

# FAMILY FIRMS ARE RISK-AVERSE

It stands to reason that family firms would take fewer risks. Until now, however, researchers lacked empirical evidence confirming this theory.

Finance experts recommend that people spread out their investments to mitigate risk. When wealthy families such as the Dorrance family (who own 33 percent of Campbell's Soup) or the Walton family (who own 47 percent of Walmart) eschew this practice and invest heavily into a single firm, how does this impact the firm's risk-taking behavior?

Ron Anderson examines family firms' exchange rate risk, the risk businesses assume when their profits depend on the value of foreign currencies. Anderson finds strong evidence that family firms assume less exchange rate risk than non-family firms.

Family firms are less likely to engage in international operations. If they do, they tend to invest in countries with more stable economies. Furthermore, Anderson finds that it is shareholders from the founding family who are influencing this business strategy.

This evidence supports a widely believed but unproven theory: family firms are risk-averse. Risk aversion protects the founding family, who would face significant losses if the firm suffers. However, other shareholders might benefit from more risk tolerant strategies and lack decision-making power because they are not part of the founding family.

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## MAJOR TAKEAWAYS:

- Family firms are less likely to engage in international operations. If they do, they tend to invest in countries with more stable economies.
- It is shareholders from the founding family that opt for this business strategy.
- Non-family shareholders, who might benefit from risk tolerant strategies and lack decision-making sway, should be aware of this dynamic.

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## WHO NEEDS TO KNOW:

- Corporate managers
- Investors
- Academics studying corporate governance or exchange rate exposures

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## CONTACT US:

- Ronald Anderson, Dean of the Fox School and School of Sport, Tourism and Hospitality Management, [ron.anderson@temple.edu](mailto:ron.anderson@temple.edu).
- Are founding families willing to bear risk? Evidence from the currency exposure and internalization strategy of family firms. <https://doi.org/10.1111/fima.12410>