

# Family Firms' Changing Strategic Tendency on Restructuring: A Mixed-gamble Approach

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This study empirically investigates family firms' changing strategic tendency on restructuring depending on corporate circumstances. The findings demonstrate that family firms are generally less likely than non-family firms to conduct corporate restructuring. However, their engagement in restructuring becomes even greater than non-family firms as financial performance deteriorates. In other words, the results suggest that rather than always being more reluctant to engage in restructuring to preserve existing socioemotional wealth (SEW), family firms can conduct more restructuring than non-family firms, especially when they pursue long-term SEW gains at the expense of short-term SEW loss. By focusing on the specific condition under which restructuring becomes an act of strengthening SEW, this study further refines the complex nature of family firms' strategic decisions on restructuring.

Key Words: Family firms, Strategic decision-making, Corporate restructuring, Socioemotional wealth, Mixed-gamble approach, Corporate turnaround

## 1. Introduction

Family business research has demonstrated that there are notable differences in strategic decisions between family and non-family firms (Berrone, Cruz, & Gomez-Mejia, 2012; 이지환, 2006) and, as a result, family firms exhibit different strategic behaviors than their non-family counterparts (Gomez-Mejia, Marki, & Kintana, 2010). For a long time, the behavioral agency model (BAM) has been the most important theoretical perspective for explaining

the unique strategic behavior of family firms. BAM views the preservation of socioemotional wealth (SEW), the emotional and non-financial value attached by family members to their firm, as the only foremost driver of family firms' strategic actions (Wiseman & Gomez-Mejia, 1998). This leads to the prediction that family firms are unwilling to conduct risky activities such as corporate acquisition (Gomez-Mejia, Patel, & Zellweger, 2018), collaboration (Gomez-Mejia, Haynes, Nunez-Nickel, & Monyano-Fuentes, 2007), and research and development (R&D) (Block, 2012; Gomez-Mejia et al., 2014)

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because these activities can undermine family members' current SEW. Consistent with the BAM forecast, there is a strong expectation in the family business literature that family firms are less likely than non-family firms to engage in corporate restructuring (and divestment). Corporate restructuring is an act of selling assets and businesses currently owned by a company (Bowman & Singh, 1993). Therefore, for family members, divesting family-owned assets and historical businesses are risky strategic activities that can greatly damage their current SEW. This prediction is based on the assumption that family firms only consider SEW losses when making strategic decisions, thereby ignoring the possibility of potential long-term SEW gains that such risky activities can bring.

Then, to avoid the loss of current SEW, do family firms always exhibit more reluctance than non-family firms in implementing restructuring? Isn't restructuring sometimes an act of enhancing SEW rather than damaging SEW for family firms so that family firms are more likely than non-family firms to engage in restructuring? By adopting a mixed-gamble approach, this study highly acknowledges recent family business research that family firms make strategic decisions based on two value dimensions, financial wealth and SEW, rather than solely relying on the preservation of SEW (Hussinger & Issah, 2019; Alessandri Cerrato, & Eddleston, 2018). More importantly, this study argues that for family members, restructuring is sometimes an act that un-

dermines their current SEW. However, at other times, doing so may strengthen their long-term SEW. Thus, in some situations, family firms indeed engage in less corporate restructuring than non-family firms to preserve current SEW. However, in other situations, they are more likely to engage in corporate restructuring for potential long-term SEW gain. This is an intriguing phenomenon to which previous studies on both family business and corporate restructuring have paid less attention.

In this study, by observing corporate restructuring activities in the Standard and Poor's (S&P) 500 between 2001 and 2016, we empirically identify the existence of family firms' changing strategic tendency on corporate restructuring as financial performance deteriorates. Specifically, although family firms are less likely than non-family firms to conduct corporate restructuring (and divestment) as predicted by BAM, their engagement in restructuring activities becomes even greater than that of non-family firms especially when they need to achieve a successful corporate turnaround in the face of a corporate crisis. Thus, the finding suggests that in a corporate crisis, restructuring is not a SEW-damaging strategic action that family firms should avoid in order to preserve existing SEW. Rather, it is a beneficial strategy that can increase family members' potential long-term SEW.

This study contributes to both family business and corporate restructuring literature by suggesting that corporate restructuring may

involve different strategic actions in terms of SEW. In some situations, family members, and therefore family firms, can be more involved in corporate restructuring than non-family firms. This study also extends the mixed-gamble approach to the area of restructuring activities of family firms. While prior studies provide excellent insights into why family firms are more reluctant to restructure and divest to avoid the loss of current SEW (Chung & Luo 2008; Sharma & Manikutty 2005; Zellweger & Brauer 2013), these studies do not explicitly view corporate restructuring as a potential source of long-term SEW gains for family members in some situations. By focusing on the specific condition under which restructuring becomes an act of strengthening, rather than damaging, SEW, this study complements previous research and further refines the complex nature of family firms' strategic decisions.

## II. Theory and hypotheses

### 2.1 Behavioral agency model and refined mixed-gamble approach

As mentioned earlier, BAM is an established perspective that explains the unique strategic decision-making of family firms. The essence of the BAM is that economic efficiency (or profit maximization) is not the foremost reference point in family firms' principles for choosing strategic behavior. Rather, it sug-

gests that "family firms are typically motivated by, and committed to, the preservation of their SEW" (Berrone et al., 2012, p. 259). In other words, preserving current SEW is a primary consideration of family firms in making major strategic decisions. Thus, even if a certain strategic choice would result in economic losses, these firms would be more likely than non-family firms to make that strategic choice as long as it preserves their existing SEW. For example, Gomez-Mejia et al. (2007) show that family-owned olive mills, to preserve their unique SEW, usually prefer to remain independent rather than join a cooperative – an approach that inhibits performance and greatly increases subsequent financial uncertainty. In addition, due to concerns over losing their family heritage, especially among the top management team, family firms exhibit a strong aversion to replacing family member CEOs or managers with non-family members with better managerial capabilities and external networks, thereby losing potential opportunities to maximize the firms' economic value for public shareholders (Bennedsen, Nielsen, Pérez-González, & Wolfenzon, 2007). Likewise, to avoid the loss of existing SEW, family firms are shown to be reluctant to engage in risky activities such as partnership (Gomez-Mejia et al., 2007), acquisition (Requejo, Reyes-Reina, Sanchez-Bueno, & Suárez-González, 2018), R&D (Chrisman & Patel, 2012), technological innovations (Block, Miller, Jaskiewicz, & Spiegel, 2013), diversification (Gomez-Mejia

et al., 2010), and going public (Leitterstorf & Rau, 2014).

However, regardless of its significant contributions, BAM simplifies the complex nature of family firms' strategic decision-making. Specifically, it assumes that family firms only consider SEW losses when making strategic decisions, thereby ignoring the possibility of enhancing financial wealth as well as potential long-term SEW gains that such risky activities might bring. A refinement of the SEW has recently consolidated the concept of mixed gambles to improve its predictions regarding family firms' decision-making processes (Gomez-Mejia, Cruz, & Imperatore, 2014; Gomez-Mejia et al., 2018). According to the SEW mixed-gamble approach, family firms are not only aware of potential SEW losses when making strategic choices but also consider the potential SEW gains. Thus, family firms encounter a dilemma in their strategic decision-making by having to evaluate the possibility of gains and losses of their strategic actions in terms of financial and SEW together (Gomez-Mejia et al., 2018). If family firms anticipate that they could further create long-term SEW by undertaking risks, then this would reduce their inherent aversion toward SEW loss owing to such risk-taking behavior.

In this study, we seek to extend the predictive validity of the mixed-gamble approach by applying it to a particular context: corporate restructuring decisions in family firms vis-à-vis non-family firms at two different time periods. In the following hypotheses, we

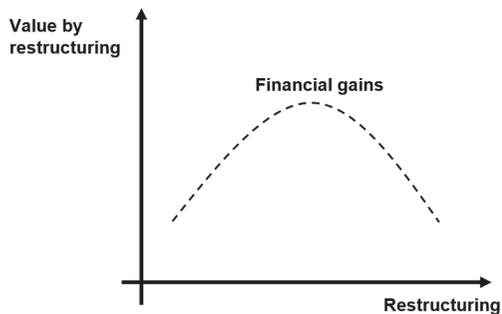
argue that unlike non-family firms, family firms face an inconstant composite value (SEW + financial wealth) from corporate restructuring as their financial performances deteriorate and that consequently, unlike predicted by BAM, their engagement in restructuring becomes even greater than that of non-family firms.

## 2.2 Family firms' inherent aversion toward corporate restructuring during non-crisis period

This study considers the overall value (SEW + financial wealth) of corporate restructuring and assumes that the types of firms that have a greater overall value of corporate restructuring are more active in restructuring activities. The recently refined SEW mixed-gamble approach argues that to better understand the strategic actions of family firms, losses and gains in both SEW and financial wealth that potentially arise from these actions should be considered as well. Therefore, by adopting a recent SEW mixed-gamble approach, this study attempts to investigate whether family firms or non-family firms have more overall value for corporate restructuring, and thus, which one engages more in restructuring activities.

We first examine the potential gain in financial wealth by corporate restructuring. This study, based on numerous empirical studies on corporate restructuring (e.g., Feldman, Amit, & Villalonga, 2016; Helfat & Eisenhardt,

2004; 최두열, 2006), argues that an inverted U-shaped relationship exists between restructuring and financial gains (see Figure 1). That is, up to a certain level, the gain in financial wealth gradually increases as restructuring occurs. However, excessive restructuring beyond a certain level results in a decrease in financial value because (marginal) costs of restructuring are greater than (marginal) benefits.



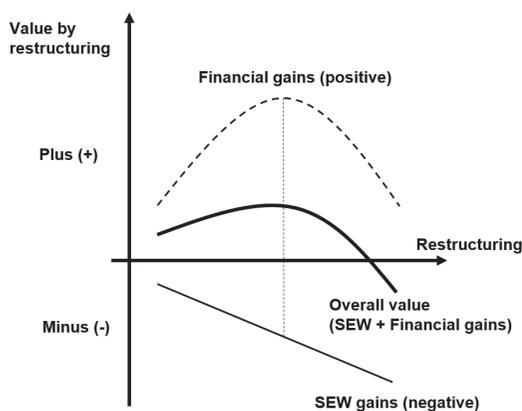
〈Figure 1〉 An inverted-U relationship between financial gain and corporate restructuring

Next, we must consider the SEW that only family firms have for restructuring, unlike non-family firms. In fact, the most important value to consider when making strategic choices for family firms is the SEW gain/loss caused by a chosen action, rather than the expected financial gain/loss. Therefore, no matter how great the expected financial gains, if the loss of SEW caused by any strategic action is large, then family firms will not make that strategic choice (Berrone et al., 2012). This study argues that without a severe corporate crisis, restructuring is an

act that may damage the existing SEW for family members. Founding families are embedded in the firms they create, often in intangible and implicit ways (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2010). The SEW that family members have regarding family firms is largely connected with historical family businesses and family-owned assets that have been maintained since the founder (Feldman, 2014). According to family business research, family firms have a substantial incentive to maintain family businesses and assets that are directly related to family members' current SEW and pass them on to future generations (Dyer & Whetten, 2006; Hall & Nordqvist, 2008). In addition, family firms have a strong tendency to preserve their family's way of operation and the traditional organizational structure and culture that has been passed down. This is because these are also deep sources of their current SEW (Hall & Nordqvist, 2008; Feldman et al., 2016). Therefore, for family members, restructuring is perceived as a risky action because it directly entails major changes in family businesses, historical assets, the family's way of management, and traditional culture and structure, which strongly form the basis of their current SEW. In addition, if businesses and assets are divested owing to restructuring, then family members may lose their jobs and social status.

The SEW of family members includes stable employment provided by family businesses and the resulting socio-economic status (Bennedsen

et al., 2007; Perez-Gonzalez, 2006). Hence, restructuring can be an action that can significantly damage current SEW in terms of job reduction for family members. Therefore, without a severe corporate crisis, corporate restructuring is an action that may undermine family members' existing SEW. That is, the greater the restructuring activity, the greater the loss of SEW (please see the thin solid line in figure 2).



〈Figure 2〉 Family firms' overall value (financial + SEW) from restructuring during non-crisis period

In summary, non-family firms, unlike family firms, have only financial gains from restructuring activities. Therefore, the overall value that non-family firms have for restructuring has an inverted U shape. Meanwhile, family firms have SEW in addition to their financial value. However, without a corporate crisis, this SEW usually decreases as restructuring activities increase. Therefore, the overall value (SEW + financial wealth) of

family firms for restructuring is generally lower than that of non-family firms (see the bold solid line in Figure 1). In other words, without severe corporate crises, family firms usually have less overall value of restructuring than non-family firms. Thus, family firms are less active in restructuring than non-family firms.

*Hypothesis 1: Without a severe corporate crisis, family firms, on average, engage in less corporate restructuring than non-family firms.*

### 2.3 Family firms' changing strategic tendency on restructuring in a corporate crisis period

Based on the first hypothesis, this study seeks to further clarify the relationship between family firms and restructuring via the second hypothesis. We argue that simply viewing family firms as always exhibiting more reluctance than non-family firms to conduct restructuring is a way of misunderstanding their complex nature of strategic decision-making. Specifically, corporate restructuring may involve different strategic actions, in terms of SEW, in some situations for family firms. In some situations, family firms indeed engage in less corporate restructuring than non-family firms due to the preservation of SEW. However, in other situations, they are more likely than non-family firms to engage in corporate restructuring for potential long-term SEW gain. This study suggests that it is

when companies are in the face of corporate crisis and therefore need to achieve a successful corporate turnaround to survive. In other words, in times of corporate crisis, restructuring may not be an act of reducing SEW for family firms, but rather a very important strategic action that can strengthen potential long-term SEW.

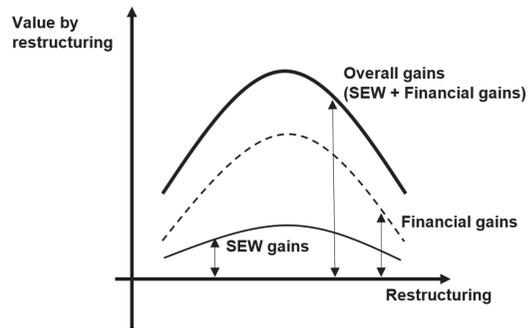
Companies that do not implement corporate restructuring during a corporate crisis are very likely to go bankrupt (Chen, 2015; Lai & Sudarsanam, 1997). Of course, bankruptcy is a very personal misfortune for members of non-family firms as well. Therefore, CEOs and executives of non-family firms will also restructure more actively than usual during a corporate crisis to prevent bankruptcy (Hayward & Shimizu, 2006; Shimizu & Hitt, 2005). On the contrary, for family members who own and manage their firms, a company's bankruptcy is the disappearance of the entire SEW (or the essence of SEW) (Berrone et al., 2012; Stockmans, Lybaert, & Voordeckers, 2010). Executives of non-family firms can continue to work in organizations where new investors appear and become new owners, even if the company they worked for goes bankrupt. In the worst case, when the company eventually disappears, they will find another company to work for. Of course, this does not suggest that executives of non-family firms do not derive emotional attachment and/or non-economic values from their firms because they can bear reputational costs that will negatively affect their future careers (Westphal & Khanna,

2003). However, a vast amount of prior research suggests that non-economic values attached by executives to their non-family firms tend to be much smaller than those attached by family executives to their firms (for a review, see Zellweger, 2017). At least for executives and employees of non-family firms, the bankruptcy of a non-family firm is more likely to be a very unfortunate event economically rather than non-economically.

In contrast, for CEOs and executives of family members who own and manage a family business, a company's bankruptcy is not an unfortunate event only for economic reasons. Corporate bankruptcy means that all of their SEW, or at least the very essence of their SEW, will vanish (Berrone et al., 2012; Stockmans, Lybaert, & Voordeckers, 2010). Thus, in the face of a corporate crisis, the most important way to preserve SEW and further strengthen SEW in the long term is to make family firms alive. This is because the longer a family firm has a long history and tradition, the greater the SEW that family members have (Koironen, 2002). In addition, and more importantly, if family members overcome a corporate crisis and achieve a successful corporate turnaround through appropriate restructuring, the experience and know-how of overcoming such crises become the foundation of a valuable family legacy and heritage that will be passed down from generation to generation. Indeed, given that family firms are often challenged by environmental shifts and are especially vulnerable because of their independent, family-

oriented management (Lee, 2006; Kim & Vonortas, 2014), it is very likely that the experience and know-how of overcoming a corporate crisis will become a very valuable legacy for a family business. Furthermore, it provides social awareness to numerous outside stakeholders as a family that effectively overcame a corporate crisis, thereby increasing the SEW of family members in the long term in terms of outstanding social reputation. Therefore, during a corporate crisis, restructuring may immediately damage existing SEW in the short term through asset sales and business withdrawal. However, it is also a strategic action that helps the survival of family firms, and therefore, strengthens SEW in the long run.

The relationship between restructuring and SEW in the period of corporate crisis is therefore not negative, as in the first hypothesis. Rather, it has an inverted U-shaped relationship, as Figure 3 shows, because restructuring to a certain level is effective for a company to rebound. In turn, it positively affects the survival of the company, and thus, strengthens SEW in the long run. However, excessive restructuring beyond a certain level can lead a company to lose its core competencies. This is more detrimental to the long-term survival of the company, and consequently, reduces the increase in long-term SEW. In other words, even if corporate restructuring is a strategic action that strengthens SEW during a corporate crisis, a moderate level of restructuring is still the most ideal.



〈Figure 3〉 Family firms' overall value (financial + SEW) from restructuring during corporate crisis

Taken together, the overall value (SEW + financial wealth) of family firms' restructuring during a corporate crisis is much higher than that of non-family firms. This is because the value of SEW due to restructuring has changed from negative to positive. Therefore, the following hypothesis is proposed:

*Hypothesis 2: In the face of a corporate crisis, family firms engage in a greater level of corporate restructuring than non-family firms.*

### III. Methods

#### 3.1 Sample

To obtain the sample for this empirical study, we first extracted the list of companies in the S&P 500 for the period 2001 - 2016 from the Compustat database. By adopting

established method in the corporate turnaround literature (e.g., Barker & Duhaime, 1997; Pearce & Robbin, 1993), we surveyed companies from this initial list that experienced a decline in performance together with an increase in financial distress during the period, as defined by the following two criteria:

- a) At least one of the three indicators (Return on Assets, Return on Equity, and Net Income) declined continuously over four consecutive years;
- b) Altman Z-score was below the value of 2.5 for at least two of the four consecutive years.

Altman Z-score is often used to predict the probability a company will be bankrupt within two years, and thus, it is also used to measure companies' current financial distress status (Altman, Iwanicz-Drozowska, Laitinen, & Suvas, 2017; Chen, 2015). An Altman Z-score below 2.99 is a sign of possible bankruptcy. After selecting only those companies that experienced a decline in performance during the study period, we set the last year of the four consecutive years identified by the above criterion as the starting year of a corporate crisis (Year 0), which follows previous method in corporate turnaround literature (Chen, 2015; Barker & Duhaime, 1997). We then observed their restructuring activities between Year 0 and Year+3 (3 years from the starting year of the corporate crisis) and between Year-3 (3 years prior to the starting year of the corporate crisis) and Year

0 to empirically investigate the existence of family firms' changing propensity on corporate restructuring depending on financial conditions. Thus, in this study, a corporate crisis is defined as a crisis individual companies face rather than the systemic business risk that affects an entire industry or national economy as a whole. In addition, further information was collected for the independent and control variables. Any firms whose information for the relevant variables could not be obtained were omitted from the analyses. As a result, the final sample for the statistical analyses is 178 companies, of which 56 were identified as family firms and 122 as non-family firms.

## 3.2 Measurement

### 3.2.1 Dependent variable

By adopting a measure used in prior studies (Chen, 2015; Slatter, 2011), we used the index of three indicators to proxy for the degree of corporate restructuring. The indicators include downsizing (i.e., disposal of fixed assets or reducing head count), cost-cutting (for example, a cutback in administrative, R&D, and other discretionary expenses), and product/market refocusing (e.g., reducing the scope of business lines and geographical markets and shifting the emphasis to more defensible and lucrative segments). The downsizing indicator includes two items: fixed assets and employment size (Robbins & Pearce,

1992), while the cost-cutting indicator includes three items: R&D intensity (R&D/sales), advertising intensity (advertising expenses/sales), and SGA expenses (selling, general, and administrative expenses/sales). We collected each firm's data from Compustat for each item at Year-3, Year 0, and Year+3, and added the items together to obtain the downsizing and cost-cutting values, respectively. Then we observed the change in each indicator between Year 0 and Year-3 (Year 0 minus Year-3) and between Year+3 and Year 0 (Year+3 minus Year 0) and reversely coded the value. Thus, a greater value suggests a greater extent of activity in each indicator. In addition, to capture product/market refocusing activities, we first gathered data for each firm's diversification posture in the product (that is, business line) and market (i.e., geographical market) dimensions from the Compustat Segment database at Year-3, Year 0, and Year+3. We followed previous studies (Matusik & Fitza, 2012; Palepu, 1985) and adopted an entropy method to measure the level of diversification in product and geographic markets. The difference between a firm's diversification posture at Year+3 and Year 0 (Year+3 minus Year 0), and the difference between Year 0 and Year-3 (Year 0 minus Year-3) were reversely recorded, and thus, a greater value suggests a higher level of refocusing. Before being added, each indicator was standardized. After standardization, we created a single dependent variable of "corporate restructuring" by combining the

three standardized indicators: downsizing, cost-cutting, and product/market refocusing.

However, although it is an established measurement in prior studies (e.g., Chen, 2015; Slatter, 2011) to proxy for the degree of corporate restructuring, we conducted a confirmatory factor analysis to ensure that all of three indicators load on one factor for both periods (non-crisis and crisis period) with a high eigenvalue. Interestingly, we found that while all of three indicators load on one factor with a high eigenvalue in a non-crisis period, only two indicators - downsizing and refocusing - load on a single factor during a corporate crisis. Therefore, in the robustness checks section, we will conduct a regression analysis separately for each indicator as supplemental analyses.

### 3.2.2 Independent variable

The independent variable is binary and equals 1 if the company is a family firm, and 0 otherwise. Following prior research on family businesses (Villalonga & Amit, 2006, 2009, 2010; Chang & Shim, 2015), we define family firms as those in which the founder or at least one founding family member by blood or marriage is an officer, director, or blockholder (at least 5% equity), either individually or as a group. Information was manually gathered from proxy statements filed with the Securities and Exchange Commission (SEC), Marquis Who's Who, Factiva, and web searches.

### 3.2.3 Control variable

A number of CEO-, governance-, firm-, and industry-level factors that might affect the magnitude of restructuring activities were controlled for in this study. First, for the CEO-level factors, CEO turnover, CEO age, CEO tenure, CEO gender, CEO compensation, and CEO share were controlled. Studies demonstrate that organizational inertia regarding corporate restructuring (or divestiture) may be less severe when companies experience recent CEO turnover events (Bigley & Wiersema, 2002) because new CEOs tend to rebuild the company's effectiveness and instill an immediate sense of urgency (Barker, Patterson, & Mueller, 2001). We created a dummy variable for CEO turnover, which equals 1 if the CEO turnover event occurs during the given time intervals (between Year+3 and Year 0 and between Year 0 and Year-3), and 0 otherwise. On the other hand, research shows that as CEOs age and their tenure increases, they are less likely to engage in strategic change (Weng & Lin, 2014), which might have a negative impact on the likelihood of actively engaging in corporate restructuring. CEO gender was also controlled because gender is found to interact with other board-level factors to influence the extent of organizational change (Triana, Miller, & Trzebiatowski, 2014). The CEO gender variable equals 1 for male and 0 for female. Last, CEO compensation and share were also considered based on agency theorists' argument that CEOs with

low compensation or no equity share tend to pay relatively less attention to pursuing firm value or maximizing economic profit (Jensen, 1994), which may affect firms' willingness to restructure.

Second, CEO duality, institution share, ownership concentration, and employee involvement were included as governance-level control variables. Despite the inconsistent performance implications of CEO duality on several organizational outcomes, research on CEO duality suggests it could significantly influence strategic management, such as corporate restructuring and diversification (Kim K., Al-Shammari, Kim B., & Lee, 2009). A dummy variable was created that equals 1 if the CEO and chair are the same person, and 0 otherwise. In addition, institutional share and ownership concentration were closely examined, since prior studies emphasize that the presence of large institutional investors and a concentrated ownership structure are positively associated with a decrease in managerial opportunism in pursuing self-serving interests (Boyd, Gove, & Hitt, 2005); this might increase the likelihood of timely restructuring activities for a successful corporate turnaround. Employee involvement in governance was also added as a control factor. We strongly expect that a high level of employee involvement in corporate governance may partially restrain the firm's engagement in downsizing (i.e., reducing head count) and refocusing (i.e., reducing the scope of business lines) activities. This variable equals 1 if

companies allow worker involvement via a generous employee stock ownership plan (ESOP) or employee stock purchase plan (ESPP), and 0 otherwise. The MSCI KLD is the main database for this data.

Last, firm age, firm's number of subsidiaries, and union relation were considered. Structural inertia theorists assert that old organizations frequently have difficulty changing strategy quickly, such that strategic inertia increases as companies age (Dobrev, Kim, & Carroll, 2003). We also controlled for the number of firm's subsidiaries because prior research suggests that companies with greater number of subsidiaries are more likely to conduct restructuring via resource redeployment among related firms within the same business group (Sohl & Folta, 2021). Subsidiaries are defined as those where focal firm has more than 50 percent of share. The sources for finding subsidiaries of a company were corporate website, Securities and Exchange Commissions (SEC) EDGAR or OpenCorporates. We created a dummy variable for union relations, which equals 1 if the sample firm is classified as a company with high union density according to the MSCI KLD database, and 0 otherwise.

### 3.3 Model

Regression analysis is performed using generalized least squares (GLS) to predict the degree of corporate restructuring. Following prior procedure in corporate turnaround literature (Chen, 2015), we conducted the re-

gression analysis twice, once for each hypothesis, to empirically test the existence of family firms' changing tendency on restructuring depending on financial circumstances. To test hypothesis 1, we regress restructuring activities for the period between Year-3 and Year 0 on the independent and control variables, and to test hypothesis 2, we regress restructuring activities for the period between Year 0 and Year+3 on the dependent variables. The analysis was performed using a STATA program.

## IV. Results

Table 1 provides the descriptive statistics along with the correlational matrix. All variables were tested for normality and those found to be not normal were Box-Cox transformed. To test for multicollinearity, we calculated the variance inflation factors (VIF), which are within acceptable ranges. Table 2 presents the results of the GLS regressions where there are two different time periods: the period between Year-3 and Year 0 and the period between Year 0 and Year+3. Thus, the dependent variable for models 1 and 2 is the degree of corporate restructuring during a non-crisis period, whereas corporate restructuring during a corporate crisis is the dependent variable for models 3 and 4. Models 1 and 3 are the baseline models that include only control variables, while models 2 and 4 add the independent variable to test the main effect.

〈Table 1〉 Descriptive statistics and correlation matrix

	Mean	S.D	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
1. Restructuring	0.13	2.71	1.00																
2. Family firm	0.31	0.46	-0.16***	1.00															
3. CEO turnover	0.36	0.48	0.04***	-0.05**	1.00														
4. CEO duality	0.94	0.24	-0.02*	-0.05	-0.25**	1.00													
5. CEO share	1.47	3.12	-0.09***	0.31***	-0.04	-0.04**	1.00												
6. CEO age	55.24	6.11	-0.08*	0.09***	0.13***	-0.13	0.02	1.00											
7. CEO compensation	5274	6657	-0.03**	-0.40	0.01	0.09***	-0.11	-0.08	1.00										
8. CEO tenure	7.48	7.25	-0.11	0.28**	0.17*	-0.08	0.43***	0.31***	-0.08	1.00									
9. CEO gender	0.95	0.20	-0.02**	0.07	0.03***	-0.05	0.05**	0.05**	-0.06	0.02	1.00								
10. Firm age	53.25	44.42	-0.11**	-0.29**	0.05	0.09***	-0.11*	0.05	0.05	-0.06	-0.01	1.00							
11. Number of subsidiaries	3.63	8.88	-0.08	0.07	-0.00	0.04	-0.03	-0.06	0.02	-0.09	-0.02	0.15*	1.00						
12. Firm's size	7.79	1.45	0.14	-0.15*	0.05	0.05	-0.21**	0.15*	0.48***	-0.04	-0.07	0.11	-0.12	1.00					
13. Employee involvement	0.11	0.32	-0.09	0.08**	0.04**	0.01	-0.13	0.04***	0.05	-0.06	0.07***	0.01	0.08	0.09	1.00				
14. Union relation	0.12	0.33	-0.01***	-0.18*	-0.21*	0.02**	-0.07**	0.03	0.25**	-0.03	-0.01	0.19**	-0.02	0.22**	0.18*	1.00			
15. Ownership concentration	0.07	0.11	-0.03*	0.11	0.01	0.01*	-0.03	0.01**	0.01	-0.07	0.02*	-0.09	0.94***	-0.15*	0.12	-0.07	1.00		
16. Institution share	0.73	0.17	0.02*	-0.03	0.07**	-0.01	-0.13***	0.03*	0.04***	0.12***	0.08	-0.07	-0.52***	0.05	-0.02**	-0.03	-0.53***	1.00	

Notes: \*p &lt; 0.05, \*\*p &lt; 0.01, \*\*\*p &lt; 0.001

〈Table 2〉 Result of GLS regression (main analysis)

	<i>Non-crisis period (between Year-3 and Year 0)</i>				<i>Corporate crisis period (between Year 0 and Year+3)</i>			
	<i>Model 1</i>		<i>Model 2</i>		<i>Model 3</i>		<i>Model 4</i>	
	<i>Coefficient</i>	<i>P-value</i>	<i>Coefficient</i>	<i>P-value</i>	<i>Coefficient</i>	<i>P-value</i>	<i>Coefficient</i>	<i>P-value</i>
<b>Family firm</b>			-1.822 (0.706)	0.011			1.297 (0.510)	0.012
<b>CEO turnover</b>	0.151 (0.649)	0.047	-0.115 (0.645)	0.859	-0.886 (0.468)	0.060	-0.697 (0.466)	0.137
<b>CEO duality</b>	-0.679 (1.240)	0.584	-0.849 (1.219)	0.487	-0.446 (0.895)	0.619	0.567 (0.881)	0.521
<b>CEO share</b>	-0.106 (0.113)	0.350	-0.062 (0.112)	0.53	0.040 (0.081)	0.619	0.009 (0.081)	0.910
<b>CEO age</b>	-0.027 (0.049)	0.054	-0.017 (0.048)	0.720	0.0297 (0.035)	0.437	0.021 (0.035)	0.548
<b>CEO compensation</b>	-0.001 (0.001)	0.105	-0.001 (0.001)	0.111	-0.001 (0.001)	0.167	-0.001 (0.001)	0.144
<b>CEO tenure</b>	-0.061 (0.049)	0.216	-0.032 (0.049)	0.513	0.020 (0.035)	0.573	-0.001 (0.035)	0.992
<b>CEO gender</b>	0.224 (1.390)	0.872	0.192 (1.365)	0.888	-0.475 (1.003)	0.636	-0.452 (0.986)	0.647
<b>Firm age</b>	-0.016 (0.001)	0.036	-0.022 (0.009)	0.025	0.007 (0.007)	0.302	0.011 (0.001)	0.107
<b>Firms' subsidiaries</b>	0.115 (0.142)	0.422	0.166 (0.141)	0.241	-0.123 (0.103)	0.232	-0.160 (0.102)	0.119
<b>Firm size</b>	0.703 (0.259)	0.008	0.692 (0.255)	0.007	0.061 (0.187)	0.745	0.068 (0.184)	0.709
<b>Employee involvement</b>	-1.747 (0.940)	0.065	-1.377 (0.935)	0.143	1.865 (0.679)	0.007	1.603 (0.675)	0.019
<b>Union relation</b>	0.532 (0.943)	0.573	0.162 (0.937)	0.863	-1.787 (0.680)	0.010	-1.523 (0.677)	0.026
<b>Ownership concentration</b>	-9.542 (12.050)	0.430	-12.945 (11.911)	0.278	13.435 (8.698)	0.124	15.879 (8.603)	0.067
<b>Institutional share</b>	0.933 (2.150)	0.655	0.832 (2.112)	0.694	0.910 (1.552)	0.558	0.982 (1.526)	0.521
<b>Adjusted R-square</b>		0.121		0.158		0.133		0.173
<b>Model P-value</b>		0.016		0.002		0.008		0.001
<b>N</b>		178		178		178		178

Notes: standard errors are in parentheses.

corporate restructuring during a non-crisis period, whereas corporate restructuring during a corporate crisis is the dependent variable for models 3 and 4. Models 1 and 3 are the baseline models that include only control variables, while models 2 and 4 add the independent variable (family dummy) to test the main effect.

In model 1, the estimated coefficient of CEO turnover is 0.151 with a p-value of 0.047, implying that firms with recent CEO turnover are more likely to actively engage in restructuring activities. This is consistent with prior findings (Bigley & Wiersema, 2002; Barker et al., 2001). However, both CEO age (coefficient -0.027, p-value 0.054) and firm age (coefficient -0.016, p-value 0.036) negatively impact the extent of corporate restructuring. Prior studies demonstrate that as CEOs and firms age, the likelihood of strategic change decreases due to inertia (Weng & Lin, 2014; Dobrev et al., 2003), which might lead to less engagement in corporate restructuring.

Model 2 tests the first hypothesis. In hypothesis 1, we argue that, without severe corporate crisis, family firms are less likely than non-family firms to conduct corporate restructuring due to a concern over SEW loss arising from restructuring activities. In model 2, the estimated family firm coefficient is -1.822, with a p-value of 0.011. As predicted, the results show that family firms tend to conduct less corporate restructuring than non-family firms when they do not face a serious corporate crisis. Thus, Hypothesis 1

is supported.

While models 1 and 2 focus on the period between Year 0 and Year-3, models 3 and 4 predict the extent of restructuring activities for the period between Year+3 and Year 0. Thus, during this period, companies face a serious corporate crisis (or bankruptcy) and therefore need to achieve a successful corporate turnaround to survive. Model 4 tests this study's main hypothesis. In hypothesis 2, we suggest that in a corporate crisis, restructuring is not a SEW damaging strategic action that family firms should avoid to preserve existing SEW, but a beneficial strategy that can increase family members' potential long-term SEW. Thus, hypothesis 2 predicts that, in a period of corporate crisis, family firms are more likely than non-family firms to engage in corporate restructuring for potential long-term SEW gain at the expense of short-term SEW loss. In model 4, the results show that the estimated family firm coefficient is 1.297 with a p-value of 0.012, which implies that, unlike between Year 0 and Year-3, family firms are more likely to implement active corporate restructuring than non-family firms between Year+3 and Year 0. Thus, hypothesis 2 is supported.

To further substantiate the evidence in Table 2, we employed a different model where both sub-samples were combined together with a dummy variable that represents the presence/absence of a corporate crisis. The power of hypotheses testing becomes greater due to the increase in sample size. Specifically,

<Table 3> Result of GLS regression (both subsamples are combined with a dummy variable that represents presence/absence of corporate crisis)

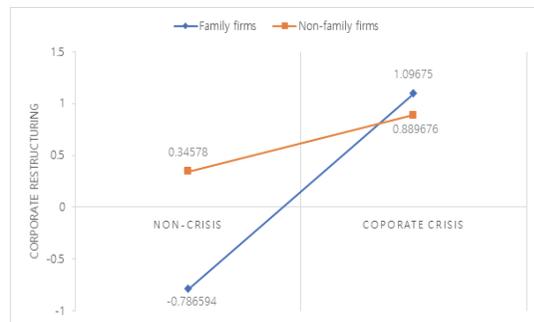
	<i>Model 1</i>	
	Coefficient	P-value
<b>Family firm</b>	-1.132 (0.574)	0.028
<b>Corporate crisis</b>	0.543 (0.412)	0.014
<b>Family firm* Corporate crisis</b>	1.339 (0.736)	0.002
<b>CEO turnover</b>	-0.406 (0.402)	0.033
<b>CEO duality</b>	-0.141 (0.761)	0.853
<b>CEO share</b>	-0.026 (0.070)	0.708
<b>CEO age</b>	0.002 (0.030)	0.095
<b>CEO compensation</b>	-0.001 (0.001)	0.033
<b>CEO tenure</b>	-0.016 (0.031)	0.596
<b>CEO gender</b>	-0.130 (0.851)	0.879
<b>Firm age</b>	-0.005 (0.006)	0.382
<b>Firms' subsidiaries</b>	0.003 (0.088)	0.972
<b>Firm size</b>	0.380 (0.159)	0.017
<b>Employee involvement</b>	0.112 (0.583)	0.847
<b>Union relation</b>	-0.680 (0.584)	0.245
<b>Ownership concentration</b>	1.451 (7.428)	0.845
<b>Institutional share</b>	0.907 (1.317)	0.492
<b>N</b>	356	

Notes: standard errors are in parentheses.

we developed the following model:

$$Y = b_0 + b_1X + b_2Z + b_3XZ + \sum c_iW_i + \epsilon$$

where X is a binary variable for family firms (1 for family firms and 0 otherwise) and Z is a binary variable for corporate crisis period (1 for corporate crisis period and 0 otherwise), XZ is the interaction term between X and Z,  $W_i$  is the  $i$ th control variable and  $\epsilon$  is the residual. In table 3, we find that the interaction between family firms and corporate crisis is significant and positive (1.339 with p-value 0.002), implying that family firms' participation in corporate restructuring is greater during corporate crisis than usual.



<Figure 4> A radical change of family firms' strategic tendency on restructuring

To visualize this interaction effect, we plotted the predicted value of restructuring for family firms and non-family firms at the two levels of corporate crisis (either 0 or 1) by utilizing the estimated coefficients in Table 3. We used the average value for each control variable. The plot in Figure 4 clearly demon-

〈Table 4〉 Result of GLS with continuous measure of family firms

	<i>Non-crisis period</i>		<i>Corporate crisis period</i>	
	<i>Model 1</i>		<i>Model 2</i>	
	<i>Coefficient</i>	<i>P-value</i>	<i>Coefficient</i>	<i>P-value</i>
<b>Family firms (continuous measure)</b>	-0.045 (0.025)	0.026	0.093 (0.017)	0.003
<b>CEO turnover</b>	0.135 (0.644)	0.045	-0.855 (0.431)	0.049
<b>CEO duality</b>	-0.498 (1.235)	0.687	0.079 (0.826)	0.924
<b>CEO share</b>	0.083 (0.113)	0.464	-0.005 (0.075)	0.938
<b>CEO age</b>	-0.017 (0.049)	0.053	0.007 (0.033)	0.812
<b>CEO compensation</b>	-0.001 (0.001)	0.094	-0.001 (0.001)	0.170
<b>CEO tenure</b>	-0.052 (0.049)	0.292	0.001 (0.033)	0.969
<b>CEO gender</b>	0.354 (1.382)	0.798	-0.739 (0.924)	0.425
<b>Firm age</b>	-0.018 (0.009)	0.055	0.012 (0.001)	0.057
<b>Firms' subsidiaries</b>	0.132 (0.142)	0.353	-0.159 (0.095)	0.095
<b>Firm size</b>	0.705 (0.257)	0.007	0.056 (0.172)	0.745
<b>Employee involvement</b>	-1.419 (0.952)	0.138	1.202 (0.636)	0.061
<b>Union relation</b>	0.316 (0.944)	0.738	-1.349 (0.631)	0.034
<b>Ownership concentration</b>	-11.062 (11.996)	0.358	16.517 (8.020)	0.041
<b>Institutional share</b>	0.424 (2.154)	0.844	1.944 (1.440)	0.179
<b>Adjusted R-square</b>		0.139		0.212
<b>Model P-value</b>		0.006		0.000
<b>N</b>		178		178

Notes: standard errors are in parentheses.

〈Table 5〉 Result of regression with different time frame

	<i>Period between Year-2 and Year0</i>		<i>Period between Year0 and Year+2</i>	
	<i>Model 1</i>		<i>Model 2</i>	
	<i>Coefficient</i>	<i>P-value</i>	<i>Coefficient</i>	<i>P-value</i>
Family firm	-1.449 (0.546)	0.011	1.163 (0.479)	0.016
CEO turnover	-0.185 (0.515)	0.719	-0.867 (0.438)	0.049
CEO duality	-0.297 (0.973)	0.760	0.496 (0.827)	0.550
CEO share	-0.040 (0.089)	0.653	-0.001 (0.076)	0.991
CEO age	-0.031 (0.039)	0.416	0.020 (0.033)	0.533
CEO compensation	-0.001 (0.001)	0.128	-0.001 (0.001)	0.158
CEO tenure	-0.025 (0.039)	0.521	0.007 (0.033)	0.826
CEO gender	0.352 (1.090)	0.747	-0.479 (0.926)	0.605
Firm age	-0.018 (0.007)	0.019	0.012 (0.006)	0.069
Firms' subsidiaries	0.168 (0.113)	0.138	-0.165 (0.096)	0.088
Firm size	0.489 (0.203)	0.017	0.055 (0.173)	0.747
Employee involvement	-0.742 (0.746)	0.322	1.573 (0.634)	0.014
Union relation	-0.116 (0.748)	0.846	-1.513 (0.636)	0.019
Ownership concentration	-14.099 (9.509)	0.140	16.018 (8.082)	0.049
Institutional share	0.192 (1.686)	0.909	0.569 (1.433)	0.692
Services	1.745 (3.023)	0.565	-3.119 (2.569)	0.227
N	178		178	

Notes: standard errors are in parentheses.

strates family firms' radical change in strategic tendency on restructuring. In other words, the slope of family firms is much steeper than that of non-family firms, further supporting our theoretical framework.

#### 4.1 Robustness tests

Beyond our focal analyses, we conducted supplemental analyses to further support our results. First, this study re-estimated the main regression using a continuous measure of family firms because simply relying on dichotomous variable for the measurement of family firms implicitly treats family firms as homogeneous entities. Following Chrisman and Patel (2012), we first identified only those firms where family members own more than 5 percent of shares and at least one family member is an officer. Then among those firms, we measured family involvement in business as the percentage of shares held by the family. Table 4 is the results of GLS adopting continuous measure of family's involvement in business. The estimated coefficient of family involvement is  $-0.045$  with p-value of  $0.026$  in model while it is  $0.093$  with p-value of  $0.003$  in model 2. Thus, both hypotheses are still supported with continuous measure of family firms.

Second, we examined whether our hypotheses are still supported when we adopt a different time frame to measure firms' restructuring activities. Originally, we observed firms' restructuring activities during the period be-

tween Year 0 and Year+3 and between Year-3 and Year 0. Here, we use a different time frame, which is the period between Year-2 and Year 0 for testing H1 and the period between Year 0 and Year+2 for testing H2. Table 5 is the results of GLS with different time-frame. Both hypotheses are still supported when we adopt a time frame of Year±2.

## V. Discussions

By observing corporate restructuring activities in the S&P 500 for the period between 2001 and 2016, this study empirically identifies the existence of family firms' changing strategic propensity on restructuring depending on corporate circumstances. The empirical findings demonstrate that during a non-crisis period, family firms are indeed less likely than non-family firms to conduct corporate restructuring (and divestment) to preserve SEW. However, their engagement in restructuring activities becomes even greater than non-family firms as financial performance deteriorates. In other words, the results suggest that rather than always being more reluctant to engage in restructuring to preserve SEW, family firms can conduct more restructuring than non-family firms, especially when they pursue long-term SEW gains at the expense of short-term SEW loss.

## 5.1 Implication

This study provides important theoretical contributions to the relevant literature. First, we contribute to the literature on corporate restructuring that has paid little attention to differences in the restructuring decisions of family and non-family firms. Therefore, we improve comprehension of the effect of ownership types on strategic decisions, such as corporate restructuring. We show that unlike non-family firms that decide to engage in restructuring only in terms of gain and loss of financial wealth, family firms follow different restructuring decisions owing to their SEW and financial wealth considerations. For family members, as financial performance deteriorates, the perception of restructuring activity shifts from strategic action that undermines their current SEW to beneficial action that strengthens their long-term SEW. Consequently, for the pursuit of long-term SEW gain, they are more likely than non-family counterparts to engage in restructuring (and divestment) during a corporate crisis. In this respect, in some situations, family firms engage in less corporate restructuring than non-family firms due to the preservation of existing SEW. However, in other situations, family firms are more likely than non-family firms to engage in corporate restructuring for potential long-term SEW gain. Prior research simply predicts that family firms, in general, exhibit more reluctance than non-family firms in implementing restructuring (and divestiture) (e.g., Feldman

et al., 2016; Chung & Luo, 2008; Sharma & Manikutty, 2005; Zellweger & Brauer, 2013). Considering this aspect, our result is remarkable and sheds new light on the complex nature of family firms' strategic decisions regarding corporate restructuring. Therefore, while prior research tends to view family firms' willingness to engage in restructuring as less active than non-family firms, this study goes an important step further and nuances the relationship between family firms and restructuring by investigating the specific conditions under which family firms are more likely than non-family firms to conduct active restructuring.

Second, this study extends the predictive validity of the mixed-gamble approach by applying it to a particular context: corporate restructuring decisions in family firms vis-à-vis non-family firms. Specifically, based on the SEW mixed-gamble framework, this study provides theoretical insight and corresponding empirical evidence regarding family firms' varying strategic propensity on corporate restructuring under different company circumstances. In fact, in contrast to a fully established BAM, whose value was recognized through sufficient theoretical development and numerous supporting empirical results, a mixed-gamble SEW is a relatively novel perspective in family business research that requires further validation through empirical analysis (Hussinger & Issah, 2019). As mentioned earlier, for a long time, BAM has been the most important theoretical perspective for explaining unique strategic behavior

of family firms. In line with an established BAM, the vast majority of recent family business studies predict that family firms act to avoid the loss of SEW (or to preserve SEW), leading to a strong expectation that family firms are less likely than non-family firms to engage in risky strategic actions that might reduce their current SEW (e.g., Gomez-Mejia et al., 2007; Chrisman & Patel, 2012; Block et al., 2013; Leitterstorf & Rau, 2014). However, BAM tends to simplify the complex nature of family firms' strategic decision-making by ignoring the possibility of potential long-term SEW gains. In this situation, this study empirically elucidates the mixed-gamble confronting family firms when considering strategic decisions with corporate restructuring. This study shows that family members are not only aware of SEW losses when making strategic choices but also consider the potential SEW gains. In so doing, this study is the first theoretical endeavor that provides a SEW mixed-gamble logic to explain why family firms exhibit active participation in corporate restructuring during a corporate crisis for the benefit of long-term SEW gain at the expense of short-term SEW loss.

## VI. Conclusion

This study has a few limitations that also hold promise for future research. First, it must be acknowledged that the study indirectly

measures the influence of SEW on family firms' strategic choices. Corporate restructuring, such as downsizing, cost-cutting, and product/market refocusing, can be a good empirical domain for researchers to observe family firms' unique preference to pursue SEW rather than economic efficiency (or profit). However, it is still an indirect technique for capturing SEW's effect on strategic choice. Therefore, more complete and sophisticated measurements (e.g., survey, interviews, experiment) are needed to operationalize the SEW effect instead of relying on secondary archival data.

The second limitation of this study pertains to the sample used. Due to the difficulty of obtaining detailed firm-specific information the sample firms in this study were large U.S. companies included in the S&P 500. However, given that most family businesses, not only in the U.S. but also in many other countries, are privately held small companies, generalizing this study's findings to small private family firms should be done with caution. Future studies should examine whether the study's results hold true in small private family firms.

Overcoming such methodological limitations will provide this research stream with high potential for further investigation. For example, it would be theoretically valuable to explore what reference points family firms rely on for strategic choices other than preserving SEW and financial logic. If family firms actually adopt multiple reference points for strategic choices, then there might be additional, un-

explored reference points that family firms use for strategic decisions.

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## 구조조정에 관한 가족기업의 변화하는 전략적 성향: Mixed-gamble 접근법

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### 요 약

이 연구는 기업 재무 상황에 따라서 구조조정의 성향이 변하는 가족기업을 실증적으로 분석한다. 우선, 연구 결과는 보편적인 인식대로 가족기업이 비가족기업에 비해 일반적으로 기업 구조조정에 있어서 소극적이라는 점을 밝힌다. 하지만 이 연구는 기업이 경영난에 직면했을 경우 가족기업이 오히려 비가족기업보다 구조조정에 있어서 더 적극적임을 보여준다. 즉, 이 연구는 가족기업이 소위 ‘Socioemotional wealth’ (SEW)라는 비재무적 가치를 보존하기 위해 구조조정에 언제나 회의적이라기 보단 장기적 SEW 이득을 위해 단기적 SEW 손실이 필요할 경우에는 오히려 비가족기업보다 더 적극적으로 구조조정 활동을 한다는 점을 보여준다. 구조조정이 SEW를 훼손하기 보단 오히려 SEW를 강화하는 상황을 구체적으로 규명함으로써, 이 연구는 구조조정에 있어서 가족기업의 전략적 의사결정의 복잡한 경향을 밝힌다.

주제어: 가족 기업, 전략적 의사결정, 기업 구조조정, Socioemotional wealth, Mixed-gamble 이론, 기업 턴어라운드

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