Stability of family firms during economic downturn and recovery*

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Abstract

Family firms are often associated with the notion of greater stability. The goal of this article is to explore the differences in privately held family and nonfamily firms in various types of stability, including stability in the number of employees, revenue, earnings and assets. Using multiple linear regression analysis in a sample of 384 family and 1 795 nonfamily firms from the Czech Republic, we found that family firms tend to be more stable in terms of revenue and number of employees, but only during times of crisis. However, their greater employment stability results in worse labour productivity and their earnings become more volatile. During the post-crisis period, there are no significant differences in stability between family and non-family firms. Moreover, family firms have been found to grow less during both the economic downturn and the recovery. We suggest that the feature of stability that is so often attributed to family firms by popular, but also academic papers, should be used with caution.

Keywords: family firms, stability, firm growth, Czech Republic
JEL codes: M10, M20

1. Introduction

A large body of literature recognises the unique attributes of family firms as compared to nonfamily firms around the world. The notion of 'stability' has come to be frequently mentioned in connection with family firms, either as a distinguishing feature (see, e. g. Botha 2018; Groth/Weinmann 2011; Stadler 2015) or as an advantage, which family firms bring to the society (The Economist 2004). Stability as an advantage of family-controlled firms is also frequently mentioned in the academic literature (Kets de Vries 1993:61). For instance, Amit and Villalonga (2014) state that the value of family control is countercyclical, making family firms more stable and longer-lived than nonfamily firms. Donckels and Fröhlich (1991) suggest that the strategic behaviour of family businesses is rather conservative and, therefore, family firms should be

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viewed as stable rather than progressive or dynamic factors of the economy. Chrisman et al. (2009) hypothesise that continuity and command priorities make family firms a more stable organisational form.

Based on this conviction of a greater stability of family firms, banks can favour them when providing loans, potential employees looking for job stability may prefer them as employers and other businesses looking for long-term partners may prefer family firms with expectations of stable future relationships. However, the existing research still does not provide a clear justification for such convictions. While some family business researchers refer to the stability of family firms, a rigorous analysis of the overall stability of family firms – including the very definition of what this 'stability' means – is still missing.

To our knowledge, the current literature does not offer any universally accepted definition of business 'stability'. The Cambridge Dictionary (2018) defines stability as a "situation in which something is not likely to move or change". While arguing that stability is one of the central notions in the social sciences, Hansson and Helgesson (2003) suggest that it is composed of two relatively independent concepts: constancy (the absence of change) and resilience (how a system behaves when exposed to disturbances). In economics, stability has often been seen as a synonym for the absence of fluctuations about a predefined trend (Gelb 1979), the absence of severe fluctuations around a constant level (Worswick 1969), or the very lack of change (Feldman 2003). In line with these views, in the present study we define stability as the ability of a business to maintain a given level of size and output over a defined period of time.

One could hypothesis that the stability of firms is affected by external factors (such as industry characteristics or economic downturns) as well as internal factors (such as firm size or stage of lifecycle). However, previous research has only dealt with the impact of family control or ownership on firm stability to a limited extent and mostly with a narrow focus, such as employment or earnings stability (e. g. Stavrou et al. 2006; Astrachan/Allen 2003; Zellweger et al. 2007). Moreover, such research mostly ignored the contextual conditions of the economic cycle in a particular country. To the best of our knowledge, only the study of Lee (2006) has a focus on multiple dimensions of the stability of family firms (employment, revenues, and earnings). That paper has a focus on publicly-listed US firms and the period of 1992–2002, with the finding that family firms enjoy better employment stability during market downturns.

The existing bibliometric analyses in the family business literature reveal that the field suffers from cultural homogeneity. The family business research is dominated by the Anglo-Saxon literature (Pindado et al. 2015) and up to 75 % of studies that were published from 1961 to 2008 were concentrated in North America or the United Kingdom (Benavides-Velasco et al. 2013). Family business issues in developing and transition economies are still largely unexplored.

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In particular, little is known about family firms in the countries of the former Eastern Bloc, in which the family businesses were nationalised after the Second World War. After the fall of the Iron Curtain, state-owned companies were privatised, several founding families successfully took over their family firms, and new family businesses were created. These firms emerged under the conditions of economic transformation, poorly designed legal environment and developing financial markets, thus presenting new avenues for family business research.

Also, due to better data availability, family business research has mainly focused on publicly listed companies (Wright/Kellermanns 2011). At the same time, most firms around the world are privately held (La Porta et al. 1999), and the influence of their familial characteristics on their strategic choices and financial outcomes is not fully developed in the existing literature (Carney et al. 2015).

In order to address the above research gaps, this article aims to empirically investigate the stability of privately-held family firms in the Czech Republic. To evaluate stability from multiple perspectives, we focus on the volatility of revenues, earnings, employment, assets, and profit margins.

This article is organised in the following manner. First, we present a review of relevant past research. Then, we present the methods and data used. Subsequently, we show and discuss the results. Finally, concluding remarks are provided.

2. Literature review

The absence of the definition of family firms in the family business literature is one of the sources of mixed empirical findings (Astrachan et al. 2002). Researchers have used various kinds of definitions, starting from simple definitions, such as employment of at least two family members in the firm (Eddleston et al. 2008) or membership of the firm in an organisation or association grouping family firms (Kellermanns/Eddleston 2007), to complex definitions based on various scales. Chrisman et al. (2005) classify the existing definitional criteria into ‘essence criteria’ (such as the existence of the intention for succession) and ‘involvement criteria’ (the involvement of family in various areas of corporate governance bodies). Past family business studies preferred the latter; the most frequently used criteria have been the involvement of the family in ownership, governance and management (De Massis et al. 2012). We will follow this way of defining family firms in the present study.

According to the existing literature, firm value maximisation is not necessarily the main objective of family firms (Sharma et al. 1996). Stafford et al. (1999) found evidence of goals that are family-centred, such as providing employment to relatives, promoting family reputation, or maintaining family cohesion.

Among the many authors who acknowledge the need for identifying how the family contributes to firm success, Zellweger et al. (2010) further explored the

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concept of familiness, a source of competitive advantage for family firms, which is due to family involvement and interactions. Besides the family involvement approach (i. e. the presence of family in the firm) and the essence approach (family behaviours and synergistic resources contributing to the firm), they added the third dimension, the family firm identity, a concept that reflects how the family defines and views the firm.

Gomez-Mejia et al. (2007) conceptualised the theory of socioemotional wealth (SEW), which is an extension of behavioural agency theory. According to Berrone et al. (2012), SEW is composed of five dimensions: family control and influence, identification of family members with the firm, binding social ties, emotional attachment of family members, and renewal of family bonds to the firm through dynastic succession. In family firms, the promotion of SEW is assumed to be preferred over strictly economic goals. As a result, family firms follow a set of objectives which can be summarised as "keeping control and influence over the business, perpetuating the family dynasty through the business, and preserving the family reputation and image" (Gottardo/Moisello 2019). Unstable businesses will fail to meet these objectives, resulting in a loss of socioemotional wealth. To protect their socioemotional wealth, family businesses may be willing to sacrifice target economic performance, even if it means delaying or even avoiding business opportunities (Patel et al. 2012). Less risky (and potentially less profitable) ventures may then restrict the development of the firm but would maintain its security and stability. In other words, we assume that stability is in a trade-off relationship with change and growth. Ceteris paribus, when requiring higher stability, the decision-maker has to restrict change or growth. Conversely, a riskier corporate behaviour usually leads to more volatile earnings (John et al. 2008). As the efforts to preserve socioemotional wealth result in a greater risk aversion of family businesses (Hiebl 2013), their earnings should be less volatile and more stable.

2.1 Growth and financial performance of family firms

Nonfamily firms have frequently been reported to grow faster than family firms. According to Belenzon et al. (2015), private family firms invest and grow more slowly than nonfamily firms. Similar findings have been found by Gallo et al. (2000) and Jorissen et al. (2002) but both studies did not distinguish between listed and non-listed firms. These findings can be justified by the idea that family owners often restrict growth to retain control of the firm within the family (Birley 1986; Daily/Dollinger 1992).

On the other hand, Lee (2006) finds that family firms grow more than nonfamily firms. To sum up, while the evidence is not unanimous, most studies point to lower growth for family firms.

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Concerning financial performance as measured by profitability ratios such as return on assets, the evidence is much more contradictory. Multiple authors show that family companies outperform their nonfamily counterparts (listed firms evaluated by Allouche et al. (2008); Anderson and Reeb (2003); Lee (2006); privately-held firms evaluated by Machek and Hnilica (2015)). On the other hand, other researchers proved evidence of the superior performance of nonfamily firms (Jaskiewicz et al. 2005; Villalonga/Amit 2006; both studies evaluating listed firms). Due to the existence of an abundant number of comparative studies with mixed results, meta-analytic approaches have frequently been used to assess the overall performance of family firms. Wagner et al. (2015) suggest that there exists an economically weak, but statistically significant,, superior performance of family firms (without explicitly evaluating the effect of ownership type). In another recent meta-analysis, Van Essen et al. (2015 a) evaluate publicly listed family and nonfamily firms, finding that family firms outperformed other types of public corporations, but their performance dropped dramatically after the first generation. Hence, the profitability of family firms remains a topic without a clear conclusion.

As previously noted, financial performance as such cannot be considered to be the most important goal in family firms. Family firm managers may prefer to protect and enhance the socioemotional wealth even if such activities are not financially rewarding (Berrone et al. 2012) which, however, does not mean that they cannot be rewarding. To date, the exact link between the individual SEW dimensions and financial performance is unknown; a recent study suggests that the salience of goals related to family prominence and continuity affects performance positively, while family enrichment objectives may deteriorate performance (Debicki et al. 2017).

2.2 Risk aversion of family firms

Family firms have often been found to be more risk averse than their nonfamily counterparts (Hiebl 2013). This finding is explained by their business failure avoidance or threat of losing control, which is consistent with the goal of socioemotional wealth preservation, and particularly the quest for preservation of family control and influence. Transfer of control over the company to people other than family members in the case of default is perceived as more risky, as well as potentially damaging to the family reputation (Kachaner et al. 2012; McConaughy et al. 2001). Risk aversion of family firms is also manifested in their willingness to use less debt, as higher debt levels increase the risk of financial distress (Mishra/McConaughy 1999).

Since the renewal of family bonds to the firm through dynastic succession belongs to the central components of SEW, family firms seek to guarantee financial security for the family. On the other hand, greater financial security can lim-

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it opportunities for growth. According to Mishra and McConaughy (1999), "the aversion to debt by founding family-controlled firms may have the side-effect of reducing their potential growth rates by giving up profitable growth opportunities". In other words, family firms prefer to grow by utilising internal resources, as this reduces external dependence (Casson 1999); this potentially limits the investment possibilities as a source of future growth (see section 2.1) but also puts a significant constraint on diversification.

When seeking to reduce risk, family owners prefer to avoid strategic choices that threaten socio-economic wealth, even if it confers some risk protection. However, when family firms face significant threats, their perception of the importance of SEW as a reference point may change (Wiseman/Gomez-Mejia 1998). Hence, the risk-taking behaviour of family firms is situation-dependent and to avoid losses of SEW, family firms may be willing to accept the risk to their performance (Gomez-Mejia et al. 2007), while avoiding risky business decisions that might aggravate that risk. Under serious competitive threats, the goal of SEW preservation may shift to firm survival, and family firms firms can be motivated to make more economically-driven strategic choices (Cruz et al. 2011).

2.3 Employment and financial stability

Since family ties enhance the motivation and commitment to the organisational vision and long-term goals (Gomez-Mejia et al. 2007), family firms are often considered to be long-term oriented (Kachaner et al. 2012). In line with socioemotional wealth theory, long-term orientation strategy is related to the preservation of family wealth and values for subsequent generations.

By taking a long-term view, family firms can be more successful in establishing long-lasting relationships with suppliers (Berrone et al. 2012) and also with employees (Stavrou et al. 2006). This behaviour is attributable to the distinguishing features of family businesses, particularly the founding family's commitment to firm continuity. Such a commitment may be associated with the establishment of an agreement or 'implicit contract' between the founding family and its employees (Astrachan/Allen 2003).

The development of long-lasting intra-firm relationships may represent a source of internal stability under challenging economic conditions. Miller et al. (2009) provide empirical support for this assumption, finding that close relationships with employees and other stakeholders allow family firms to perform well in an unstable environment. Lee (2006) investigates the stability of family firms using the S&P 500 firm data over the period of 1992–2002 and finds that during temporary market downturns, family firms are less likely to dismiss employees.

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Higher job security in family firms has also been found in research by Bassanini et al. (2013) and Machek (2017). In a recent study, Ellul et al. (2017) find that family firms offer greater employment protection, even while controlling for time effects associated with the business cycle. Similarly, Van Essen et al. (2015 b) find that family firms are less likely to downsize in both pre-crisis and crisis conditions. Hence, it can be assumed that family firms generally tend to keep employment levels stable and avoid downsizing. Based on the arguments presented in the above, we expect that:

Hypothesis 1: Family firms tend to be more stable in terms of employment than non-family firms, regardless of the economic cycle.

While the keywords 'job stability' or 'employment stability' are mentioned multiple times in the current family business literature, 'financial stability' has received considerably less attention. Instead, researchers focus mostly on financial performance. Hence, it is only possible to include a very limited number of existing studies in this research.

Miller et al. (2011) argue that family owners and managers generally assume the role of family 'nurturers', hence they adopt strategies of conservation since they use firm resources to serve the needs of their families. Such an approach may indeed limit the growth opportunities, but at the same time, it may lead to the provision of stable, secure income for family members and preservation of wealth for future generations. The interplay between multiple SEW components, such as emotional attachment of family members and the renewal of family bonds to the firm, may justify the adoption of conservative but more stable strategies.

Based on data from the period of 1987 to 2003, Zellweger et al. (2007) find that Swiss family firms enjoyed better earnings stability (as measured by earnings variance) than their nonfamily counterparts. More stable earnings of firms controlled by founding families have also been reported by Aronoff and Ward (1995) or by McConaughy et al. (1995) in earlier studies. More recently, in a sample of Spanish and Portuguese family firms, Crespí and Martín-Oliver (2014) find that family firms in their study had better access to external funding than non-family firms and that during crisis periods, they managed to soften the negative impact of the hostile economic environment on their capital structure. Moreover, family-controlled businesses have been found to be more profitable than non-family firms during the recent financial and economic crisis (Minichilli et al. 2016; Zhou et al. 2017). Hence, we expect that:

Hypothesis 2: Family firms tend to be more financially stable than non-family firms, regardless of the economic cycle.

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3. Data

The data source for our study was a customised export from the Bisnode database that identified a complete sample of 5 709 Czech family firms which were obtained by using the surname matching approach (see, e. g. Hnilica/ Machek 2014), having more than 30 employees and turnover greater than 30 mil. Czech crowns (CZK). To identify family firms, we used the following criteria:

1) Multiple people of the same family name were present in management boards, or
2) multiple people of the same family name were present in supervisory boards, or
3) there were multiple shareholders from the same family.

This definition of family firms is based on the 'involvement criteria' approach, as defined by Chrisman et al. (2005), which to our knowledge has been the most widely used group of definitional criteria in the family business literature (De Massis et al. 2012).

Furthermore, we excluded all firms that were owned by foreign shareholders in order to obtain a sample of solely Czech firms. The reason for this was to eliminate foreign family firms and to reduce the effect of firm nationality that plays a certain role in the performance of family firms (Machek 2016). Financial data were extracted from the Amadeus database of Bureau van Dijk. After deleting cases with missing data over the 2008–2016 period and cases with insignificant family influence (i. e. less than 50 per cent of ownership and at the same time having no role of the family in top management), we ended up with the final sample of 384 Czech family firms.

Regarding nonfamily firms, we selected from the Amadeus database of Bureau van Dijk all other companies operating in the same industries (identified by using a 4-digit NACE code) as family firms in our sample that also had more than 30 employees, turnover greater than 30 mil. CZK, were not foreign-owned and were not owned by family firms from the sample. There were 1 795 nonfamily firms with complete data for the period of 2008–2016.

Table 1 shows the distribution of family and nonfamily firms in the most important NACE industry divisions. Family firms tend to prevail in manufacturing, wholesale and retail trade, and transporting and storage. Nonfamily firms are more prevalent in agriculture, forestry and fishing and other industries. In a subsequent analysis, we controlled for industry influence. For further descriptive statistics of the sample (revenue, earnings, number of employees, assets, profit margin) see also Table 2.

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Table 1. Sample Structure – Industry Affiliation

NACE sector (abbreviated)	Absolute frequency		Relative frequency [%]	
	FB	NFB	FB	NFB
C – Manufacturing	180	634	46.8	35.3
G – Wholesale and retail trade	83	261	21.6	14.5
H – Transporting and storage	57	162	14.8	9.0
A – Agriculture, forestry and fishing	19	233	4.9	12.9
M – Professional, scientific and technical activities	9	72	2.3	4.0
Q- Human health and social work activities	10	66	2.6	3.6
Other industries	26	367	7.0	20.7
Total	**384**	**1795**	**100**	**100**

Note: FB = family businesses, NFB = nonfamily businesses

4. Research methodology

To test our hypotheses and to compare the stability of the family and nonfamily firms, we focused on five variables (revenue, earnings before taxes, total assets, number of employees, profit margin – return on sales). The set of five variables contains frequently used measures of business growth (e. g. Delmar 2006) and are reported at the end of the respective year.

The economic crisis, which hit the Czech Republic in 2008 affecting export-oriented manufacturing firms in the first place (Myant 2013), was followed by a second depression in the period of 2011–2012. A positive economic development followed the first quarter of 2013, both in terms of GDP growth, unemployment rates and industry production. An exceptional growth of GDP was recorded in 2015 (5.3 %), followed by a growth of 2.6 % in 2016 (CZSO 2018).

To compare the stability of family and nonfamily firms, we analyse the development of all variables during:

- The period of crisis characterised by two economic downturns (from 2008 to 2012).
- The period of economic recovery (from 2012 to 2016).

As anticipated in the introduction to this article, we define stability as the ability of a business to maintain a given level of size and output over a defined period. Hence, to measure the development of variables over time, we analysed their growth and volatility. First, we analysed the relative change (i. e. growth rate) of variables according to the following formula (*X* denotes the respective variable):

$$growth_{crisis} = \frac{X_{2012} - X_{2008}}{X_{2008}} \qquad growth_{post-crisis} = \frac{X_{2016} - X_{2012}}{X_{2012}}$$

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As a measure of variability, we evaluated the year-to-year volatility using standard deviations over the respective span of years. In this approach, we follow multiple authors who use standard deviations to measure relative instability (Lee 2006; Capelli/Keller 2013; Dutta et al. 2013, among others). To be able to compare among firms of different sizes, the standard deviations have been normalised by the absolute value of the mean (analogous to the work of Zellweger et al. 2007).

In total, we investigated five growth-related and five volatility-related response variables for two periods. The calculations have been performed in Stata 14.

Firstly, we test the differences in means using the independent samples *t*-test. We test the null hypothesis, presuming that the difference in population means equals to zero against the alternative hypothesis, which states that the means are unequal. The Student's *t*-test assumes normality of population distributions, but it is robust on this assumption violation for large sample sizes. However, tests of mean differences do not allow for controlling for other variables, hence the results should be treated with caution.

Table 2 presents the descriptive statistics (mean and standard deviation, including the *t*-statistics for differences in means between family and nonfamily firms) for the sample. The upper part presents the descriptive statistics for the period of the crisis (2008–2012), while the lower part focuses on the period of economic recovery (2012–2016).

To investigate the extent of family influence on stability, we employed multiple linear regression analysis, which belongs to the most frequently used analytical techniques in family business studies that are focused on business performance and growth (Evert et al. 2015). The regressions were carried out for all ten response variables (growth and normalised standard deviations of revenue, earnings, employment, assets, and profit margin). We used the following explanatory and control variables in the model:

- *Family*: a dummy variable equal to 1 for family firms and 0 otherwise;
- *Age*: age of firm (by year 2013) to capture maturation effects, as young companies grow faster (Henrekson/Johansson 2010; Haltiwanger et al. 2013);
- *Size*: total assets of a firm, in the form of the natural logarithm (2009–2013 mean) to control for size effects, as there is small but existing research evidence that smaller firms grow faster (Henrekson/Johansson 2010);
- *Industry*: 14 dummy variables to control for industry affiliation according to the most important individual NACE sections.

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Table 2. Descriptive Statistics

Variable	NFB (N = 1 795)		FB (N = 384)		t statistic
	Mean	SD	Mean	SD	
Period of crisis					
Revenue	172.785	459.996	281.738	46.127	-3.464***
Earnings	6.876	18.272	11.861	28.515	-3.290***
Number of employees	108.967	250.127	132.007	155.812	-2.236**
Assets	162.218	351.808	207.235	369.286	-2.186**
Profit margin	4.083	6.317	4.166	5.515	-.262
Revenue growth	.293	2.247	.128	.853	2.371**
Earnings growth	1.363	8.476	1.343	5.571	.057
Employment growth	.398	1.474	.323	1.201	1.060
Assets growth	.362	1.241	.358	1.153	.062
Profit margin growth	.971	8.426	1.136	5.141	-.502
Revenue SD	.204	.163	.190	.122	1.849**
Earnings SD	2.259	6.056	3.111	9.684	-1.655*
Employment SD	.201	.216	.174	.192	2.465**
Assets SD	.178	.150	.172	.142	.776
Profit margin SD	2.715	10.154	3.607	13.639	-1.212
Period of recovery					
Revenue	208.703	652.909	332.279	707.765	-3.147***
Earnings	9.927	31.817	16.561	37.531	-3.224***
Number of employees	113.054	262.591	134.641	151.225	-2.180**
Assets	186.213	388.630	253.016	456.576	-2.667***
Profit margin	4.869	6.643	4.733	5.905	0.400
Revenue growth	.203	.560	.185	.455	.679
Earnings growth	2.483	16.577	2.827	22.827	.279
Employment growth	.153	.675	.063	.430	3.294***
Assets growth	.305	.601	.278	.492	0.915
Profit margin growth	1.353	16.151	.943	20.429	0.369
Revenue SD	.155	.138	.156	.126	-.135
Earnings SD	1.434	2.712	1.525	3.267	-.511
Employment SD	.125	.171	.114	.179	1.123
Assets SD	.156	.133	.157	.115	-.114
Profit margin SD	1.996	10.264	1.981	8.001	.031

Note: FB = family businesses, NFB = nonfamily businesses, SD = standard deviation (normalised). Monetary units expressed in thousands of Czech crowns (CZK)
*** – significant at the 1 % level, ** – significant at the 5 % level, * – significant at the 10 % level (one-tailed).

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We decided not to include other possible control variables, such as leverage, in order to avoid multicollinearity issues. Since the conditional distributions of individual response variables do not have constant standard deviations throughout the range of values of the explanatory variables, we also had to deal with heteroscedasticity, which does not affect coefficient estimates but raises concern about the standard errors. Our regression model uses robust (heteroscedasticity-consistent) standard errors.

5. Empirical findings

5.1 Differences in means

In Table 2, we report the results of test of differences in means of growth and volatility variables as well as other important variables over the period of 2008–2016. Family firms in the sample are larger in terms of revenue, assets and number of employees and do not outperform nonfamily firms in terms of return on sales. In a crisis, the revenue of family firms seems to grow more slowly, and their revenue and number of employees are more stable. These differences have not been found for the period of economic recovery. Moreover, non-family businesses enjoy quicker employment growth in the recovery period when compared to family businesses. However, the Student's *t*-test does not control for other factors (firm size, industry, etc.), hence these results should be interpreted with caution.

5.2 Linear regression analysis

In Table 3 and Table 4, we display the regression coefficients and their statistical significance for twenty regressions (five response variables, family and nonfamily firms, and two periods). To save on space, we do not display the results for 14 industry dummy variables. The most important variable for our study is *FB*, which indicates the impact of family control on the response variables.

The results suggest that family firms tend to grow less in terms of revenue as well as the number of employees, both during the economic downturn and recovery. The growth of revenue, earnings, number of employees, and assets is negatively associated with firm age. In other words, older firms grow slower. On the other hand, firm size has no clear effect on growth and stability.

The fluctuation of revenue and especially the number of employees, as measured by normalised standard deviations, is significantly lower in family firms, but only under the conditions of economic crisis. However, the results also suggest that earnings volatility is higher in family firms during the economic downturn. During times of economic recovery, there are no differences in stability between family and nonfamily firms.

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Table 3. Regression results – period of crisis (N = 2 179)

Period of crisis					
Variable	**Revenue growth**	**Earnings growth**	**Employment growth**	**Assets growth**	**ROS growth**
Intercept	1.464**	1.725	.480	.997***	.721
FB	-.152**	-.065	-.132*	-.036	.169
Age	-.028***	-.043*	-.029***	-.023***	-.020
Size	-.067*	.044	.029	-.022	.065
Variable	**Revenue SD**	**Earnings SD**	**Employment SD**	**Assets SD**	**ROS SD**
Intercept	.299***	3.953**	.287***	.399***	2.543
FB	-.016**	1.015*	-.029***	-.006	1.022
Age	-.001***	.038*	-.002***	-.003***	.019
Size	-.004	-.226	-.003	-.014***	-.047

Note: *** – significant at the 1 % level, ** – significant at the 5 % level, * – significant at the 10 % level. Besides the above variables, regression included 14 dummy variables to control for industry affiliation.

Table 4. Regression results – period of recovery (N = 2 179)

Period of recovery					
Variable	**Revenue growth**	**Earnings growth**	**Employment growth**	**Assets growth**	**ROS growth**
Intercept	. 405***	1.541	.582***	.969***	-3.345
FB	-.065**	-.244	-.114***	-.052*	-1.047
Age	-.008***	.048	-.012***	-.011***	.080
Size	.002	.054	-.017	-.037***	.364
Variable	**Revenue SD**	**Earnings SD**	**Employment SD**	**Assets SD**	**ROS SD**
Intercept	.146***	3.752***	.163***	.326***	4.403**
FB	-.004	.211	-.008	-.001	.141
Age	-.001*	.018	-.001	-.001***	.097
Size	.002	.245***	-.002	-.012***	-.391*

Note: *** – significant at the 1 % level, ** – significant at the 5 % level, * – significant at the 10 % level. Besides the above variables, regression included 14 dummy variables to control for industry affiliation.

The results also suggest that growth and stability of profit margin (return on sales) do not depend on whether the firm is family controlled or not.

In an attempt to gain a deeper understanding of the results, we also tested whether family firms performed worse or better. A similar analysis has been carried out both for times of recovery and times of crisis (Table 5). Three indicators

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have been used: return on assets, return on sales (profit margin) and labour productivity (sales over the number of employees). Regarding profitability, no evidence of superior performance of family firms has been found, both during the period of economic crisis and the period of recovery. The findings are consistent with the study of Van Essen et al. (2013), who report that in their study family ownership was not positively associated with abnormal returns during a financial crisis. On the other hand, our results strongly suggest that family firms tend to reduce their labour productivity during the period of crisis, while under 'normal' circumstances, the differences are not statistically significant.

Table 5. Regression results – performance of family firms (N = 2 179)

	Period of crisis			Period of recovery		
Variable	Return on assets	Return on sales	Labour productivity	Return on assets	Return on sales	Labour productivity
Intercept	10.633***	-.766	-7 962.828***	12.365***	.073	-20 854.630***
FB	.169	.183	-658.744***	-.262	-.069	48.704
Age	-.108***	-.055***	-53.754***	-.110***	-.074***	-55.904***
Size	-.178	.533***	958.667***	-.253	.610***	2 235.477***

Note: *** – significant at the 1 % level, ** – significant at the 5 % level, * – significant at the 10 % level.

6. Discussion

We failed to find full support for our two hypotheses on the superior employment and financial stability of family firms. Family businesses have been found to have more stable revenues and the number of employees during economic downturns, but in the period of recovery, we did not find any significant differences between family and non-family firms.

6.1 Employment stability in family firms

The previous body of literature has reports that family firms adopt a low-pay (Bandiera et al. 2015; Neckebrouck et al. 2018) and high job security position (Bassanini et al. 2013; Machek 2017; Ellul et al. 2017). The long-term orientation of family firms, which is related to the promotion of socioemotional wealth through preservation of the family dynasty and family values, results in the establishment of long-term employment relationships, and as a result, family firms avoid downsizing (Astrachan/Allen 2003; Stavrou et al. 2007). However, our results suggest that the fluctuation of the number of employees in family firms is significantly lower in 'bad times', which complements the previous research of Machek (2017) and is consistent with the findings of Lee (2006). Moreover, while family firms exhibit greater stability of employment, their earnings in times of crisis are less stable, and their labour productivity decreases. A poten-

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tial reason explaining this finding is that employee costs of family firms become fixed and the earnings become more volatile. Because of the retention of more employees than are required by the competitive forces, the labour productivity of family firms deteriorates.

These findings can be supported by socioemotional wealth theory. Under the immediate threat of a loss of socioemotional wealth, family managers will become loss averse; hence, they will be willing to prefer to preserve their socioemotional wealth over other goals (Chrisman/Patel 2012). In this context, the key dimension of SEW is 'binding social ties', which refers to the social relationships of the family firm (Berrone et al. 2012). The bonds within the closed social networks of family firms extend not only to family members but also to nonfamily employees (Miller/Le Breton-Miller 2005). Family firms will avoid downsizing even if it means that their earnings become less stable (i. e. their financial security is reduced) and their labour productivity is harmed. Hence, during times of crisis, the preservation of socioemotional wealth becomes more important than the achievement of economic goals. These findings are in contrast with the studies of Aronoff and Ward (1995) and McConaughy et al. (1995) who found that publicly held family firms had more stable earnings than nonfamily firms, but they are consistent with the idea that family firms are willing to sacrifice business performance when it comes to the protection of socioemotional wealth (Hiebl 2013). Our findings also complement the study of Neckebrouck et al. (2018), who find that Belgian family firms had lower labour productivity in the period of 2008–2014; however, in line with our results, this applies to times of crisis only.

During economic recovery, socioemotional wealth is not put at risk anymore, family firms enjoy the same positive economic development as nonfamily firms and the need to hire new employees; competitive forces may induce the managers of family firms to follow stricter economic HR management policies, which would mitigate the differences in fluctuation of employees as well as labour productivity.

6.2 Financial stability of family firms

We found only partial support for the hypothesis on the greater financial stability of family firms – they had more stable revenues in times of crisis, but at the same time, they grew less, both in the period of economic crisis and the period of recovery. Hence, the results do not support the popular view of the superior stability of family firms.

The observed slower growth of family firms is consistent with past research. Family firms, both listed and privately-held, have frequently been reported to grow slower (Daily/Dollinger 1992; Gallo et al. 2000; Jorissen et al. 2002; Belenzon et al. 2015; Machek 2015). The fact that family control tends to reduce

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growth can be associated with a greater risk aversion of family firms (Kachaner et al. 2012) since higher growth or profitability can usually be attained by accepting a higher level of risk. Also, the desire for family firm independence and avoidance of dilution of control may lead to lower investment or refusing external financing of growth opportunities (Birley 2000; Daily/Dollinger 1992) that eventually restrict business growth. The willingness to forego profitable but risky growth opportunities may be seen as a means of preserving the socioemotional wealth. During times of crisis, the determination to protect socioemotional wealth may lead to subsequent prudent management policies, which reduce the volatility of revenue (and employment) but become costly.

Besides the findings that are noted in the above, several other interesting observations arise. In particular, the findings generally suggest that, especially during times of crisis, older firms seem to be more stable as the volatility of their revenue, earnings, and employment is lower, but they also grow slower. This is in line with previous research studies (Henrekson/Johansson 2010; Haltiwanger et al. 2013).

6.3 Limitations

This study also has several limitations. The surname matching approach may eliminate family firms with family members who have a different surname or that do not report management members. The compilation of our sample reflects the involvement of families in management and ownership, but on the other hand, we have no evidence on their intention for intra-family succession or self-identification as family firms.

From the methodological point of view, we evaluated the family influence using a dichotomous variable, while the true extent of family control may be different at different levels of family presence in ownership, management or supervisory boards. Continuous measurement of family involvement in ownership and management, as well as capturing other components of familiness (the essence approach and family firm identity), would better reflect the variety of forms that family businesses can take. Hence, the omission of family firm heterogeneity is another source of limitations in our study.

The local focus of the study also represents one of the drawbacks, since we analysed only Czech family and nonfamily firms. The mechanisms in other countries, or within foreign families involved in the business, may differ.

7. Conclusion

In this study, we found that privately-held Czech family firms grow slower than their nonfamily counterparts, both during the period of the crisis and the period of recovery. We also showed that family firms tend to have a more stable rev-

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enue and employment during the times of economic downturn, but on the other hand, their earnings volatility and labour productivity are harmed.

The main implication of this paper is straightforward. In the popular press, but also in the academic literature, family firms are often presented as a particularly stable class of businesses. Our results show that the superior stability of family firms is, at least, debatable and applies especially for periods of economic recession. The contribution of this study to the body of family business literature also stems from the fact that it deals exclusively with privately-held firms that constitute the vast majority of businesses. However, past research has mostly been focused on publicly listed companies due to data availability. In our paper, we respond to numerous calls for the need for investigating private family firms (Carney et al. 2015; Minichilli et al. 2016) and suggest that as with listed firms (Zhou et al. 2017), private family firms do not significantly outperform nonfamily businesses in times of economic recovery. Further, we contribute to the family business literature by focusing on the under-researched region of Central and Eastern Europe that underwent a specific development due to the forty years of the socialist era. Besides the empirical contribution to the family business literature which has been predominantly focused on the Anglo-Saxon countries (Benavides-Velasco et al. 2013; Pindado et al. 2015), in our study we provide further evidence that the socioemotional wealth concept is also a valid construct with which to explain the behaviour of family businesses in the Central and Eastern European (CEE) countries; in other words, family businesses follow a similar set of objectives as do their counterparts in the Western countries.

The socioemotional wealth is not only internally socialised. While it also depends on the external social and institutional factors, the SEW literature has largely neglected the role of the context (Peng et al. 2018; Samara et al. 2018). We contribute to SEW theory by showing that there is a moderating effect of economic conditions on the relationship between the pursuit of SEW and family business stability. In this regard, our findings complement recent studies which suggest that the differences between family and nonfamily businesses are especially pronounced during times of crises (Crespí/Martín/Oliver, 2014; Minichilli et al. 2016; Zhou et al. 2017).

The positive effects that family businesses have on society have been recognised by European institutions, which have carried out specific activities that are focused on the family business sector (Botero et al. 2015). Our study has related policy implications. The targeted institutional support of family firms may serve as a method of mitigating the negative effects of economic recessions on employment and, hence, smoothing of the economic cycle. Such support might include counselling, dissemination of information, loans, subsidies for workplaces, or supporting export activities, among others (Šebestová et al. 2018).

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There are also practical implications of our study. Employees in family firms will have a lower probability of losing their jobs during times of economic downturn. This applies especially to people who have recently lost their jobs or who are afraid of losing their jobs and they will thus have a greater propensity to seek stable employment; family firms can represent a suitable choice. The higher job security can then be used by marketers when branding family firms as good employers. This could be efficient, especially in unstable industries and regions, but also when preparing recruitment campaigns before or during expected economic recessions. Investors considering investing in family businesses should be aware of the fact that becoming involved in family firms does not necessarily result in more secure investments since family firms can experience higher earnings volatility in times of crisis and, in most cases, they grow at a slower rate.

Future research should be oriented in multiple directions. Firstly, further investigation is needed in the area of employment stability. The analysis of true dismissal rates and 'voluntary turnover' (Neckebrouck et al. 2018) of employees in different positions would provide a better insight into the human resources management policies in family firms. Secondly, especially the small- and micro-sized companies should further be investigated, since most family firms belong to this class of companies and most of the existing studies, including the presents study, have a focus that is primarily on medium- and large-sized firms. Thirdly, a cross-country study would allow for an investigation of international differences in family firm stability, for testing the moderating effects of the context on the socioemotional wealth-behaviour relationship, and for verifying whether our findings also apply in other geographical regions of the world. Future research should also consider the heterogeneity of family firms with a consideration of different levels of family involvement in management and ownership, also together with different aspects of 'familiness'. Lastly, but not the least, since the current literature suggests that generation plays a significant role in family business performance (Van Essen et al. 2015 a), future research could compare the stability of founder-led family firms with those of second and subsequent generations.

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