Spotlight
by CeFEO

Can deep local roots help family firms grow faster?

Local embeddedness boosts growth more for family firms than nonfamily firms—especially in rural areas

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Published on March 6, 2019 *https://doi.org/10.68623/spotlight.2025.2e1*

Family firms have a reputation for being cautious about growth. The standard story holds that legacy concerns, conservative risk appetite, and reluctance to take on outside capital limit how aggressively family businesses expand. This study challenges that narrative. Drawing on a decade of Swedish firm-level data, the authors find that family firms grow at least as fast as their nonfamily counterparts—and in specific conditions, substantially faster.

The conditions that matter most involve **local embeddedness**: how deeply the firm is integrated into the social, cultural, and economic fabric of its surrounding community. For family firms, local roots are not incidental to strategy. They are a source of competitive advantage that nonfamily firms in the same locations struggle to replicate.

WHAT WE STUDIED

The authors built a matched sample of **15,658 Swedish firms**—evenly split between family-owned and nonfamily-owned—tracked over a ten-year period from 2004 to 2013. Family firm status was defined by ownership and management involvement of multiple family members. Local embeddedness was measured by the average number of years owners had lived in the firm's municipality. Growth was measured through sales growth, with employee growth used as a robustness check. Firms were classified as rural or urban based on municipal classification.

Methodologically, the study is careful. Coarsened exact matching balanced the family and nonfamily samples on observable characteristics, and a two-stage residual inclusion model addressed the endogeneity concern that often clouds observational research on family firm performance. The analysis tested three propositions: that family firms grow more slowly than nonfamily firms, that local embeddedness amplifies growth more for family than nonfamily firms, and that this amplification is stronger in rural areas.

KEY INSIGHTS

Family firms are not inherently slower-growing

The first finding contradicts a common assumption. Once local embeddedness and matching characteristics are accounted for, family firms do not grow more slowly than nonfamily firms. In many specifications, they grow faster. This suggests that what looked like family-firm conservatism in earlier research may have been partially an artifact of failing to account for the contextual conditions under which family firms thrive. Family firms pursue growth differently—more gradually, more relationally—but the pace is not lower when measured over a sufficient time horizon.

Local embeddedness is a family-firm advantage

As owners' length of tenure in the local community increases, family firm growth accelerates at a rate that nonfamily firms do not match. The mechanism is relational. Family firms build long-lasting, trust-based relationships with suppliers, customers, employees, and municipal authorities. These relationships provide access to resources that do not show up on a balance sheet: tacit knowledge, loyal clients, skilled labor through local networks, informal credit arrangements, and legitimacy in the eyes of the community. The longer the family has been present, the denser the network becomes—and the more efficiently the firm

can convert social capital into commercial performance.

Rural settings amplify the effect

The embeddedness advantage is strongest in rural areas. In urban settings, firms can draw on agglomeration effects—dense labor markets, diverse supplier networks, knowledge spillovers from proximity to other firms. Rural firms lack these advantages and must substitute other resources. Local social capital is that substitute, and family firms with deep community ties are best positioned to mobilize it. The study finds the highest growth rates in the entire sample among family firms in rural municipalities with high local embeddedness. What looks from outside like a disadvantaged location is, for the right kind of firm, a setting where relational resources are especially valuable.

Nonfamily firms do not reap the same returns

Nonfamily firms in the same locations do not benefit equivalently from local embeddedness. The same community relationships, the same length of local presence, do not translate into the same growth acceleration. The difference appears to lie in strategic orientation and organizational culture. Nonfamily firms tend to engage with the local community more transactionally. They use local resources but do not invest as heavily in the relational infrastructure that turns community ties into a durable resource base.

TAKEAWAYS

Treat local roots as strategic capital

For family firms, community presence is not just a feature of the business—it is one of its most valuable assets. Length of tenure in a location, visibility in community life, and participation in local institutions build social capital that compounds over time and generates concrete commercial returns. Protecting and deepening this position is strategic, not sentimental.

Rurality can be an advantage, not a constraint

Rural family firms often feel they are disadvantaged by being away from major urban centers. The data suggest otherwise. In rural settings, local social capital substitutes for agglomeration advantages, and family firms are structurally well-positioned to capture this substitute resource. Repositioning rurality from constraint to asset opens strategic options that urban-oriented thinking misses.

Invest in relational infrastructure, not just transactions

Community relationships that generate growth are built through sustained, non-transactional engagement —local employment commitments, long-term supplier relationships, participation in community institutions, visible investment in the municipality's wellbeing. Firms that treat the local community only as a market or labor supply will not develop the same depth of relational resources as firms that engage with it as a partner.

IMPACT

This study makes two important contributions. First, it shows that family firms' growth performance depends heavily on contextual factors that earlier research often held constant or ignored. The family-firm-versus-nonfamily-firm comparison is not a single relationship but a set of relationships that vary by local context. Second, the findings speak to regional economic policy. If locally embedded family firms are the most productive growth engines in rural settings, then place-based economic development strategies that support family ownership and community rootedness may outperform policies focused on attracting external investment or mimicking urban agglomeration dynamics.

RECOMMENDATIONS

1. **Invest deliberately in community presence.** Length of tenure in a location, visible participation in local institutions, and sustained employment commitments build social capital that compounds into growth advantage. Treat this investment as strategic rather than optional.
2. **Reframe rurality as strategic context.** For family firms in rural areas, local embeddedness is a substitute for the agglomeration effects of urban locations. The right question is how to deepen local ties, not how to overcome geographic limitations.
3. **Build relational supply chains and labor pipelines.** Long-term supplier relationships, local apprenticeship programs, and mentoring partnerships with schools and community organizations turn transactional exchanges into durable resource flows.
4. **Align generational transitions with local continuity.** Succession planning that preserves family presence in the community protects the embeddedness advantage. Relocation or disengagement during transitions can erode the social capital built over decades.

Spotlight by CeFEO, Can deep local roots help family firms grow faster? Local embeddedness boosts growth more for family firms than nonfamily firms—especially in rural areas. Downloaded on 12 November 2026 from https://doi.org/10.68623/spotlight.2025.2e1

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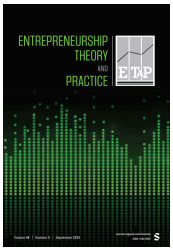
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PUBLISHED IN



Baù, M., Chirico, F., Pittino, D., Backman, M., & Klaesson, J. (2019). Roots to grow: Family firms and local embeddedness in rural and urban contexts. Entrepreneurship Theory and Practice, 43(2), 360–385

https://doi.org/10.1177/1042258718796089

Spotlight is an online magazine that translates research from the Centre for Family Entrepreneurship and Ownership (CeFEO) at Jönköping International Business School, Jönköping University, into accessible insights for family business owners, practitioners, and policymakers.

Spotlight is supported by the WIFU Foundation. This partnership advances dialogue and education in responsible family entrepreneurship and ownership.

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