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The Emotional Value Breakdown in Family Firm M&A: Economic *versus* Institutional Dimensions

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Abstract This paper challenges the traditional view of firm valuation, positioning the family firm, rather than the non-family firm, as the cornerstone of economic theory. We present a new theoretical framework to explain the formation of value in family firms during mergers and acquisitions (M&A), thereby addressing the long-standing valuation puzzle in this context. Drawing on institutional theory and the socioemotional approach, we argue that the emotional value embedded in ownership has two distinct yet complementary dimensions: the economic dimension, which influences cash flows through the impact that family ownership and family management have on the firm's strategy, and the institutional dimension, which reflects the appreciative aspects that family members hold regarding the firm, such as identity, legacy or sense of belonging. This dual structure redefines the interaction between value and price in both intra-family and sell-out M&As, offering a new perspective on negotiation dynamics and deal outcomes. By integrating emotional and financial logic, our proposal takes valuation theory beyond the rational paradigm and provides a basis for future empirical research and practical applications.

CÓDIGO JEL
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PALABRAS CLAVE
Valor emocional, Dimensión económica, Dimensión institucional, Empresa familiar, Fusiones y Adquisiciones

La descomposición del valor emocional en las fusiones y adquisiciones de empresas familiares: dimensiones económica e institucional

Resumen Este artículo cuestiona la visión tradicional de la valoración de empresas, posicionando a la empresa familiar, en lugar de la no familiar, como la piedra angular de la teoría económica. Presentamos un nuevo marco teórico para explicar la formación de valor en las empresas familiares durante las fusiones y adquisiciones (M&A), abordando así el antiguo dilema de la valoración en este contexto. Basándonos en la teoría institucional y el enfoque socioemocional, argumentamos que el valor emocional inherente a la propiedad tiene dos dimensiones distintas pero complementarias: la dimensión económica, que influye en los flujos de caja a través del impacto que la propiedad y la gestión familiar tienen en la estrategia de la empresa, y la dimensión institucional, que refleja los aspectos apreciativos que los miembros de la familia tienen respecto a la empresa, como la identidad, el legado o el sentido de pertenencia. Esta doble estructura redefine la interacción entre valor y precio, tanto en las M&A intrafamiliares como en las realizadas a terceros no familiares, ofreciendo una nueva perspectiva sobre la dinámica de la negociación y los resultados de estas operaciones. Al integrar la lógica emocional y la financiera, nuestra propuesta lleva la teoría de la valoración más allá del paradigma racional y sienta las bases para futuras investigaciones empíricas y aplicaciones prácticas.

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1. Introduction

Mergers and acquisitions (M&A) are one of the principal ways to implement growth strategies (Feito Ruiz & Menéndez Requejo, 2009; Hossain, 2021), being the current manner of gaining size and competitiveness (Diéguez-Soto et al., 2025; López-Delgado et al., 2024). In practice, value lies at the heart of M&A strategies (Cumming et al., 2023; Riad & Daellenbach, 2019), with both academics and practitioners agreeing that what drives a firm's fundamental value is primarily its assets and future earnings (Bancel & Mittoo, 2014; Mazzariol & Thomas, 2016). However, empirical evidence shows that the price paid for a firm often differs from the calculated value (Riad & Daellenbach, 2019), which is most often assessed according to the expected profit theory (Mongin, 1997).

Economic subjects tend to identify with the assets they own. Moreover, economic subjects find some kind of reward in their assets that are not strictly monetary (Zellweger & Astrachan, 2008). Accordingly, when selling their assets (e.g. their businesses), they expect to obtain an amount that meets both their financial expectations (associated with the asset they own, and the income derived from it) and their non-financial expectations (associated with emotional issues related to asset ownership). The consideration of both financial and non-financial expectations gives rise to various types of discounts (Alonso-Cañadas & Rojo-Ramírez, 2012) and premiums (Mazzariol & Thomas, 2016) in economic transactions, such as M&A.This is particularly the case for family firms, which constitute the vast majority of firms worldwide (De Massis et al., 2018).

Despite the importance of M&A transactions and the predominance of family firms globally, little research specifically focuses on M&A in the context of family firms (Worek, 2017). Furthermore, there are hardly any studies that specifically address the valuation puzzle of M&A (Hossain, 2021). Therefore, this research, based on the institutional theory (Friedland, 1991; Leaptrott, 2005) and the socio-emotional approach (Gómez-Mejia et al., 2007), seeks to cover this gap by providing a theoretical framework for the value of family firms that can be used to explain their owners' behaviour in the context of M&A transactions.

The present research covers three interlinked objectives. First, it deals with the fundamental question arising when applying the valuation theory. That is, what sort of value is calculated when assessing a firm, the family firm or the non-family firm value? Second, admitting that firm valuation should be focused on family firms, our research addresses the nature of emotional value, which is inherent to any firms' owners, but is particularly deep-rooted in family firms. Although different types of emotional value (Ruiz-Roqueñi, 2022) influence family firms' value and price, there are two dimensions of interest in this context: the economic and the institutional dimensions. Third, we distinguish among those M&A transactions carried out between family members (i.e., in-family M&A) and those transactions between the family and outsiders (i.e., sell-out M&A). In this regard, we consider the role played by emotional value as a guide that helps to explain why some family owners are more biased than others when assigning a value to their ownership stake (Zellweger & Dehlen, 2011). Accordingly, we adopt a configurational approach (Meyer et al., 1993) to help investors to take M&A decisions in family firms.

The adopted methodology goes beyond the dominant economic paradigm, based on abstract-deductive models, and is derived from observed reality, seeking to explain the phenomena that this reality offers us and that can be inferred from it (Dembinski, 2010). The system followed allows us to form a theoretical and conceptual framework on value formation in family firms that serves as a basis for advancing the study of M&A (Hossain, 2021), offering a synthetic analysis capable of capturing the limits and dynamics of the evaluation process with a transversal and interdisciplinary vision.

This research contributes to the current literature in different ways. First, it answers the call for research on the need to build a theoretical framework for family firm valuation (Astrachan & Jaskiewicz, 2008; Martínez-Romero & Rojo-Ramírez, 2016; Rojo-Ramírez & Martínez-Romero, 2018), as the study of firm value must be focused on the most prevalent firms worldwide, i.e., family firms. This theoretical approach not only affects the valuation process in M&A, but also provides a new practical perspective for the study of family firms and for reorienting existing theories and empirical studies. Second, it contributes to the emotional value theory (Zellweger & Astrachan, 2008) by differentiating for the first time between the two dimensions of emotional value, namely the economic dimension and the institutional dimension. This differentiation allows financial value to be approached from a more realistic perspective, turning it into a theoretical and practical instrument for analysing the reality of M&A. Indeed, the split of emotional value leads to a taxonomy of family firm values that can serve as a valid starting point for future research (Rau et al., 2019). Finally, we propose a valuation method based on the concept of intangibility, i.e., the residual income method or excess earnings method, to assess the economic dimension of emotional value.

Our findings have important theoretical and practical implications. It opens a new research avenue for the valuation theory, and for specifically the emotional value, particularly in the family firm field. In this regard, it extends prior research by splitting the emotional value into the economic and institutional dimensions, opening new insights for researchers, managers and advisors that now have new perspectives to analyse M&A.

The rest of the article is structured as follows. Section 2 deals with the theoretical background, offering the basic proposition of our research and addressing the main concerns related to emotional value. Section 3 analyses the different combinations of emotional value dimensions and their influence on M&A. Section 4 offers several considerations for the study and research into emotional value calculation. Section 5 frames the discussions and conclusions, and section 6 sets up our contributions, limitations, and future research.

2. Theoretical Background

2.1. Firm value and family firms

Economic subjects tend to identify with the assets they own when they find some kind of reward from them that is not strictly monetary (Zellweger & Astrachan, 2008). Thus, when economic subjects go to the market to sell an asset, they want to obtain an amount that covers both their financial expectations (associated with the income they obtain from it), as well as their non-financial expectations (associated with purely emotional issues that their possession gives them). Normally, the expected monetary amount constitutes a potential price to be received and paid, i.e., the potential transaction price, which becomes the price of the asset at the time of formal conclusion of the transaction. This potential transaction price is usually referred to as the "financial value of an asset", understood as "the amount a buyer is willing to pay a seller in an unregulated market"[1]. Thus, the potential transaction price usually incorporates an amount associated with the mere fact of its possession (Gerber & Steppacher, 2017). This sense of possession generates certain degree of personal satisfaction (utility) (e.g., in relation to one's social or family environment), which would be the potential emotional price. Therefore, the value of an investment (e.g., a firm) always carries a certain emotional value, which is linked to a systemic set of cultural elements (values, beliefs, and normative expectations) through which individuals, groups, and organizations give meaning to and evaluate their daily activities and organize those activities in time and space. The Institutional theory (Friedland, 1991; Leaptrott, 2005) provides a theoretical framework of interest for understanding these values.

In the field of business valuation, the value of the firm is at the heart of the process (Riad & Daellenbach, 2019). Both academics and practitioners agree that what drives the fundamental value of a firm is mainly its assets and future income (Bancel & Mittoo, 2014; Mazzariol & Thomas, 2016). In this regard, the firm value is estimated based on historical economic and financial data by making some assumptions for the future. Thus, the financial value to a firm's shareholder, according to the theory of expected profit (Mongin, 1997), is an estimate that does not usually coincide with the potential transaction price, nor with the agreed and formalized price in the transaction.

Most firms that exist globally are family-owned in nature (De Massis et al., 2018). In Spain, some studies (i.e., IEF & Red de Cátedras de Empresa Familiar 2018, 2025) consider that family firms represent around 90% of all private firms, contributing to generate nearly 70% of private employment, and providing nearly 60% of GDP. Furthermore, family firms operate at the level of either micro, small, medium, large and very large firms (Burkart et al., 2003).

However, despite the significant progress made in economic theory regarding the firm, the substantial advancements in the study of family firms (Brigham & Payne, 2019), and the enhanced understanding of firm valuation (Broughton et al., 2014; Mazzariol & Thomas, 2016; Rojo-Ramírez, 2023), it seems that economic theory is oriented to non-family firms, and that family firms are the peculiar case. This focus on non-family firms is due to the fact that, traditionally, family firms have not previously received as much attention as they do today. However, there is now extensive knowledge about family firms, and we are aware that, in addition to representing the vast majority of firms, business families have considerable social and emotional interests in the firms they control, in a long-term trans-generational context (Martínez-Romero & Rojo-Ramírez, 2016; Martin et al., 2024; Pinelli et al., 2024). For this reason, there have been recent calls for the establishment of an economic theory for family firms, which is notably absent

1. See https://dictionary.archivists.org/entry/financial-value.html

(Chrisman et al., 2024).

According to the aforementioned arguments, the value of a firm to its owners incorporates an amount that is associated with emotional aspects, which is especially relevant in family firms (Astrachan & Jaskiewicz, 2008; Gómez-Mejia et al., 2007; Mensching et al., 2014; Zellweger & Astrachan, 2008; Zellweger & Dehlen, 2011). Therefore, our theoretical proposition is:

> When applying Valuation Theory, the firm being valued is, in essence, a family firm and the valuation of a non-family firm should be understood as a special case, in which much of the emotional value inherent in family firms is absent or discounted.

We state that the value of the firm is essentially a family value for two main reasons:

1. The cash flows collect the effects of the organization form and the strategy.
2. Most of the firms are family firms.

Accordingly, the value of the firm for family owners (*Family Equity Value*, $FEqV$), will be always made up of two types of value: the equity value (EqV, similar to non-family firms) and the emotional value (EmV) (Ruiz-Roqueñi, 2022)[2].

$$FEqV_0 = EqV_0 + EmV_0 \quad (1)$$

EmV is particularly noticeable in family firms, or more specifically, in business families, some of which are considered true business sagas, and contributes to reinforcing the EqV, (if there are emotional benefits) or to weakening it (if there are emotional losses) (Zellweger & Astrachan, 2008).

2.2. The dimensions of emotional value

Since the seminal work of Gómez-Mejia et al. (2007), socio-emotional wealth (hereinafter, SEW) has become a dominant paradigm in family firm research. SEW has been conceptualized as the set of specific, exclusive and intrinsic characteristics that family firms present and that makes them behave differently than their non-family counterparts (Berrone et al., 2012). However, as Martínez-Romero and Rojo-Ramírez (2016) highlighted, this concept deserves more attention and must be differentiated from emotional value. In this vein, emotional value is conceived as the set of owners' affective endowment that is associated with a series of non-economic benefits derived from the investment they make (Astrachan & Jaskiewicz, 2008; Zellweger & Astrachan, 2008).

The emotional value can be conceptualized both in behavioural terms (Cyert & March, 1963) or in terms of possession (Gerber & Steppacher, 2017). In the first case (Brigham & Payne, 2019), the emotional value would be considered an intangible asset that would help to explain the firm's behaviour in strategic decision-making processes. When conceptualizing emotional value in behavioural terms, its effects will be reflected in the incoming cash flows resulting from these strategic decisions, and thus, it will have a measurable economic character. In the second case, focused primarily on the concept of possession[3], the emotional value would be an asset associated with the material use of resources and property, which would allow the construction of an intangible and virtual world for its owner. In this case, emotional value is considered an intentional element whose economic value cannot be assessed.

The emotional value is especially relevant within family firms, since these firms add to their economic and financial work anthropological aspects typical of the business families that govern them. Thus, both types of dimensions, i.e., behavioural and possession, must be considered when referring to emotional value:

— *Behavioural dimension* (hereinafter referred to as the economic dimension) measures the impact that good (bad) know-how and family influence have on the development of the firm's management and organizational activities.

— *Possession dimension* (hereinafter referred to as the institutional dimension)[4], is an influential aspect appreciated by family members in relation to the firm, which is associated with their feelings towards it, its origin and their sense of belonging.

The economic dimension of emotional value (Table 1) reflects how family values are transferred to the firm and the impact this has on the development of its activities, usually through the organizational culture and business strategies influenced by the family (Aronoff, 2004; Rau et al., 2019), conditioning the resources and capabilities of family firms. This is what some authors have called '*familiness*' (Habbershon &

2. This author differentiates between "economic value" and "hedonic and utilitarian" value, but from a perspective of value creation for stakeholders. She points out, quoting Lemmink et al. (1998), that "*assuming that both hedocnic components must be taken into account as attitude components, it is clear that an affective component of emotional value needs to be incorporated into the value construct*" (p. 4). However, the emotional value that she adopts is much broader than the one addressed here, since it does not adopt a stakeholder perspective.

3. We are especially concerned with liberal and capitalist economies where there is a free market. Possession has to do with the feeling of ownership, but requires the intention to possess (Savigny, 2005).

4. This is what is normally understood as the perceived value of SEW by family owner-shareholders (Zellweger & Dehlen, 2011).

Williams, 1999). *Familiness* has been defined as the idiosyncratic set of resources and capabilities at the firm level that results from the interactions of the systems that constitute a source of competitive advantage, generating wealth and value creation for the firm and reflecting the positive influence of family involvement in the firm (Pearson et al., 2008).

Table 1. Situations of positive or negative emotional value (EmV) associated with the economic dimension

ECONOMIC DIMENSION OF EMOTIONAL VALUE (EmV_{ED})	
PositiveEmV	**NegativeEmV**
• Good work environment, corporate culture and employee empathy. • Diversification and risk management strategies. • Emotional bonds and active engagement. • Opportunities for promotion and career advancement.	• Sibling rivalry. • In-law disagreements. • Overlap of family and business problems. • Stress from tenure stress and decision-making. • Frustration.

Source: Based on Martínez-Romero and Rojo-Ramírez (2016).

Normally, it is expected that the greater the wealth associated with the set of feelings, emotions, and relationships between the members of the business family the greater and better the development of the business activity (Martínez-Romero & Rojo-Ramírez, 2017; Zellweger et al., 2012) . This improved business activity is achieved through a better working environment, greater empathy of workers, better emotional ties, and enhanced internal and external commitment (from and with customers, suppliers and, in general, with stakeholders). On the contrary, a family firm environment that reflects tensions between family members, disagreements in the policies to be carried out, and a mixture of misguided business and family policies, usually leads to some stress in decision-making that generates frustration and discomfort in all areas.

Table 2. Situations of positive or negative emotional value (EmV) associated with the institutional dimension.

INSTITUTIONAL DIMENSION OF EMOTIONAL VALUE (EmV_{ID})		
	Positive EmV	**Negative EmV**
Emotional bonds and possession	Strong emotional bonds with the firm; family members have a positive sense of ownership/possession.	Poor attachment of family members to the firm and a weak sense of ownership.
Power and prestige	Family members positively value their influence and prestige within the family and the firm.	The influence of family members on the firm and the family is minimal or non-existent.
Transmission of the family legacy (values)	Family members consider that the transmission of the family legacy is important and feel that they can manage it properly.	Family members do not consider it a priority to transmit the family legacy nor do they worry about it.
Autonomy and independence	Family members consider that their belonging to the family and their participation in the family firm allows them to enjoy autonomy and independence.	Family members view their belonging to the family and their participation in the family firm as a tie or headache.
Affective commitment	Family members maintain a strong commitment to each other and to the firm.	Family members are not sufficiently committed to the firm and to each other.
Social relationships and influence on the environment	Their family and business membership offers significant social recognition.	Social recognition for their belonging to the family and the firm is scarce or even negative.

Source: Based on Zellweger and Astrachan (2008).

The institutional dimension (Table 2) reflects psychological and social aspects that vary across family members and family sagas (Rau et al., 2019). Most of the time, these psychological and social aspects are rooted in the attachment to possession linked to the family's ownership of the firm (Zellweger & Astrachan, 2008). This is compounded by the prestige and power derived from the firm, the desire to transmit the predecessor's achievements to future generations, and the potential feelings of independence, strong social relations, and influence within the community. In essence, these components are associated with the ability of individuals to identify the firm with their own achievements and, in the case of family firms, with the family's heritage or saga. The stronger the feeling of belonging or emotional endowment (Zellweger & Dehlen, 2011), the greater these components of the institutional dimension of emotional value will be, and vice versa.

2.3. Family firms' emotional value

As proposed in the previous section, emotional value has two dimensions: the economic dimension and the institutional dimension. Although both dimensions result from emotional values, the former directly influences the firm's cash flows, which are incorporated into the final valuation. Accordingly, the economic dimension increases the firm value when it is positive and decreases it when it is negative (Table 1).

The existence of these two dimensions reinforces our premise from subsection 2.1, as we now understand that the cash flows collected by the firm inherently include the economic dimension's influence on organizational form and strategy.

Consequently, existing valuation methodologies (AECA, 2005; IPEV, 2012; IVSC, 2020; Rojo-Ramírez, 2023; Trugman, 2009) are developed and applied in the context of family firms. These methods are relevant for family firms because they consider the achievements of the owner and also those of the family saga.

In contrast, the institutional dimension encompasses merely subjective appraisals, a psychological component based on beliefs and values. These values are induced by the observation and history of family members (Rau et al., 2019), their origin, and their vision for the future, all of which are associated with the possession of the firm. These feelings are shared among family members (Zellweger & Dehlen, 2011) and can be either beneficial (Positive EmV) or adverse (Negative EmV). Crucially, the institutional dimension does not influence the economic-financial value based on rationality, as these merely appreciative components are not directly manifested in cash flows. Therefore, the institutional dimension can only be taken into account when a transaction occurs, such as an M&A operation, where it helps in fixing the final price. At this point, it becomes useful to view M&A processes as a courtship between buyer and seller that includes emotional factors, not just price (Graebner & Eisenhardt, 2004). This perspective is particularly relevant in the transfer of assets between members of family firms (Zellweger et al., 2016).

The intensity of emotional value varies depending on the investor and their cultural context (Rau et al., 2019) and as mentioned, is not exclusive to family firms. Any investor possesses an emotional component, but this component is more intense and discernible in the case of family firms (Martínez-Romero & Rojo-Ramírez, 2017). Furthermore, family firms' emotional value can vary in intensity due to several factors, such as, the life cycle of the family firm (Le Breton-Miller & Miller, 2013), gender influence (Cruz-Serrano et al., 2008), the percentage of firm participation (Zellweger & Astrachan, 2008), family governance practices (Suárez-Cabrera & Santana-Martín, 2004; Voordeckers et al., 2024), or even the family's perceived control (Zellweger et al., 2012).

Acknowledging the existence of emotional value is equivalent to admitting that the expected value of the firm by family members may differ from that expected by non-family investors, depending on the emotional component's intensity. That is, the owner-investors of family firms expect both pecuniary and non-pecuniary returns and are often willing to accept below-market pecuniary returns to satisfy their non-pecuniary goals (Dressler &Tauer, 2015). The challenge, and a key research topic in family firm literature, is the quantification of emotional value (Berrone et al., 2012).

3. Family Firms Value, Emotional Value and M&A Strategy

Family firms' valuation is a topic that remains insufficiently addressed in academic literature (Granata & Chirico, 2010). If, as most studies suggest, family members' management positively contributes to firms' value (Palm et al., 2024; Rojo-Ramírez, 2009; Santulli et al., 2022), it is justifiable to derive the equity value (FqV) of non-family firms from Equation 1 in Section 2.1. In this way (Equation 2):

$$EqV_0 = (FEqV_0 - EmV_0 \qquad (2)$$

This structure reflects the professional practice, often arising from M&A, of applying discounts to the calculated value (Alonso-Cañadas & Rojo-Ramírez, 2012; Klein & Scheibel, 2012). This occurs because the buyer in such operations is typically external to the family and therefore discounts the emotional value they do not have to assume.

While an economic theory exists for calculating the value of a firm's shares (EqV) (Von Neumann & Morgenstern, 1947), this is not the case for the emotional value (Chrisman et al., 2024). An exception arises only if we assume that emotional value is already incorporated into equity value (Martínez-Romero & Rojo-Ramírez, 2017), through discounted cash flows that reflect the economic dimension of emotional value. This assumption is logical to the extent that economic theories are created for the majority of economic subjects, and as proposed in subsection 2.1, these subjects are typically family owner-investors.

Thus, the value of the shares of a firm that does not consider the family component (EqV) at the time of valuation would be (Equation 3):

$$EqV_0 = (FEV_{ED0} - DV) - EmV_0 \quad (3)$$

In this equation, the $FEqV_0$ in Equation 2 has been replaced by its indirect calculation $(FEV_{ED0} - DV)$ that is the most common process followed by practitioners (Rojo-Ramírez, 2023), where:

FEV_{ED0}, is the economic value of the family firm (*Family Economic Value)*, which includes the economic dimension (ED) that is:

$$\mathrm{FEV}_{ED0} = \left[\sum_{j=1}^{n} \frac{EFCF_j}{(1+k_0)^j} + \frac{EV_n}{(1+k_0)^n}\right] \quad (4)$$

Where[5]:

- $EFCF$, are the economic free cash flows expected by the firm's management over a discrete period *j* (*j* = 1, 2, 3, ..., n). These cash flows incorporate the effects of the family economic dimension that influences the firm's strategy. That is, the cash flows from the economic dimension of emotional value (EmV_{ED}) are embedded in EFCF.
- EV_n, is the expected residual (or terminal) economic value of the firm at the end of the discrete period *n*. This value, like the EFCF, reflects the effects of the economic dimension of emotional value.
- k_0, is the discount rate after taxes used to convert the EFCF expected by management into their present value. It is commonly known as the weighted average cost of capital that family managers expect.

DV, is the present value of the debt with explicit cost borne by the family firm at the valuation date[6].

The dissociation between the economic and the institutional dimension of emotional value, i.e., EmV_{ED} and EmV_{ID} is of utmost importance because of different reasons. First, it allows us to better understand the different approaches to emotional value (*familiness* vs. *emotional endowment*) by recognizing that they are two distinct effects stemming from the same origin. In fact, they have often been studied as a single concept when analysing M&A performance (Palm et al., 2024). Second, the differentiation can help advisors and managers better navigate negotiations, potentially preventing failed deals (Cumming et al., 2023; Kumar et al., 2023). Finally, it allows us to differentiate between M&A cases that occur intra-family or between close families (Zellweger et al., 2016) and those M&A transactions between family members and non-family third parties (Graebner & Eisenhardt, 2004). We will focus here on this last aspect: intra-family M&A transactions (in-family M&A), and the M&A between family members and a third party (sell-out M&A).

3.1. In-family M&A transactions

Literature is relatively silent about in-family M&A, likely due to the private nature of these changes in family control (Zellweger et al., 2016). When in-family M&A transactions occur, the family members who are buying will, as part of the family, naturally consider the institutional emotional component (EmV_{ID}) existing in the firm. In one way or another, they feel a sense of participation in the family's management and ownership, and, therefore, also in the economic dimension of emotional value (EmV_{ED}).

It can be argued that the family firm economic value (FEV_{ED}), which includes the economic dimension (EmV_{ED}), is probably not the primary concern for the members involved in the transaction. However, the expert's calculation of this value is a standard part of the process. This calculation leads participants to understand the intangible value corresponding to the emotional value of an economic nature (EmV_{ED}), that is, the portion of the firm's value attributable to the positive or negative effect of family members' management.

The EmV_{ID} will be contingent on the family member for whom the valuation is being conducted, due to the existence of different value types and intensities (Rau et al., 2019). Nevertheless, in this context, the value primarily depends on the member's level of involvement (in management and ownership) and the generation to which they belong. For active family members (owners, managers, or employees), their participation

5. For a further development of this equation, any business valuation book can be consulted (e.g., Damodaran, 2006; Rojo-Ramírez, 2023).

6. This debt is often considered equivalent to the book value of the debt, if the interest rate borne by the firm is similar to the market rate.

in the emotional value is expected to be full (meaning they figure in both EmV_{ED} and EmV_{ID}). These members expect not only financial income from the firm's activity but also emotional income derived from the family and its community involvement. This emotional income results both from the family's influence on the firm's strategy (EmV_{ED}) and from institutional appreciation (EmV_{ID}). For passive family members (owners but not managers or employees), the emotional value is expected to be less intense in relation to the institutional dimension (EmV_{ID}). It is even likely that their expectation will be limited solely to receiving a purely financial income.

A specific case of in-family M&A is one related to succession operations when they are executed through a purchase-sale process, likely due to factors beyond purely economic issues. Zellweger et al. (2016) investigated this issue by conducting a survey among students from family firms that were approaching the moment of succession. Respondents were asked for their appreciation of the firm's value relative to an imaginary price paid by an external buyer[7]. The results suggest a reduction over the value paid by the external buyer when a potential family-internal succession occurs. While it is possible to agree on the grounds for this perception, we do not share the opinion that an actual discount on value exists due to two main reasons. First, when asked about the amount paid by an external buyer, the discussion concerns price, not value, which, as noted in subsection 2.1, are distinct concepts, assuming a transaction has occurred. Second, the economic value assigned to the family firm by an expert already includes the emotional value of an economic nature (EmV_{ED}), which is therefore not the distorting element between family members. Accordingly, the appreciation expressed by respondents can only be due to the institutional emotional component (EmV_{ID}), which is associated with the appreciative aspects that family members hold regarding the firm. Furthermore, it is quite common for successors to assume that their predecessors will be lenient with their future and thus, willing to favour them by reducing the price to be received.

3.2. Sell-out M&A transactions

In M&A transactions between family members and outsiders, the assessment of the institutional emotional aspects is often unfounded or spurious, as the purchaser is not part of the family or close to it. Consequently, the buyer is not interested in the firm's familial emotional component.

However, the economic value used as a starting point for assigning the equity value (EqV) to non-family investors already includes the EFCF, which are a direct consequence of the management actions associated with family participation. Therefore, the value calculated in all cases (both in in-family M&A and sell-out M&A) is the Family Economic Value (FEV). If, as the literature suggests, the influence of family management and ownership on the firm is significant (Granata & Chirico, 2010; Miller et al., 2007; Palm et al., 2024), the firm's transfer to non-family agents will influence the Economic Value (EV) they assign to it, such that:

$$EV_0 = FEV_0 \mp EmV_{ED0} \qquad (5)$$

Being EmV_{ED}, the positive or negative effect that family involvement in ownership and management has on the management and obtaining of EFCF. If there is a positive *EmV*, the family economic value (FEV), and therefore the expected family equity value (*FEqV*), will be higher than that assigned by non-family buyers. The relationship between EqV_0 and $FEqV_0$ is as follows (it is assumed that the same divergence exists regarding the institutional value (EmV_{ID0}), which the buyer will not appreciate when negotiations begin

$$EqV_0 = FEqV_0 — EmV_{ED0}$$

The opposite will occur if there is a poor EmV_{ED}: the family economic value (FEV) will be lower than the value assigned by the external buyers (economic value, i.e., EV). The resulting share value ratio (without considering the institutional dimension's influence during negotiation) would be:

$$EqV_0 = FEqV_0 + EmV_{ED0}$$

In the context of M&A negotiation, this valuation disparity means that the economic value perceived by external buyers (EV) will be less than the family economic value (FEV) assigned by the selling family members when there is a positive EmV (EV<FEV). Conversely, with a negative EmV, the FEV assigned by the family sellers will be less than the EV assigned by external buyers (EV>FEV). Since the valuations of both parties are imbalanced, this creates room for negotiation. The eventual resolution will be influenced by the appreciated institutional dimension of family members during the negotiation process.

To enrich our understanding, we now focus on negotiation strategy by proposing a configurational framework (Neckebrouck et al., 2021) for sell-out M&A, as illustrated in Figure 1. This framework identifies four possible extreme situations:

1. The value appreciated (possession) by family members is optimistic (positive *EmV*, EmV_{ID}^{+}).

7. The question was: "*Assume that a family-external buyer would have to pay an amount of 100 for the family firm's total equity. How much would you have to pay?*"

In this case, there will be a greater divergence in the appraisals of the buyer and seller if the economic dimension of the value (EmV_{ED}^{+}) is also positive. In this regard, family members will perceive that, in addition to the loss of EmV_{ED}, they will not be compensated for the loss of the EmV_{ID} (upper left quadrant of Figure 1). In these circumstances there will be significant difficulties in carrying out the transaction, as the $FEqV$ will be far from *EqV* being $FEqV > EqV$. The potential transaction price (PP) of the buyer will be:

$$PP_0 = FEqV_0 - EmV_{ED0} - EmV_{ID0}$$

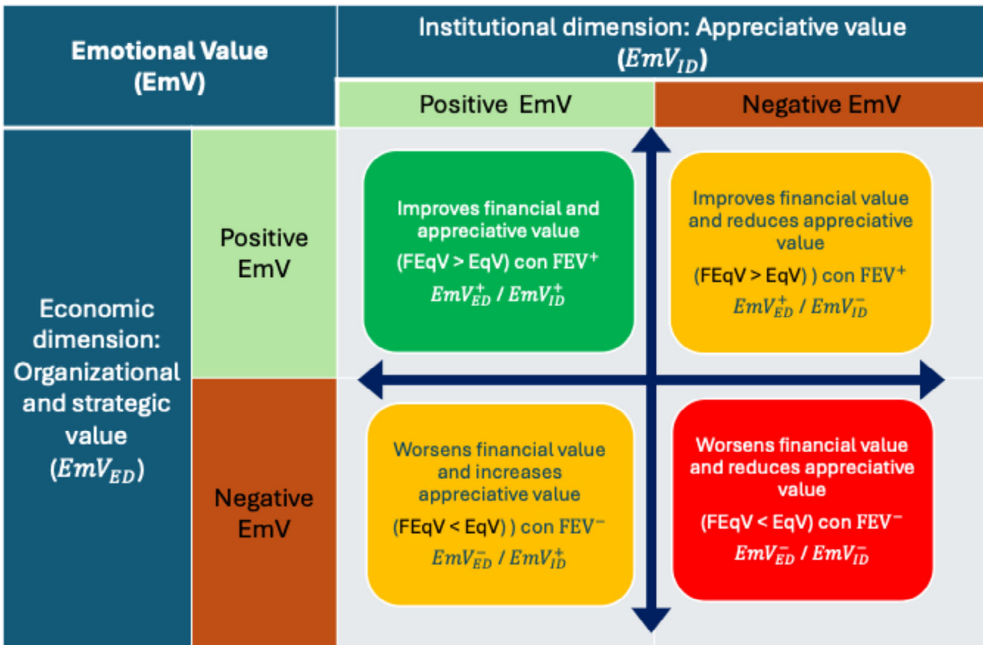
Consequently, pursuing the transaction will likely not be worthwhile.

2. The value appreciated (possession) by family members is adverse (negative EmV EmV_{ID}^{-}). If, in addition, the economic dimension of value is also poor (EmV_{ID}^{-}), the external buyer sees a potential opportunity for improvement upon acquisition. Likewise, the sellers see a potential opportunity in the sale (lower right quadrant of Figure 1). The probability that the transaction will occur is high, as family members are likely to be willing to accept an amount lower than their Family Economic Value ($FEqV$). This willingness stems from the fact that their $FEqV$ will probably be below the external buyer's Equity Value (EqV), i.e., $FEqV < EqV$. The potential transaction price (PP) will be:

$$PP_0 = FEqV_0 + EmV_{ED0} + EmV_{ID0}$$

In these circumstances, potential buyers will see an interesting window to acquire the firm for a lower than estimated amount, effectively finding a bargain.

Figure 1. Influence of emotional value components on firm value and negotiation



Source: The Authors

3. The upper right quadrant (Figure 1) reveals a situation where family members of the firm will likely be predisposed to selling it. This predisposition is driven by an unfavourable institutional emotional value (possession) (negative EmV, EmV_{ID}^{-}) while the firm's economic emotional value is considerably acceptable (positive EmV, EmV_{ED}^{+}). The family members' high propensity to sell will favour the negotiation. Conversely, the external buyer will see a well-functioning firm with a positive future and will likely be willing to offer a good price for it, ignoring the institutional dimension (EmV_{ID}). The potential transaction price (PP) offered by the buyer will be:

$$PP_0 = FEqV_0 - EmV_{ED0} + EmV_{ID0}$$

Therefore, the mutual willingness to negotiate between buyers and family sellers is likely so high that devoting effort to the transaction may be worthwhile

4. The lower left quadrant (Figure 1) describes a situation where family members observe inadequate economic management (negative EmV, EmV_{ED}^{-}), although their appreciative (institutional) value is high (positive EmV, EmV_{ID}^{+}). The family members' propensity

to sell will likely be low, which will hinder negotiation. Conversely, the external buyer will see a functioning firm with an uncertain future and will therefore be unlikely to offer a favourable price. The potential transaction price (PP) offered by the buyer will be:

$$PP_0 = FEqV_0 + EmV_{ED0} - EmV_{ID0}$$

In these circumstances, the effort involved in a negotiation is unlikely to result in an M&A compromise.

Without a doubt, the intensity of EmV_{ID0} is not homogeneous among family members due their differing situations. Consequently, the levels of negotiation can cover a wide spectrum, leaving ample room for proposals and development by both parties. The different configurations should be interpreted as ideal-type negotiation rather than as nominal categories. The ideal-type negotiation is an important theory-building device that can serve as ": (Blalock, 1969: 32). In this context, the degree of deviation between a real transaction and each ideal-type configuration can be used to predict the transaction result (Neckebrouck et al., 2021).

4. The Calculus of the Emotional Value

One area where considerable study, debate, and research are still needed is the calculation of emotional value in family firms (Astrachan & Jaskiewicz, 2008). While this is a challenging issue (Clausen & Hirth, 2016), especially at the micro firm level, developing proposals is essential to enhance understanding and provide guidance for professionals and accounting regulators.

The existing literature exploring the role of intangible assets in shaping firm value is scarce[8], and much of this research fails to approach this issue from a finance perspective (Dong & Doukas, 2025). The few studies addressing this issue in the field of family firms and firm valuation seem to suggest that being a family firm has a positive influence on M&A transactions (Granata & Chirico, 2010; Palm et al., 2024). Furthermore, family firm status appears to have a positive effect on firm value in M&A (Tao-Schuchardt et al., 2023; Zellweger et al., 2012), largely due to the strength of their brand image (Temprano-García et al., 2023). Despite these findings, the research remains inconclusive (e.g., Worek, 2017).

The central challenge regarding emotional value is isolating the effects of the family's participation in management and ownership on the income it generates to accurately calculate the EmV_{ED}. An equally difficult challenge is how to deal with the appreciative value or value perceived by family members, i.e., EmV_{ID}, which is eminently psychosocial (Debicki et al., 2016). Our perspective is that EmV_{ID} can be measurable (for example, by means of a survey, Berrone et al., 2012) but not assessable in monetary terms due to its qualitative nature (Ruiz-Roqueñi, 2022). This contrasts with the EmV_{ED}, which is both measurable and assessable since it directly exerts an impact on the cash flows generated by the firm

The emotional economic value (EmV_{ED}) is easily observed in M&A transactions, particularly in sell-out M&A (e.g., private equity firms) (Achleitner et al., 2010) or in in-family M&A (Trevinyo-Rodríguez et al., 2024). In many of these cases, buyers (such as private equity firms or family offices) often establish maintenance and noncompete clauses for family members over a transactional period (Binz Astrachan et al., 2021). This practice underscores the importance that family managers typically hold in the development of family firms and, consequently, in both the economic and share value of the firm.

It must therefore be agreed that EmV_{ED} is a non-visible, intangible element. However, it is perfectly perceptible within the corporate environment and firm culture, and thus affects value, especially for family investor-owner. EmV_{ED} is considered a unique asset. As such, it is complex to generalize a single measure for it that would help define a valuation model at either the micro (firm) level (Álvarez et al., 2012) or the meso or macro level (Van Criekingen et al., 2022)

Admitting that EmV_{ED} is an intangible asset, one of the valuation methods used for this type of element (IVSC, 2020) can be employed to assign it an individualized value, regardless of whether it may be recognized in the financial statements (IASB, 2017). Although further research is needed in this regard, a feasible method would be the residual income method or excess earnings method (Rojo-Ramírez, 2023; Trugman, 2009). The fundamental idea of this method is that income attributable to intangible assets is the income that exceeds the fair return of all assigned assets contributing to the income-generating process, which implies that all income-producing assets must be measured at fair value (Grant Thornton, 2013). This methodology is grounded in the firm's capacity to surpass its industry peers in revenue generation while employing similar physical assets and production inputs (Dong & Doukas, 2025). Although this method is only admitted by the accounting system for goodwill in special cases (IASB, 2017), it is generally recognized that excess earnings are positively related to better

8. A line of research exists regarding emotional value from the perspective of marketing, consumers and brands (e.g., Kato, 2021).

firm performance and valuation (Bagna et al., 2024).

For its part, institutional value is a form of emotional value perceived primarily by family members (EmV_{ID}) and therefore, much more elusive than EmV_{ED}. Its roots are less accessible because they are affective issues and are further complicated by the heterogeneity among family firm members. EmV_{ID} is that part of the value of a business (as perceived by the owner) that is not explained by financial considerations, which causes the market price to deviate from the fundamental value on which it is based. Since this type of value is specific to each family member, it can only factor into a possible negotiation between external investors and the family firm representatives, which necessitates consensus and leadership within the family firm. Consequently, we suggest that its components are not part of the firm's inherent value but part of the market price. However, it is important to recognize the significant efforts being made to calculate it in monetary terms (Ruiz-Roqueñi, 2022).

5. Discussion

Firm value is central to the process of business valuation (Riad & Daellenbach, 2019). In this respect, the financial value to a firm's shareholders is derived from the theory of utility (Mongin, 1997) and is well-established in both theory and practice (Bancel & Mittoo, 2014; Mazzariol & Thomas, 2016). Given that most firms are family-owned, the underlying theory supporting valuation models is necessarily linked to family firms. However, the significant and abundant research stream on family firms often appears to overlook this association, treating the valuation of family firms as merely a special case within general valuation models (Chrisman et al., 2024)

In this sense, and drawing upon abstract and deductive models derived from observed reality, we argue here that the financial equity value of a family firm (FEqV) is not simply the sum of a non-family firm's financial value (EqV) and the emotional value (EmV), as proposed by Astrachan and Jaskiewicz (2008). Conversely, the system employed here allows for the establishment of a theoretical and conceptual framework on value formation in family firms that will support advancements in the study of M&A processes (Hossain, 2021). The EqV is viewed as part of a broader financial family firm equity value. At the very least, the equity value of the family firm (FEqV) cannot be equated with that of a non-family firm, as it encompasses dimensions that extend beyond purely financial considerations. Ultimately, when a firm's value is calculated, it already reflects the influence of family management and ownership on strategic decisions (Rau et al., 2019) and consequently, includes the emotional value that owners, whether family or not, ascribe to the business (Martínez-Romero & Rojo-Ramírez, 2016, 2017; Martin et al., 2024).

Our positioning is based on two main arguments: first, that most firms are family firms; and second, that the cash flows proceeding from management reflect the effects of the organizational form and the strategy applied. This leads us to the proposition that when theorists and practitioners apply valuation theory to value a firm, they are, in effect, valuing a family firm. The valuation of a non-family business is thus a special case that largely discounts the emotional value inherent in family firms. This proposition aligns with the call for the establishment of an economic theory of family firms (Chrisman et al., 2024).

So far, the different studies regarding the emotional value have considered it to be unique (Martínez-Romero & Rojo-Ramírez, 2016). However, the idea defended here is that the emotional value has two complementary dimensions. An economic dimension (EmV_{ED}), which refers to the impact that family ownership and family management have on the firm's strategy. And an institutional dimension (EmV_{ID}), which refers to the appreciative aspects that family members hold regarding the firm as a substantial anthropological part of the family and its origins. This second dimension, although measurable using different forms and scales (Berrone et al., 2012; Naldi et al., 2024; Ruiz-Roqueñi, 2022), makes it impossible to generate a model aimed at determining its specific economic and financial value because it represents a distinct psychological component for each individual.

The breakdown of emotional value is of great interest because it serves, on the one hand, to better understand different research approaches such as *familiness* (Habbershon & Williams, 1999) and *emotional endowment* (Zellweger & Dehlen, 2011). It is argued that although both, EmV_{ED} and EmV_{ID}, are of the same origin, they need to be analysed differently due to their impact on firm value: the former is included in firm value, while the latter takes part in price formation. On the other hand, this split constitutes a powerful element for the analysis of M&A transactions and their performance (Palm et al., 2024), since it helps to explain different positions of the buyer and seller, thus facilitating the intermediation work. Furthermore, it allows us to differentiate intra-family or close-family M&A cases (Zellweger et al., 2016) from sell-out M&A transactions (Graebner & Eisenhardt, 2004).

M&A operations constitute an increasingly used strategy for growth and competitiveness (Hossain, 2021; López-Delgado et al., 2024), yet they are characterized by high rates of abandonment during negotiation (Kumar et al., 2023) or even failure after the deal closes (Koi-Akrofi, 2016). Valuation is a critical aspect of deal-making in M&As (Cumming et al., 2023). Therefore, it is essential to understand not only the value of the firm but also its component elements, given that, according to our proposition, the calculated value is oriented toward family firms. This knowledge can help experts in their advisory role. The split of emotional value can help explain why some family owners are more biased than others when assigning a value to their ownership stake (Zellweger & Dehlen, 2011) and, by adopting a configurational approach (Meyer et al., 1993), it assists investors in making decisions in corporate M&A affecting family firms.

In line with Zellweger and Dehlen (2011), although adopting an inverse approach, this article argues that in non-family firms, where the influence of emotional aspects is considered low, the price external investors are willing to pay for a family firm is biased downwardly. This is because they are unwilling to assume the emotional value characteristic of the family firm. This bias affects both the intrinsic value of the firm, which includes the influence (positive or negative) of managers and family owners- and the final price, which disregards the affective value held by family members.

In order to support intermediaries and participants in M&A negotiations, it is useful to provide guidance on how to assess emotional value. This is a complex task (Clausen & Hirth, 2016), particularly at the micro (firm) level due to its intangibility. Furthermore, the underlying research is extremely scarce, making it appropriate here to provide some insight into this topic and the relevant research carried out.

Finally, calculating the emotional value of family firms remains a significant issue requiring further study and debate (Astrachan & Jaskiewicz, 2008), particularly at the firm level. An alternative is offered here for measuring and assessing the emotional component of an economic nature (EmV_{ED}). Substantially, this methodology is based on the concept of intangibility and the criteria that currently exist for their valuation (IVSC, 2020), which is grounded in the firm's capacity to surpass its industry peers in revenue generation while employing similar physical assets and production inputs (Dong & Doukas, 2025). From an operational point of view, even greater efforts are required to fully calculate the emotional value.

6. Contributions, Limitations and Future Research Lines, and Conclusion

6.1. Contributions

This article contributes to the current literature in several different ways. First, it accepts and supports the point of view presented in the recent study by Chrisman et al. (2024, p. 697), who argue that "*Merely applying existing economic theories of the firm to the realm of family business is inadequate*...". Accordingly, the theory of value in this piece of research is observed from the perspective of the firms that constitute the majority of the business universe, positioning the family firm as the fundamental axis of economic theory. This recognition of the family firm's role is extremely important since it transfers theory formation to where it truly belongs. In this way, it is the non-family firm that becomes the exception, rather than the family firm. This approach is significant for both operational and research purposes.

Second, this article addresses the suggestion and challenge of previous authors who point out the need to build a theoretical framework for the value associated with family firms (Astrachan & Jaskiewicz, 2008). However, we take the opposite view: when we estimate the firm value, the calculated value is argued to inherently reflect the valuation of a family firm; while the non-family firm value must be derived from the family firm value. This perspective opens new insights for both research and practice, responding to the challenge pointed out by Schulze and Kellermanns (2015, p. 9) when they state, "*The challenge is that theory concerning precisely where SEW resides or how it might aggregate has yet to be developed*".

Third, our study extends previous research, such as that by Zellweger and Astrachan (2008) or Astrachan and Jaskiewicz (2008), by splitting emotional value into two dimensions: the economic dimension and the institutional dimension. This division can help to better understand the results of M&A transactions (Cao et al., 2023). As previously noted, this recognition is important because the study and approach of each dimension by researchers and practitioners must necessarily differ. The economic dimension is measurable and assessable, whereas the institutional dimension only emerges in a M&A transaction. Furthermore, the emotional value split allows us to develop a taxonomy of family firm values that can serve as a valid starting point for future research and can help to explain the M&A negotiation process.

Fourth, in line with Brigham and Payne (2019) who highlight the need for more theoretical and empirical development in the important and fast-growing area of SEW research, this paper also extends and contributes to SEW theory. We achieve this by splitting, for the first time, the two dimensions of emotional value. This division allows us to approach the firm's economic-financial value from a more realistic perspective by positioning the family firm as the centre of gravity of firm valuation. Furthermore, institutional emotional value constitutes a large part of the research conducted in various papers on SEW. In this sense, two distinct lines of research are opened, requiring necessarily different approaches and procedures, which could help to better understand the often inconclusive results (Barros et al., 2017) of research carried out so far.

Fifth, although it remains an open topic for debate, a mechanism based on intangibility criteria is proposed to address the valuation of the economic dimension of emotional value. This approach aligns with current accounting rules, particularly those concerning business combinations (IASB, 2017). In doing so, a link is established with the existing stream of research on intangible assets, particularly regarding the calculation of their value.

6.2. Limitations and future research lines

Our study suffers from several limitations, which in turn pave the way for multiple future research directions. First, the research presented here is conceptual and largely makes sense in the field of firms that are recognized as family-owned (Chrisman et al., 2024). We argue that the theory of value should be approached from the perspective of family firms, particularly unlisted firms, and more specifically, in the context of valuation and M&A operations. Thus, our proposition, arguing that theory should be approached from the perspective of family firms, opens an important avenue for research. The research conducted to date in this field, both theoretical and empirical, can be re-evaluated the other way round, that is, now considering that non-family firms are a special case of family firms.

Second, the influence of the economic dimension of emotional value is not homogeneous across all family firms, and even non-family firms, but depends considerably on the family's goals, the level of family involvement in management, the firm itself, and the resources available across family firms (Daspit et al., 2023). In line with Zellweger and Astrachan (2008), we argue that empirical studies are needed in this regard that consider the differing roles of owners, their involvement in the firm, and their ownership stake.

In addition, the legal, social, and economic environment has not been taken into account when analysing M&A strategies in family firms, which undoubtedly influences the outcome of a negotiation. In line with Tao-Schuchardt et al. (2023), we encourage future research to explore how differences in negotiation capabilities (of family firm targets) and different types of acquirers influence the prices paid for firms in acquisitions according to the different levels of negotiation proposed in Figure 1.

Finally, while we are conscious of the difficulties and challenges involved in assessing emotional aspects, at this stage, research is needed on how to assess the economic dimension of emotional value, considering the heterogeneity of family firms. There appears to be an incipient stream of research in this respect, but further investigation is needed concerning existing methods for valuing intangible assets for use in economic analysis (Van Criekingen et al., 2022), particularly in the context of economic dimension of family firms' emotional value.

6.3. Conclusion

In conclusion, our study permits the establishment of a theoretical and conceptual framework on value formation in family firms. This framework serves as a support to advance the study of M&A processes by offering a synthetic analysis capable of capturing the limits and dynamics of the evaluation process with a transversal and interdisciplinary vision.

Author contribution statement

The authors contributed equally to the work.

Conflict of interest statement

None.

Ethical statement

Nothing is needed.

Declaration on the use of generative AI in the writing process

The authors have not used AI.

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Data availability statement

No dataset was generated or analyzed in this study.

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