ACADEMIC THEORIES IN FAMILY BUSINESS RESEARCH

A Pedagogical Note

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Introduction

Family businesses are everywhere… but they don't behave quite like other firms. Why do some prioritize legacy over short-term profit? How do emotions and family ties shape strategic decisions? And how do these dynamics play out when firms face strategic or societal pressures? This short document introduces five key theoretical lenses designed to help you make sense of these questions. More importantly, it aims to serve as a steppingstone for its readers, may they be students, practitioners, or researchers, to learn more about family businesses.

Defining Family Businesses

Many definitions exist to identify family businesses, including a variety of factors such as family capital ownership, family involvement, transmission of the business through generations or desire to do so, or even self-assessment as a family business (e.g., Berrone et al., 2010; Miller et al., 2007). Overall, however, the agreement remains on the notion of overlap of three, usually separate, elements: family, ownership, and management (e.g., Tagiuri & Davis, 1996; Chua et al., 1999).

The Dieter Schwarz Foundation Center for Family Business at HEC Paris follows the guidelines of the European Union to define family businesses. Namely, a firm is considered a family business when the founder(s) or their family hold the majority of decision-making rights (either directly or indirectly), at least one family member is formally involved in its governance, and, in the case of listed firms, the family holds at least 25% of the voting rights (European Commission, n.d.).

Five Key Theoretical Lenses

The Resource-Based View and Familiness

The resource-based view (RBV) posits that firms achieve sustained competitive advantage when they possess resources that are valuable, rare, inimitable, and non-substitutable (VRIN) (Barney, 1991). In family business research, this perspective has been extended through the concept of familiness (Habbershon & Williams, 1999; Sirmon & Hitt, 2003), which refers to the idiosyncratic bundle of resources and capabilities that emerge from the interaction between the family and the firm. These resources are not merely owned by the firm; they are socially embedded and historically constructed through family involvement. These can include tacit knowledge accumulated across generations or stable organizational culture and leadership continuity. These resources can create competitive advantage, but they are not inherently positive. Familiness can also generate rigidities, such as resistance to change or overreliance on internal networks.

Over 25 years later, familiness is still a centerpiece in understanding and explaining family business behavior. Gangi et al. (2025), for example, discuss the moderating effect of familiness on family businesses' sustainability performances. Specifically, they find that corporate environmental responsibility has a positive impact on both accounting and market performance, but mainly for family firms.

Socioemotional Wealth and the FIBER Dimensions

Perhaps the most widespread and used construct in the family business literature relates to socioemotional wealth (SEW). Traditional economic theories assume firms aim to maximize financial returns. However, researchers wanted to understand why family firms tend to deviate from this logic. Building upon the notions of familiness, they denoted the concept of SEW to explain these differences. SEW refers to the non-financial utility that family owners derive from their firm. It captures the emotional, symbolic, and identity-based value attached to ownership and control (Gómez-Mejía et al., 2007; Calabrò et al., 2026).

To further operationalize this notion, scholars have used the FIBER framework (Berrone et al., 2012); where each letter denotes a dimension: [F] family control and influence, [I] Identification with the firm, [B] binding social ties, [E] emotional attachment, and [R] renewal through succession. These five dimensions help conceptualize further the SEW framework.

Importantly, however, SEW is not merely a binary measure but rather continuous. Indeed, heterogeneity is highly present within family businesses' SEW. Some denote higher intensity of SEW while others denote less (Gómez-Mejía et al., 2025). To capture this heterogeneity, Debicki, Kellermanns, Chrisman, Pearson, and Spencer (2016) developed the socioemotional wealth importance (SEWi) scale. Unlike the FIBER framework, which describes the structural sources of SEW, the SEWi scale measures the subjective importance that family owners and managers attach to SEW. The scale comprises three dimensions: family prominence, family continuity, and family enrichment. Family prominence captures the family's desire for recognition and reputation in the community. Family continuity captures the desire to preserve family unity, values, and the dynasty across generations. Family enrichment captures the personal and relational benefits family members derive from the firm. Together, these dimensions allow researchers to position family firms along a continuum of SEW intensity rather than treating SEW as a uniform attribute of all family businesses.

Yet, measuring SEW(i) remains highly challenging for both scholars and practitioners. In this light, Reid, Sherlock, Markin, and Swab (2026) developed a computer-aided text analysis (CATA) method grounded in the SEWi framework to assess SEW through organizational narratives such as letters to shareholders or annual reports. This approach addresses a long-standing limitation of SEW research, which has relied heavily on proxy variables or self-reported survey data that are difficult to scale across large samples or longitudinal designs. By coding text for linguistic markers tied to the SEWi dimensions, the CATA method allows researchers to assess SEW directly, at scale, and across time, offering a complementary tool to perception-based measures.

Overall, SEW stands as a foundational construct that explains a wide range of behaviors and decisions that would otherwise appear irrational from a purely economic standpoint. Yet SEW remains a heterogeneous construct, and family firms differ considerably in the intensity with which they seek and accumulate it. Due to its intangible and heterogeneous nature, SEW is highly difficult to measure, which is why scholars have developed tools such as the SEWi scale and, more recently, CATA-based methods to capture it more directly. This measurement work is still ongoing, and further research is needed to fully grasp SEW in all its dimensions.

Behavioral Agency Theory and Mixed Gambles

The **behavioral agency theory** (Wiseman & Gómez-Mejía, 1998) builds on **prospect theory** (Kahneman & Tversky, 1979) to explain decision-making under risk in governance contexts. Prospect theory posits that individuals evaluate outcomes relative to a reference point rather than in absolute terms, and that they are loss averse, i.e., losses loom larger than equivalent gains. As a result, individuals tend to be risk-averse in the domain of gains and risk-seeking in the domain of losses.

In family firms, reference points include not only financial performance but also other elements such as control or reputation, leading to **mixed gambles** (Wiseman & Gómez-Mejía, 1998): decisions involve trade-offs between financial and relational outcomes. In other words, when SEW is threatened (loss domain), families become risk-seeking, while when SEW is secure (gain domain), families become risk-averse. This explains behaviors such as refusing mergers that are economically sound but dilute control, taking bold risks to preserve independence, or avoiding external capital despite financial benefits. These theoretical notions allow to explain a central paradox: family firms can appear both more and less risk averse, depending on how situations are framed relative to SEW.

To this day, this perspective is used to explain the trade-offs family businesses face. And, the framing and evaluation of these trade-offs are still being studied. For example, Cho et al. (2025) evaluate how Korean family businesses manage the trade-off between financial wealth and socioemotional wealth when engaging in portfolio-level strategic initiatives. They find that, on average, family businesses tend to avoid complexity and aggressivity in their portfolio. However, this avoidance shifts when these firms face historically low performances, and vice versa.

Agency and Stewardship Theories

The **agency theory** (Jensen & Meckling, 1976) examines conflicts of interest when decision-making authority is delegated. It typically explains the principal-agent problem, where the interests of the principal and the agent might differ leading to conflicts. This theory is particularly relevant in family firms. Indeed, the typical principal-agent problem (denoted as Type 1) is often reduced, as family members are both owners and managers of the firm. However, another type of agency conflict arises: the principal-principal conflict (denoted as Type 2), where conflicts between the controlling and minority shareholders are created due to diverging interests. In the context of family firms, these are often exacerbated due to the concentrated ownership in the family. Thus, family firms simultaneously mitigate and create agency problems (Villalonga & Amit, 2006).

The **stewardship theory** (Davis et al., 1997) challenges the assumption of opportunism present in the agency theory. It posits that managers may act as stewards, motivated by identification with the organization, intrinsic satisfaction, and long-term orientation. In family firms, stewardship tendencies are amplified because the identity overlap between family and firm is high, reputation concerns are significant, and legacy creates intergenerational accountability (Miller & Le Breton-Miller, 2006; Le Breton-Miller & Miller, 2009).

To summarize, on the one hand, the agency theory predicts opportunism and conflict, which are both mitigated and exacerbated in family firms. On the other hand, the stewardship theory predicts alignment and pro-organizational behavior. In practice, family firms often exhibit hybrid governance structures, where both logics coexist.

These perspectives also feed into a long-standing debate in family business research over whether family or nonfamily managers are the more effective stewards of firm interests. James et al. (2017) go beyond this by asking a different question: rather than which type of manager performs better, they ask which governance approach, agency or stewardship, works better for each type of manager. Two sets of findings emerge. First, stewardship governance is consistently associated with stronger job performance, organizational identification, and affective commitment regardless of family affiliation, while agency governance produces asymmetric effects. Second, their descriptive results challenge the common assumption that nonfamily managers are governed by agency mechanisms while family managers are governed by stewardship mechanisms, finding little support for this bifurcated pattern in practice.

Family Social Capital

Social capital theory examines how relationships, networks, and norms of trust and reciprocity generate value for individuals and organizations (Coleman, 1988; Portes, 1998). In family firms, three dimensions are particularly relevant (Nahapiet & Ghoshal, 1998): the structural dimension (who is connected to whom), the relational dimension (the trust and norms shared among those connected), and the cognitive dimension (shared values and interpretations that enable coordination). Because family and firm ties overlap, **family social capital** constitutes a bonding, internal form of social capital, distinct from the bridging ties firms build with external stakeholders (Arregle et al., 2007; Kashif et al., 2026). This bonding form is deeply embedded and difficult for non-family firms to replicate.

Yet family social capital is not uniformly beneficial. Herrero and Hughes (2019) show that the structural dimension in particular follows a curvilinear, inverted-U pattern: moderate density of family ties enhances performance, but beyond a threshold it produces closure and redundant information that crowd out the benefits of external ties, while the relational and cognitive dimensions remain positive even at high levels. Rosecká and Machek (2022) find a related pattern in the conflict domain, where family social capital fully mediates the effect of relational conflict on firm performance, and this erosion is intensified rather than buffered by high family ownership. Family firms therefore vary considerably in how their social capital is configured, ranging from firms where all three dimensions are strongly developed to firms where family ties barely distinguish them from non-family businesses (Sanchez-Ruiz et al., 2019). This lens thus complements the other theoretical frameworks presented here: it helps explain why family firms invest in reputation and stakeholder relationships, why stewardship behavior extends beyond the firm, and why succession is as much about transferring relational capital as it is about ownership.

Conclusion

Family businesses are widespread, yet their behavior often departs from usual business expectations. As outlined in the introduction, understanding why these firms prioritize legacy over short-term profit, why emotions and family ties shape strategic decisions, and how they respond to strategic or societal pressures requires multiple theoretical lenses.

The perspectives presented here offer complementary explanations. The resource-based view highlights how family involvement generates unique resources that can both enable and constrain advantage. Socioemotional wealth introduces non-financial goals as central to decision-making. Behavioral agency theory shows how risk preferences shift depending on whether these goals are threatened. Agency and stewardship theories capture the coexistence of alignment and conflict in governance structures. And, family social capital helps explain the unique relationships family firms have with their stakeholders.

Taken together, these lenses point to a common idea: family firms operate with multi-dimensional objectives and embedded identities. Their decisions reflect trade-offs between financial performance, socioemotional considerations, and reputational concerns. This helps explain recurring tensions between continuity and change, control and growth, and economic and symbolic outcomes.

Rather than providing a single explanation, this document introduces a set of analytical tools. These are intended to help readers structure their thinking and support further work on family firms.

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