Why do family companies even exist? They know how to ‘win without fighting’

Vitaliy Skorodziyevskiy, Assistant Professor of Management and Entrepreneurship, University of Louisville

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When you hear the phrase “family business,” you might think of the backstabbing Roys of “Succession” or the dysfunctional Duttons of “Yellowstone.” But while TV’s family companies are entertaining, their real-life counterparts may be even more compelling.

Around the world, family businesses produce about two-thirds of all economic output and employ more than half of all workers. And they can be very profitable: The world’s 500 largest family businesses generated a collective US$8.8 trillion in 2024. That’s nearly twice the gross domestic product of Germany.

If you’re not steeped in family business research – and even if you are – their ubiquity might seem a little strange. After all, families can come with drama, conflict and long memories. That might not sound like the formula for an efficient company.

We are researchers who study family businesses, and we wanted to understand why there are so many of them in the first place. In our recent article published in the Journal of Management, we set out to understand this different kind of “why” – not just the purpose of family firms, but why they thrive around the world.

The usual answers don’t really explain it

The standard answer to “Why do family companies exist?” is straightforward: They allow owners to generate income and potentially create a legacy for future generations.

A related question is: “Why do entrepreneurs even want to involve their relatives in their new ventures?” Research suggests entrepreneurs do so because family members care and can help when resources are limited.

But that might not be unique to family businesses. All companies – whether run by a family or corporate executives – balance short-term profit and long-term goals. And all of them want reliable workers who are willing to pitch in.

So those answers don't explain why family companies, specifically, are so common worldwide.

A different angle: Winning without fighting

For our study, we considered decades of research about family firms to conclude that family businesses are uniquely skilled at keeping competitors out of their market space – often without actually competing with them.

How? We think a quote from Sun-Tzu's "The Art of War" captures the idea:

To fight and conquer in all your battles is not supreme excellence; supreme excellence consists in breaking the enemy's resistance without fighting.

Family-owned businesses often do exactly this, which is why there are so many of them. Here's how it works in practice:

Three key differences

Research on family businesses has shown that they differ from other types of companies in three key ways: the types of goals they pursue, the governance structures they establish, and the resources they have. Together, these three characteristics explain how family businesses may use their property rights to get an edge over their competitors.

The first is **goals.** Unlike other types of enterprises, family businesses prioritize noneconomic goals involving the reputation, legacy and well-being of the family – both now and in the future.

Of course, they still have to worry about making a profit. But their interest in family-centered goals can lead them to choose projects that may yield lower returns but still fulfill their noneconomic goals. These sorts of projects may not be attractive to other types of firms. As a result, family businesses may find themselves operating in spaces where there's not much competition to start with.

For instance, take Corticeira Amorim, a family-run Portuguese company that dominates the global market for cork stoppers and other cork products. The cork industry is a classic narrow niche: There are only a handful of serious global competitors, and Amorim is widely described as the world's largest cork processing group, with a sizable share of global wine and Champagne corks.

The second key factor is **governance**. Family members who work together often know each other well, care about each other and want the best for both the family and the firm, which may stay in the family's possession for generations. This fact may reduce operating costs and the cost of contracting.

Why? When they make decisions, they don't always need to hire a fancy, Harvey Specter-like lawyer from the show "Suits." They can decide on the next move for the company while having dinner together. This significantly reduces the costs associated with decision-making. In other words, because they rely less on formal contracts and monitoring, family businesses can operate more cheaply.

Finally, family firms use **resources** like information and money differently. Since many established family businesses have been around for decades, relatives who work together accumulate information that's hard to acquire and transfer, and might not even be useful elsewhere. Being a family member means not only doing business with relatives but also going through life together acquiring a unique perspective about the family itself.

As a result, family businesses have lower transaction costs than other companies. Sometimes this shows up in very concrete ways. An uncle may invest money in the business and never ask for it back. Would that happen at a nonfamily business? Probably not. This dedication makes family members a special type of human asset that's hard to replace.

Put simply, nonfamily businesses are unlikely to hire someone who cares as much about the company's success as a deeply invested relative does. And because these relationships aren't for sale on the open market, competitors can't easily access them. That fact helps family businesses keep competitors at bay while essentially being themselves – which in turn explains why there are so many of them.

Family businesses are so common worldwide that there are several holidays celebrating them, including International Family Business Day on Nov. 25, U.S. National Mom and Pop Business Owners Day on March 29 and the United Nations' Micro-, Small and Medium-Sized Enterprises Day on June 27. This holiday season, you might consider spreading a little extra cheer with the family-run retailers in your community.

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