially its involvement in management or governance. Thus, our study focused on situations where the entire socioemotional wealth endowment would be forfeited. Taken together, these findings suggest that giving up a portion of socioemotional wealth may be viewed in an entirely different way than giving up all of that wealth. Furthermore, as family firms move beyond the founding generation, some components of socioemotional wealth may lose their value, whereas others may increase in value. Research that would help identify these nuances would be useful because the relative importance of different sources of socioemotional wealth could influence decision making.

Our results suggest that intentions for transgenerational control have a significantly positive impact on the total perceived value of the firm and, by implication, the socioemotional wealth of family owners (H3). This

finding is important for several reasons. First, the literature has generally assumed that current family control through ownership of the firm is a sufficient reason for the family to create and preserve socioemotional wealth (e.g., Gómez-Mejía et al. 2007, 2010; Zellweger and Astrachan 2008). Our results call the aforementioned assumption into question by showing that socioemotional wealth is most strongly associated with intentions for transgenerational control. We have argued that this is because intentions for transgenerational control are directly tied to the vision of how the firm and the family intend to create socioemotional value in the long run, for example, by establishing a dynasty; ensuring long-term family influence; and maintaining the family's identity, reputation, and social status past the current generation. Without such a vision, the firm is likely to be perceived as an expendable economic instrument rather than a family institution (cf. Selznick 1957) and less likely to behave differently from nonfamily firms.

Second, the family business literature has not conceptualized the possible relationship between socioemotional wealth and intentions for transgenerational control in attempts to explain the differences between family and nonfamily firms, as well as variations among family firms. Our results suggest that transgenerational control intentions influence socioemotional wealth considerations. Therefore, the two are complementary rather than alternative explanations.

Third, our results also have important implications for family business succession. Given that transgenerational control appears to be strongly related to socioemotional wealth, it is not surprising that succession is considered the most important issue by family business managers and has been the most frequently studied topic in the family literature (Chua et al. 2003). Furthermore, if intentions for transgenerational control influence perceptions of the total perceived value of the firm, family owners may price their firms out of the market when succession is feasible and seen as desirable. This could help explain why successors who are obviously lacking in capability are still appointed, thereby putting the family's future financial and socioemotional wealth at risk; those family owners are apparently willing to accept the risks to both sources of wealth rather than sacrificing the endowed socioemotional wealth associated with appointing a family successor. Again, family owners appear to be loss averse when it comes to decisions that affect their socioemotional wealth.

Finally, if intention for transgenerational control is related to socioemotional wealth and varies among family firms, it may also help explain why some family managers act as stewards and others act as agents (e.g., Chrisman et al. 2004, Eddleston and Kellermanns 2007). For example, if owners wish to pass their firms on to future generations, they are likely to be more mindful of the type of organization they leave behind and less likely

to pursue policies that put the firm in an unviable strategic position. Thus, the so-called long-term orientation of family firms may be directly related to whether intrafamily succession is desired (James 1999). Although these relationships seem implicit in the family business literature, we are unaware of studies that have directly tested them. Given that family firms are heterogeneous (Melin and Nordqvist 2007), testing these conjectures could assist in explaining some of the heterogeneity.

Limitations

Before discussing implications for research, we need to discuss the principal limitations of this study. First, both our conceptual development and empirical methodology examined family control and total perceived value of the firm at the individual level using the owner-CEO as our key informant. Because the difference between the total perceived value and the actual financial value of the firm is assumed to be a consequence of the endowment effect induced by control, it is important to note that the endowment effect at the group or family level may be stronger or different (e.g., Blumenthal 2009, Galin et al. 2006). Therefore, care should be taken in extrapolating our results and conclusions to the family group level.

Second, it is important to note that the total perceived value of the family firm according to the family owner-CEO will likely not be the firm's actual selling price. However, to achieve our purpose, we did not need an exact measure of the selling price; instead, we only needed to show that control (particularly, the intention for transgenerational control) is a significant driver of the total perceived value of the firm *after accounting for* the financial and other nonfinancial influences common to family and nonfamily firms. That purpose was achieved in this study. Indeed, the post hoc tests for the German sample provide further support for our main results by showing that the price at which family owners would sell the firm to an outsider was higher than the price they would demand from a buyer within the family. Furthermore, consistent with the notion that socioemotional wealth is preserved when control of the firm remains in family hands, our measures of family control did not influence the acceptable selling price to family members. Together, these robustness tests suggest that the difference in acceptable selling prices is the result of an endowment premium family owners require to compensate for a loss of socioemotional wealth when selling to nonfamily buyers.

Third, our study utilized a cross-sectional design; therefore, although endogeneity does not appear to be a problem, we cannot demonstrate causality. Fourth, our response rates were low, and we relied largely on single respondents for our data. Thus, the potential for nonresponse bias and common method bias still exists despite test results to the contrary. However, because we conducted two separate studies that yielded consistent

conclusions, the possibilities of biases are reduced. Furthermore, for bias to occur it would be necessary for responses to the questions about both transgenerational control and selling price to have been affected by a third variable, because a tendency to systematically respond higher or lower to either variable alone would have not affected our findings. This is because support for our hypotheses depended on the relationship between family control and total perceived value, rather than the amount by which the total perceived value diverged from the true financial value of the firm. However, our endogeneity analysis suggests that omitted variable bias is not a concern, and our other analyses suggest no differences between respondents and nonrespondents on the variables of interest. With regard to the possibility of common method bias, the comparison of data collected from other sources with the data used in this study provides further assurance of the reliability and validity of our findings.

Fifth, we also need to mention that a CEO-owner's assessment of a firm's total perceived value may be influenced by market forces. Although we controlled for industry effects and measured perceived value in two different time frames with no apparent impact on our findings, we encourage future studies to account more fully for industry effects and for the market attractiveness of mergers and acquisitions.

Sixth, it is impossible to say that all factors unrelated to socioemotional value have been fully accounted for by the control variables. Our study has included what the literature considers the most important, and, as noted above, our hypothesis tests required only that the total perceived value is significantly affected by the different aspects of ownership control. Nevertheless, there may be situations where imprecision could affect the interpretation of the results with regard to the extent of current ownership (H1). For example, family managers, including the CEO, may be paid more by the family firm than what the external labor market would pay, and this could influence firm valuations. But the overpayment of underqualified family managers appears to be a function of altruism (Chua et al. 2009); if so, it should be considered part of socioemotional value. On the other hand, the talents of family managers might instead be discounted by the external labor market (Gómez-Mejía et al. 2003, Wu et al. 2004) because of an inability to ascertain the mix of performance and family ties that gave them their positions. In this situation the family manager is not overpaid according to performance but is still paid more than what the external labor market would pay, owing to the family's superior ability to resolve information asymmetries regarding the family manager's ability and effort (Wu et al. 2004). Although theory has not specifically addressed this issue, we tend to believe that the family's ability to resolve information asymmetries of this type is part of socioemotional value because the effort to

do so represents a discharge of an obligation to family members whose talents are undervalued by the external labor market. In either of these cases, our interpretation of results should be unaffected. However, if the employment and compensation benefit is instead common to family and nonfamily firms with concentrated ownership (Chrisman et al. 2005, Combs et al. 2010), then future studies should more fully take that aspect of private benefits into account.

Seventh, in a similar vein, our measures of private benefits did not differentiate between economic benefits that may be available exclusively to family owners or managers and those that may be more broadly available to all executives (Astrachan and Jaskiewicz 2008). This issue is perhaps more relevant in the German sample where we measure a specific but not comprehensive set of private benefits. As discussed above, however, any omission would cause a problem only if the observed relationships are due to factors not captured by the control variable for private benefits. Because all the families in our samples held majority ownership and had equal discretion to engage in such practices, the threshold effect noted previously is likely to hold; therefore, the potential for these factors to affect the relationship between the amount of ownership and total perceived value of the firm appears small. Indeed, our tests for endogeneity suggest that omitted factors did not influence our results. Nevertheless, future studies are encouraged to develop more fine-grained measurements of private benefits to more fully capture their extent and types, as well as those that are uniquely available to family members.

Finally, our two samples were composed of firms located in Switzerland and Germany, which may have important cultural differences from firms in the United States and other nations (Hofstede 2001). Business practices between Europe and the United States have become more comparable (Carr 2005), but more research is needed before we can be confident of the generalizability of our findings.

Future Research

Aside from attempting to overcome the limitations of our study by conducting longitudinal research, obtaining data from multiple sources, using finer-grained measures, 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, because endowment effects may also occur in nonfamily settings where attachments to an organization develop (Kahneman et al. 1991), further research should more fully specify other contextual factors beyond measures of family control that promote the development of socioemotional wealth in family firms. Comparative studies about the importance of demographic factors such as CEO tenure, number of potential successors,

gender, and ethnicity may also provide insights to enrich our knowledge of family firms. Furthermore, social identity theory might enrich our understanding of the value premium of ownership in family firms (Ashforth et al. 2008, Milton 2008). Family owners may value continued control of the firm because of their identification with both the firm and the family, and this might have both positive and negative consequences.

Second, more research on how the intention for transgenerational control affects family firm decision making is needed. For example, aside from affecting the total perceived value of the firm, transgenerational control intentions may influence the willingness to take strategic risks (Gómez-Mejía et al. 2007, 2010), shed individual assets (Sharma and Manikutty 2005), and institute professional management practices (Chua et al. 2009, Gedajlovic et al. 2004) and goals (Chrisman et al. 2012).

Third, although we have shown that intention for transgenerational control is an important driver of socioemotional wealth, more nuanced investigations of the components of socioemotional wealth and how the importance of those components influences decision making in the firm are necessary. For example, the importance of legacy, values, social capital, altruism, reputation, and harmony may vary across families, and differences in the priorities families place on these sources of socioemotional wealth are likely to lead to very different sets of firm behaviors and performance outcomes.

Fourth, in defining socioemotional wealth, researchers typically include a long list of benefits, some of which are available through current control and some that are mainly related to intentions for transgenerational control. Our results show that intentions for transgenerational control as an aspect of control has the most important impact on socioemotional value. By implication, this suggests that the different types of benefits typically included in definitions of socioemotional wealth may have different values to the controlling family. Future research should investigate whether this is the case and, if so, what the family and business characteristics that affect the valuation of the benefits are.

Finally, we hope that our application of prospect theory (Kahneman et al. 1991, Kahneman and Lovallo 1993, Kahneman and Tversky 1979b, Tversky and Kahneman 1974) will inspire additional applications. For example, the isolation effect in prospect theory implies a tendency to judge the risks of each situation individually rather than in the context of the firm's other activities (Kahneman and Lovallo 1993). For family firms, intentions for transgenerational control might exacerbate the isolation effect by, for example, causing owners to fail to appreciate the risks of appointing a less competent eldest son to a managerial post despite the preferences of other family members for appointing the

more competent younger daughter, or of pursuing a corporate venturing initiative because it fits the skills of a particular family member who wishes autonomy without regard to the overall reputation of the firm. Without considering the bigger picture, the potential impact of such decisions might be misunderstood. In other words, the isolation effect might cause family owners to focus on one aspect of their socioemotional wealth to the detriment of other sources of socioemotional wealth, not to mention the future performance and sustainability of the firm.

Implications for Practice

For practitioners, our findings indicate that family firms may be particularly difficult to sell or buy when owners maintain intentions to pass control on to future generations of the family. Indeed, adding one increment of transgenerational control intentions to the mean acceptable sales price increases the total perceived value of the firm by EUR 1,082,626 (18.2% of mean sales price of EUR 5,956,538) for the German sample and CHF 1,847,901 (19.0% of mean sales price of CHF 9,722,953) for the Swiss sample.⁸ Therefore, due diligence on the part of buyers is particularly important in the purchase of a family firm because sellers are likely to systematically overvalue it compared to a strictly financial valuation when transgenerational control is possible and desirable. A complex iterative bidding process may be necessary to achieve convergence in price between the seller of the family firm and the potential buyer (Coursey et al. 1987). Appraisals from independent outsiders may be another alternative.

Given that intentions for transgenerational control can materially influence negotiations between buyers and sellers, practitioners should also be aware that the non-financial terms of the deal may be as important as the financial terms. For example, providing continued employment to key family and nonfamily 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). Such concessions might become particularly important if the possibility of selling increases the interest of previously uninvolved family members in the firm, because this might provide options for retaining family control that were previously unavailable. As our study shows, this is likely to alter the socioemotional wealth premium owners will demand to sell the firm. In short, our findings take a step toward providing a better understanding of the difficulties associated with transitions of corporate control in family firms.

In conclusion, the results of our study suggest that the extent of current control has no impact on the total perceived value of the firm, and the duration of control has only a mixed impact. On the other hand, intentions for transgenerational control had a significant, positive impact in both samples. These results suggest that

although family control of a firm is necessary for socioemotional wealth to accrue to the family, intentions for transgenerational control appear best able to explain the variations in socioemotional wealth endowments among family firms. These results provide insights into the role and meaning of family firms to their owners and help us understand why some family firms exhibit behaviors that differ substantially from nonfamily firms and why others do not.

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Endnotes

¹Family owners should not lose all of their socioemotional wealth if the firm is sold to a family member. Therefore, this relationship does not hold when the sale is to a family member. This is discussed further and demonstrated empirically in the Robustness Tests section.

²There should be no bias associated with the source of that sample because the accounting firm worked for less than 3% of the family firms on the mailing list.

³For example, in most small and midsized family firms in Switzerland, the CEO is also the president of the governance board, which further supports our approach to use the CEO as our key informant.

⁴In a post hoc analysis to test the robustness of our findings, we improved the construct by adding a third item that was available for the German sample: "Having family traditions carried on [to the next generation] is an important aspect of our work" ($\alpha = 0.85$). The results were consistent regardless of how the transgenerational control intention variable was operationalized.

⁵In practice, private firms seem to rely on multiples of cash flow, earnings, sales, and book value of investments to determine financial value rather than on complex calculations of net present values (Dahl 2008). Therefore, our financial control variables appear reasonable for the purpose of this research.

⁶We found no significant relationship between the private benefits of controlling ownership and total perceived value in the regressions for either sample, and this deserves a brief discussion. Although the lack of a relationship between these variables does not affect our principal findings, financial theory and evidence from large public companies suggest that the relationship should be significant and positive. The non-significant relationships found in this study may be a consequence of the high levels of ownership concentration among the small and medium-sized firms we studied. Thus, the average family ownership in both samples used in this study was approximately 87%. Therefore, extraction of private benefits would likely not benefit the owner and the family substantially because they would bear almost the full cost of those benefits. This is in contrast to the case of large public firms, where control is achieved with a much lower ownership stake (e.g., Villalonga and Amit 2006). In that situation, the cost to the controlling owners is a small fraction of the loss of profits caused by the private benefits that they alone consume.

⁷The instruments used in the endogeneity tests capture aspects of socioemotional wealth identified by Gómez-Mejía et al. (2007, 2010). We asked respondents about their level of agreement with statements such as "The family is proud to be involved in the firm" (pride), "The family derives status in the community from business ownership" (status in the community), "Within the business family we have harmony" (family harmony), and "The family is strongly involved in the business" (family involvement).

⁸The exchange rate at the time of study for the Swiss sample was USD 0.82/CHF 1; for the German sample, it was USD 1.32/EUR 1.

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