

**IMPACT OF FAMILY INVOLVEMENT IN OWNERSHIP AND MANAGEMENT ON FIRM  
PERFORMANCE: EVIDENCE FROM SPAIN**

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## **IMPACT OF FAMILY INVOLVEMENT IN OWNERSHIP AND MANAGEMENT ON FIRM PERFORMANCE: EVIDENCE FROM SPAIN**

### **Abstract**

In this study, we analyse whether family involvement in ownership and management affects firm performance. We find empirical evidence on a significant and positive association between family involvement on ownership and firm performance based on Spanish firms listed on Spanish Stock Market, over the period from 2008 to 2014. Besides, our results suggest when founder or heir assume active role in the day-to-day activities, they positively influence decision making on performance measures. In addition, our results suggest that family firms tend to be more profitable when the descendent holds CEO/Chairman position than when the founders themselves

assume positions. A possible reason for the above findings might be the high quality of education the descendent receives, which allows to improve performance.

**Keyword:** Family owner, management, performance.

**JEL:** J31, L25, G32

### **Resumo**

Neste estudo é analisado se o envolvimento familiar na propriedade e gestão de uma empresa afeta o seu desempenho. Nós encontramos evidência empírica que existe uma relação significativa e positiva entre o envolvimento familiar na propriedade e o desempenho da empresa para uma amostra de empresas espanholas registadas no mercado de capitais espanhol, durante o período 2008-2014. Além disso, quando o fundador ou o herdeiro assumem um papel activo nas actividades diárias, influenciam positivamente a tomada de decisão sobre as medidas de desempenho. Os resultados sugerem que as empresas familiares são mais lucrativas quando o descendente ocupa o cargo de CEO / presidente do que quando os próprios fundadores assumem cargos. Uma justificação possível refere-se à elevada qualidade de formação que o descendente recebe, contribuindo para o aumento do seu desempenho.

**Palavras-chave:** Propriedade familiar, gestão, desempenho.

## **INTRODUCTION**

In this study we examine whether family involvement in ownership and in management is related to firm performance for Spanish firms listed on Spanish Stock Exchange. In fact, prior literature document that the family involvement both in ownership and in management has been the prevalent and of better performance over non-family businesses. The reason is that corporate governance strategy views

family ownership as potential instrument to correct the action of risky managerial behaviour at the expense of shareholders (Eddleston et al., 2008; Uhlaner et al., 2010; Eddleston and Kellermanns, 2007; Corbetta and Salvato, 2004; Le Breton-Miller et al., 2011). As ownership gets more concentrated, family members are motivated by self-interest and may avoid risk, thus allowing a constant flow of dividends (Le Breton-Miller and Miller, 2009, Le Breton-Miller et al., 2011; Chirico and Bau, 2014).

Prior studies have devoted much attentions on the relationship between family involvement in ownership and management on firm performance (Kowalewski et al., 2010; Sciascia and Mazzola, 2008; Martínez et al., 2007). Although these studies have shown collective findings in the literature, such as positive, negative and null relationship between the two concepts and the difference measure of firm performance, most have drawn the sample from US and other European countries.

For instance Martínez et al. (2007), using a simple of 175 Chilean listed firms examine the relationship between family ownership and firm performance for family and non-family firms. Their results support the ideas that family-controlled firms performed significantly better than non-family firms. In addition, Allouche et al. (2008) obtain similar findings using Japanese firms, conclude that family companies perform better than nonfamily businesses. However, Sciascia and Mazzola (2008) did not find any association between family involvement in the ownership and performance for the Italian companies. Their study suggests that the presence of the family in the ownership and management of the firm can be an advantage (a corporate governance strategy for solving conflict of interest between managers and shareholders) or a disadvantage (family opportunism) for company competitiveness. Anderson et al. (2004) adds that an effective corporate governance mechanism is

one that limits the controlling family or shareholders from engaging in undesired behaviour at the expense of the minority shareholder (family opportunism).

The presence of the conflicting argument in the family business literature and the mixed results led us to suspect that Spain provides an interesting case to examine the influence of family involvement in framing a corporate governance strategy for firm performance, which differs from those in US, Japan, Chile, Poland and Italy. Our study aims to explore whether there is a statistically significant relationship between family involvement in ownership and firm performance of Spanish firms. Two distinct issues are illustrated; the relationship between family involvement in ownership and firm performance is addressed as the first issue. Second, we show whether family members as active management have a significant impact on firm performance.

This study is based on ownership and financial data on 116 firms registered in the Spanish Stock Exchange from 2008 to 2014. This sample was obtained from the whole list of 417 listed firms in the SABI database. After excluding utility and financial firms and companies with uncompleted financial and ownership information, our final sample was 116 firms, of which 61 firms with family-control and 55 firms with nonfamily-control. Our main findings can be summarized as follows. We find evidence of significant and positive relationship between family involvement in ownership and firm performance as measured by the Tobin's Q (market value of common equity plus book value of total assets minus book value of common equity, divided by book value of total assets), and ROA (return on assets with EBIT and EBITDA as numerators). Therefore, family controlled firms significantly outperformed non-family firms. Family firms with founders or heirs who held active position in the management have a positive and significant effect on firm performance. Moreover,

family firms with descendants as CEO significantly enhance the performance of the firm.

These findings contribute to the existing family business literature in the following aspects: the finding points to a positive characteristic of family involvement in day-to-day management, which is unlike previous studies (Martinez et al., 2007; Sciascia and Mazzola, 2008; McConaughy et al., 2001; Campopiano et al., 2014; Dodd and Dyck, 2015). We verify that families holding active management positions are positive and significantly related to firm performance.

Second, the over performance of family firms can be viewed as a corporate governance strategy to resolve the agency problem that exists between ownership and management (Schleifer and Vishny, 1997; Dyer and Whetten, 2006; Kowalewski et al., 2010; Chrisman et al., 2012). However, the proposed solution to the agency problem results in a new agency cost as ownership becomes more concentrated. Therefore, the presence of a second blockholder to counterbalance the power of the controlling shareholder or family is inevitable. We did not advance much detail on the influence of the second blockholder. This behaviour is consistent with the stewardship perspective of the firm.

The article is organised as follows: Section 2 presents an overview of the literature review and the hypothesis formulation. In Section 3, we describe family ownership in Spain. Section 4 provides a description of the methodology, data collection and hypothesis. Section 5 presents the presentation and discussion of results, and the article concludes by highlighting the contributions and possible future developments of this study.

## RESEARCH QUESTIONS

### *Family Ownership and Firm Performance*

Recent studies on family business literature have provided evidence on the impact of family ownership on firm performance (Martínez et al., 2007; Kowalewski et al., 2010; Stockmans et al., 2010; Lumpkin and Brigham, 2011; Bird and Wennberg, 2013). For instance Martínez et al. (2007) employ a set of 175 Chilean firms from 1995 to 2004, suggest that public family firms have better and superior performance over their counterpart firms. Their findings were consistent with Eddleston et al. (2008) and Miller et al. (2008), as the over performance of family firms is due to their family managers who are more visionary than managers of nonfamily firms, Uhlaner et al. (2012), and encourage continual investment policies, innovation and commitment to customers (Miller et al., 2008).

Firm managers are usually firm owners who have direct supervision of their firms, thus, enhancing a substantial alignment of interests between the shareholders and their managers (Anderson et al., 2004; Miller and Le Breton-Miller, 2006; Naldi et al., 2015; Drakopoulou Dodd and Dyck, 2015). Kowalewski et al. (2010) find that the relationship between the share family ownership and firm performance is an inverted U-shape. In addition, they indicate that family firm with family CEO over-perform their counterpart with nonfamily CEO in Poland. Anderson et al. (2004) find over the period examined that, the over-performance of family firms against their counterpart nonfamily firms increases and decreases. Villalonga and Amit (2006) support the results of Anderson et al. (2004) (by adding that when the founder serves as CEO or Chairman of the family, the values are created, unlike when values are destroyed as his heirs is a CEO or Chairman in the business. In the light of the above, firms are conditioned to poor performance when their ownership is different from control.

In addition to the degree of family ownership and firm performance, previous studies disputed that people are self-interested and prone to acting “opportunistically” (Eddleston et al., 2012). Family owners often select managers on the basis of personal relationship in order to prevent opportunistic behaviour and the confiscation of shareholder wealth (Greco et al., 2015). This separation of ownership among family members is a further vital measure that may influence the firm performance (Le Breton-Miller et al., 2011; De Massis et al., 2013). Family ownership gets dispersed over time as the founding owner divides his ownership among his or her children and finally ownership to a cousin’s consortium stage. Schulze et al, (2001) and Dodd and Dyck (2015) investigate the change in agency relationship as a result of shifting from family ownership concentrated to a dispersed ownership. Their findings show that there is no association between the traditional agency problem and the fractional ownership when the founder divides his ownership among family members. The family relationships are likely to enhance within-group alliance of ownership interests that are not common in their counterpart firms (De Massis et al., 2013). Demsetz and Lehn (1985) report benefits of family ownership. They add that concentrated ownership has substantial economic carrots as the family owner keeps a full watch on the manager thus maximising the value of the firms and resolving agency conflicts.

According to Anderson et al. (2004) and Casson (1999) family firms may benefit from lower cost of debt financing simply because of long-term presence of the family in the ownership, as opposed to their counterpart nonfamily firms with separate ownership and control. Less managerial manipulations are associated with firms with longer investment horizons. These authors show that family firms invest

more efficiently than nonfamily firms because the family wants to grow beyond and pass the firm onto succeeding generation (Martínez et al., 2007: 84).

Some authors claim that when ownership gets more and more concentrated in the hands of the controlling shareholder, like other large undiversified shareholders, he/she might pursue different objectives as compared to those of the diversified shareholders. This implies seeking for strategies that enhance firms' survival and growth rather than maximising profit and increasing shareholder benefits (Fama and Jensen, 1985; Martínez et al., 2007; Stockmans et al., 2010). DeAngelo and DeAngelo (2000) and Facio et al. (2001) examine the relationship between the controlling shareholder and extract of private benefits from the firm. They concluded that the extracts of private benefits are mostly assessable through special dividend, related-party transactions or excessive compensation.

In the light of the above argument, Greco et al. (2015) examine whether the accounting behaviour regarding long-lived assets write-offs of family firms differs from their counterpart nonfamily firms. Using 142 listed firms from the Italian Stock Exchange in the period 2006-2010, argue that write-offs are coherent with firm performance for family firms, whereas write-offs for earnings management purposes are used by nonfamily firms. Their findings suggest that owner-manager agency conflicts is reduced in family firms, meanwhile no indication of family owner being concerned with the reputational damage associated with a loss of a firm's asset value (Greco et al., 2015: 367).

By looking at the generational stage, the management team and the CEO position in some specific type of private family in the Flemish economy, Stockmans and Voordeckers, (2010) investigate the preserving of socioemotional wealth as a motive for earnings management. Their findings suggest that preservation of

socioemotional wealth is responsible for founder-led private family firms to have greater incentive to engage in upward earnings management. They conclude that when firm performances are poor, the socioemotional wealth acts as motive for upward earnings management.

Singal and Gerde, (2015) acknowledge the importance of diversity management policies in the financial performance of family firms. Their sample consists of 952 unique firms with Tobin's Q as measure for financial performance from the Compustat and MSCI ESG over the period 1991 to 2011. Their findings suggest that based on diversity performance indicators, nonfamily firms outperform family firms. They add that one reason for robust financial performance in family firms is due to the weaker diversity management practices.

In Spain, Marques et al. (2014) investigate the heterogeneity of family firms in their engagement with corporate social responsibility. Using a case of 12 Spanish family firms, they build on the stewardship theory and socioemotional wealth to explore the foundations of CRS in family firms. They concluded that the extent and the scope of corporate social responsibility are influenced by the pattern of family involvement and values.

Considering the argument presented above, this study moves forward to answer the fundamental question: As compared with nonfamily firms, are family controlled firms of better performance? Family business may benefit from some important number of advantages or strengths which make them superior over nonfamily firms. However, some findings suggest that family firms also suffer from disadvantages or weaknesses which are benefits for nonfamily firms. For instance, family firms may benefit from the perspective of agency cost between managers and owners. Other advantages of concentrated ownership firms are long-run perspective,

higher unity of goals among shareholders, quicker decision making, stronger culture that comes from family values. The weaknesses of family firms are compensated by the strengths, thus, family firms not only survive but also become very successful in the long run. Therefore, we posit the first hypothesis,

***H1: Family controlled firm have better performance than nonfamily firms in the Spanish Stock Market.***

Furthermore, we theorize that family involvement in management interacts with family involvement in ownership to positively influence firm performance. In particular, we consider the number of family members that actively participate in the day to day running of the firm to positively affect the firm performance. Prior studies such as Eddleston et al. (2008), Goel et al. (2011) and Le Breton Miller and Miller (2013) argue that the day to day involvement of the family member is very crucial in sustaining, and enduring a stable family control, thus, enhancing firm performance. Chirico et al. (2011) and Eddleston and Kellermanns (2007) add that family member participation in the daily activities of the firm foster shared goal and positive feeling toward business commitment and collaboration, unlike some family businesses where the founder remains passive in the day to day management of the business affairs.

Another group of related studies point a positive and significant association between CEO or Chairman's position and firm performance (Stockmans and Voordeckers, 2010; Villalonga and Amit, 2006; Anderson et al., 2004; Chrisman et al., 2004; Lubatkin et al., 2005; Gómez-Mejía et al., 2007). Following the illustration in Stockmans and Voordeckers (2010) and Villalonga and Amit (2006), we deduce

the CEO/Chairman property of a family firm into three distinctions: a founder CEO/Chairman, a descendant CEO/Chairman, and the outsider CEO/Chairman. These studies show that CEO/Chairman provides an important setting as the founder CEO/Chairman has a profound influence on the firm performance.

Gedajlovic et al. (2004) and Chrisman et al. (2004) advance that the possible reason for the founder serving as CEO/Chairman is because of the concentration of power. The Founder CEOs have the ability to pursue goals different from those of profit-maximising firms and have discretion in their action, which might negatively affect the firm's performance. Stockmans and Voordeckers (2010: 283) note that founder CEOs have the incentive and the power to influence firm performance through earnings management. Meanwhile, heir CEOs are less motivated to preserve socioemotional wealth and to engage in firm performance programs (Lubatkin et al., 2005; Góme-Mejía et al., 2007; Lubatkin et al., 2005).

Villalonga and Amit (2006) extend the research done by Anderson et al. (2004) and their results suggest that firms with active founder as CEO or Chairman outperform family firms with descendants as CEO or Chairman. They claim that firms' performances are mostly affected negatively by ownership and control mechanisms such as cross-holdings, pyramidal structure or dual-class share. Finally, their findings suggest that these characteristics of family firms do influence their performance. In Europe, Barontini and Caprio (2006) provide similar evidence to those of Villalonga and Amit (2006). According to them, family firms with founder or descendants as CEO or Chairman outperform other firms; however, family firms with founder as CEO outperform family firms with descendants as CEO. Also, if no member of the family is involved in the management (passive), and then the firms perform worse.

Some authors have shown the increasing need of family firms employing outsider CEO to optimize the firm performance (Chua et al., 2003; Le Breton-Miller et al., 2004; Pérez-González, 2006). They argue that the employment of an outsider CEO may be due to no qualified family member available, or to prepare the next generation of family members. Based on the argument above, we postulate,

*H<sub>2</sub>: Family members as CEO or Chairman positively influence firm performance*

### **Definition of Family Firms**

The criterion for classifying family controlled firms and non-family firms was based on previous related studies (such as Anderson et al., 2004, Martínez et al., 2007 and Marques et al., 2014). According to Anderson et al. (2004), firms are classified as family when the average outstanding equity owned by families is 18%. Martínez et al., 2007, employ several control to classify family and nonfamily firms. To them, a firm is considered as family firms when family members participate as members in the board of directors and/or top management. The ownership structure of the firm must clearly reveal members of the family as board of directors.

In Spain, Marques et al. (2014) support the impact of family firms in the Spanish economy and how they generate approximately to 70% of Spanish gross domestic product and employment. Following the criteria selection for family firms as adopted in Eisenhardt and Graebner, (2007) and Chrisman et al. (2003), they argue that family firm is one where a family has a controlling part of shares and at least one person of the family must be involved in the management or governance. They add

that firms with 80% or more of shares within the family are classified as dominant ownership (Martínez et al., 2007: 6).

A review of most studies published in the family business review regarding the definition of family firm shows similar criteria as illustrated above, however, no study used a similar percentage of ownership of family firms. For instance, some authors support that there is no clear universal definition of family stake in ownership (Kowalewski et al., 2010; Chua et al., 1999; Anderson et al., 2004). Barth et al. (2005) use a cut-off point of 33% to classify whether a firm is family or not. La Porta et al. (1999) provide a different cut-off point of 20% for direct and indirect voting rights of a controlling shareholder in a family firm. Meanwhile, Kowalewski et al. (2010) consider a firm to be a family controlled firm if a controlling shareholder has direct and indirect voting rights exceeding 25%.

Following these strategies, the classification of family and non-family firms of this study was based on the construction of ownership structure in the Iberian Balance Sheet Analysis System (SABI) of the Bureau Van Dijk. The constructions focus on the holding of a shareholder's ultimate voting rights across firms which differs from the ultimate cash flow rights. Firms are classified through the aid of the BvD independence indicator available in SABI. The BvD independence indicator has 5 levels such as "A", "B", "C", "D" and "U".

According to SABI, Independent Indicator "A", denotes that a company is said to be independent if the shareholder must be independent by itself (i.e no shareholder with more than 25% of ownership of ultimate voting rights, consistent with Kowalewski et al., 2010); whereas Independent Indicator "B" is when no shareholder with more than 50%, but there exists one shareholder with voting rights between 25.1% to 50%, consistent with Barth et al. (2005). For a company to be

classified with Independent Indicator “C”, the company must have a recorded shareholder with a total or a calculated ownership of 50.1% or higher (consistent with Marques et al., 2014), whereas a company is classified as “D” when a recorded shareholder has a direct ownership of over 50% with branches in foreign countries. Independent Indicator “U” is applied when a company does not fall into the categories “A”, “B”, “C” or “D”.

Based on the above features and prior studies, a company with a shareholder having more than 25% of direct and indirect ownership is classified as family while firms with no shareholder with more than 25% of direct and indirect ownership are classified as widely held firms. This threshold of 25% allows shareholder to have significant influence on the firm (Kowalewski et al., 2010; La Porta et al., 1999; Barth et al., 2005). Firms categorized with “A” are widely held firms while firms in “B”, “C”, “D” are family firms.

We eliminated firms under the category “U”. Also, we incorporate the information relating to family management. We check for the name of the CEO, Chairman, and board members, and if they are family members with a daily participation in the management of the family firm. This information is very important because it helps us to check the performance of family firms with active owners versus passive owners. A miscellaneous category pools all firms with blockholders that don’t represent any of the categories above, meanwhile firms with government as shareholders were eliminated due to the limited number. Appendix summarizes the ownership structure of this study.

## **RESEARCH DESIGN**

## **Sampling and Data Collection**

In this section, we examine the ownership structure and firm performance of listed family business using data constructed based on the Iberian Balance sheet Analysis System (SABI) of the Bureau Van Dijk, containing detailed financial and ownership information on more than 2000,000 Spanish businesses. We employ the CNAE 2009 classification code and excluded all financial and utilities firms using the industry classification CNAE 64-66; CNAE 84; CNAE 94; CNAE 97-99.

Furthermore, non-profit entities such as social clubs, sports clubs, and school were excluded from the sample. The reason for the exclusion of firms in these industries are strongly regulated and influenced by the government. All firms with incomplete accounting and ownership information were excluded from the study. Our final sample consists of 116 firms and 812 firm-year observations listed in the Spanish Stock Exchange over the period 2008 to 2014. Using the definition of family and nonfamily firms as illustrated above, 61 firms were classified as family-controlled firms and 55 firms as nonfamily firms.

Regarding the industries, Table 1 shows the total list of 116 firms classified by the four-digit CNAE 2009 code. Family firms are predominant in almost every sector: accounting services; real estate; hotel and model service; pharmaceutical product; wine and grape; other services; medical research; glass fibre; construction and food, beverage and tobacco. On the other hand, family businesses have lower presentation in air transport; oil and gas production; railway and tramway; engineering machinery; and security services.

Additionally, 53% of firms are classified as family firms, of which 51% are managed by founders, 33% are managed by heirs and 16% by outside CEOs. However, 47% of the observations are classified as non-family firms.

**Table 1:** Number and % of firm-years observation for ownership type and each CNAE 2009 code

CNAE 2009 Code	Industry description	All firm s	Widel y Held	FAMIL y Firm	Founde r	Heir	Outsi de CEO	Family
								Firm in Industr y (%)
6920	Accounting services	25	15	10	8	5	3	40%
7400	Air Transport	2	1	1	1	0	0	50%
3111	Casting, iron and steel manufacturing	3	2	1	1	0	0	33%
2420	Cement	2	0	2	0	0	0	100%
5014	Construction	3	1	2	1	1	0	67%
9212	Dustman	1	0	1	0	0	1	100%
5041	Television, radio and phone	3	0	3	2	1	0	100%
6400	Food, beverage, Tobacco	2	2	0	0	0	0	0%
2464	Glass fiber	4	2	2	1	1	0	50%
3111	Engineering Machinery	5	2	3	1	0	1	60%
6810	Hotel and model service	2	0	2	0	2	0	100%
5014	Medical equipment	3	2	1	1	0	0	33%
3299	Chemicals	1	1	0	0	0	0	0%
4239	Other Miscellaneous foods	2	1	1	1	0	1	50%
2542	Pharmaceutical product	6	2	4	2	1	0	60%
4251	Wine and grape	3	0	3	1	1	1	100%
9362	Medical Research	2	1	1	1	0	1	50%
4112	Oil and gas production	1	1	0	0	0	0	0%
5014	Other Service	9	7	2	2	0	0	22%
1515	Electricity	3	2	1	0	0	0	33%
4534	Outerwear	2	0	2	1	1	0	100%
4721	Paper and board	1	0	1	0	1	0	100%
3811	Railway and tramway	1	1	0	0	0	0	0%
8330	Real estate	13	4	9	5	3	1	69%
8494	Security services	1	0	1	1	0	0	100%
7112	Technical Engineer and architectural	2	1	1	0	1	0	50%
7600	Telecommunication	2	1	1	0	1	0	50%
4112	Olive oil production	1	0	1	0	0	0	100%
5014	Other Service	9	7	2	1	0	0	22%
1515	Electricity	1	0	1	1	0	0	100%
5041	Electrical television and Phone	1	0	1	0	0	0	100%
	Total	116	55	61	31	20	10	53%

## Firm Performance Measures

This study uses three measures of financial performance as illustrated in Martínez et al. (2010); Anderson et al. (2004); Sraer and Thesmar (2007) and Villalong and Amit (2006). According to Anderson et al. (2004); Martínez et al.

(2007), market performance can be defined as (market value of common equity plus book value of total assets minus book value of common equity) divided by book value of total assets. That is:

$$Tobin's Q = \frac{\text{Market Capitalization} + \text{Total Debt}}{\text{Total Assets}}$$

Meanwhile, accounting performance is measured using the return-on assets. To calculate return-on asset, we employ ROA (EBIT) as Earnings before Interest and Taxes divided by total assets as well as ROA (EBITDA) as Earnings Before Interest Taxes, Depreciation and Amortization divided by total assets.

$$ROA = \frac{EBIT}{\text{Total Assets}}$$

$$ROA = \frac{EBITDA}{\text{Total Assets}}$$

### **Control Variables**

To control for industry and firm characteristics in the two-fixed effect model, five variables were introduced:

Firm size (computed based on the natural log of total assets)

Industry (Four-digit CNAE 2009).

Company age (Years of established)

Volatility (Standard deviation of monthly return)

Leverage (total book value of debt/common shareholders' equity)

## Statistical Methods

This study used two statistical methods in Martínez et al. (2007) and Anderson et al. (2004) to test the hypothesis of over performance of family firms and their counterpart firms. First, we run tests of difference of mean between family and non-family firms regarding their performance (Martínez et al., 2010).

Second, a two-fixed effect model is employed with each industry and each year as dummy (Anderson et al., 2004). The regression equation is illustrated as follows:

$$\text{Firm performance} = \alpha_0 + \alpha_1 (\text{Family firm}) + \alpha_2 (\text{control variable}) + \alpha_3 (\text{year dummy}) + \alpha_4 (\text{CNAE 2009 industry code}) + \varepsilon$$

Where,

Firm performance: Tobin's Q and return on asset with EBIT and EBITDA as numerators.

Family firm takes: dummy equals 1 when a firm is a family firm or zero otherwise

Control variable: refers to size (logarithm of total assets), leverage (total book value of debt/common shareholders' equity), investment intensity (capex/PPE), age (logarithm of the date of establishment), and return volatility (standard deviation of monthly returns), growth opportunities (increase in one-year sales).

Industry dummy: equaling 1 as dummy for each CNAE 2009 classification code,

Year dummy: equals 1 for each year considered in the analysis (seven dummies).

One important observation concerning the Tobin's Q is that sometimes the values are extremely high, which might cause our dependent variable to possess some features of outliers. To correct this, we considered the logarithm of Tobin's Q.

## EMPIRICAL IMPLEMENTATION

Table 2 summarizes the descriptive statistics of our firm-level variables for the complete sample used in the study. On average, the sample firms are more profitable even though there is high variability for the firm performance.

**Table 2:** Descriptive statistics of the sample

	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Standard Deviation</b>
Tobin's Q	0,00	7,68	0,47	0,86
Return on assets (EBIT)	-1073,68	822,40	1,12	51,92
(%)				
Return on assets (EBITDA)	-4,68	0,95	0,03	0,21
(%)				
Family firm	0,00	1,00	0,51	0,50
Non-family firm	0,00	1,00	0,48	0,50
Family Chairman	0,00	1,00	0,14	0,35
Family CEO	0,00	1,00	0,76	0,43
Family CEO and Chairman	0,00	1,00	0,10	0,30
First generation	0,00	1,00	0,54	0,50
Second generation	0,00	1,00	0,44	0,50
Sale Growth (%)	-98,86	13767,64	61,30	580,13
Capital expenditure/PPE	-3695,98	30,56	-10,46	150,27
Total debt / shareholder's equity	-20,36	79,71	21,05	3,59
volatility	0,00	1,43	0,09	0,11
Firm size (total assets	2,00	93118,71	3093,35	10135,05
000,000 euros)				
Age (Years of Establishment)	7,52	115,77	46,01	28,52

The variable for the analyzed sample of 116 firms and 812 firm-year observations includes Tobin's Q, return on assets, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. Family firm denotes a dummy taking the value 1 if the firm has a family or individual with 25% or more voting rights, Family CEO, Family Chairman, and Family CEO and Chairman indicates a dummy equaling 1 if a family member is CEO, Chairman, CEO and Chairman, respectively in a family firm. According to SABI, Non-family are those with no shareholder has at least 25% of voting rights. Source: Authors elaboration

Table 3 reports the difference of means tests results between family and nonfamily firms. The tests were conducted for the firm characteristic of family and nonfamily, using the three performance indicators and yielded mixed results.

For Tobin's Q proxy was surprisingly lower for the family firms (0.039) than the nonfamily firms (0.437), yielding a *t*-statistic of -0.215 at the 1% level of significant. This study suggests that the perception of family firm is erroneous when diversified investors are concerned. This is because in the market place, even though family firms maintain a greater accounting performance over their counterpart firms, diversified investors acknowledge these firms to be more reluctant to fairly share their wealth with other shareholders of the firm. And as such they easily disregard share of family businesses despite their high profitability. This also implies that the corporate governance strategy for the agency cost has failed because while family ownership increases firm performance, minority shareholders might be restricted to their share of the profit, more especially in countries of low investor's protection. For ROA with EBIT as numerator, family firms show a stronger average performance during the financial crisis than nonfamily firms. Family firms show a mean ROA with EBIT as numerator of 2.047 as compared to 0.164 for nonfamily firms, with a *t value* of 0.311 which is statistically significant at the 1% level.

Further, for ROA with EBITDA as numerator, family firms show a stronger average performance during the financial crisis than nonfamily firms. Family firms show a mean ROA with EBITDA as numerator of 1.939 as compared to 0.130 for nonfamily firms, with a *t value* of 0.232 which is statistically significant at the 1%

level. The average financial performance measures of family firms appear to be more profitable. Their ROA (EBIT and EBITDA) are substantially higher as compared to their non-family firms. However, this figure can be regarded as only suggestive of the higher performance of family-controlled firms.

**Table 3:** Tests of difference of means between family and non-family firms

	Family Firms	Non-Family Firms	t-stat
Tobin's Q	0,039	0,437	-0,215*
Return on assets (EBIT) (%)	2,047	0,164	0,311***
Return on assets (EBITDA) (%)	1,939	0,130	0,232**
Family_Chairman	0,136	0,000	0,044**
Family_CEO	0,729	0,000	0,043**
Family_CEO_Chairman	0,136	0,000	0,002**
First generation	0,593	0,490	0,004***
Second generation	0,407	0,475	0,055**
Sale Growth (%)	66,048	56,382	0,811
Capital expenditure/PPE	-11,005	-9,892	0,015**
Total debt / shareholder's equity	149,557	274,703	0,061**
Volatility	0,004	0,082	0,122
Firm size (total assets 000,000 euros)	2723,929	3475,724	0,297
Age (Years of Establishment)	54,553	49,756	0,000***
Firm-year observations	427	385	
Firms	61	55	

The variable for the analyzed sample of 116 firms and 812 firm-year observations includes Tobin's Q, return on assets, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. Family firm denotes a dummy taking the value 1 if the firm has a family or individual with 25% or more voting rights, Family CEO, Family Chairman, and Family CEO and Chairman indicates a dummy equaling 1 if a family member is CEO, Chairman, CEO and Chairman, respectively in a family firm. According to SABI, Non-family are those with no shareholder has at least 25% of voting rights. \*\*\*, \*\*, \* illustrate the significance at the 1%, 5%, 10% level respectively Source: Authors elaboration.

To confirm the hypothesis that family-controlled firms have better performance than nonfamily firms in the Spanish Stock Market, we run a two-fixed effect model. This model accounts for endogeneity needed in view of the substantial differences between the characteristics of family and nonfamily ownership structures. Difference

in performance for family-controlled firms and nonfamily firms are examined using the characteristic of family ownership in the regression equation 1.

Table 4 to 5 present the two-step fixed effect model obtained using the three measure of firm performance (Tobin's Q, ROA with EBIT and EBITDA as numerators). After reviewing several models with both profitability ratios and value creation indicators in prior studies, a model of Tobin's Q and ROA (with EBIT and EBITDA as numerators) as dependent variable showed better overall fit. Table 4 shows the performance of family ownership and nonfamily ownership using the three measures. Table 5a and 5b illustrates the influence of family members as actively participating in the day-to-day activities or CEO or Chairman on firm performance.

#### *Influence of family ownership on firm performance*

Table 4 shows the two-step fixed effect model, with an adjusted  $R^2$  of approximately 15.3% and high statistical significance for the entire model, which is revealed by an  $F$  value of 1.274, statistically significant at the 1% level.

The main findings from analysing the relevant regression coefficients reveal that the family coefficients (1.696 for the Tobin's Q; 3.002 and 2.995 for the ROA with EBIT and EBITDA as numerators, respectively) show a positive and statistically significant value at the 1% level, which confirms the relationship between family firms and higher firm performance. These coefficients show  $t$  value of (2.446 for the Tobin's Q, 3,152 and 3.328 for ROA with EBIT and EBITDA as numerators, respectively), which are significant at 1% level.

Amongst all the control variables, we notice that the leverage variable was significant across all regressions. This variable shows a negative coefficient, which again strongly implies that leverage negatively affects performance. However, the coefficient for age variable was positively significant for all the three measure performances. This implies that better performances are associated with older firms. Similarly, firm size shows a positive

coefficient for all three performance measures, thus indicating that larger firms outperform small firms.

**Table 4:** Family ownership on firm performance

		Tobin's Q		ROA (EBIT)		ROA (EBITDA)	
Intercept	2,645** (4,414)	2,807** (3,441)	1,334** (1,112)	1,833** (4,730)	-1,558* (-2,998)	-1,108 (-0,754)	
Family	1,696** (2,446)		3,002** (3,152)		2,995*** (3,328)		
B		1,310** (2,101)		2,761** (2,869)		2,692** (2,991)	
C		1,517** (1,990)		3,813** (2,448)		4,116*** (3,987)	
D		2,735** (2,376)		3,214** (3,168)		3,635*** (3,901)	
Leverage	-0,132** (-2,343)	-0,360*** (-4,350)	-0,161** (-2,720)	-0,297*** (-3,985)	-0,191*** (-3,405)	-0,370 (-5,655)	
Sale growth	-0,165** (-2,939)	-0,120* (-1,828)	-0,229** (-3,524)	-0,195** (-3,063)	-0,062 (-1,108)	-0,189* (-0,358)	
volatility	-0,061 (-0,577)	0,001 (0,008)	-0,175 (-1,427)	-0,131** (-1,087)	-0,036** (-1,343)	-0,535 (-2,054)	
investment	0,011 (0,175)	-0,057 (-0,757)	-0,034 (-0,433)	-0,062** (1,514)	-0,020** (-0,311)	-0,035** (-0,580)	
Ln(age)	0,220** (4,921)	0,188 (0,658)	0,199** (2,686)	0,444 (-0,817)	0,325* (1,362)	0,573** (2,533)	
Ln(Total Assets)	0,542** (1,460)	0,044 (0,305)	0,108** (1,854)	0,020 (0,156)	0,545* (1,751)	0,129 (1,166)	
R square	0,114**	0,192**	0,198**	0,274***	0,142***	0,281***	
F test	1,274***	1,092***	1,152***	1,289***	1,149***	1,301***	
Durbin Watson	2,001	1,859	1,715	1,734	1,934	1,917	
Total firms- observation	812	812	812	812	812	812	

The variable for the analyzed sample of 116 firms and 812 firm-year observations includes Tobin's Q, return on assets with EBIT and EBITDA as numerator, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. Family firm B denotes a dummy taking the value 1, if the firm has a family or individual with 25-50% of voting rights or C for ultimate family owning 50.01% or higher or D for family company with an unknown direct shareholder with 50.01% or higher. Also family firms denote a dummy variable 1 if the founder actively involves in the decision making and the company must be above 30 years. Heir designates a dummy with the value 1 if the heir actively involves in the decision making and the company must be above 30 years (SABI of the Bureau Van Dijk). \*\*\*, \*\*, \* illustrate the significance at the 1%, 5%, 10% level respectively. Source: Authors elaboration.

*Influence of families exerted on firm performance through day-to-day activities*

Table 5a and 5b reports the findings of managerial influence of firm through day-to-day activities, as well as the influence of CEO or Chairman on the firms.

First, the coefficients of the founder or his heir assuming an active position in the companies is positive for all three measures, and significant at least at 10% level, implying that firms with founder or heir assuming active position are likely to be more profitable. However, negative and non-significant coefficient is associated with passive owner of family firms. This is mostly common for family firms that the founder has divided his share to his descendants and over time, the concentrated ownership becomes dispersed. Specifically, amongst family member involvement, active descendants significantly dominate active founders, whereas, active founders dominate passive owners. The coefficient of active founder is 0.271 for Tobin's Q, 2.075 and 1.097 for ROA with EBIT and EBITDA as numerators, respectively. For descendent, we notice 0.049 for Tobin's Q, 10,198 and 10.214 for ROA with EBIT and EBITDA as numerators, respectively.

The findings suggest that family firms are more profitable when the descendent holds an active position than when the founders themselves assume active position. One reason for the above findings might be due to high quality of education the descendent receives which boosts their performance. Most founders send their heirs to advanced MBA programs in order to prepare them for the future.

**Table 5a:** Families exerted on firm performance through day-to-day activities

	Tobin's Q	ROA (EBIT)	ROA (EBITDA)
Intercept	-0,809** (-2,865)	3,683** (2,969)	-1,018** (-2,493)
Founder active	0,271***	2,075***	1,097**

	(3,546)	(5,276)	(2,565)
Passive owner	-1,623	0,0437	0,000
	(-0,720)	0,254	(-1,609)
Descendant active	0,049**	10,198*	10,214**
	(2,565)	(1,912)	(21,954)
Leverage	0,005	-0,024	-0,017
	0,073	-0,531	(-0,554)
Sale growth	-0,118*	-0,160***	0,004
	(-2,062)	(-3,820)	(0,169)
volatility	0,010	-0,200**	0,343**
	0,083	(-2,541)	(1,661)
investment	-0,088**	-0,094*	0,015
	(-1,382)	(0,388)	(0,516)
Ln(age)	-0,022	0,049	0,240**
	-0,133	(0,086)	(3,325)
Ln(Total Assets)	0,231**	0,007	0,053
	(1,381)	(0,000)	(0,971)
R square	0,344***	0,677***	0,646***
Durbin Watson	2,005	1,922	1,834
Total firms-observation	812	812	812

The variable for the analyzed sample of 116 firms and 812 firm-year observations includes Tobin's Q, return on assets with EBIT and EBITDA as numerator, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. Founder active and descendant active indicate a dummy equaling 1 if the founder or a descendant is actively managing the company as Chairman or CEO. Passive owner indicates that the family only holds shares in the company without taking an active position in it. (SABI of the Bureau Van Dijk). \*\*\*, \*\*, \* illustrate the significance at the 1%, 5%, 10% level respectively. Source: Authors elaboration

Table 5b shows the classification with respect to CEO and Chairman as key variables. Notably, we find statistical significant coefficients for the two profitability measures of performance, with 0.191 (0.250) and 0.010 (0.233) for founder CEO (descendent CEO) at the 10% level. Family firms with descendant as CEO perform better meanwhile family firms with founder as CEO significantly outperform family firms with Outside CEO. The use of the Tobin's Q measure of performance did not result to significant coefficients for the founder CEO, heir CEO and outsider CEO. Our last verification was on the Chairman position held by family members. Interestingly, we find significance coefficients for all the three measures of performance. Family firms with founder, and descendant as Chairman do better than those with Outsider Chairman and are statistically significant at the 5% level.

**Table 5b:** Family CEO/Chairman and firm performance

	Tobin's Q		ROA (EBIT)		ROA (EBITDA)	
Intercept	0,891** (2,071)	2,002** (2,159)	3,273** (4,314)	-2,198** (-2,205)	0,404*** (11,334)	0,414*** (11,990)
Founder CEO	1,138 (-1,007)		0,191* (-2,324)		0,010*** (3,474)	
Outsider CEO	-0,076 (-0,911)		0,101** (4,917)		0,101 (0,091)	
Descendant CEO	0,120 (-0,527)		0,250** (3,373)		0,233*** (2,086)	
Founder Chairman		0,432** (1,551)		0,517* (1,838)		0,778*** (-0,518)
Outsider Chairman		-0,150** (-2,465)		0,414** (2,136)		-0,563** (0,679)
Descendant Chairman		0,136* (1,125)		0,465*** (1,235)		0,000** (3,819)
Leverage	-0,713*** (-2,798)	-0,152** (-2,595)	-0,171** (-3,048)	-0,203** (-3,170)	0,232 (1,007)	0,156** (0,643)
Sale growth	-0,922** (-3,186)	-0,196** (-3,001)	-0,173 (-1,309)	-0,131** (-2,048)	0,527*** (2,295)	0,445** (1,865)
volatility	-0,841** (-1,542)	-0,162 (-1,296)	-0,180** (-3,753)	-0,452** (-2,347)	0,822*** (18,807)	0,801* (17,864)
investment	-0,274** (-2,817)	-0,077** (-1,044)	-0,239** (-2,612)	-0,783 (-1,074)	0,002 (0,930)	0,374*** (1,373)
Ln(age)	0,002 (-1,253)	-0,005 (-1,312)	-0,040** (-1,134)	-0,003 (-0,669)	0,321*** (1,519)	-0,021*** (0,600)
Ln(Total Assets)	0,046 (0,683)	0,069 (0,509)	0,182** (1,275)	0,042 (0,304)	0,000 (-3,897)	0,890*** (-4,093)
R square	0,197***		0,140**	0,160***	0,494***	0,324***
Durbin Watson	1,744		2,021	2,001	2,090	2,039
Total firms-observation	812	812	812	812	812	812

The variable for the analyzed sample of 116 firms and 812 firm-year observations includes Tobin's Q, return on assets with EBIT and EBITDA as numerator, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. The Founder CEO (Chairman), descendant CEO (Chairman) and Outsider CEO (Chairman), indicate a dummy equaling 1 if respectively the founder, descendant or an outsider holds the CEO (Chairman) position in the family company (SABI of the Bureau Van Dijk). T-statistic are presented in the parentheses \*\*\*, \*\*, \* illustrate the significance at the 1%, 5%, 10% level respectively. Source: Authors elaboration

## Conclusions and Implications

We find empirical evidence that family firms exhibit higher performance than nonfamily firms for firms listed in the Spanish stock exchange. A group of 61 family firms performed significantly better than the group of 55 nonfamily firms over the financial crisis period under this study, 2008-2014. Three distinct firm performance measures were used to test the differences: Tobin's Q, ROA (EBIT) and ROA (EBITDA). The result of this study is consistent with previous research findings, more

especially with Martínez et al. (2007), Kowalewski et al. (2010) and Anderson et al. (2004).

In addition, our results are robust because this association holds for all measures we used to describe the firm performance of family firms. These findings confirm that family firms can easily overcome their weaknesses and take advantage of their strengths to succeed when their management and governance bodies are professionalized. This positive influence of company family ownership on firm performance can also be interpreted using the agency theory. The separation between ownership and control results to a severe agency problem which is resolved through concentrated ownership (Dyer, 2006; Anderson et al., 2004). However, when controlling shareholders have ultimate share of ownership, it may result to poor performance.

As a further development, we investigate the influence of family members' involvement in the day-to-day running of the operation on firm performance. Our results suggest that there is a positive and significant association with firm performance which results from founder or heir assume active role in the day-to-day activities, they positively influence decision making regarding performance measures. When family members get involved in the day-to-day management of the operation, weak enforcement of contracts, lack of capital and undeveloped product and labour institutional infrastructures are easily overcome (Consistent with Carney, 2005; Villalonga and Amit, 2006; Miller et al., 2009).

Besides the activeness of family members, we considered the importance of founder or heir being a CEO or Chairman in the board of directors. The findings can be explained by the fact that the presence of founder CEO or heir CEO are significantly related to the higher performance of family firm. Thus, hypothesis 2 is

supported by the findings. In Spain, particularly, family firms with descendant as CEO exhibit higher performance. One reason for this is due to the higher education received by descendant of the family. Furthermore, family directors as illustrated in Kowalewski et al. (2010: 56) reflect both FIM and FIM.

Accordingly, family board chairmen pursue some objectives other than profit maximization. Byrd and Hickman (1992) adds that the removal of CEOs is more likely related to the poor performance of the firms. In family firm, the board chairman is often the former founder and it is less likely for him to admit his/her mistakes (Kowalewski et al., 2010: 56). Like any other European country, the corporate governance strategies in Spain do not permit the former CEO to be member of the supervisory board of the same company.

### **Limitation and further research**

The finding of this study is uniquely with regards to previous studies that have not shown such diverse and significant effects in Spain. The article is restricted to only firms that are listed in the Spanish stock exchange. Despite the importance of family ownership on firm performance, family firms are also influenced by noneconomic goals.

A recommendation for further research can be observed through the influence of the second blockholder in the family business to counterbalance the power of the controlling shareholder. If the second blockholders have too large proportions of ownership in the family business, it might result to a poor performance. Likewise if the proportion of ownership of the second block holder is too small, the controlling shareholder executes his/her power on private benefit at the expense of the minority.

Further research can investigate the proportion of ownership that has a positive effect on the firm performance.

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**Appendix: Definition of variable**

<b>Dependent Variables - Performance</b>	
<i>Market performance</i>	Tobin's Q, (market value of common equity plus book value of total assets minus book value of common equity) divided by book value of total assets
<i>Accounting performance</i>	ROA (EBIT)      ROA (EBITDA)

**Independent Variables - Ownership structure**

“A”		Indicates a dummy equaling 1 if no shareholder with more than 25% of ownership of ultimate voting rights);
“B”		Indicates a dummy equaling 1 if no shareholder with more than 50% but exist one shareholder with voting rights between 25.1% and 50%.
“C”		Indicates a dummy equaling 1 if a recorded shareholder with a total or a calculated ownership of 50.1% or higher
“D”		Indicates a dummy equaling 1 if a recorded shareholder with a direct ownership of over 50% with branches and foreign companies
<i>Family Firms</i>		“B”, “C” and “D”
<i>Non-family firms</i>		“A”
<i>Family CEO, Family Chairman, and Family CEO_Chairman</i>		Indicates a dummy equalling 1 if a family member is CEO, Chairman, CEO and Chairman, respectively in a family firm.
<i>Passive owner</i>		Indicates a dummy equaling 1 if the family only holds shares in the company without taking an active position.
<i>Founder active and descendant active</i>		Indicates a dummy equaling 1 if the founder or a descendant is actively managing the company as Chairman or CEO.
<i>Founder (Chairman), descendant (Chairman)</i>	CEO	indicate a dummy equaling 1 if respectively the founder, descendant or an outsider holds the CEO (Chairman) position in the family company
<i>Outsider (Chairman), Second blockholder</i>	CEO	and
		Indicates a dummy equaling 1 if a second large

with intervals <5%, 5-10%, 10-20%, 20-30% and <30%  
*Widely held* corporation, *Widely held financial,*  
 blockholder exists in a family firm and controls voting right in one of the given intervals (<5%, 5-10%, 10-20%, 20-30% and <30%)  
 Denote a dummy variable 1 if the largest ultimate shareholder owns more than 25% of the shares in one of the categories.

*Miscellaneous category*

***Independent Variables – Control Variables***

<i>Firms size</i>	Logarithm of total assets
<i>Growth opportunities</i>	Increase in one-year sales.
<i>Leverage</i>	Total book value of debt/common shareholders' equity
<i>Investment intensity</i>	Capex/PPE
<i>Firm age</i>	Defined the logarithm of the date of establishment
<i>Industry</i>	Defined according CNAE 2009 classification code
<i>Return volatility</i>	Standard deviation of monthly returns

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