

Why do family firms turn risk into reward in a crisis but not in calm?

Family control lifts the returns from risk in distressed firms, but lowers them when healthy.

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Published on July 1, 2023

Most advice handed to family businesses starts from the same premise: they play it safe. They borrow less, diversify less, and guard control rather than chase the largest possible return. The assumption underneath is that this caution is a handicap — a quiet tax the family pays for keeping the firm close. A large study of Swedish private firms turns that assumption on its head, at least in the moments that matter most.

The authors ask a deceptively narrow question. When a family firm and a comparable non-family firm take on the same amount of risk, who gets more back? And does the answer change depending on whether the firm is healthy or fighting for survival? The short version is striking: family control is worth the most precisely when the firm is closest to the edge.

That is what makes the paper useful rather than merely reassuring. Risk-taking under distress is not an abstraction. It is the new market a struggling supplier decides to enter, the product line a shrinking manufacturer bets on, the restructuring a family pushes through once the bank starts asking hard questions. This study is about what those bets return — and why the family at the helm changes the math.

WHAT WE STUDIED

The research draws on registry data from Statistics Sweden covering privately held firms across the period 2004–2007. This is not survey data with the usual self-selection problems. Swedish firms report financial information to the government for tax purposes, the figures are certified, and the coverage is close to the full population. The authors linked three databases — firm financials, individual employment and tax records, and a multigenerational register that maps

family ties — to pin down which firms were genuinely controlled by a family.

A family firm here means a business owned and managed by two or more related people, whether a married couple or a biologically linked family spread across households. To keep the comparison fair, the authors used coarsened exact matching, pairing family and non-family firms on size, age, founder involvement, and industry. That produced a matched sample of 73,154 companies with near-perfect statistical balance between the two groups — an unusually clean basis for comparison, and a far larger one than most family business studies can draw on.

Two further measures complete the design. Financial distress was captured with the Altman Z-score, a bankruptcy predictor in use for over four decades; a score below 1.81 flags a firm as distressed. Risk was measured as the volatility of a firm's sales over five years — the revenue swing that signals a company is venturing rather than standing still. Structural equation modelling then tested how family control bends the link between that risk and firm performance, with a two-stage correction for endogeneity so the findings are not simply reverse causation dressed up as a result.

KEY INSIGHTS

Under distress, family firms turn risk into returns

When firms were in financial distress, family control clearly improved the payoff from risk. Across every level of risk, distressed family firms outperformed their non-family matches, and the gap widened as risk rose. The same gamble that pulled a non-family firm further down tended to lift a family firm instead. This is the "best among the worst" half of the title: among

the companies in trouble, the family-controlled ones got more out of the chances they took.

In good times, the advantage reverses

When firms were financially healthy, the pattern flipped. Family control was associated with lower returns from risk than non-family firms managed – the "worst among the best." This effect was weaker and showed up clearly only with the more fine-grained measure of family involvement, so it carries less weight than the distress result. Yet the direction held: a comfortable family firm tends to leave money on the table that a comparable non-family firm collects.

Family firms take less risk – and still win in a crisis

The most counterintuitive result sits in the supporting analysis. Family firms took less risk than non-family firms in both conditions, healthy and distressed. They did not suddenly turn into gamblers under pressure. Instead, the smaller amount of risk they did take converted into better performance when the firm was vulnerable. Less input, more output – a pattern that echoes earlier evidence that family firms wring more innovation from lower research spending.

Why would distress sharpen execution this way? The authors point to the unusual stakes. If a risky move fails and the firm collapses, the family loses far more than money – it loses everything bound up in control: identity, reputation, the chance to pass the business to the next generation, and the standing built around the firm in its community. That double exposure, financial and socioemotional, concentrates the mind. Decisions get made with the seriousness of people who cannot simply move to another job if it all goes wrong, and who can call on long-standing relationships with banks, suppliers, and local partners to help the bet succeed. In calmer times those same socioemotional motives pull the other way, steering the family toward comfort, image, and continuity rather than the hard-edged pursuit of return.

TAKEAWAYS FOR FAMILY BUSINESS LEADERS

What does this mean for the people running and advising family firms?

- A downturn is not the moment to assume the family firm is uniquely fragile. The evidence says its risk-taking under pressure is more likely to pay off than a comparable non-family firm's.
- The real exposure lies in good times. A healthy family firm risks quietly underperforming by sidestepping sound, value-creating projects in order to protect comfort and control.
- Discipline beats volume. Family firms do better not by taking more risk but by executing fewer, better-

chosen risks – something an owner can apply on purpose rather than only under duress.

- The family network is an asset to be used, not just guarded. The trust-based ties to lenders and partners that rescue a distressed family firm are worth leaning on deliberately, well before an emergency forces the issue.

IMPACT

For investors and minority shareholders, the study offers a precise course correction. A long line of research treats family owners with suspicion – as people who entrench themselves, favour relatives, and siphon value from others. This evidence suggests the suspicion is misplaced exactly when it tends to peak. When a family firm is in distress, close monitoring adds little: the family's incentives are already fused to survival, and they are pulling more out of their risk-taking than outsiders would. The moment to watch more carefully is when the firm is thriving, because that is when family priorities can drift away from financial return.

There is a broader lesson about how we judge family ownership. The same population shows family firms behaving cautiously by default and still finishing "best among the worst" when threatened. That mix – habitual prudence paired with sharp execution when it counts – looks less like a flaw to be corrected and more like a survival strategy worth taking seriously. In an economy where private and family firms are the dominant form of organisation, and where waves of distress arrive with every recession, the distinction is not academic.

The authors are candid about the limits. They infer socioemotional motives rather than measuring them directly, the data predate both the 2008 crisis and COVID-19, and the setting is Sweden, where family firms are known to be both prudent and innovative. Whether the same pattern holds in other cultures, and among large listed firms facing constant market pressure, is left for future work.

RECOMMENDATIONS

1. In a downturn, back the family firm's considered bets rather than reflexively reining them in – the returns to well-executed risk are highest when vulnerability is highest.
2. In good times, build in a deliberate check on whether the firm is passing up sound investments to preserve comfort or control.
3. Treat execution quality, not risk appetite, as the lever that matters. Resource the careful planning

and follow-through that turn a single bet into a return.

4. For investors, calibrate oversight to financial health: lighter when a family firm is distressed,

closer when it is thriving.

5. Put the family's external relationships — banks, suppliers, local partners — to work in strategic decisions, not just in emergencies.

Spotlight by CeFEO, *Why do family firms turn risk into reward in a crisis but not in calm?* Family control lifts the returns from risk in distressed firms, but lowers them when healthy.. Downloaded on 1 June 2026 from <https://spotlight.cefeo.se>

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PUBLISHED IN



Gómez-Mejía, L. R., Chirico, F., Martin, G., & Baù, M. (2023). Best among the worst or worst among the best? Socioemotional wealth and risk-performance returns for family and non-family firms under financial distress. *Entrepreneurship Theory and Practice*, 47(4), 1031–1058.

<https://doi.org/10.1177/10422587211057420>

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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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