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To grow or to harvest? Governance, strategy and performance in family and lone founder firms

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Abstract

Purpose

This paper attempts to reconcile two opposing views of the strategies and conduct of closely held firms: that of entrepreneurship and that of family business. The former view suggests that these firms tend to be value maximizing organizations that pursue growth strategies and outperform. The latter often argues that these businesses are utility maximizers that pursue conservative harvest strategies and fail to outperform.

Design/methodology/approach

In order to reconcile the controversy, this paper examines the literature in an attempt to relate ownership priorities and risk taking preferences to governance distinctions relating to family involvement, ownership, and management.

Findings

It concludes that the value-maximization expectations of the entrepreneurship literature apply only to lone or unrelated founder businesses whose owners, unencumbered by family distractions, embrace growth and outperform. By contrast the utility-maximization expectations of the family business literature apply when there are multiple family owners or executives. These parties are argued to be harvest-oriented, mediocre performers, especially after a new generation has entered the firm. This may be because their priorities and loyalties are shared between business

Practical implications

The analysis has implications for the effective governance, board composition, and management of these different types of firms.

Originality/value

The paper reconciles two important literatures to derive implications for strategy and performance that must be addressed by agents of corporate governance in family and founder firms.

Keywords

- Corporate governance
- Business performance
- Corporate strategy
- Family firms

Citation

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