Risk Aversion in Family Firms: What do we really know?

Structured Abstract

Purpose: Risk aversion is an important characteristic associated with family firms. Despite growing literature in recent years, a consistent picture of what we know about the risk aversion of family firms has not evolved. Thus, this paper presents a systematic overview of whether family firms are found to be more risk averse than non-family firms, the factors influencing the risk aversion of family firms and the outcomes of risk aversion.

Design/methodology/approach: This paper follows the tenets of Tranfield *et al.* (2003) for conducting a systematic literature review. Following a keyword search and an assessment of fit for this review, 29 papers were analyzed with respect to bibliographical information, research design and findings.

Findings: Most studies find that family firms are indeed more risk-averse than non-family firms. However, some findings advance the notion that this phenomenon strongly depends on the situation of the family firm and that the controlling family may take irrational risks to secure control over the firm. From content analysis, 5 clusters of factors increasing or decreasing the risk aversion of family firms and 6 clusters on the outcomes of risk aversion are derived.

Research implications: A broad array of potentially fruitful research directions is presented. Specifically, more qualitative research on risk aversion in family firms is needed as well as research that takes into account the situational factors and the reactions of the financial services industry to the risk-avoiding behavior of family firms.

Originality/value: This paper represents the first comprehensive literature review on risk aversion in family firms.

Type: Literature Review

Keywords: Family firm, Risk aversion, Risk taking

1. Introduction

It is widely acknowledged that family firms form the backbone of most countries' economies, accounting for roughly 90% of all firms worldwide (Aldrich and Cliff, 2003). Given this enormous economic importance, research focused on family firms has only intensified over the last two decades (Gedajlovic *et al.*, 2012). One of the main features that warrant the investigation of family firms specifically is the relationship between ownership and control in these firms. In contrast to widely held firms, a personal union of ownership and control in the form of family managers is often observed in family firms (Schulze *et al.*, 2001). Even if the controlling firm is not involved in the family firm's day-to-day management, owning families usually maintain a close relationship with "their" firms via directorships, regular visits or both (Blumentritt *et al.*, 2007). This close relationship between the family and the firm is likely to create a strong emotional tie between the family and the firm (Zellweger and Astrachan, 2008). Thus, it is only natural that one of the typical goals of controlling families is to keep the family firm alive and in the hands of the family (Chua *et al.*, 2003). Consequently, one might conclude that family firms should also feature a higher degree of risk aversion, as higher risk might endanger the goal of business succession and family firm survivability. Moreover, family firm owners tend to have large parts of their private wealth invested in the family firm, which should further increase their aversion to risky ventures in the family firm (Bianco *et al.*, 2012). These notions have led to a widely held assumption that family firms are more risk averse than non-family firms (Gómez-Mejía *et al.*, 2007; Hiebl, 2012). However, the long-term orientation of family firms might also lead to the pursuit of longer-term innovative or creative strategies that might pose too high of a risk for comparable non-family firms that must deliver short-term results (Sirmon and Hitt, 2003; Zellweger, 2007).

Consequently, family firms might also be regarded as being less averse to taking on longer-term risks than non-family firms.

Because of these two opposing lines of argumentation regarding risk aversion or risk-taking behavior in family firms, numerous studies on the risk-taking behavior of family firms have been conducted and published in high-caliber journals in recent years (e.g., George *et al.*, 2005; Gómez-Mejía *et al.*, 2007; Stanley, 2010; Le Breton-Miller *et al.*, 2011; Anderson *et al.*, 2012). However, a systematic review of this topic that highlights findings and gaps in the literature has not yet been published. Hence, the present paper aims to summarize the available literature on this topic and to note factors potentially influencing the risk aversion of a family firm that are not yet well understood and might require further scientific investigation. The review focuses on factors that tend to increase the risk aversion of a family firm, those that tend to decrease risk aversion in family firms, and the outcomes of risk aversion in family firms. The paper proceeds as follows. In section 2, the methodology for the literature review is presented. The subsequent section focuses on the results of the literature review. First, the characteristics of the articles included in the review are discussed. Afterward, factors increasing and decreasing risk aversion in family firms are presented, as are the outcomes of risk aversion in family firms. The last section presents conclusions and potential avenues for further research.

2. Methodology

As a reference framework for conducting systematic reviews of literature in the fields of management and business, this paper adopts the basic guidelines set out by Tranfield *et al.*

(2003). A systematic literature review is divided into three steps: (1) planning the review, (2) conducting the review and (3) reporting and disseminating the review (Tranfield *et al.*, 2003). The first step – planning the review – mainly sets out the motivation of the review, which is presented in section 1 in the present literature review, and prepares a review protocol. The first phase of the second step – conducting the review – is the identification of research. To identify the relevant journal articles[1] on risk aversion in family firms, a keyword search was conducted in the following 7 databases: *Scopus*, *EBSCO Business Source Elite*, *Elsevier ScienceDirect*, *Emerald*, *SAGE Journals*, *SpringerLink* and *Wiley Online Library*. To be tentatively included in this review, the title, the keywords or the abstract of the articles had to contain a combination (AND conjunction) of two groups of key words. The first group of keywords aims to ensure that an article primarily addresses family firms. This is operationalized using the following phrase: (“family firm*” OR “family business*” OR “family control*” OR “family led”). The second group of keywords addresses risk aversion and was implemented with the following search phrase: (“risk avers*” OR “aversion of risk*” OR “averse to risk*” OR “avoid risk*” OR “risk avoid*” OR “risk tak*” OR “risk seek*” OR “take risk*” OR “seek risk*”). The terms “risk tak*”, “risk seek*”, “take risk*” and “seek risk*” were included to also find articles on family firms that cover topics regarded as the opposite of risk aversion, namely, risk-taking or risk-seeking behavior (Rabin and Thaler, 2001; Kuhnen and Knutson, 2005; Alghalith *et al.*, 2012). The use of the asterisks allowed for different suffixes such as “risk averse” or “risk aversion”. For the literature search, no restrictions were placed on time of publication. Therefore, all relevant articles that were published or available online before publication up to the time the literature search was conducted (May 2012) were included in the review.

Using this methodology, the initial search resulted in 33 articles. As Tranfield *et al.* (2003) suggest, articles were scanned after this initial search for their fit with the specific topic of the literature review. Consequently, 4 articles were excluded from further analysis, as they were related personal risks (i.e., not business risks) (Courtois *et al.*, 2001), written without any reference to scientific studies and entirely practitioner-oriented (Hatcher Jr. and Kniesel, 1998) or not focused on risk aversion at the corporate level (e.g., at the individual manager's level and his or her compensation contract) (Bauguess and Stegemoller, 2008; Block, 2011). The remaining 29 articles were used to proceed with the remaining second and third steps of the systematic literature review suggested by Tranfield *et al.* (2003) and are thus the basis for the results presented in the following section.

3. Results

3.1 Article characteristics

On a meta level, the bibliographical information of the 29 articles accepted for this review can be obtained from Table 1. As can be seen, the 29 papers were published in 21 different academic outlets and journals that pertain to five larger fields of interest.[2] By far, most of the articles (17) were published in entrepreneurship and family business journals. *Family Business Review*, the oldest scholarly journal entirely dedicated to family firms (Hiebl, 2012), was the most important single outlet for the topic of risk aversion in family firms. It is also only in the field of entrepreneurship and family business that more than one article on risk aversion in family firms could be identified in one single journal. Nevertheless, finance and economics journals also appeared as primary outlets for risk aversion in family firms starting in the mid-2000s. This finding underpins the notion that research concerning family firms has left its infancy, reached adolescence and expanded to other fields such as accounting and finance (Salvato and Moores, 2010; Gedajlovic *et al.*, 2012).

=== Insert Table 1 about here ===

Only two studies published before 2005 could be found for this literature review. Thus, this review shows that, as in the field of family business studies in general, the investigation of risk aversion and risk-taking behavior in family firms has clearly intensified in the new millennium (Gedajlovic *et al.,* 2012). Moreover, two-thirds of the articles identified for this review were published in 2010 or later, which further underlines the topicality of both this theme and the present literature review.[3]

To include the study design of the selected articles (Tranfield *et al.,* 2003), Table 2 presents data on the research design of the 29 reviewed articles. Concerning the primary article type, the vast majority of the studies (23) can be classified as quantitative and empirical. Only 2 papers examined risk aversion in family firms using a qualitative empirical approach, and 4 papers were of a conceptual or theoretical nature. (Of course, for these conceptual/theoretical papers, information on data collection and samples could not be identified.) For the quantitative empirical papers, data were collected either via surveys (9 papers), publicly available databases (10 papers) or surveys and information extracted from databases (4 papers). The 2 qualitative empirical papers relied on case study methodologies, qualitative interviewing, or both. Regarding the size of the firms included in the data sets, although firm size is known to be an important contextual factor for the organization of finance and accounting practices in family firms, only 12 of the 25 empirical papers clearly specified the firm size under investigation (e.g., Gallo and Vilaseca, 1996; Filbeck and Lee, 2000; Hiebl *et al.*, 2012). Four of these 12 studies focus on large firms, 4 studies focus on small and medium-sized firms, and 4 studies investigate other combinations of firm sizes. A large number of the reviewed empirical papers (11) also do not specify whether their sampled firms are listed on stock markets. In contrast, 8 studies focus on listed firms, 4 studies focus on privately held firms, and 2 studies include both listed and privately held firms.

=== Insert Table 2 about here ===

Concerning the country on which the reviewed studies concentrate, an overwhelming majority of the studies investigate family firms in industrialized countries: 6 studies rely on North American data, 13 studies address firms from developed European countries, one paper investigates Japanese firms, and another paper investigates Australian firms. One paper draws on data from two continents (North America (USA) and Europe (Switzerland)) (Welsh and Zellweger, 2010). Only three papers use data from countries that may be regarded as emerging economies (Colombia: González *et al.*, 2012, Taiwan: Su and Lee, 2012, Turkey: Yildirim and Saygin, 2011) (Hoskisson *et al.*, 2000). This underrepresentation of studies on emerging countries is regrettable, as another paper included in the review (Castañeda, 2006) highlights, using a theoretical model, that the risk aversion of family firms may interfere with the successful development of a local stock market in an emerging economy.

3.2 Risk aversion in family and non-family firms

To investigate the question outlined in section 1, whether family firms are more or less risk-averse than non-family firms, the articles were analyzed for whether they give an answer to this question. As displayed in Table 3, 16 out of the 29 articles tackle this question, provide data or develop propositions to answer this question. Only 1 of these 16 papers failed to find a difference concerning risk aversion in family and non-family firms (Casillas and Moreno, 2010).

=== Insert Table 3 about here ===

The vast majority of papers (13) found that family firms are more risk-averse than non-family firms. They mostly underpin this notion with findings that family firms invest less in (risky) R&D projects (Le Breton-Miller *et al.*, 2011; Muñoz-Bullón and Sanchez-Bueno, 2011; Croci *et al.*, 2011; Anderson *et al.*, 2012; Su and Lee, 2012) or aim for lower levels of debt than non-family firms (as debt might endanger survivability) (Mishra and McConaughy, 1999; Welsh and Zellweger, 2010; González *et al.*, 2012; Zellweger and Sieger, 2012). Only two studies challenge this predominant view: Nguyen (2011) uses stock price volatility to show that listed Japanese family firms feature higher idiosyncratic risk, and he finds that family firms can pursue more risk-taking strategies than non-family firms due to their higher independence, which results in family firms outperforming non-family firms. Gómez-Mejía *et al.* (2007), however, demonstrate that the risk aversion of family firms or risk-taking behavior should strongly depend on the situation in which a family firm finds itself. They show that, when the controlling family fears losing control of the firm, the family chooses to engage in even riskier ventures than non-family firms. They conclude that the family tries every means by which to save the socio-emotional wealth associated with controlling a firm, even if this might include risking the family firm’s survival.

3.3 Factors affecting risk aversion in family firms

The articles were also scanned for factors that explain either the risk aversion or risk-taking behavior of family firms. These factors were then clustered into 5 groups, which are presented in Table 4: family involvement, environment and competition, goals and behaviors of family members, family manager characteristics, firm characteristics. In the following subsections, factors found to increase or decrease risk aversion are discussed for each of these clusters.

3.3.1 Family involvement

From the analysis of the reviewed articles, family involvement appeared as both the factor most often analyzed and the factor for which the studies' findings are most contradictory. For instance, while 3 papers suggest that the involvement of multiple family generations increases risk aversion (Memili *et al.*, 2011; Le Breton-Miller *et al.*, 2011; Anderson *et al.*, 2012), 3 other papers find that the active participation of more than one family generation in the firm decreases risk aversion and increases risk-taking behavior (Zahra, 2005; Casillas *et al.*, 2010; Casillas *et al.*, 2011). Similar contradictions could be detected for the share of equity owned by the family, family firm generation and the fact that the family firm is run by the founder. The articles deliver both plausible argumentation in both directions for a positive relationship between the degree of generational family involvement and risk aversion. While involving more generations of the family in the family firm might further the goal of securing business succession and therefore encourage risk-averse behavior (Le Breton-Miller *et al.*, 2011), including younger generations might also bring fresh, more innovative and thus more risky ideas to the family firm (Zahra, 2005). The relationship is possibly moderated by the size of the family firms under investigation and whether they are listed on a stock exchange. While Le Breton-Miller *et al.* (2011) and Anderson *et al.* (2012) derive their findings from large, listed family firms, the findings of Casillas *et al.* (2010, 2011) and Zahra (2005) rely on smaller firms for which the listing status is not declared. Thus, it might be the case that the involvement of multiple family generations actually leads to higher risk aversion only in very large, listed family firms.

=== Insert Table 4 about here ===

The studies' findings on the integration of family members in the firm's top management team and board of directors provide a more consistent picture. The presence of non-family managers and non-family directors seems to bear a negative influence on risk aversion (Stanley, 2010; Casillas *et al.*, 2011; Le Breton-Miller *et al.*, 2011; González *et al.*, 2012; Su and Lee, 2012). This relationship is explained by non-family professionals bringing outside experience and thus more risk appetite to the family firm (Stanley, 2010) or by having to signal proactivity to the family firm owners by pursuing more risky ventures (Casillas *et al.*, 2011). Moreover, certain non-family equity owners, such as institutional investors or venture capital firms, were found to exert pressure on the family firm management team to take on more risk to enhance performance (George *et al.*, 2005; González *et al.*, 2012).

3.3.2 Environment and competition

Three studies also included the competition environment in their analysis of the risk-avoiding behavior of family firms. Bianco *et al.* (2012) found evidence that environmental uncertainty increases risk aversion, whereas Casillas *et al.* (2010, 2011) show that, when family firms act in highly hostile or dynamic environments and aim to grow the family firm, they also take on more risk than in less competitive environments. These results correspond well with the proposition from Gómez-Mejía *et al.* (2007) that effective analyses of the risk aversion of a family firm must also consider the environment in which the family firm acts.

3.3.3 Goals and behaviors of family members

Psychological factors such as the goals and behaviors of family members were also found to influence risk aversion. For instance, in line with the notion presented in section 1, a family's long-term orientation and desire to enable business succession within the ranks of the family were found to strengthen the family firm's risk aversion, as more risk could endanger the firm's longer-term survival (Lumpkin *et al.*, 2010; Muñoz-Bullón and Sanchez-Bueno, 2011; Bianco *et al.*, 2012). However, Gómez-Mejía *et al.* (2007) and González *et al.* (2012) add a caveat by arguing that family firms might only be risk averse as long as no threat to the control of the family firm exists.

Also, the family members' personal sphere was presented as having influence over the risk-taking behavior of the family firm. If family members are more interested in their personal well-being and rely on the family firm's dividend payments to sustain their lifestyles, they may also want the family firm not to take on too much risk because it might endanger regular dividend payments (Le Breton-Miller *et al.,* 2011). In line with this notion, Fletcher (2010) shows that, for an analysis of family firm risk taking, considerations of the firm owners' private lifestyle must also be considered. In contrast, if family members sincerely consider the successful long-term development of the family firm (and not the family members), Le Breton-Miller *et al.* (2011) argue that the family firm will then strive for (risky) innovation, which should enable the firm's future success. Eventually, Memili *et al.* (2010) add that a higher propensity to take risks may also be due to family members placing highly ambitious expectations on the current family CEO, who then takes on more risk to comply with these expectations.

3.3.4 Family manager characteristics

Some studies included in this review also analyzed the personal characteristics of the family member in charge of managing the business and this person's influence on risk-avoiding or risk-taking behavior. Both higher age (Xiao *et al.,* 2001; Wang and Poutziouris, 2010) and a higher tenure of the family manager in the firm (Zahra, 2005) lead to higher risk aversion. These findings are explained by older family members not wanting to risk the family firm's fortunes in the last few years of their active working lives. Additionally, another study shows that female family managers generally take on less risk than male family managers (Welsh and Zellweger, 2010).

In contrast, Wang and Poutziouris (2010) report that a family manager's higher tenure in the industry does encourage the family manager's appetite for risk, as the family manager then has more profound knowledge on the industry, which enables this person to take on more risky projects. This finding may sound contradictory to the above-presented results by Zahra (2005). However, while industry tenure may equal family firm tenure, it need not. For example, one can imagine a case in which a family manager first gains experience outside of the family firm only to later return the family firm with increased industry knowledge, which in turn fosters risk taking. Thus, the arguments by Wang and Poutziouris (2010) and Zahra (2005) need not be contradictory, but they certainly warrant further investigation. Xiao *et al.* (2001) also add that family managers of Caucasian ethnicity, family managers with a higher level of education, and family managers with a higher private net worth all decrease risk aversion.

3.3.5 Firm characteristics

Factors describing firm characteristics also provide some contradictory results on their effect on the risk aversion of family firms. While four studies show that larger family firms have a higher propensity for taking risks (Xiao *et al.*, 2001; Casillas *et al.*, 2010; Casillas *et al.*, 2011; González *et al.*, 2012), Welsh and Zellweger (2010) find that larger firms tend to avoid risks. The results concerning ownership concentration are also contradictory. While Bianco *et al.* (2012) show that the existence of a large individual shareholder fosters risk aversion, Nguyen (2011) argues that a high level of ownership concentration fosters risk taking. The only result on firm characteristics that is not contradicted by another finding is the factor of belonging to a business group. Bianco *et al.* (2012) show that being part of a business group enables a family firm to take on more debt, which they associate with risk-taking behavior. They argue that this relationship might be due to family firms not interpreting higher levels of debt as potentially endangering business survival when belonging to a group, as the group might assist the family firm in the event of financial distress.

3.4 Outcomes of the risk aversion of family firms

Just as there are multiple factors analyzed in the reviewed articles that were found to affect the risk aversion of family firms, the studies also present an array of different outcomes of family firm risk aversion. Again, these factors were clustered, resulting in 6 groups of outcomes. They are presented in the following 6 subsections.

3.4.1 Business strategy and practices

One main outcome of the risk aversion of family firms is a lower level of long-term investments compared to non-family firms (Le Breton-Miller *et al.*, 2011; Anderson *et al.*, 2012). However, upon closer inspection, these long-term investments usually comprise R&D spending and capital expenditures (Anderson *et al.*, 2012). For R&D investments, the relationship still holds, and a total of 5 articles confirm lower R&D spending as an outcome of the risk-avoiding behavior of family firms (Croci *et al.*, 2011; Muñoz-Bullón and Sanchez-Bueno, 2011; Le Breton-Miller *et al.*, 2011; Anderson *et al.*, 2012; Su and Lee, 2012). However, for capital expenditures, 2 papers consistently show that family firms actually show a higher degree of capital expenditures than non-family firms (Le Breton-Miller *et al.*, 2011; Anderson *et al.*, 2012). Thus, while controlling families may tend to avoid R&D projects and their uncertain outcomes, they seem to favor long-term capital expenditures. One explanation for this finding might be that family firms prefer capital expenditures because they provide more tangible and less uncertain results than R&D projects (Anderson *et al.*, 2012).

=== Insert Table 5 about here ===

Other business strategy and practice-related outcomes of risk aversion that emerged from the analyzed papers are that family firms engage less in business internationalization (George *et al.,* 2005) and that they outsource fewer productive activities (Memili *et al.,* 2011). Interestingly, Bianco *et al.* (2012) show that risk aversion also fosters flexibility. They find that family firms are able to quickly adapt to changes in their business environments due to more flexible short-term planning, while non-family firms tend to stick to their set plans.

3.4.2 Capital structure

As indicated in section 3.2, the risk aversion of family firms is often operationalized in empirical studies with leverage levels. Thus, it is not surprising that family firms were found to aim for a low debt-to-equity ratio (Mishra and McConaughy, 1999; Welsh and Zellweger, 2010; González *et al.*, 2012; Zellweger and Sieger, 2012). However, when family firms attempt to grow, they prefer debt over external equity financing, as they do not wish to reduce their ownership rights (Fitzsimmons and Douglas, 2006; Croci *et al.*, 2011; González *et al.*, 2012). When comparing long-term to short-term debt, family firms were found to prefer long-term debt, as it gives family firms more certainty about interest payments and debt repayments (Mishra and McConaughy, 1999; Croci *et al.*, 2011). Moreover, Croci *et al.* (2011) found that creditors are aware of the inherent risk aversion of family firms; thus, long-term debt is more affordable for family firms than for non-family firms.

3.4.3 Firm performance and development

Obviously, to maintain control in the family firm, the owners are also sacrificing business performance: 3 studies consistently found that risk aversion leads to lower sales growth of family firms (Wang and Poutziouris, 2010; Casillas *et al.*, 2010; Memili *et al.*, 2010). In addition, Nguyen (2011) shows that risk aversion also leads to lower stock-market performance for family firms. However, when considering perceived performance instead of top-line growth, another picture reveal Naldi *et al.* (2007) that risk-taking (in comparison to risk-avoiding) family firm owners think their firm performs worse than comparable firms. Put differently, this might indicate that risk aversion leads to higher perceived family firm performance. Nevertheless, none of the studies used an objective measure of bottom-line performance such as ROA or ROE.

3.4.5 Family members' private matters

The risk avoiding-behavior of family firms also shows effects on the family members' private matters. For instance, Fletcher (2010) found that family members of small business owners may choose to not work in the family firm and pursue an independent career to create a distinct stream of income for the family. This way, the family need not solely depend on the family firm's performance, and the family firm may be allowed to ride out difficult financial times. Another effect can be found in family firm owners' portfolios: they tend to be rather under-diversified, as large parts of these portfolios are bound to the ownership stake in the family firm (Heaney and Holmen, 2008; Zellweger and Sieger, 2012). Thus, owners behaving in a risk-averse fashion in the family firm may lead to the paradoxical situation in which their private portfolios show a high level of risk due to being their being under-diversified. Again, this phenomenon corresponds well with the picture drawn by Gómez-Mejía *et al.* (2007) that family firm owners may take on irrational risks to maintain control over the family firm and the associated socio-emotional wealth.

3.4.6 Macroeconomic

Finally, the risk aversion of family firm owners may also have an impact on the local economy. Based on a theoretical model, Castañeda (2006) develops the proposition that the risk aversion of family firms may lead to underdeveloped stock markets in emerging countries. He underpins this proposition by arguing that, in less developed countries, the ownership rights of minority owners are not as protected as in developed countries. Thus, even when taking their family firm to the stock market, family firm owners will retain the majority of ownership rights and thus also waive the potentially positive effect of outside ownership such as innovative ideas or the possibility of reaching new markets. In turn, he proposes that this might lead to lower economic growth and an under-developed stock market in these countries.

4. Conclusions and avenues for further research

The risk aversion of family firms and its outcomes are highly topical themes in the entrepreneurship and family business, finance and general business and management literatures. The present paper aimed to address the question of whether family firms are indeed found to be more risk-averse. Moreover, it attempted to analyze the factors found to increase and decrease the risk aversion of family firms and to present the outcomes of risk aversion. Although the majority of the papers confirmed the higher risk aversion of family firms, the paper by Gómez-Mejía *et al.* (2007), in particular, raises doubts about this relationship. Furthermore, some of the findings on the factors influencing family firms are quite contradictory. The role of generational family involvement remains especially unclear. Furthermore, the present paper showed that the risk aversion of family firms produces various outcomes, both at the corporate level and within the family owners' private sphere. Finally, local economies were also found to be affected.

This paper's findings should also be of relevance to insurance research and practice in regard of insurance companies as both investors in family firms and providers of insurance for family firms. As investors, insurance companies may include the antecedents and outcomes of family firms' risk aversion presented in this paper in the investment process. Moreover, they themselves may act as non-family minority investors who might actively influence family firms' risk aversion through directorship positions held in the family firm (Anderson *et al.*, 2012). However, these relationships are not well understood in research and, therefore, they require further investigation.

The same is true for the role of insurance companies as providers of insurance services to family firms or members of the controlling family. The inherent risk aversion of family firms may lower their demand for insurance services, as a risk-averse and long-term-oriented family firm itself could provide the services that may otherwise be offered by insurers. This especially includes protection against the consequences of unemployment and old age (James, 1999). Intact and long-lived family firms may also provide family members with secure employment and older family members with cash distributions to finance their retirements.

However, a contrarian argument also seems valid: owing to their higher risk aversion, family firms may seek more insurance services in order to safeguard their long-term survivability. For instance, this may include life insurances of the current generation managing the firm or insurance against bad debt. In this vein, the growing market for life settlements may be relevant for family firm owners. On one hand, if the family firm is prospering and is able to provide insurance-like services to family members as depicted above, (senior) family members that hold life insurance policies might consider selling them to third-party investors in order to finance a more affluent lifestyle in retirement (Adams and Sabes, 2009; Dibrell, 2010). On the other hand, especially for family firms experiencing financial distress and those aiming to preserve the socio-emotional wealth accumulated by the family firm by any means (Gómez-Mejía *et al.*, 2007), life settlements and thus selling family members' life insurance policies may be a way to "help the family business to survive" (Adams and Sabes, 2009, p. 316), although this would include accepting a (steep) discount to the original value of the life insurance policy. In any case, this paper's results indicate that when dealing with business-owning individuals, insurers may be well advised to look not only at the individual level when contracting insurance, but also at the state of the family firm.

Reconsidering the summarized findings presented in this literature review, there remains a broad array of potential avenues for further research. One stream could certainly pursue a better understanding of conditions under which family involvement is risk-enhancing or risk-diminishing. The contradictory findings on this important factor inhibit clear recommendations for practice and implications for further research. Thus, it might be rewarding to conduct studies that include not only situational factors but also firm characteristics (e.g., size, age, industry, generation, stock-market listing) to form a more comprehensive picture of the role of generational family involvement in family firms. Clearly, the existing literature might also be biased due to different omitted cultural, competitive, and environmental factors . Thus, more studies on the risk aversion of family firms in emerging countries are needed. Also in these countries, family firms form the majority of firms, but research might show different behavior for family firms in less developed markets (e.g., Entwisle *et al.*, 1995; Herath *et al.*, 2006; Miller *et al.*, 2009). Additionally, there is a lack of research investigating the objective bottom-line impact of risk aversion. It might be rewarding to combine survey instruments with databases on family firm performance, both for listed and privately held firms.

In general, a lack of qualitative research on the risk aversion of family firms was identified, as only two studies (Fletcher, 2010; Zellweger and Sieger, 2012) took such approaches. We clearly need more studies using case study methodologies or interviews to obtain a deeper understanding of the underlying drivers of risk aversion in family firms. For instance, it should be rewarding to conduct in-depth case studies on financially distressed family firms. In such cases, it would be interesting to see how the controlling family reacts: Is the controlling family still risk-avoiding, or is it risk-enhancing to retain control over the family firm by any means (Gómez-Mejía *et al.*, 2007)? Qualitative studies might also create a more fine-grained understanding of how and why non-family board and management members push for higher amounts of risk taking, as found in this review.

Another interesting avenue for further research would be a deeper investigation of the relationship between family members' private goals and affairs and the family firm. This might also shed light on the contradictory findings on the risk-taking behavior of founders of family firms. Are the founders who take fewer risks doing so because of private lifestyle preferences (Fletcher, 2010), or are there other factors at play that moderate risk aversion (e.g., existent or non-existent intention of family succession of the business)?

Finally, the reaction of the financial services industry has yet to be studied. This review has strengthened the notion that family firms have idiosyncratic preferences towards capital structure. Thus, it would be interesting to study how the financial services industry treats family firms. Are there distinct products? How are these products created? What are their outcomes? Furthermore, the potential effect of risk aversion on the demand and handling of insurance services and policies by family firms and controlling family members also requires further investigation.

Answering these questions should help to create a better understanding of risk aversion in family firms. Reconsidering the vast economic importance of these firms, this subject is not only relevant for business scholars and family firm owners but could also have important implications for policy makers.

Notes

[1] It must be stated that, although this literature review focuses on journal articles, this does not mean that the author disregards the contribution of books, chapters in collections, grey literature or other sources.

[2] The journals' primary fields of interest were assigned by the author after an investigation of the journals' self-declared aims and scopes on their websites.

[3] Three of the articles allocated to the year 2012 in Table 1 are actually still in press but were cited here with the year 2012 according to the publishers' recommendations on citation of these articles.

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