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Abstract

A vast literature in economics has focused on the role of culture in financial development and growth. Here, I review works which have adopted a cultural perspective to the study of family businesses. While family firms are ubiquitous, their prevalence displays wide spatial differences. Also, their performance ability has been shown to vary significantly across contexts. By discussing existing methods and findings in economics and finance, this article illustrates how focusing on cultural elements such as trust, collectivism and family values provides a useful lens to answer the important questions of why family firms exist, and how well they perform.

JEL Classification: G34

Keywords: Family firms, Culture, Social capital, Trust, History

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Family Firms: A Cultural Economics Perspective

March 31, 2023

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Abstract

A vast literature in economics has focused on the role of culture in financial development and growth. Here, I review works which have adopted a cultural perspective to the study of family businesses. While family firms are ubiquitous, their prevalence displays wide spatial differences. Also, their performance ability has been shown to vary significantly across contexts. By discussing existing methods and findings in economics and finance, this article illustrates how focusing on cultural elements such as trust, collectivism and family values provides a useful lens to answer the important questions of why family firms exist, and how well they perform.

Keywords: family firms; culture; trust; social capital; family ties

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1. Introduction

Dating back to La Porta et al. (1999), a voluminous literature on corporate ownership has revealed that family firms are common around the world. In the US, for instance, around one third of S&P 500 firms and 40% of Fortune 500 firms are founder- or family-controlled (Anderson and Reeb 2003; Villalonga and Amit 2009). At the same time, the diffusion of family firms varies widely across countries. Claessens et al. (2000) show that whereas the majority of listed East Asian firms are controlled by families, "significant cross-country differences exist […] Corporations in Japan, for example, are generally widely held, while corporations in Indonesia and Thailand are mainly family controlled". Focusing on Europe, Faccio and Lang (2002) show that families control almost two thirds of all listed firms in countries such as Italy, France and Germany, whereas in the UK and Ireland the share is less than one third. The top fifteen families (in terms of the market capitalization of their firms) control 36.6% of the whole market capitalization in Belgium but only 6.5% in the UK.

Studying family firms is important not just because these companies are common but also because of their impact on economic outcomes. Some works argue that family firms are rent-seeking organizations which tend to entrench with the political system, expropriate nonfamily investors and lack merit in managerial appointments (Bertrand and Schoar 2006; Morck and Yeung 2004). As a result, firms managed by families exhibit lower financial performance than professionally-managed firms (Bennedsen et al. 2017; Perez-Gonzalez 2006) and, overall, depress country-level productivity (Caselli and Gennaioli 2013). Others have argued that family control entails significant benefits over widely-held ownership in terms of long-term horizon in investment, better principal-agent alignment, and higher commitment toward stakeholders

(Anderson and Reeb 2003; Sraer and Thesmar 2007). These arguments contribute to explain why family firms often thrive.

What factors facilitate or impair the diffusion of family firms across space? And how can we make sense of the conflictual findings about family business performance? After multiple decades of cumulated research on corporate ownership, scholars are still wrestling with these questions.

Research in economics and finance has parsed the role of formal institutional factors in explaining the diffusion of family firms across countries. An established result in this domain is that family firms are more common in countries where shareholder protection is weak because expropriation concerns increase the propensity to keep the firm's equity and management within the family (La Porta et al. 1999; Burkart et al. 2003). Moreover, family firms are more common in countries with less developed capital markets (Bhattacharya and Ravikuma 2001). Both shareholder protection and financial market development facilitate the dilution of family control and thus the transition of family firms into widely-held companies over time (Franks et al. 2012). Examining the institutional context has also been fruitful to understand when family firms may outperform other organizations (Amit and Villalonga 2015; Banalieva et al. 2015).

A tenet of this article is that aside from formal institutions, *culture* too matters for the involvement of families in ownership and management positions, and for the economic results that family firms attain.

Culture is a broad umbrella concept which has received the attention of scholars from different streams of research, including anthropology, sociology and psychology. In economics, perhaps the most widely-used definition comes from Guiso et al. (2006), who define culture as "customary beliefs and values that ethnic, religious and social groups transmit fairly unchanged

from generation to generation". By persistently shaping individual beliefs and expectations, culture can be seen as a primitive of formal institutional factors which may shape individual behaviors (Guiso et al. 2015).[1] Building on this intuition, several studies have shown a significant effect of such cultural values as trust and social capital on a plethora of economic outcomes including stock market participation, trade and financial development (Guiso et al. 2004, 2008, 2009) as well as for organizational practices such as the decision to decentralize investment decisions (Bloom et al. 2019). Other works have focused on the culture of individualism and showed its influence on political preferences, social mobility and entrepreneurship (Bazzi et al. 2020; Barrios et al. 2021; Leonard 2021).

The notion that culture may also affect the diffusion of family firms goes back at least to the work by Bertrand and Schoar (2006) which documented a positive correlation between the strength of family values (i.e. the importance of the family in people's value set) and the share of market capitalization in the hands of business families. Subsequent works have increased our knowledge on the role of culture in family firms by focusing on variables such as social capital, collectivism and religious beliefs, and use micro-level data and econometric techniques to address a key challenge in this research domain, i.e. tease out the direction of causality between culture and corporate ownership. Existing research has also used cultural variables to contextualize the relationship between family control and financial performance. Yet, this body of literature is fragmented and still in its infancy; among finance and economics scholars, the prevalent view on why family firms exist remains largely rooted in the agency literature.

By reviewing existing research at the crossroads of corporate finance and economics, the goal of this article is to help advance a "cultural perspective" on family business and thus

[1] As Guiso et al. (2015) and many others acknowledge, culture and institutions are intertwined and this complicates the identification of the causal relationship.

contribute to debates on the importance of culture in finance (Zingales 2011). As I will argue, incorporating cultural factors into our thinking about family firms provides a fruitful avenue to address some of the most fundamental - and still partly unanswered - questions in this literature.

The article is structured as follows. Section 2 discusses the main definitions and empirical measures of family control, and provides figures on its unequal spatial distribution. Section 3 reviews the literature on how external institutional and cultural factors influence the diffusion of family ownership and management; this section also discusses how culture can moderate the relationship between family control and financial returns. Section 4 concludes by also outlining directions for future research.

2. Measuring family control

2.1. Definitions and empirical approaches

Before moving forward, we shall clarify what is a family firm. While the concept is intuitive, the literature still lacks a universally-accepted definition of the family firm. This section provides an overview of the variety of empirical approaches adopted by scholars to distinguish between family and nonfamily firms. The goal here is not to provide an exhaustive discussion of the family business literature, which can be found elsewhere, but to provide glimpses into the main operationalizations of family control used by economics and finance scholars.[2]

An early attempt to systematically measure corporate ownership is La Porta et al. (1999) which assembled a dataset containing information on the ultimate controlling shareholders of publicly-traded companies in 27 countries. Controlling shareholders are identified as those who own, either directly or indirectly (i.e. via a corporate entity) more than 10 percent of voting rights

[2] We refer the interested readers to, e.g., Amit and Villalonga (2014) and Bennedsen et al. (2022), for a detailed exposition of the family business literature.

in a firm. The rationale behind this threshold is that: (1) it provides a significant threshold of voting rights; and (2) most countries mandate the disclosure of 10 percent (or lower) ownership stakes. The authors then classified ultimate controlling shareholders by distinguishing between widely-held companies, financial institutions, States, and individuals or families. This study - perhaps one of the first to use firm-level data to rigorously measure ownership structures around the world - has paved the way for subsequent research in a variety of institutional contexts.

Claessens et al. (2000, 2002) carried out a similar investigation by focusing on companies in 9 East Asian countries. Given the prevalence of control-enhancing mechanisms such as pyramidal structures and cross-holdings in those countries, the authors take great pains to quantify separately voting and cash-flow rights for all shareholders with more than 5% of votes. Similar to La Porta et al. (1999), their analysis distinguishes between widely-held firms (i.e. firms in which owners do not have significant control rights) and firms with controlling owners, which are: families, states, and widely-held financial institutions or corporations.

Faccio and Land (2002) moved the focus to the ultimate controlling owner of European firms.[3] As these authors write: "The difficulty of organizing dispersed shareholders means that if the largest shareholder holds a substantial block of shares, then that shareholder has effective control". They assume that 20% of the voting shares are enough to ensure control (but also discuss the use of a 10% threshold). When no shareholder exceeds such threshold, then the firm is classified as widely-held. Similar to the previous studies, controlling shareholders are classified as: family (including one individual); widely-held corporations or financial institutions, States, cross-holdings, and other types of investors (e.g., cooperatives, voting trusts etc).

[3] This data collection has been extended by Bennedsen and Nielsen (2010).

The most updated and comprehensive effort to map the ownership structure of listed firms around the world is Aminadav and Papaioannou (20020), which assembled a dataset covering 42,720 firms in 127 countries between 2004 and 2012. To identify controlling owners, the authors use a 20% cutoff in voting rights as well as an index of voting power derived from a game-theory approach. Their analysis distinguishes between widely-held firms, firms with blockholders (i.e. with at least 5% of voting rights), and firms with controlling owners (which, similar to the literature, as classified into States, other companies or families).

Parallel to these cross-country examinations, a stream of research has concentrated on the extent of family control in publicly-held firms located in specific countries. Anderson and Reeb (2003) focused on the S&P 500 index and classified family firms by using the fractional equity ownership of the founding family and (or) the presence of family members on the board of directors. Villalonga and Amit (2006) defined family firms among Fortune 500 companies by checking whether the founder or a member of the family (by blood or marriage) is an officer, director or blockholder either individually or as a group. Hence, both of these papers employed a definition based on family ownership and the involvement of family members in management or board positions.[4] An important contribution of Villalonga and Amit (2006) was also to distinguish between firms led by founders and firms led by family heirs, and show significant differences in terms of market valuation and performance between them.[5] The key concepts of those studies have also been used to identify family control in samples of listed companies in France (Sraer and Thesmar 2007), Germany (Andres 2008) and Italy (Amore et al. 2019).

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[4] This classification approach is extended and fine-tuned in Villalonga and Amit (2009) to study the use of control enhancing mechanisms by families.

[5] A further distinction which has been shown to be relevant for financial performance is that between lone founder firms (i.e. firms managed by a founder alone without the involvement of any family member) and family firms that involve multiple family members as owners or managers (Miller et al. 2007).

Two well-known limitations of the approaches discussed so far are that family members may be working in the firm without holding a relevant ownership stake, and that founder-led firms may not encompass any family dimension. Parise (2022) addresses these concerns by taking advantage of the fact that US listed firms must disclose to the SEC the presence of family connections among high-ranking individuals to alert investors of potential conflicts of interest. Using this information, Parise (2022) distinguishes between family-run and blockholder-owned firms, and shows that this distinction has material implications for the relevance of family firms as well as for their financial performance against nonfamily firms.

Moving away from the US context, Japan has attracted the attention of several scholars due to its cultural heritage, which created over time peculiar ownership and governance models. Mehrotra et al. (2013), in their longitudinal study of listed Japanese firms, distinguish between: (1) founder firms, i.e. firms with founders that are equity block-holders or involved in top management position; (2) family firms, i.e. firms with equity blocks or management position in the hands of a member of the founding family (other than the founder). Leveraging the unique feature of adult adoptions in Japan, they further distinguish between blood-heir firms, where a biological descendent of the founder is in the family business, and non-blood heir firms, which involve an adopted son or son-in-law. Bennedsen et al. (2021) reveal another peculiar feature of Japanese family firms, i.e. the fact that families in a relevant fraction of listed firms (around 7%) appear to keep the reins of the business even when their share of equity is negligible.

The studies discussed so far have measured family control in the context of publicly traded firms, for which disclosure requirements make a wealth of data on ownership and governance available to researchers. Discerning family control in samples of privately-held firms is cumbersome due to the difficulty of accessing data. Arguably, family firms tend to be more

common in privately held firms, in which founders or founding families have not diluted or exited the firm following liquidity events. That said, it is hard to tell how many private firms out of the entire universe of companies can be considered as family firms. Bennedsen et al. (2007) studies the intergenerational transmission of the CEO position within or outside the family. To this end, the study focuses on the universe of Danish firms that experience a CEO transition, and employs administrative data to identify whether or not the incoming CEO shares family ties with the departing CEO. The data reveal that for around one third of successions the CEO position is kept within the family. To classify family firms in Italy, Amore et al. (2014) and Miller et al. (2013) leverage company filings at the Italian Chamber of Commerce, which provide information on the equity stake of firms' shareholders and thus permit to identify the ultimate controlling owner. Accordingly, family firms are those in which one or more family members (i.e. individuals with the same surname or living in the same address) own directly or indirectly at least 50% of a firm's equity.[6] Similarly, drawing data on European private firms from Amadeus, Belenzon et al. (2016) classify a firm as family-owned if at least two shareholders have the same last name and hold a majority of the company shares.

2.2. How common are family firms?

As noted, family firms are quite common around the world. In the US, they have been shown to be around one third of the major listed corporations (Anderson and Reeb 2003; Villalonga and Amit 2009).[7] However, the diffusion of family firms is expected to vary as a function of numerous

[6] Findings from these data sources indicate that the share of family ownership in privately-held firms exceeds significantly the majority cutoff: on average, families own around 90% of family firms' equity shares (and, often, are the sole owner).

[7] It is useful to keep in mind that this and subsequent figures are sensitive to how one defines family firms. See Amit and Villalonga (2014) for a discussion.

variables including the features of the institutional and cultural environment where firms are located. The wide differences in terms of data and methods employed in extant literature complicate a comparative assessment of the diffusion of family firms across countries. This section reproduces some empirical exercises which highlight the unequal diffusion of family control across space. This finding will constitute the premise of the next paragraph, which will discuss why these variations might occur.

Figure 1 shows the share of family firms out of the listed firms in 28 countries using data from Bennedsen et al. (2019). Family firms here are measured in terms of whether an individual or group of family members own, either directly or indirectly, at least 25% of a firm's voting rights. As illustrated, family firms range from almost 1% (Japan) to more than 30% (France or Germany). Clearly, there are marked differences in the diffusion of family control even across countries with a similar level of economic and institutional development. Aminadav and Papaioannou (20202) confirm the presence of wide cross-country variations: family control of firms is extremely high in countries such as Argentina, Mexico, Italy and Portugal, where family control is found in 36% to 41% of listed firms. By contrast, family control applies to less than 10% of the listed firms in countries like Australia, Chile, Ireland or South Africa.

Figure 2 uses data from Faccio and Lang (2002) to show large country variations in the share of market value of listed corporate assets in the hands of the largest 15 families (in terms of the market value of their firms). Finally, Figure 3 focuses on a specific country - Italy - and illustrates the differences in the family control of privately-held firms across regions. Here, family control is established by using a majority cutoff of the firms' equity. While the share of family firms in the entire sample is 64%, the value ranges between 58% to more than 80%. As shown, the variation is not just given by the north-south divide: regions located closer to each other and

with similar level of economic development display significant differences in the share of family firms.

3. External determinants of family control

3.1 Formal institutions

Perhaps the most heavily investigated institutional determinant of corporate ownership is investor protection. The tenet of this literature is the agency perspective, which suggests that when ownership and control are separated, managers may act in their own interest and thus engage in actions that create private benefits at the expense of shareholders. Shareholders' interests are protected by the country's body of corporate laws and regulations, which establish the powers that investors have against management and how these powers can be enforced in court. La Porta et al. (1998) studied the relationship between legal origin - distinguishing broadly between common law and civil law systems - and investor protection in a sample of 49 countries. Their investigation suggests that civil law is conducive of weaker investor rights and worse law enforcement than common law. In turn, weaker investor rights are associated with higher ownership concentration: investors in countries where their rights are not adequately protected seek to reduce expropriation concerns by holding large equity stakes, which enable them to effectively monitor the management or even run the firm directly.

These arguments constitute the basis of the investigation of La Porta et al. (1999), which distinguished between different types of large owners and showed that families are one such type: investor protection raises the propensity to be family-controlled because this form of ownership reduces expropriation concerns.[8] Of course, attaining causality with cross-sectional data is

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[8] This result is echoed in Aminadav and Papaioannou (2020), which confirms that ownership is more concentrated and more likely to be in the hands of families in civil-law countries as well as in countries with weak investor

difficult due to omitted factor biases. To ameliorate this concern, Lu and Tao (2009) focused on a single country, i.e. China, and employ an instrumental variable capturing whether a region was administered by Great Britain in the late Qing Dynasty to generate variations in legal origin across regions. Their analysis confirmed that weaker contract enforcement leads to more family control.

Burkart et al. (2003) further probed into the role of investor protection for the decision of who to appoint as family firm manager. Their theory builds on a trade-off between managerial talent and expropriation concerns. Professional managers recruited from outside the family have typically higher talent than family members, who are drawn from a narrower talent pool. At the same time, professional managers may have interests different than those of the owning family, and may engage in actions that are not consistent with family preferences. The theory by Burkart and colleagues indicates that when investor protection is weak, firms will be more likely to be owned and also managed by family members.

Bhattacharya and Ravikuma (2001) provide a theoretical model in which the development of capital markets can serve as a determinant of family control. At the core of their model is the intuition that family owners do not have private benefits of control but care about transferring to the next generation wealth in the form that generates the higher lifetime utility. Hence, they are confronted with the choice of selling the firm and transferring the proceeds or bequeathing an ongoing firm. This decision depends on the offer price and the availability of external finance. In economies with less developed capital markets, family firms tend to be bigger and longer.

Building on notions from the law and finance literature, Franks et al. (2012) provide an empirical investigation of the life-cycle of family ownership under different institutional contexts. Specifically, the authors argue that the extent of shareholder protection, the development of

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protection. By contrast, other features of the legal system such as the time taken by courts to resolve disputes are not significantly associated with ownership concentration.

financial markets, and the market for corporate control should facilitate the dilution of family control and thus the transition of family firms into widely-held companies over time. Using a sample European firms, they show that when investor protection is high, family firms are concentrated in industries with low investment opportunities and subject to a weak M&A activity. This is because the market for corporate control and investment opportunities facilitate the transition of a family business into a nonfamily firm. Instead, when investor protection is low, the presence of family control is unrelated to investment opportunities and M&A activity, and tends to perpetuate itself over time.

Mueller and Philippon (2011) provide a different explanation for the prevalence of family control. In particular, these authors argue that family firms are particularly effective at coping with conflictual labor relations. The rationale behind this argument is that family firms often have long time horizons in investment decisions; as a result, they are better positioned to enforce implicit contracts with stakeholders (Bertrand and Schoar 2006) and can thus promise more job stability in exchange of lower wages (Sraer and Thesmar 2007). Moreover, family firms can be tougher negotiators because the typical overlap between ownership and control reduces "quiet life" problems in managerial decision-making. Their empirical analysis confirms that family firms are more common under more conflictual labor relations, which the authors measure by using a number of proxies including historical data on strike activity.

Given the typical willingness of family founders pass on the business to family heirs, the family control of firms is directly affected by the set of laws and tax provisions that deal with inheritance and succession. Carney et al. (2014) provides a qualitative analysis of inheritance law in four jurisdictions (Germany, France, Hong Kong, US) and link the specific features of each jurisdiction with the longevity and development of family firms. Ellul et al. (2010) provided a

comprehensive assessment of the role of inheritance laws on family firms. They constructed an index measuring the permissiveness of the inheritance law across countries, i.e. the extent to which an entrepreneur can freely designate to whom to transfer the business, or whether he/she is legally bound to bequeath a given stake to each family heir. The permissiveness of the inheritance law varies widely: common law countries are typically permissive (often granting complete freedom to leave everything to a single designated child), whereas civil law countries set limits to the share what can be bequeathed to a given heir (and thus maintain a minimum share to each family heir). The authors found that the when the inheritance law is less permissive, the family firm underinvests because of a lower ability to pledge future income to external financiers. As expected, this result is especially presented among family firms that are transferring control from one generation to another.

Tsoutsoura (2015) studied the effect of a policy reform in Greece which reduced the succession tax rate for transfers of limited liability companies to family members (i.e. inheritance tax) from 20% to less than 2.4%. After the reduction of the inheritance taxes, family successions increase from 45.2% of all transfers before the reform to 73.9%. As expected, family members are more likely to keep control within the family when the tax burden of doing so goes down. Shin (2020) uses Korean data to show that intragroup mergers are strategically used by family owners to avoid inheritance taxes. Following a reform which raised inheritance taxes by 25%, family firms increased intragroup mergers involving targets owned by family heirs.

Amit and Villalonga (2015) leverage differences in institutional development across Chinese provinces to explore under which setting would family firms be more common. In their setting, institutional development is a broad measure capturing aspects like market potential, labor flexibility, skill endowment, private sector participation, government efficiency, contract

enforcement, access to finance, and harmony in society. The evidence indicates that family control of firms is *higher* in more institutionally developed provinces.

Little is known about how different institutional features interact between each other in shaping family firms and their performance ability. Recent efforts in this direction include Ellul et al. (2010), which analyzed the interaction effects between inheritance law permissiveness and investor protection, and Ortiz et al. (2021) which focused on the complementarity or substitution between inheritance law and investor protection as governance mechanisms in family firms.

3.2 Cultural values

The discussion so far has revolved around formal institutions such as laws, regulations and taxes. Scholars have suggested that formal institutions may themselves be the result of more primitive variables which are deeply rooted in our societies and transmitted stably over time. This is what Guiso et al. (2015) call *culture*, i.e. a set of individual beliefs and expectations which individuals embrace and pass on from one generation to another, and which may underpins how formal institutions look like.

The seminal work by Bertrand and Schoar (2006) was perhaps the first to empirically test whether culture matters for family business. At the core of this work there is the idea that cultural values may affect the weight that entrepreneurs put on keeping the business in the family, "maybe due to a strong sense of duty toward other family members or a more selfish desire to turn the business into a family legacy". Empirically, the authors rely on the World Value Survey (WVS) and focus on a set of questions that capture the strength of family values (importance of the family, parental duties to child, respect for parents, obedience of child, and independence of child). Then, they provide correlational evidence that countries with stronger family values have lower GDP

per capita, more self-employment, smaller firms, and a larger fraction of family control among listed firms. These results are echoed in the work by Xie and Yuan (2021), which employs historical variations in family culture in China as measured by genealogical density measures. Their analysis reveals a larger share of family firms (and a higher level of family involvement) in regions which feature stronger family values. Using data from Italy and regional measures of family values from the WVS, Miller et al. (2017) found that when family values are strong, firms are more likely to feature a higher involvement of family members in governance and executive roles. Other works, albeit not specifically focused on family firms, have reinforced the notion that family ties tend to make the family the centerstage of economic activities: when family values are stronger, there is more home production, less geographic mobility and lower female labor market participation (Alesina and Giuliano 2010).

Family ties often revolve around marriage. In family firms, the literature has shown that marriages are a useful tool to access resources from other businesses and politicians (Bunkanwanicha et al. 2013). Studying country differences in the cultural norms surrounding marriage, Mehrotra et al. (2011) provide evidence that the diffusion of family firms is positively correlated with proxies for arranged marriage norms, which make it possible to leverage marriage ties to strategically access resources or broaden the talent pool available to the controlling family.

Another cultural value that features prominently in the literature is social capital. This stream of scholarship has long argued that by promoting trust outside the strict family circle (also known as generalized trust), social capital can facilitate cooperation and economic transactions with unknown counterparts thereby spurring economic performance (La Porta et al. 1997). Social capital matters also for the organization of business activities: firms in areas rich of social capital are more prone to delegate decisions thereby achieving a higher level of decentralization in

investment and employment activities (Bloom et al. 2019). Can social capital matter too for the diffusion of family control? The answer relies on the idea that social capital reduces families' expropriation concerns and therefore facilitates the involvement of nonfamily investors in the firm's ownership and management. This, in turn, will reduce the extent of family control. Using data on Italian companies, Amore (2017) exploits historical variations in social capital generated by the experience of free city-states during the Middle Ages. Putnam (1993) suggested that free city-states spurred social capital by encouraging participation in public activities (as opposed to family-centric activities) and reducing free-riding behavior. Empirically, Guiso et al. (2016) shows a long-lasting effect of free city-states onto today's level of social capital. Building on this notion, Amore (2017) shows that being located in cities that were free city-states during the Middle Ages reduces the likelihood of family control. Moreover, within the sample of family firms, being located in former free city-states increases the likelihood to involve nonfamily members in the board of directors and leadership positions.

Pierce and Snyder (2020) employ historical variations in the exposure to the African slave trade to parse the influence of social capital on firms' ownership. They build on existing works showing that the experience of the slave trade engendered ethnic fractionalization and mistrust, which resulted in weaker social capital. Using data from 41 sub-Saharan countries, their empirical analysis shows that firms located in areas that suffered high historical slave extraction are today more likely to feature sole proprietorships or equity in the hands of a majority owner.[9]

A number of works in the culture literature have paid attention to individualism (as opposed to collectivism). Building on Bazzi et al. (2020), Barrios et al. (2021) show that US counties close to the historical "frontier" of westward expansion, which attracted individuals able

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[9] In another work not specifically focused on ownership, the same authors found that African slave trade worsened the access to trade credit and, in turn, reduced firms' investment ability (Pierce and Snyder 2018).

to cope with harsh conditions and who were exposed to weak social ties, have higher entrepreneurship rates today. Studying the implications for *how* companies are owned, Fan et al. (2022) focus on the context of China, and explore the influence of collectivistic cultural values on the diffusion of family businesses. Building on the so-called “rice theory of culture”, the authors exploit variations in whether a region has historically focused on growing rice as opposed to wheat. Because growing rice requires more labor and irrigation than wheat, farmers in regions with a rice specialization developed a more cooperative attitude among their family members and neighbors, i.e. stronger collectivism. Fan and colleagues find that founders brought up in regions with collectivist cultures employ more family members as managers, and retain more ownership in the family - all factors which result in a more diffuse family control.

Berrone et al. (2022) introduce a multifaceted cultural construct reflecting “the degree to which a country’s environment is characterized by a set of social ordering systems, social relationships, and values that recognize the family firm as the basic unit of economic production, and kinship ties – as the predominant conduit of social and economic exchange”. Berrone and colleagues show that this combination of values, which they label “family business legitimacy”, is positively associated with the predominance of family control among publicly-traded firms in 83 countries.

Finally, I shall review the set of works concerning religious beliefs. That religion may affect economic outcomes has a long tradition dating back to Max Weber.[10] Recent research has investigated the importance of religious beliefs for family firms. Shen and Su (2017) contend that the strength of religious beliefs bolsters risk aversion and the fear of losing control. As a result, religious founders are more likely to undertake ownership and managerial transitions within the

[10] See, e.g., Bryan et al. (2021) and Guiso et al. (2003) for empirical evidence linking religious beliefs and economic outcomes.

family. This is especially so for Eastern religions because of their higher degree of adherence and conservatism. Their investigation of succession decisions in Chinese firms provide support to these arguments. Relatedly, Chen et al. (2021) provide evidence that founders who are influenced by Confucianism have a higher likelihood to pass on control to a family member.

Table 1 summarizes the main findings concerning the role of culture in the spatial diffusion of family firms.

3.3. Culture and family business outcomes

As noted, the literature has generated mixed findings regarding the performance ability of family vis a vis nonfamily firms. A number of works have tried to reconcile these results by using culture as a contingency variable, i.e. they tried to understand whether family firms can do better than other firms when operating in specific cultural contexts.[11]

Miller et al. (2017) focus on the joint effect of two cultural values: the strength of family values and that of market values in different regions of Italy. Both are measured using the WVS and capture the cultural predominance of the family and the marketplace in individuals' value set. Empirically, the authors find that family firms perform best when family values are weak, or when strong family values are counteracted by strong market values. As the authors suggest, these configurations of values reduce the concern that family firms make nepotistic appointments at the expense of financial returns. This contention is similar to the arguments in Carillo et al. (2019) which use management practices data from Bloom and Van Reenen (2007) to contrast the

[11] There is a parallel stream of research about the contingent effect of family control on performance depending on institutional norms and regulation. For instance, Bennedsen et al. (2019) document that family firms perform better than nonfamily firms when labor markets are less regulated. Amit et al. (2015) show that family firms in China do better than nonfamily firms when they operate in areas subject to high institutional efficiency. Banalieva et al. (2015) too focus on Chinese institutional variations and show that family firms exhibit a performance advantage in areas subject to a gradual speed of reforms.

managerial quality of family and nonfamily firms under different institutional environments. Their analysis shows that family firms are endowed with worse management practices than nonfamily firms in countries with strong collectivistic values, which prioritize relationships in the local culture and family legacy, and is ascribed to the decision to keep management positions within the family.

Amore and Epure (2021) test whether social capital mattered for the performance ability of family firms vis a vis that of nonfamily firms during the 2008-09 financial crisis. The gist of this paper is that social trust can alleviate financial constraints and ease the access of resources from stakeholders during hard times; this, however, happens primarily for firms that are informationally transparent and that have sound corporate governance structures. By contrast, firms with opaque corporate governance and close to outside talent will be dampened by social capital. Using differences in social capital across Italian regions, the authors find that social capital amplified the negative effect of the financial crisis for family firms (especially those with family-centric governance), whereas it alleviated the effect for nonfamily firms.

In their investigation of US listed firms, Anderson et al. (2003) found that family firms in the US experience a lower cost of debt due to a better agency alignment between equity and debt claimants. Stacchini and Degasperi (2015) use a sample of firms from Italy to revisit this finding and theorize that family firms should enjoy a lower agency costs of debt primarily in low-trust environments, "i.e. where individuals are more inclined to behave opportunistically – as the tendency to cooperate is weaker – and borrowers are more prone to invest in risky projects without bearing the costs of downside failure". Focusing on the financial crisis of 2008-09 and leveraging variations in social capital across Italian regions, they find support for this theory.

The meta-analysis in Berrone et al. (2022) reveals that family firms perform better than nonfamily firms in institutional contexts characterized by high family business legitimacy. This result, the authors argue, occurs because family firms in those contexts receive more positive social evaluations and thus will have relational and organizational advantages over other firms. The idea that family firms may be well positioned to access resources in certain cultural contexts is also present in Chen et al. (2021) which focuses on CEO succession decisions and posits that in areas with a higher prevalence of Confucianism incoming family manager will be able to acquire founders' specialized assets via pre-succession internal management. As a result, they will thrive in these contexts.

4. Conclusion

Albeit generally common, the family control of business is unequally distributed across space. Moreover, family control has ambiguous performance implications. What explains these differences? I have argued that examining the cultural values of the area where firms are located provides a valuable opportunity to answer these questions. By shaping individual preferences and behaviors, culture may influence how firms are run and the results they attain. I have reviewed a flourishing literature which focuses on cultural values to explain the prevalence of family control, and as contextual variable to understand when family firms struggle or thrive.

While culture encompasses many different elements, extant research has primarily focused on such elements as trust and social capital, collectivism and family values. Empirical evidence coming from a variety of developed and developing economies and different methodologies has suggested that family firms tend to be more common when family values are stronger, when social capital is weaker, and when collectivism is stronger. It is notoriously challenging to tease out the

effect of culture from that of formal institutions and economic development. To this end, existing studies have employed econometric techniques based on variations in culture coming from historical events, such as the experience of free-city states in Italy, the exposure to slave trade in African countries, and the predominance of growing rice rather than wheat in Chinese territories. The goal of this article has been to provide a unified perspective of the role of culture in family business, which surfaces from an intense yet fragmented research effort in economics and corporate finance.

There are several fruitful research opportunities for scholars interested in the cultural economic perspective of family business. The first consists in better understanding the channels through which cultural values affect ownership decisions. The intuition behind the finding that generalized trust is conducive of more dispersed ownership structures is that trust may increase the propensity to raise equity from individuals or firms outside of the close family network (Amore 2017). However, the literature lacks a direct test of this notion because of the unavailability of trust information at the investor level. One interesting avenue is to use survey and experimental methods to capture the preferences of family and nonfamily investors, and link these preferences with ownership decisions. Another direction for future research is to study the role of multiple cultural values from an ecological perspective. With few exceptions (e.g. Miller et al. 2017), the literature has worked to establish the effect of single cultural values on corporate ownership. Yet, cultural values do not affect individuals in a vacuum, and it is plausible that there exist complementarity or substitution effects between them. This undertaking would be useful to provide a broader understanding of how culture matters for ownership structures.

Moreover, it would be important to pay more attention to causality issues. As noted earlier, ownership structures are the result of decisions affected by variables internal to the firm (and to

the business family) as well as external factors related to the environment where firms operate. Focusing on external factors and disentangling the effect of culture from, say, formal institutions on family control is challenging because the two are intertwined and have influences on each other. The literature has focused on historically-driven cultural elements building on the idea that historical episodes provide variations in culture within largely similar environments in terms of formal institutions (Amore 2017; Fan et al. 2022; Xie and Yuan 2021). While these approaches have merit, one needs to be careful about potential confounding factors arising from the joint evolution of culture and institutions over time, and document the channels which link historically-inherited culture with today's ownership. Finally, there are methodological and conceptual challenges in establishing the persistent effect of historical events on current outcomes (Kelly 2020; Voth 2021). Future works can further probe the specific mechanisms though which legacy elements of culture matter for today's corporate ownership.

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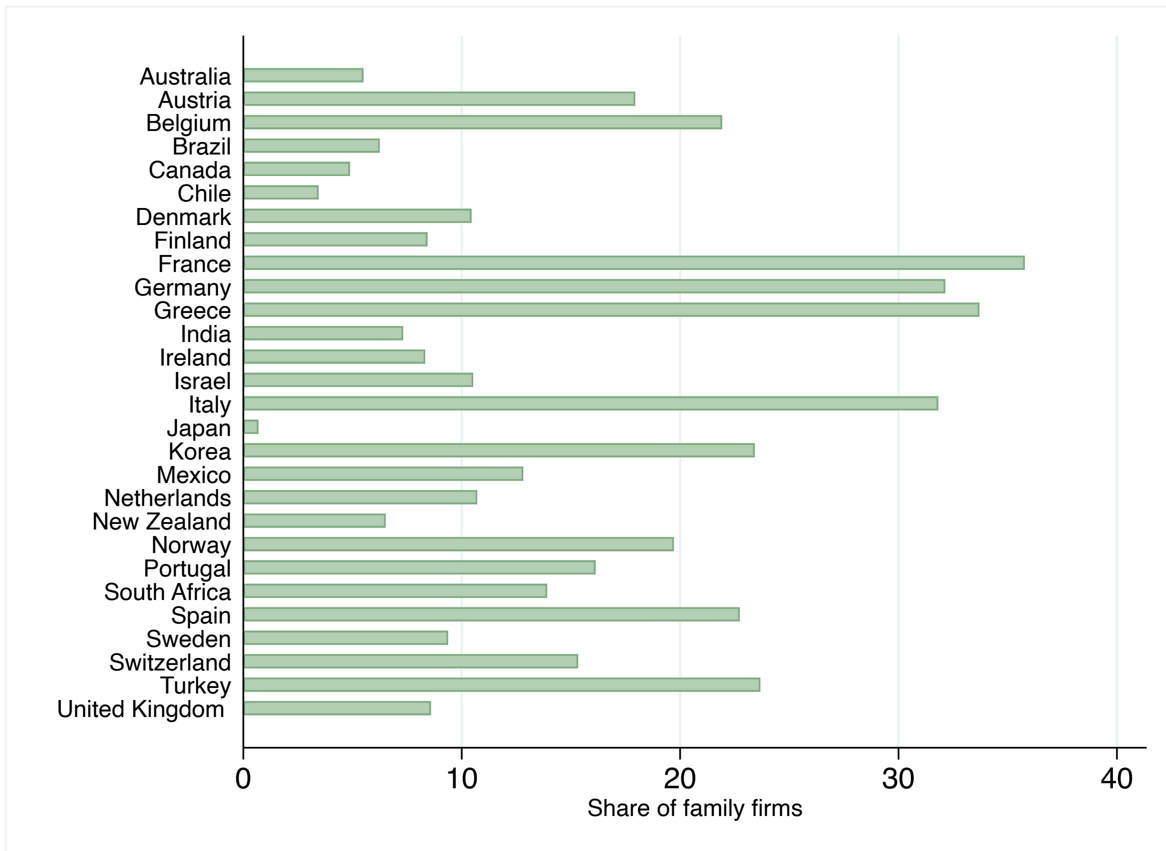
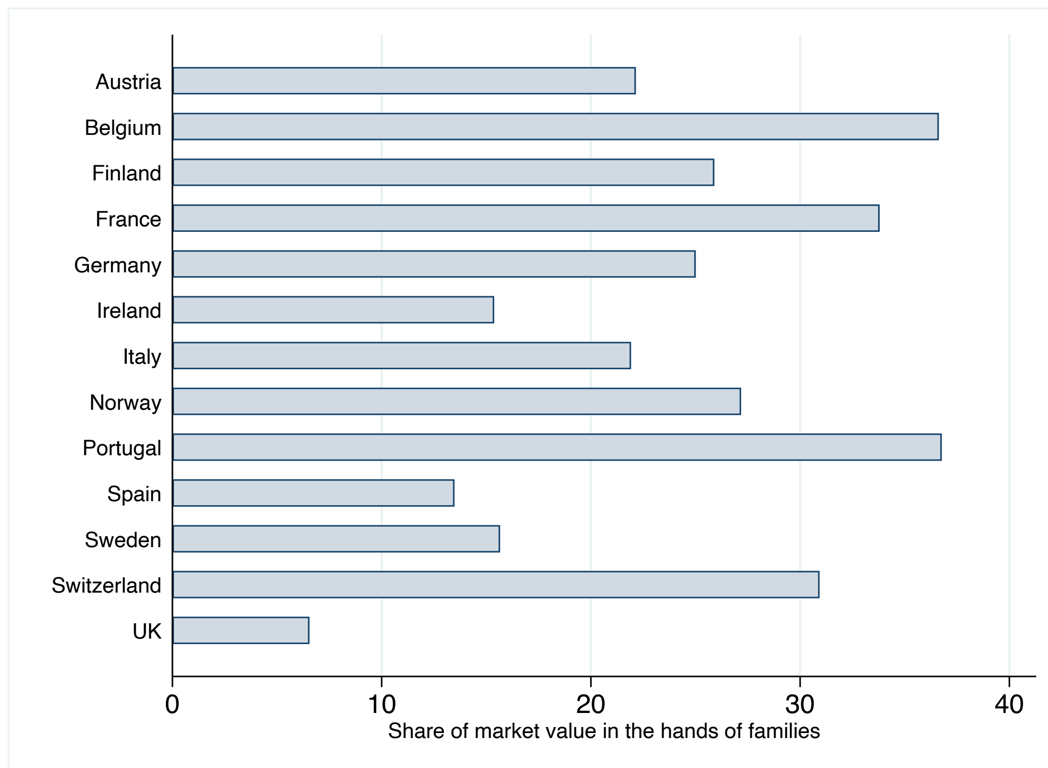
Figure 1. Family control of listed firms worldwide



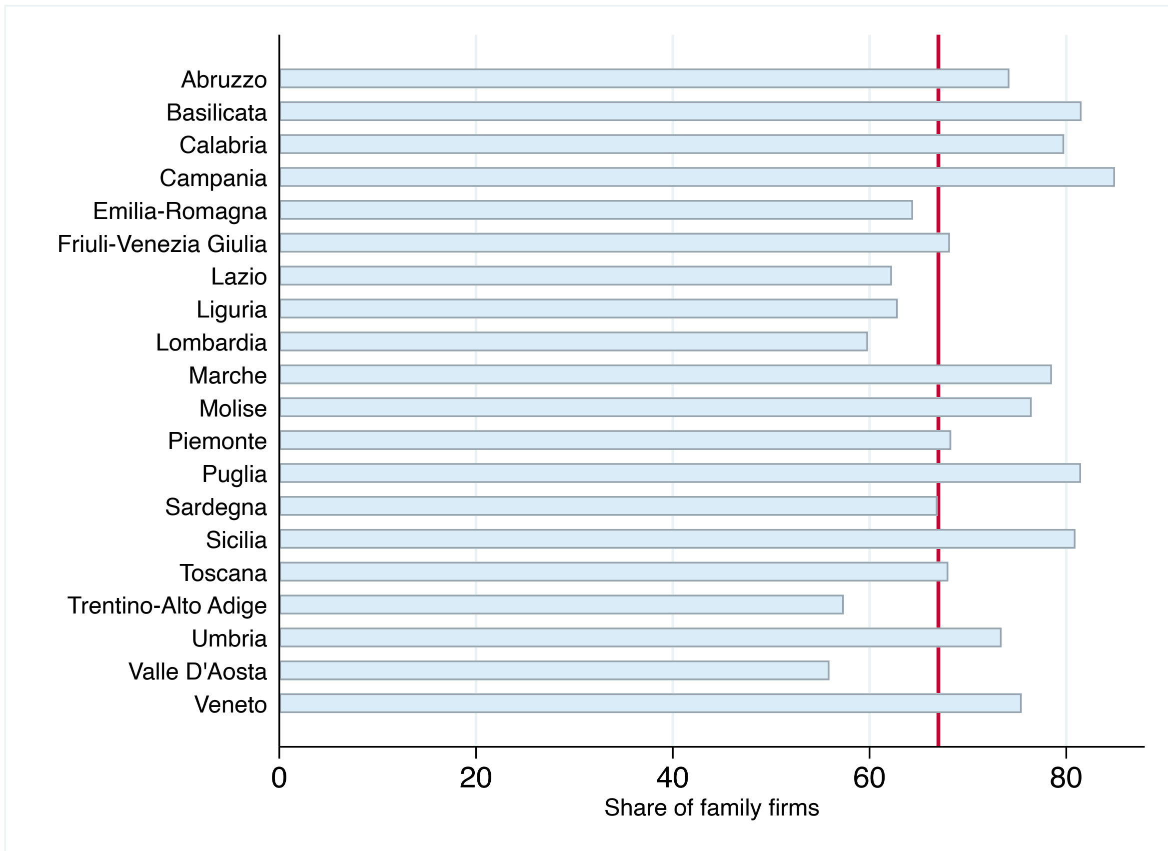
This figure shows the share of family firms out of the total number of listed firms in 28 countries. Family firms are classified based on whether an individual or group of family members own at least 25% of voting rights either directly or indirectly. Data from Bennedsen et al. (2019).

Figure 2. Family control of listed firms worldwide



This figure shows the aggregate market value of common equity controlled by the largest 15 families divided by the aggregate market value of common equity of all firms in the sample for a given country. Data from Faccio and Lang (2002).

Figure 3. Family control of privately-held firms in Italian regions



This figure shows the share of family firms out of the total number of privately-held firms with revenues above 25 million Eur. Family firms are classified based on whether an individual or group of family members own at least 50% of equity shares either directly or indirectly. Data from the AUB Observatory (Bocconi University).

Table 1. Family firms and cultural values: Overview of the main relationships

Cultural value	**Operationalization**	**Predicted sign on family control**	**References**
Strength of family values; family culture	World Value Survey; genealogy density in China	+	Bertrand and Schoar (2006); Miller et al. (2017); Xie and Yuan (2021)
Cultural acceptance of arranged marriages	World Value Survey	+	Mehrotra et al. (2011)
Social capital; generalized trust	Historical data on free-city states in Italy; Exposure to slave trade in Africa	-	Amore (2017); Pierce and Snyder (2021)
Collectivistic culture (as opposed to individualistic culture)	Historical importance of growing rice (vs. wheat) in Chinese areas	+	Fan et al. (2022)
Family business legitimacy	Authors' formative index	+	Berrone et al. (2002)
Religious beliefs	Authors' survey data on founders' religious beliefs in China; firm location in a city with a Confucian center	+	Shen and Su (2017; Chen et al. (2021)