

# **The influence of socioemotional wealth on firm financial performance: evidence from small and medium privately held family businesses**

**Martínez-Romero, María J.<sup>(1)</sup>; Martínez Alonso, Rubén<sup>(2)</sup>; Casado-Belmonte, M. Pilar<sup>(3)</sup>**

*(1) (2) (3)* Economics and Business Department, University of Almería

Ctra. Sacramento s/n, 04120, La Cañada de San Urbano, Almería. Spain.

Maria J. Martínez-Romero

Email: [mariaj.martinez@ual.es](mailto:mariaj.martinez@ual.es)

Rubén Martínez-Alonso

Email: [rma168@inlumine.ual.es](mailto:rma168@inlumine.ual.es)

M. Pilar Casado-Belmonte

Email: [mbelmont@ual.es](mailto:mbelmont@ual.es)

María J. Martínez-Romero is an assistant professor of accounting and finance in the Economics and Business Department at the University of Almería, Spain. She collaborates with the Santander Family Business Chair at this University. Her primary research interests include family firm research focusing on emotional, innovative, finance and corporate governance aspects. She can be reached at [mariaj.martinez@ual.es](mailto:mariaj.martinez@ual.es)

Rubén Martínez-Alonso is a junior researcher at the University of Almería, Spain. He collaborates with the Santander Family Business Chair at this University. His research interests include family firm research focusing on technological innovation and emotional considerations. He can be reached at [rma168@inlumine.ual.es](mailto:rma168@inlumine.ual.es)

M. Pilar Casado-Belmonte is an assistant professor of accounting and finance in the Economics and Business Department at the University of Almería, Spain. She is the coordinator of the Finance and Accounting degree at the University of Almería. Her research interests include accounting, family firms and corporate governance. She can be reached at [mbelmont@ual.es](mailto:mbelmont@ual.es)

# **The influence of socioemotional wealth on firm financial performance: evidence from small and medium privately held family businesses**

## **Abstract**

By integrating literature on firm performance, family firms and socioemotional wealth (SEW), this paper empirically analyses how different SEW dimensions influence firm performance in privately held family businesses. The findings from a population of 173 family firms reveal that two SEW dimensions, i.e. identification of family members with the firm and renewal of family bonds through dynastic succession, exert a negative and significant impact on financial performance. Therefore, this study provides a better comprehension of the relationship between family involvement and financial performance and complements the partial view offered up until now, by introducing the SEW approach, its multidimensional nature and the effects of its various dimensions.

**Keywords:** Socioemotional Wealth, financial performance, privately held family firms, family influence

## **1. Introduction**

Family involvement in ownership and management leads to unique strategic choices among family firms (Carney, 2005; Martin & Gomez-Mejia, 2016), which in turns lead to differences in performance outcomes (Mazzola, Sciascia, & Kellermanns, 2013; Rojo-Ramírez & Martínez-Romero, 2017; Sciascia & Mazzola, 2008). Although recent research has focused on the impact of family involvement on firm performance (e.g., Anderson & Reeb, 2003; Kidwell, Eddleston, Cater, & Kellermanns, 2013; Martinez, Stohr, & Quiroga, 2007), results are far to be conclusive: positive, negative and nonsignificant associations have been found between family involvement and firm performance. Furthermore, most of the prior research refers to publicly traded firms despite the majority of family businesses worldwide are small and medium privately held businesses (López-Delgado & Diéguez-Soto, 2015; Mazzola et al., 2013). The private family SMEs context is of utmost importance because existing research suggests that the results found for large public firms might not hold for smaller private firms (De Massis, Kotlar, Campopiano, & Cassia, 2015; Miller, Le Breton-Miller, Lester, & Cannella, 2007; Schulze, Lubatkin, Dino, & Buchholtz, 2001).

The abovementioned conflicting results and the limited number of studies dealing with privately held family businesses provide an opportunity to pursue a theoretical explanation for these inconsistencies and to focus on this type of firms. In this vein, we adopt the socioemotional wealth (SEW) perspective (Gómez-Mejia, Haynes, Núñez Nickel, Jacobson, & Moyano Fuentes, 2007) to develop our hypotheses. It is widely accepted that SEW constitutes “the pivotal frame of reference that family-controlled firms use to make major strategic choices and policy decisions” (Berrone, Cruz, & Gómez-Mejia, 2012; p. 259). However, despite the importance of the SEW approach, there are few studies analysing family firm performance from such perspective

(Martínez-Romero & Rojo-Ramírez, 2017; Mensching, Kraus, & Bouncken, 2014) and calls for additional research have been made (Duran, 2016; Martin & Gomez-Mejia, 2016).

Moreover, after the study of Berrone et al. (2012), in which they proposed a set of SEW dimensions, the multidimensional nature of this construct is commonly acknowledged. Specifically, Berrone et al. (2012) identified the following SEW 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. However, to our best knowledge, no study empirically examines the impact of each SEW dimensions on family firm financial performance.

Therefore, in this study we seek to advance knowledge on how SEW shapes family firm financial performance to address a twofold research question. First, how SEW influences family firm performance, and namely financial outcomes? Second, what specific SEW dimensions impact on family firms' financial performance?

We aim to answer the former research questions using a sample of 173 Spanish privately held family businesses. The hypotheses were tested using the SABI database for economic and financial data and questionnaires for emotional data. In this vein, our findings provide empirical support to our contentions regarding the influence of specific SEW dimensions on family firm performance. Our results reveal that both Identification of family members with the firm and Renewal of family bonds through dynastic succession exert a negative impact on financial outcomes.

Our study makes two main contributions. First, it empirically analyses performance in the context of privately held small and medium family businesses, improving the understanding of financial outcomes in this type of firms (De Massis et al., 2015; Miller et al., 2007; Rojo-Ramírez & Martínez-Romero, 2017). Specifically, this paper

complements the partial view offered up until now, by introducing the SEW approach in order to provide a proper explanation of the relationship between family involvement and financial performance on the theme of small and medium-sized firms. Second, it delves into the SEW construct to investigate which specific SEW dimensions affect financial performance in family firms. In this regard, although literature on family firm performance shows the importance of SEW in affecting performance outcomes (Detienne & Chirico, 2013; Sciascia, Mazzola, & Kellermanns, 2014), the existing research generally treats SEW as a unidimensional construct, omitting its multidimensional nature and the effects of its various dimensions. Thereby, the better comprehension of SEW dimensions on firm financial outcomes might reconcile the inconclusive results in previous family firm performance literature.

The article is structured as follows. First, the theoretical background is presented, devoting a first epigraph to analyse performance in family businesses and a second epigraph to review the existing literature of SEW and firm performance. The next section deals with the hypotheses development. Then, the methods section is developed and subsequently, the data analysis and results are exposed. Finally, a discussion of the results and our main conclusions are presented in section “Discussion and conclusions”.

## **2. Theoretical framework**

### **2.1. Performance in family businesses**

Family firms are the most prevailing type of business in the landscape of large and SMEs (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999; Zattoni, Gnan, & Huse, 2015). Accordingly, over the last decade the family business research field has experienced a notable growth, being considered an unique area of research (Debicki, Matherne, Kellermanns, & Chrisman, 2009; Sharma, Hoy, Astrachan, & Koironen, 2007; Zellweger, Eddleston, & Kellermanns, 2010). In this vein, it is worth noting the

increase of studies that pursue to identify the impact of family influence on financial performance (Sciascia & Mazzola, 2008; Zattoni et al., 2015), which is considered a topic of remarkable interest (Basco, 2014). Broadly speaking, performance alludes to efficiencies in the use of resources and the achievement of strategic goals (Steers, 1982), and a large body of research has tried to elucidate whether the differences found in terms of financial structures (Anderson, Mansi, & Reeb, 2003; Gallo, Tàpies, & Cappuyns, 2004; Mishra & McConaughy, 1999), risk preferences (Gómez-Mejía et al., 2007; Kotlar, De Massis, Fang, & Frattini, 2014), corporate governance (Bammens, Voordeckers, & Van Gils, 2008) and innovation (De Massis, Kotlar, Chua, & Chrisman, 2014), among others, might imply distinct performance among family and nonfamily firms (Chrisman, Chua, & Sharma, 2005).

The conceptual framework of family influence on firm performance has been developed emphasizing a variety of theories: agency, stewardship and resource-based view theory (Chrisman, Kellermanns, Chan, & Liano, 2010; Sciascia et al., 2014). Regarding agency theory, family managers, as agents, would pursue noneconomic goals that are supposed to have countervailing economic advantages and costs, in order to maintain the transgenerational sustainability of the firm, the family and its reputation. In this sense, the existing empirical research has revealed mixing findings. Family influence impacts both positively and negatively on financial performance due to agency costs (Chrisman, Chua, & Litz, 2004). On the one hand, the benefits obtained by the unified governance decrease agency costs and increase firm performance (Anderson et al., 2003; Chrisman et al., 2004). On the other hand, some studies argued that family factors cause costs and are considered liabilities for firm performance (Gómez-Mejía, Núñez Nickel, & Gutierrez, 2001; Kidwell et al., 2013; Le Breton-Miller & Miller, 2009; Schulze et al., 2001). According to stewardship theory, managers act as stewards and maximize their

utility as they reach organizational rather than self-serving goals (Davis, Schoorman, & Donaldson, 1997). In this vein, Mazzola et al. (2013) showed an U-shaped relationship between family involvement in ownership and ROA, and a positive relationship between family involvement in management and ROE, using a sample of 294 small privately held family firms in Italy. Chu, (2011) with a sample of 786 public family firms, revealed a strong positive relationship between family ownership and performance when family members were involved in firm management or control. Finally, in relation to the resource-based view, family influence appears to be a source of entrepreneurial opportunities besides its distinctive advantages and disadvantages (Chrisman et al., 2005; Kets de Vries, 1993). Some authors have postulated that family-influenced firms could embrace future positive outcomes due to the fact that the idiosyncratic arrays of resources and capabilities, i.e. the familiness, impact on firm performance (Habbershon, Williams, & MacMillan, 2003; Chrisman et al., 2003). Moreover, the co-alignment of multiple factors, the so-called resource orchestration, is required for performance gains (Chirico, Sirmon, Sciascia, & Mazzola, 2011). However, some resources could be used for family purposes instead of firm goals, lacking the proper human resources (Kidwell et al., 2013; Sirmon & Hitt, 2003). Empirically, Allouche, Amann, Jaussaud, and Kurashina, (2008), showed a positive family influence on financial performance with Japanese sampled firms.

Even though numerous studies have analysed performance in family firms, there is no strong evidence supporting the relationship between family involvement and financial performance (Basco, 2014; De Massis et al., 2015; Sciascia et al., 2014). Furthermore, the vast majority of research has dealt with large companies (Dyer, 2006; Kammerlander, Sieger, Voordeckers, & Zellweger, 2015; Sciascia & Mazzola, 2008). In fact, prior studies do not assure that results found for large firms could hold for

smaller businesses (Miller et al., 2007). In this sense, Sciascia and Mazzola, (2008) run a study in Italy with a sample of 620 small and medium-sized firms and found a negative quadratic relationship between family involvement in management and firm performance, but this relationship was not revealed for family involvement in ownership and firm performance. Besides, in an attempt to complement agency theory with behavioral assumptions, De Massis et al. (2015) studied the effect of family involvement on small and medium-sized firms' performance, with a sample of 787 Italian firms. Their results showed an inverted U-shaped relationship between family ownership and performance, and a negative relationship between ownership dispersion among family members and firm performance.

Accordingly, the abovementioned results highlight that the consequences of family influence on firm performance may differ for large and small and medium-sized firms (De Massis et al., 2015; O'Boyle, Pollack and Rutherford, 2011). Furthermore, most of the existing research provides only a representation of the family impact on performance, due to the fact that it has focused on a specific dimension of family involvement, namely ownership involvement (Anderson & Reeb, 2003; Lee, 2006; Martinez et al., 2007; Villalonga & Amit, 2006) and management involvement (Sciascia et al. 2014). Nevertheless, the complex nature of family businesses leads to employ a more promising way to understand the family effect on firm performance (Basco, 2014; Dyer, 2006).

## **2.2. Socioemotional Wealth and Firm Performance**

Family business research has long been focused on the noneconomic aspects of family firms, leading to a new theoretical approach known as socioemotional wealth (SEW) (Berrone et al., 2012; Berrone, Cruz, Gómez-Mejia, & Larraza Kintana, 2010; Gómez-Mejia et al., 2007), which is currently considered the most potential paradigm in the



family business field (Berrone et al., 2012, p. 258). Family businesses' owners do not only receive economic values from their firms, but also obtain a set of non-financial values derived from their status (Berrone et al., 2010), such as “identity, the ability to exercise family influence, and the perpetuation of the family dynasty” (Gómez-Mejia et al., 2007, p. 106).

However, several authors have emphasized the challenge of measuring SEW (Chua, Chrisman, & De Massis, 2015; Le Breton-Miller & Miller, 2013; Schulze & Kellermanns, 2015). SEW measures based on indirect proxies as for example, the percentage of family ownership or the percentage of family management, have been highly criticized (e.g., Miller & Le Breton-Miller, 2014; Schulze & Kellermanns, 2015). In this sense, Berrone et al. (2012) significantly contributed to the SEW approach by defining the SEW as a multidimensional construct. Berrone and colleagues focused on the multifaceted nature of SEW and presented a direct scale to measure this construct through the identification of five SEW 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, and labeled them as FIBER.

Prior literature has established that family firms tend to pursue noneconomic goals at the expense of purely financial goals (Chrisman & Patel, 2012; Gómez-Mejia, Makri, & Kintana, 2010), in order to preserve the family SEW. The particular pursuit of non-economic objectives seems to have substantial impact on the behavior of family businesses (Gómez-Mejia et al., 2007). This particular behavior tend to affect the way in which family businesses innovate (Kammerlander & Ganter, 2014) and also their preferences to obtain higher or lower levels of performance in the short and long term (Sciascia et al., 2014). Thus, many scholars have increased their focus on the SEW-

performance relationship (e.g., Gottardo & Moisello, 2015; Martin & Gomez-Mejia, 2016; Martínez-Romero & Rojo-Ramírez, 2017), due to the obtained financial wealth cannot be separated from the emotional aspects that influence the day-to-day decisions in family businesses (Martin & Gomez-Mejia, 2016). The impact of SEW on different performance measurements has been empirically tested by several authors (e.g., Duran, 2016; Naldi, Cennamo, Corbetta, & Gómez-Mejia, 2013; Schepers, Voordeckers, Steijvers, & Laveren, 2014). Indeed, diverse studies that relate the SEW approach to financial aspects have recently been published. For example, Naldi et al. (2013) evidenced that when CEO is part of the family, SEW could have divergent consequences (positive and negative) over firm performance according to the environment in which the business accomplishes. Pazzaglia, Mengoli and Sapienza, (2013) showed that businesses acquired via market operations by families present lower earnings quality than firms established or transferred by family members. Schepers et al. (2014) postulated that both entrepreneurial orientation and SEW are fundamental concepts to explain the performance variations in family firms. In particular, these authors established that the positive effect of entrepreneurial orientation on financial performance diminishes as the level of SEW preservation becomes higher. Sciascia et al. (2014) claimed that family management is positively related to profitability at later generational stages. These authors argued that some aspects such as less identification with the firm and emotional attachment, lead family managers to pursue more economic goals as improve financial wealth instead of preserving SEW. Gottardo and Moisello, (2015) showed that family businesses in first generational stages have better performance than non-family businesses, although these higher returns are reverted in later generations. Duran, (2016) by discussing how institutional contingencies could affect the relationship between SEW dimensions and financial wealth, added an

institutional perspective to the study of Martin and Gomez-Mejia, (2016), which conceptually deals with the two-way SEW- financial wealth relationship.

### **3. Hypotheses Development**

As previously stated, SEW is an integrated approach that captures the "affective endowment" of family members including the family's desire to exercise authority, enjoyment of family influence, maintenance of clan membership within the firm, appointment of trusted family members to important posts, retention of a strong family identity, and continuation of the family dynasty (Berrone et al., 2012, p. 262). These authors argued that SEW dimensions are discernible and can influence family behaviors and outcomes in a different way. Prior research has studied the SEW dimensions in detail (Berrone et al., 2012; Miller & Le Breton-Miller, 2014), but the current state of knowledge about how these different dimensions affect the achievement of performance is scarce (Gottardo & Moisello, 2015; Naldi et al., 2013; Schulze & Kellermanns, 2015). Several studies have also established that family businesses consciously or unconsciously, value non-financial aspects that result from their family control (Berrone et al., 2010; Gómez-Mejía et al., 2007). In order to protect these non-financial benefits, family businesses are willing to accept a greater risk of poor business performance (Gómez-Mejía et al., 2007), because when the family business' SEW is threatened, firms are prone to take decisions that are not guided by economic rationale (Berrone et al., 2012).

Today, we have little knowledge of how family businesses' financial and socioemotional goals are interrelated. In general, most literature have assumed that the pursuit of SEW results in inefficient economic achievements, and consequently that SEW profits and financial profits are inversely related (Miller & Le Breton-Miller,

2014; Schulze & Kellermanns, 2015). Nevertheless, some authors have recently focused on the relationship between SEW dimensions and performance (Martin & Gomez-Mejia, 2016; Martínez-Romero & Rojo-Ramírez, 2017). For example, Martin and Gomez-Mejia, (2016) studied the two-way relationship between socioemotional and financial forms of wealth. They showed that in family businesses' strategic decisions, it is possible to predict when one form of wealth (socioemotional/financial) dominates the other (financial/socioemotional). Martínez-Romero and Rojo-Ramírez (2017) emphasized the role of emotional considerations in strategic decisions.

Thus, it appears reasonable to propose that performance in family businesses is influenced by the SEW presented in these firms. We argue that is highly necessary to obtain a better comprehension of the relationship between the family firms' SEW dimensions (Berrone et al., 2012; Miller & Le Breton-Miller, 2014; Schulze & Kellermanns, 2015) and financial performance. For that purpose, we delve further into this issue by examining the effect of each of these dimensions of the FIBER model (Berrone et al., 2012) on performance, proposing five hypotheses (see figure 1).

Family control and influence are an integral part of the family's capacity to exercise authority and pursue family-centered goals within the business (Zellweger, Kellermanns, Chrisman, & Chua, 2011). Gómez-Mejía et al. (2007) evidenced through a study of Spanish olive mills that family business members would be willing to make riskier decisions to maintain business control over their family. Indeed, family businesses will avoid any transfer of control to external members to avoid losing their SEW (Stockmans, Lybaert, & Voordeckers, 2010). The fact of not expanding the firm due to the fear of losing control over outsiders, would also have a financial cost (Chrisman & Patel, 2012). This reluctance of family firms to not give up control leads to less innovative behavior (Gomez-Mejia et al., 2014) and also to less

professionalization (Cruz, Gómez-Mejía, & Becerra, 2010; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011) which could have a negative impact on performance.

However, other scholars have concluded that family control and influence may have a positive impact on performance. Martínez-Romero and Rojo-Ramírez, (2017) argued that it might be the case that a firm would be managed indirectly by family members or by more distantly related family members. Under this particular situation, the firm management would be focused on achieving the maximum profitability instead of preserving the socioemotional endowment. Kellermanns, Eddleston, Sarathy, and Murphy, (2012) showed that family influence can help family firms to take advantage of their innovative capacity. A major capacity of innovation would allow family firms to improve their performance outcomes. Moreover, Sciascia et al. (2014) introduced the generational stage to claim that family control is positively related to profitability at later generational stages.

Hence, the abovementioned studies suggest that family control and influence are related in both senses with firm performance: positively and negatively. Given these inconclusive results, we propose the following nondirectional hypothesis:

**Hypothesis 1:** There is a systematical relationship between family control and influence and firm performance.

Several business scholars have claimed that the intermeshing of the family and the business drives to a unique identity within family businesses (Berrone et al. 2012, 2010). Berrone and colleagues also postulated that the identity of the family business' owners is inextricably tied to the organization. Gottardo and Moisello, (2015) stated that family identification with the firm increases when numerous family members are actively involved in the firm management, because then, the firm is considered an extension of the family (Berrone et al., 2012). The fact of being involved in

management allows family members to increase their influence, social ties and emotions with the firm and gives them a greater incentive to maintain the business alive in the long term (Gottardo & Moisello, 2015). This major identification with the firm encourages family members to be focused on the family rather than the business, and therefore negative consequences on profitability are expected (Corbetta & Salvato, 2004). Furthermore, family firms managed by a family CEO present more self-identification with the firm than family firms managed by a non-family CEO (Gersick, Lansberg, Desjardins, & Dunn, 1999; Gómez-Mejía et al., 2007). Accordingly, family CEOs would pursue SEW preservation in detriment of financial wealth. Deephouse and Jaskiewicz, (2013) postulated that a high level of identification with the firm encourages family members to pursue a favorable reputation. Moreover, these authors established that when the family name is part of the business name, the firm's reputation improves because family members are more concerned about the firm's prestige. Thus, it is likely that reputation-oriented family members are more focused on SEW preservation than in purely financial goals.

Therefore, a major identification of family members with the firm indicates that family members are more concerned about the family's interests, so it is assumed that the emotional endowment is higher and thus, the firm performance is lower:

**Hypothesis 2:** There is a negative relationship between the identification of family members with the firm and firm performance.

Binding social ties refers to family firms' social relationships (Berrone et al. 2012). A factor that seems to influence the intensity of the family SEW on firm performance, is the family involvement in the whole business, including the board of directors, TMT and others firm levels (Martin & Gomez-Mejia, 2016). Martin and Gomez-Mejia (2016) argued that excessive family involvement in the firm reduces the recruitment of

professional directors. These authors also stated that the designation of family members for the board can lead to highly centralized decisions and a lack of fresh ideas, which may lead to the relinquishment of growth opportunities. Moreover, family businesses are assumed to be very thoughtful about the society in which they operate (Berrone et al., 2010) and about the individuals who work in them (Martínez-Romero & Rojo-Ramírez, 2017). These firms are inclined to pursue the welfare of those around them, even when there are no obvious financial benefits from such behavior. In this vein, Berrone et al. (2010) showed that family firms tend to contaminate less to improve their image, in order to protect their SEW. Cruz, Larraza-Kintana, Garcés-Galdeano, and Berrone, (2014) empirically showed that family firms have a beneficial effect on the social dimensions associated with external stakeholders, because of their SEW.

Therefore, the stronger the emphasis on maintaining binding social ties among family members within the firm, the higher the emotional endowment and thus, the lower the performance is:

**Hypothesis 3:** There is a negative relationship between binding social ties and firm performance.

Emotional attachment refers to the role that emotions play in the creation and conservation of family and social ties (Berrone et al. 2012). This fourth SEW dimension can help to reinforce family members' commitment to the firm, so family members would be less likely to leave the business. This situation can prevent the mobility of knowledge from the firm (Memili, Fang, & Welsh, 2015), especially in terms of tacit knowledge (Duran, 2016; Von Krogh, Ichijo, & Nonaka, 2000). In general, family business owners are endowed with superior tacit knowledge (Von Krogh et al., 2000), due to the unique capabilities they have developed concerning the different routines, know-how and resources of their firms. Therefore, family owners' management is

beneficial to ensure the transmission of family social capital and tacit firm knowledge to next generations. Furthermore, the particular motivation of family business for creating more personal relationships with employees and better social climates generates deeper levels of specific tacit knowledge in their firms (Manzaneque, Ramírez, & Diéguez-Soto, 2017). Thus, affective and emotional considerations can help family firms to obtain better outcomes. In this vein, several authors (e.g., Ashwin, Krishnan, & George, 2015; Diéguez-Soto, Manzaneque, & Rojo-Ramírez, 2016) demonstrated that tacit knowledge can also lead to better innovation outcomes and therefore, superior performance.

Moreover, as family firm owners often see the business as an extension or an image of themselves, they tend to be profoundly concerned about the firm's reputation (Berrone et al., 2010). Some studies (e.g., Carney, 2005; Deephouse & Jaskiewicz, 2013; McGuire, Sundgren, & Schneeweis, 1988) have established that corporate reputation can become a source of competitive advantage, due to its intangible and inimitable nature. Thus, having a good corporate reputation would allow family firms to develop stronger and deeper relationships with external stakeholders. Roberts and Dowling, (2002) showed that corporate reputation helps businesses to maintain higher profit outcomes. Accordingly, these authors suggested that a positive relationship seems to exist between corporate reputation and financial performance.

Thus, higher levels of family SEW associated with emotional attachment in terms of corporate reputation and tacit knowledge will positively influence firm performance:

**Hypothesis 4:** There is a positive relationship between emotional attachment and firm performance.

Family businesses are founded with a long-term vocation for continuity (Gómez-Mejía et al., 2011; Rojo-Ramírez, 2009; Vallejo Martos, 2005). The desire to transfer



corporate control to the next generations is a key factor that separates family businesses from non-family businesses (Diéguez-Soto, López-Delgado, & Rojo-Ramírez, 2015; Gomez-Mejia et al., 2011). Family members see the firm as a family long-term investment to be passed onto descendants (Berrone et al., 2010). Evidence shows that ensuring the business survival in order to be passed to the subsequent generations is a key goal for family firm founders (Le Breton-Miller & Miller, 2013). Zellweger et al. (2011) pointed out that transgenerational control is connected to the vision of how the firm and the family intend to generate socioemotional value in the long term. Martin and Gomez-Mejia, (2016) proposed that the effect of renewal of family bonds to the firm through dynastic succession on financial performance depends on the stage of the family business. That is, there is a positive effect at the founder stage, when founders attempt to pass on a successful firm on to their successors and a negative effect at the post-founder stage of the firm. The distinctive long-term orientation of family businesses at the founder stage tends to shorten when future generations assume the firm helm. The shorter-term orientation followed by subsequent family generations hampers the firm competitiveness (Martin & Gomez-Mejia, 2016). Family firms owners tend to favor actions that maintain the SEW in the long term, even if these decisions jeopardize the firm's short-term financial wealth (Chrisman & Patel, 2012). In next generation stages, family members on the board are likely to be members of different family branches (Gottardo & Moisello, 2015; Le Breton-Miller & Miller, 2013). The particular presence of these family members on the board tends to cause more family conflicts weakening family ties (Le Breton-Miller, Miller, & Lester, 2011). These family behaviors lead to poorer firm performance.

The stronger desire of family firms' founders to transmit their business to next generations is associated with a higher SEW. Consequently, it is assumed that the emotional endowment is higher and thus the firm performance is lower.

**Hypothesis 5:** There is a negative relationship between the renewal of family bonds to the firm through dynastic succession and firm performance.

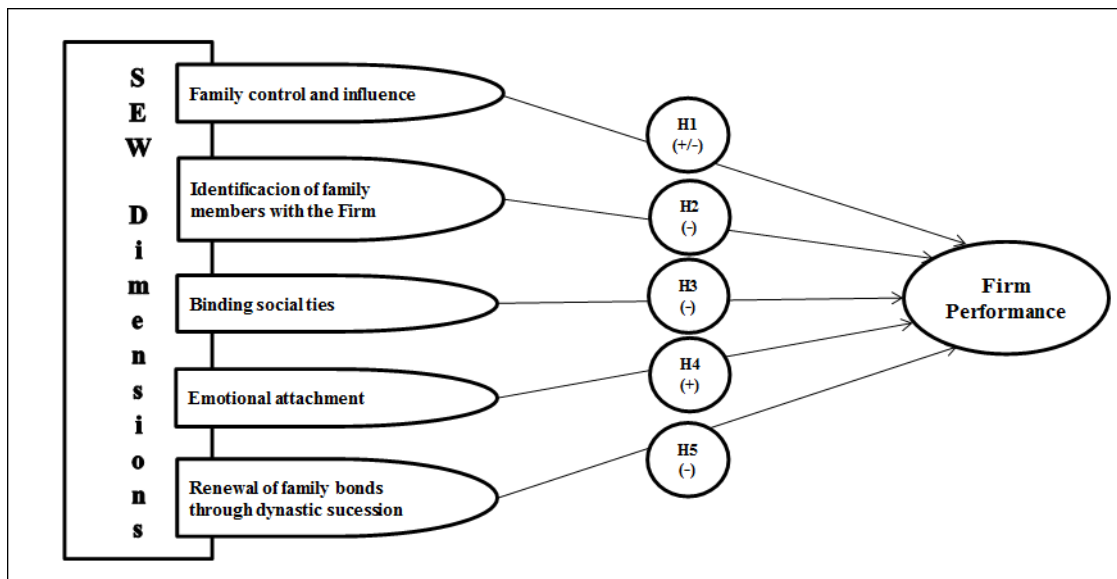


Figure 1. Research Model

## 4. Methods

### 4.1. Sample

The primary source of data is derived from a cross-sectional questionnaire, conducted between January and December of 2014. This survey contends emotional information in Spanish family firms. In our study, firms are characterized as family firms following the proposal of Diéguez Soto et al. (2015). Thus, taking advantage of the Spanish custom of giving children two surnames, one from each parent, family firms are those in which a match exists between the surnames of all the internal stakeholders (shareholders, CEO and directors of the firm) involved in the management and governance of the business. Similar methodologies have been previously used to identify family firms (e.g. Gómez-Mejía et al., 2001; Rojo-Ramírez & Martínez-Romero, 2017). Moreover, to ensure that

the firms in the sample were family firms, we directly asked them whether they identify themselves as family firms (Westhead & Cowling, 1998), and we also confirmed that families exercised a controlling interest (Vallejo Martos, 2005).

The questionnaire was mailed to CEOs of 1,441 firms from a family business database, all of them being privately held, with minimum incomes of 100,000 euros per year, and employing at least 3 full-time employees. After the questionnaire responses were received, multiple telephone follow-up approaches were made in an effort to increase the sample size (Craig & Moores, 2006; Martínez-Romero & Rojo-Ramírez, 2017). In this way, we obtained completed responses of 224 family firms (15.54 % response rate), of which 199 contained sufficient data to be included in the analysis. After removing cases with missing values for the main variables, our analyses are based on a final sample of 173 privately held family businesses. We tested for nonresponse bias by using Kruskal-Wallis and  $\chi^2$  tests, which compare different firm characteristics, such as firm age and firm size, between sample and population. No significant differences were found for these variables, suggesting that the sample is representative for the population.

The secondary source of data is the 2014 SABI<sup>1</sup> database by Bureau Van Dijk, which contains accounting statements of Spanish and Portuguese firms. By employing two different data sources, the risk of common method bias is reduced to the extent that the dependent variable, i.e. firm performance, and several control variables, such as firm age, firm size, leverage and sector, result from a database external to the survey.

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<sup>1</sup> Sistema de Análisis de Balances Ibéricos

## 4.2. Measures

### 4.2.1. *Dependent Variable*

To measure our dependent variable (i.e. firm performance), we adopted ROE, that is net income divided by book value equity. We used reported data in the individual annual accounts. ROE is the most proper indicator of performance to measure financial wealth (Rojo-Ramírez & Martínez-Romero, 2017; Sciascia et al., 2014), because using a profitability ratio whose denominator is financial wealth (equity) is more suitable than using a ratio whose denominator is total assets or sales, such as ROA or ROS respectively. To gather the effect of control investments and to seek financial returns, we calculate Return on Equity after Tax (ROEaT), in such a way that the variable includes cash flows from financial activities. Therefore, following Nissim and Penman, (2001) and Rojo-Ramírez, (2014) we used the following expression to calculate ROEaT:

$$ROEaT = \frac{EBITDA + FI - FE - TAX}{Equity}$$

where EBITDA is Earnings Before Interest, Taxes, Depreciation, and Amortization, to avoid non-cash transactions; FI is financial income or revenues and FE are financial expenses (both included to consider the financial structure); and Equity is the accounting equity.

### 4.2.2. *Independent Variables*

Following the proposal of Berrone et al. (2012), the socioemotional wealth of each family firm was measured based on the FIBER scale. As we wanted to analyse the individual and specific contribution of each SEW dimension on firm performance, we considered each of them as different independent variables. We used a five-point Likert-type scale to measure each dimension. In line with Martínez-Romero & Rojo-Ramírez,

(2017), for each dimension, i.e. Family control and influence (F), Identification of family members with the firm (I), Binding social ties (B), Emotional attachment of family members (E), and Renewal of family bonds through dynastic succession (R), we asked the CEO to rate from 1 to 5 different items (see Appendix A), to capture the family firm owner's focus on non-financial goals (Kraus, Mensching, Calabrò, Cheng, & Filser, 2016). All Cronbach alphas were above 0.79 (see Appendix A), so the scales demonstrated an acceptable level of internal consistency. Then, for each dimension, the items were added and the sum divided by the number of items to obtain the final variable used. This technique is in line with recent research measuring SEW (e.g. Goel, Voordeckers, Van Gils, & Van den Heuvel, 2013; Vandekerckhof, Steijvers, Hendriks, & Voordeckers, 2015).

#### **4.2.3. Control Variables**

We included a total of six control variables. First, we controlled for *firm age*, measured as the natural logarithm of company age, because following Le Breton-Miller & Miller, (2013) and Schulze, Lubatkin, & Dino, (2003) is necessary to distinguish between controlling family-owned firms, sibling partnerships and cousin consortiums to explain the influence and involvement of the family in the business. Second, we controlled for *firm size*, which was measured by the natural logarithm of the number of employees, to correct for skewness (Henssen, Voordeckers, Lambrechts, & Koiranen, 2014), as it is argued that firm risk tends to decrease with firm size (Zellweger, 2007; Zellweger et al., 2011). Third, we controlled for the family nature of the CEO (*Family CEO*), because different authors (e.g. Berrone et al. 2012, 2010) argued that family CEOs have a positive impact on firm performance, in the sense that their decisions are in line with the family's preferences (Gómez-Mejia et al., 2011). Finally, as firm performance might be distinct depending on the industry in which it operates, we include three dummy

variables (*manu, serv, con*) to control for the effect of industry affiliation on ROEaT, omitting a dummy variable for the firms that operate within others sectors. This omission allows us to classify firms by whether they competed in four major business lines: manufacturing, services, construction and other sectors of the economy (Müller, 2011).

## **5. Data analysis and Results**

Table 1 displays the means, standard deviations and correlations among the analysed variables. Our sample family firms are on average 22.55 years old and 25 employees. In this vein, firm age varies between 5.78 and 83.88 years old, and firm size is among 3 and 737 employees. The mean ROEaT in the sample firms is 0.095. This rate ranges from -3.35 to 9.07. With respect to our independent variables, all of the items used for measuring SEW dimensions are closed to 4, revealing that emotional considerations are really important in these firms, with family control and influence having the highest item value (4.60) and binding social ties having the lowest value (4.01).

Table 1 also shows the bivariate correlations for the variables of interest combined with their statistical significance. Identification of family members with the firm and renewal of family bonds are negatively and significantly correlated with firm performance; meanwhile, family control and influence, binding social ties and emotional attachment are positively correlated to ROEaT. Multicollinearity should not be a concern for our sample to the extent that the correlations between the various items are well below .70, suggesting that the variable has discriminant validity (Cohen, Cohen, West, & Aiken, 2003). Furthermore, variance inflation factor (VIF) tests were conducted to verify the absence of multicollinearity (see Table 2). All the VIF were between 1.06 and 1.69, and

thus, there is sufficient evidence to rule out multicollinearity in the data (Belsley, Kuh, & Welsch, 1980; Hair, Anderson, Tatham, & Black, 1998).

(Insert Table 1 and Table 2 here)

The proposed hypotheses were tested using hierarchical regression analysis. The regression results are shown in Table 3, in which Model 1 is the baseline model that includes only control variables and Model 2 contains the independent variables.

Model 1 reveals, in line with Sciascia & Mazzola, (2008) that firm age is negatively related to firm performance meanwhile firm size is positively related to firm performance, although neither of these relationships are statistically significant. These results are similar to those obtained in previous research (e.g. De Massis, Kotlar, Mazzola, Minola, & Sciascia, 2016; Sciascia et al., 2014).

Model 2 aims at testing the proposed hypotheses. The ROEaT is negatively and significantly related to Identification of family members with the firm ( $\beta = -0.209$ ;  $p < 0.01$ ) and to Renewal of family bonds through dynastic succession ( $\beta = -0.116$ ;  $p < 0.05$ ). Thereby, our regression results support Hypotheses 2 and 5.

(Insert Table 3 here)

To reinforce the obtained results, we executed an additional robustness check, using ROEaT growth as the dependent variable. We measured ROEaT growth as  $((ROEaT_n - ROEaT_{n-1})/ROEaT_{n-1})$ . In this case, the behavior of the independent variables was almost the same. That is, both Identification of family members with the firm ( $\beta = -0.846$ ;  $p < 0.1$ ) and Renewal of family bonds through dynastic succession ( $\beta = -1.15$ ;  $p < 0.05$ ) exert a negative impact on ROEaT growth.

(Insert Table 4 here)

## **6. Discussion and conclusions**

The influence of SEW on firms' performance remains unexplored to date (Chua et al., 2015; Martínez-Romero & Rojo-Ramírez, 2016; Miller & Le Breton-Miller, 2014) despite the consideration of the SEW approach as the dominant paradigm in the family business field (Berrone et al., 2012). Since the emotional endowment of family firms ascertains their economic and non-economic goals (Martin & Gomez-Mejia, 2016; Schulze, 2016), it can be expected that SEW exerts a relevant influence on firm performance (Arrondo-García, Fernández-Méndez, & Menéndez-Requejo, 2016; Martínez-Romero & Rojo-Ramírez, 2017). Following this reasoning, this article contributes to filling this gap by analysing the impact of SEW, namely the impact of SEW dimensions (Berrone et al., 2012), on the financial performance of 173 sampled Spanish family businesses. In this vein, we proposed that different SEW dimensions might exert a distinct impact on firm performance. Specifically, we stated that family control and influence might be positive or negative related to firm performance; identification of family members with the firm, binding social ties and renewal of family bonds through dynastic succession are negatively related to firm performance; and, that emotional attachment has a positive impact on firm performance.

Our findings support hypothesis 2 and hypothesis 5, revealing that both the identification of family members with the firm and renewal of family bonds through dynastic succession have significantly negative impact on ROEaT. Therefore, our results indicate that higher emotional endowment in family firms will imply lower financial performance, reinforcing previous evidence that emphasized the importance of family centered non-economic goals over purely financial outcomes (Chrisman, Chua, Pearson, & Barnett, 2012; Leitterstorf & Rau, 2014; Pazzaglia et al., 2013).



As previously explained, there are few studies analysing the specific impact of SEW dimensions on businesses' outcomes (Filser, De Massis, Gast, Kraus, & Niemand, 2017; Martínez-Romero & Rojo-Ramírez, 2017). In this regard, our findings are in line with the abovementioned studies, which highlighted a negative impact of identification of family members with the firm on firms' outcomes. Therefore, those family members with higher level of identification with their firms are more focused on the family than on the business, leading to lower level of firm performance (Corbetta & Salvato, 2004). As the family presence in the firm increases, more family problems could arise such as altruism and self-control (Block, 2012; Le Breton-Miller et al., 2011; Padilla-Meléndez, Dieguez-Soto, & Garrido-Moreno, 2015), being reflected in the firms' outcomes. Furthermore, our results are aligned with those of Martínez-Romero and Rojo-Ramírez, (2017), who demonstrated a negative influence of renewal of family bonds on equity required returns. Family businesses are founded with a long-term orientation (Brigham, Lumpkin, Tyge Payne, & Zachary, 2014; Gómez-Mejia, et al. 2011) . Thus, being focus on the long term, family businesses are willing to accept lower performance levels and are less likely to demand high current returns (McConaughy, 1999). Family firms usually develop strategies that protect the family's interests (Gersick, Davis, Hampton, & Lansberg, 1997), although this might imply not acting under purely effectiveness principles. Therefore, our results indicate that family firms prioritize SEW preservation on the long-term over short-term financial results (Chrisman & Patel, 2012; Gómez-Mejia et al., 2010).

### **6.1. Contributions**

Our study contributes to the family firm research and namely to the flourishing literature on family firm performance (De Massis et al., 2015; Miralles-Marcelo, Miralles-Quirós, & Lisboa, 2014; Rojo-Ramírez & Martínez-Romero, 2017).

Although the multidimensional nature of SEW is widely accepted in the previous literature (Berrone et al., 2012; Hauck, Suess-Reyes, Beck, Prügl, & Frank, 2016; Martínez-Romero & Rojo-Ramírez, 2016), most of the existing research treats SEW as a unidimensional construct (e.g. Berrone et al., 2010; Gómez-Mejia et al., 2007). Moreover, despite some recent studies have directly measured SEW (Goel et al., 2013; Schepers et al., 2014; Vandekerckhof et al., 2015), neither of them analysed the specific effect of each SEW dimension on firm financial performance<sup>2</sup>. This simplistic approach might be incorrect (Chua et al., 2015; Miller & Le Breton-Miller, 2014; Schulze & Kellermanns, 2015) because as our findings indicate, different SEW dimensions behave distinctively with respect to firm performance. Therefore, it seems necessary to distinguish how the SEW dimensions influence firms' financial outcomes.

The improved understanding of SEW dimensions on firm financial performance might reconcile the inconclusive results in previous family firm performance literature (Arosa, Iturralde, & Maseda, 2010; Basco, 2013). Specifically, our findings reveal a negative influence of the identification of family members with the firm and the renewal of family bonds through dynastic succession on financial profitability. Therefore, by combining a financial and emotional perspective, we shed light on how emotional considerations in family firms overcome purely financial goals (Astrachan & Jaskiewicz, 2008; Martínez-Romero & Rojo-Ramírez, 2017; Vandekerckhof et al., 2015).

Finally, we answer the call for more research on the SEW-performance relationship, as this is a noteworthy and underresearched topic (Duran, 2016; Martin & Gomez-Mejia, 2016).

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<sup>2</sup> The recent publication of Martínez-Romero and Rojo-Ramírez (2017) analysed the effect of SEW dimension on the cost of equity capital. Furthermore, the study of Filser, De Massis, Gast, Kraus, and Niemand, (2017) investigate the impact of SEW dimensions on innovativeness.

## **6.2. Limitations and Future Research Directions**

Finally, this study is not without limitations, which, in turn, may provide fruitful lines for future research.

First, the SEW preferences might differ among distinct family members (Chua et al., 2015). Diverse family firms have different emotional endowment (Zellweger et al., 2011) and thus, distinctive SEW (Martínez-Romero & Rojo-Ramírez, 2016). Therefore, more deep interviews should be carry out with different members of the same business family to achieve a better understanding of the emotional endowment of these firms, considering the net effects of the different SEW dimension among individuals.

Second, our results could also be affected by country-specific bias to the extent that data were exclusively collected in Spain. While it is true that globalization reduces differences across countries all around the world (Rojo-Ramírez & Martínez-Romero, 2017; Sciascia et al., 2014), further research should be develop to determine whether our findings continue corroborating in other regions or not.

Third, because of the characteristics of the sampled family firms, we could only provide empirical evidence for small firms. As such, our findings may not be generalizable to large family firms, and more studies are needed to verity the obtained results for large family businesses.

Fourth, although cross-sectional designs in this type of research are currently the standard practice (e.g. Schepers et al., 2014; Vandekerkhof et al., 2015; Vandekerkhof, Steijvers, Hendriks, & Voordeckers, 2017), the use of this data might limit the causality of the proposed relationships. Up to now, we do not have the available information to run a longitudinal analysis but, future research should address this important issue to take into account possible variations over time.

### **6.3. Policy and practical implications**

Our results also have important policy and practical implications inasmuch as firm performance is a prerequisite for the long-term survival and viability of any business (Chrisman & Patel, 2012; Kotlar et al., 2014).

Our findings provide family SMEs' owners, managers, and consultants with a practical manner to frame their firms' performance. In this vein, our results reflect that identification of family members with the firm and renewal of family bonds through dynastic succession limit the financial profitability of family firms. Therefore, family advisors, practitioners and consultants should inform family members about the consequences of developing these emotions toward their firms. Moreover, these firms' consultants should educate family members in order to distinguish family from business aspects, with the purpose of reducing the identification of the family business success as their own. It should also be noted that family firms' managers have to reflect on the functioning of their families as an essential managerial lever to influence both the pursuit of economic and noneconomic objectives.

Moreover, our study also provides some insights that might be of great utility to assist policy makers in the development of initiatives to improve the financial performance of privately held family businesses. In this vein, understanding the underlying logic that links SEW and firm performance is a first step toward helping policymakers develop a system of supporting activities that fit the idiosyncratic characteristics of SMEs, a very ubiquitous and relevant organizational form in economies worldwide. Therefore, policy makers should pay more attention to the achieved outcomes by this type of business, since they comprise the majority of businesses across the globe, and thus, an improved knowledge of all aspects related to their performance is highly necessary. To this respect, policy-makers should develop programs that encourage privately held family

SMEs to achieve a better understanding of how emotional concerns influence their financial profitability. In such a way, for instance, whether external collaborations improve firm performance, privately held family SMEs should be educated to open the family network to external stakeholders such as universities, suppliers and advisors, in order to developed open collaborations with other entities or businesses that improve their financial outcomes.

In conclusion, our empirical findings suggest that the identification of family members with the firm and the renewal of family bonds through dynastic succession exert a negative influence on family businesses performance. These results shed some light on how financial and economic firm outcomes might be affected by emotional considerations in private family businesses.

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**Appendix A: Scale items and reliabilities**

SEW Dimension	Item	$\alpha$
Family control and influence	The majority of the shares in my family business are owned by family members	0.82
	In my family business, most executive positions are occupied by family members	
Identification of family members with the firm	Family members have a strong sense of belonging to my family business	0.79
	Customers often associate the family name with the family business's products and services	
Binding social ties	In my family business, nonfamily employees are treated as part of the family	0.8
	Contracts with suppliers are based on enduring long- term relationships in my family business	
Emotional attachment	In my family business, the emotional bonds between family members are very strong	0.85
	In my family business, affective considerations are often as important as economic considerations	
Renewal of family bonds through dynastic succession	Family members would be unlikely to consider selling the family business	0.83
	A successful transfer of the business to the next generation is an important goal for family members	

**Table 1: Means, standard deviation and correlation matrix**

Variables	M	SD	1	2	3	4	5	6	7	8	9	10	11	12
1. ROEaT	0.095	0.821	1											
2. Firm Age <sup>b</sup>	22.552	7.443	-0.034	1										
3. Firm Size <sup>b</sup>	24.864	63.39	0.027	0.139	1									
4. Family CEO <sup>a</sup>	0.738	0.441	0.042	0.077	-0.011	1								
5. Manufacturing <sup>a</sup>	0.15	0.358	-0.019	0.088	-0.057	0.004	1							
6. Services <sup>a</sup>	0.204	0.404	-0.057	0.091	-0.067	-0.137**	-0.213***	1						
7. Construction <sup>a</sup>	0.388	0.489	0.056	-0.119+	-0.092	0.045	-0.335***	-0.403***	1					
8. Family Control and Influence	4.599	0.758	0.037	-0.045	-0.233***	0.027	0.124*	-0.003	-0.092	1				
9. Identification of Family members with the Firm	4.189	0.915	-0.222***	-0.003	-0.114+	0.027	-0.006	0.034	-0.094	0.231***	1			
10. Binding Social Ties	4.012	0.929	0.01	-0.01	-0.062	0.055	-0.101	0.078	0.016	-0.035	0.109	1		
11. Emotional Attachment	4.055	0.995	0.021	-0.057	-0.169**	0.195***	-0.031	0.141**	-0.065	0.196***	0.223***	0.377***	1	
12. Renewal of Family Bonds	4.189	1.051	-0.143**	0.06	0.139**	-0.161**	0.092	-0.079	0.003	-0.009	0.178+	0.139**	0.173**	1

Notes: N=173

\*  $p < 0.10$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$ <sup>a</sup> Dummy variable<sup>b</sup> Natural logarithm used in the regression model.

ROEaT: Return on Equity after tax

**Table 2: Variance Inflation Factors (VIF) and Condition Index**

	VIF	Condition Index
ROEaT	1.09	1
Firm Age	1.06	1.09
Firm Size	1.25	1.15
Family CEO	1.17	1.18
Manufacturing	1.45	1.23
Services	1.62	1.36
Construction	1.69	1.45
Family Control and Influence	1.22	1.5
Identification of Family members with the Firm	1.18	1.69
Binding Social Ties	1.21	1.79
Emotional Attachment	1.43	1.99
Renewal of Family Bonds	1.24	2.47

**Table 3: The effect of SEW dimension on the return on equity of private family firms.**

Dependent Variable	ROEaT	
	Model 1	Model 2
Variables		
Constant	0.257 (0.703)	0.637 (0.882)
Firm Age	-0.089 (0.224)	-0.034 (0.22)
Firm Size	0.022 (0.057)	0.051 (0.059)
Family CEO	0.071 (0.146)	-0.160 (0.151)
Manufacturing <sup>a</sup>	-0.024 (0.208)	-0.026 (0.205)
Services	-0.072 (0.201)	-0.145 (0.202)
Construction	0.057 (0.165)	0.030 (0.163)
Family Control and Influence		0.087 (0.087)
Identification of Family members with the Firm		-0.209***(0.073)
Binding Social Ties		0.037 (0.077)
Emotional Attachment		0.069 (0.074)
Renewal of Family Bonds		-0.116* (0.067)
R <sup>2</sup>	0.01	0.084
ΔR <sup>2</sup>		0.074
F statistic	0.21**	1.34**

Notes: N=173. Dependent Variable: Return on Equity after tax (ROEaT). Robust standard error in parenthesis.

\* $p < 0.10$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$

<sup>a</sup> Other sectors is the suppressed category



**Table 4: The effect of SEW dimension on the rate of growth of the return on equity of private family firms**

Dependent Variable	ROEaT growth	
Variables	Model 3	
Constant	-9.911 (6.258)	-14.316 (7.943)
Firm Age	2.342 (1.994)	2.651 (0.534)
Firm Size	0.012 (0.506)	0.049 (0.053)
Family CEO	3.989**(1.296)	2.976** (1.364)
Manufacturing <sup>a</sup>	-0.114 (1.296)	.036 (1.843)
Services	-0.639 (1.779)	-1.23 (1.801)
Construction	-1.752 (1.474)	-1.635 (1.469)
Family Control and Influence		1.221 (0.788)
Identification of Family members with the Firm		-0.846* (0.656)
Binding Social Ties		0.797 (0.689)
Emotional Attachment		0.653 (0.669)
Renewal of Family Bonds		-1.15** (0.608)
R <sup>2</sup>	0.076	0.129
ΔR <sup>2</sup>		0.119
F statistic	2.3**	2.18**

Notes: N=173. Dependent Variable: Rate of growth of the return on Equity after tax (ROEaT growth). Robust standard error in parenthesis.

\* $p < 0.10$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$

<sup>a</sup> Other sectors is the suppressed category