VOL. 2, NO. 6, September 2013 ISSN 2307-2466
International Journal of Economics, Finance and Management

http://www.ejournalofbusiness.org

Towards the Management of Family Firms: Is involvement of Professional Outside-Family Managers Important?

Josephat Lotto*
*The Institute of Finance Management, Tanzania, East Africa. P.O.BOX 3918 Dar es Salaam

ABSTRACT

This paper examines to examine the relationship between family ownership and firm performance by considering the impact of management professionalism on the performance of manager-controlled firms and family-managed firms using data for 643 non-financial UK listed companies. Pooled Ordinary Least Squares Regression specification is used to test whether ownership affects firm performance. A fully robust variance matrix estimator (to estimate t-statistics) is employed to avoid within-cluster (firm) correlation and any form of possible heteroscedasticity. The study reports a positive relationship between ownership of the largest shareholder and performance in manager-controlled firms and a negative relationship in family-managed firms. These findings confirm the allegation that, external managers are professionally trained and may use their managerial skills to boost up the firm performance as opposed to managers chosen within the family members who might lack sufficient managerial skills. This study tries to contribute in literature by addressing how different owners' identity affects firm's value differently. More specifically, the study throws light on the impact of management professionalism on the performance of manager-controlled firms and family-managed firms. The key implication of the findings of this paper is that family companies have to accept the involvement of non-family professional managers because outside managers can possibly bring information, competencies, and access to fundamental resources for efficient exploitation of opportunities. The presence of non-family managers could be beneficial in reducing the institutional overlap between the family and the company.

Keywords: *Manager-Controlled, Family-Managed, Ownership, Performance*

1. INTRODUCTION

Most literature on ownership studies address ownership aggregately hence provide general results. The discussion of ownership structure remains incomplete if owners' identity is not taken into account because different firm's owners have different motives and unique interests. More specifically, it should be borne in mind that the diverse group of share owners have different levels of monitoring competence, different levels of wealth, different preferences about the way they like to receive the return on their investments, different cultures and so many cross-border differences, Thomsen and Pedersen (2000). According to the authors, the identity of firm's owners may determine their goals and this might have a great impact on the firm's behavior which ultimately affects the firm's financial decisions and firm value in particular. For instance, the interest of financial institutional investors may be to realize short term return on their investments and they would just sell their shares when the firm suffers a down turn while corporations or non-financial institutions may be more focused on the long term- relationship, hence, make effort to participate in a restructuring process, Douma et al. (2006). The good examples of include share ownership by corporations, financial institutions and family companies.

From previous studies it is appreciated that, financial institutions are relatively better in monitoring managers than other investors due to their wide knowledge and competence in financial management, hence they should be able to monitor with higher quality at lower costs. But because they put more emphasis on firm's liquidity they don't bear long-term relationship with the firm they deal with, instead they take exit strategy as the firm suffers a liquidity problem rather than putting any effort to rescue the situation.

On the other hand, family owners focus on long term survival of the firm and they may struggle to keep the company going even in hard times. Unlike financial institutions, their motive is not liquidity but rather long-term performance of the firm; hence, they rarely take the exit strategy.

To add on these arguments, Davies et al. (2005) argues that institutional investors are driven by agency theory as they act as agents of the firm while family owners are governed by the stewardship where manager's interests go beyond economic self- interest. Many of them, according to authors contribute to firm's mission, firm's longevity and firm's stakeholders. According to Bubolz (2001), family owners have a deep emotional investment in firms they control .Furthermore, it is suggested that, the prosperity of family firms, their personal fulfillments and public reputation are attached to the business.

However, because families have their own personal fulfillments and the business concept is transferred from one generation to the other, family companies may protect their control and prevent outside investors to dilute their control so that they have sufficient control to put in place their own managers who are family members after retirement or death of the founders to keep in place their business concept which is to be transferred to the coming generation.

Previous studies suggest a family companies' superior performance by indicating that families have valuable knowledge about the businesses (Anderson and Reebs, 2003). However, this study suggests that, the family business founder may have a sufficient knowledge about the business but because the family may not be willing to employ an outside professional manager, and prefer more the inside family manager, the manager within the family who takes over from the founder may not be as knowledgeable as the founder. Due to the lack of managerial skills, inside manager may make managerial decisions which can jeopardize the corporate value.

This is supported by Morck et al. (2000) who find that heir-controlled companies perform poorly due the lack of sufficient management skills by heirs. Along the same line of arguments, Pérez-González (2002) reports that inherited control is detrimental to firm performance in particular when the heirs have not gained good managerial trainings. On the other hand, Cronqvist and Nilsson (2003) also suggest that families can easily entrench and take unprofitable investments.

In the sample firms used in this study, family firms are characterized to have more concentrated ownership than any other type of block holders. In fact the average family control-rights amount to about 42%. This may be used as a control-enhancing mechanism for family companies. Furthermore, it is found from the descriptive analysis that, of all the family controlled companies about 78% is controlled by family managers.

It is hard to believe that all these companies have superior managers derived within their families than could be employed from outside. This tries to suggest that internal managers are appointed so that they work under family spirit and prepare the company to be handled to the following generation even if they do not have sufficient managerial skills. It can be argued that, external managers are professionally trained and may use their managerial skills to boost up the firm performance. Hence, this study suggests that, those companies (which are generally widely held) which are controlled by professional managers are in a position to perform better than family-managed firms.

To the best of my knowledge, in published works, very few studies in UK (if any) address the influence of owners' identity on firm performance; hence the true nature of ownership might have been ignored. Literature shows that, the diverse group of share owners have different levels of monitoring competence, different level of wealth, different preferences about the way they like to receive the return on their investment and different cultures from different cross borders (Thomsen and Pedersen, 2000). According to the authors, the identity of firm's owners may determine their goals and this might have a great impact on the firm's behavior which as a result affects the firm value. This study tries to contribute in literature by addressing how different owners' identity affects firm's value differently using sample of UK listed companies. More specifically, the study throws light on the impact of management professionalism on the performance of manager-controlled firms and family-managed firms.

2. RELATED LITERATURE AND HYPOTHESIS DEVELOPMENT

Several ownership studies focus on ownership concentration and results on its linkage with firm performance remain a puzzle. Very few studies address the extension of ownership to owner identity and the rarity of studies in this area is evidenced by Gugler, (2001) in his book titled 'Corporate Governance and economic performance'. Literature suggests that, in UK studies this line of research falls short. In their study, extending this line of research using the sample of Continental Europe, Pedersen and Thomsen (2003) find that, the identity of owners incredibly matters. Their results reveal that, companies whose larger owners are institutions perform better. The study also reports a negative relationship between government ownership and performance. When the relationship between concentrations of ownership by family was tested Pedersen and Thomsen find an insignificant relationship.

Although previous literature such as Pound (1988), address financial institutions as active monitors of corporate managers than other investors due to their wide knowledge and competence in financial management, they put more emphasis on firm's liquidity and they don't bear long-term relationship with the firm they deal with, instead they take exit strategy as the firm suffers a liquidity problem rather than putting any effort to rescue the situation. On the other hand, some other literatures provide a contradicting view that non- financial institutions such as family companies holding larger stakes may also have specific industry operational expertise superior to financial institutions, Allen and Phillips (2000). Also the authors claim that, non-financial institutions may increase firm value by holding shares for long duration because long-term holdings reduces information asymmetry between firms involving in joint venture.

Literature on family ownership provides evidence that, families have desire over control motives compared to any other group of corporate owners. It is evidenced that, families have long lasting commitment to the firm which goes beyond financial performance. According to Chami (1999) and Becker (1981), founding families do not consider their firm in term of cash the firm is generating but rather they go beyond and consider passing the ownership to generations in family members. This makes a family block holder to exercise control over firm's decisions with excitement as this has a continuous effect for the coming generation.

According to Anderson and Reeb, (2003), the control employed to the firm's decisions by the family block holders is proportional to the level of which the firm under diversifies. Since most family block holders concentrate their investments into few industries, they invite relatively higher firm-specific/ industry-specific risk. To avoid such a risk to materialize, strong control should be put in place. According to Grossman and Hart (1982), more control by family block holders give them more power and incentive to use more debt as a managerial control tool because debt is used to control managers towards misappropriation of corporate free cash flows . Anderson and Reebs (2003) further suggest that, family firms may apply higher debt levels to the point that debt holders do not perceive them riskier.

Furthermore, according to Harris and Raviv (1988), increase in debt may be used as an attempt to block the takeover of the company hence protecting their control. The authors suggest that, as long as the families' votes exceed the incumbents', the increase in debt reduces the likelihood of takeover although too much increase in debt may as well invite bankruptcy which has an impact of losing accumulated control.

According to Anderson and Reebs (2003), although institutional block holders have motives for control, they are outperformed by family block holders who are always considered as active managers of the firm as opposed to institutional block holders who, in US and many other countries, are legally banned to sit on the board of the directors of the firm in which they have holdings.

Along the same line, Tufano, (1996) insists that, institutional investors usually own diversified portfolio of shares. Furthermore, Karpoff, (2001) both insist the ineffectiveness of institutional investors in monitoring firms and that; institutional investors' activism contributes little in firm's governance change. This leads one to confirm that, the monitoring motives exerted by institutional block holders may be relatively lower as compared to the ones exerted by family block holders enough to influence firm value.

To add on these arguments, Davies et al. (2005) argues that institutional investors are driven by agency theory as they act as agents of the firm while family owners are governed by the stewardship where manager's interests go beyond economic self- interest. Many of them, according to authors contribute to firm's mission, firm's longevity and firm's stakeholders. According to Bubolz (2001), family owners have a deep emotional investment in firms they control. Furthermore the prosperity of family firms, their personal fulfillments and public reputation are attached to the business.

However, because families have their own personal fulfillments and the business concept is to be transferred from one generation to the other, family companies may protect their control and prevent outside investors to dilute their control so that they have sufficient control to put in place their own managers who are family members after retirement or death of the founders to keep in place the same concept which is to be transferred to the coming generation.

Previous studies suggest a family companies' superior performance by indicating that families have valuable knowledge about the businesses (Anderson and Reebs, 2003). However, this study suggests that, the family business founder may have a sufficient knowledge about the business but because the family may not be willing to employ an outside professional manager and prefer more the inside family manager, the manager within the family who takes over from the founder may not be as knowledgeable as the founder. Due to the lack of managerial skills, inside manager may make managerial decisions which can jeopardize the corporate value.

This is supported by Morck et al. (2000) who find that heir-controlled companies perform poorly due the lack of sufficient management skills by heirs. Along the same line of arguments, Pérez-González (2002) reports that inherited control is detrimental to firm performance in particular when the heirs have not gained good managerial trainings. On the other hand, Cronqvist and Nilsson (2003) also suggest that families can easily entrench and take unprofitable investments.

In the sample firms used in this study, family firms are characterized to have more concentrated ownership than any other type of block holders. In fact the average family control-rights amount to about 42%. This is used as a control-enhancing mechanism for family companies. Furthermore it is found from the descriptive analysis that, of all the family controlled companies about 78% is controlled by family managers.

It is doubtful that all these companies have superior managers derived within their families than could be employed from outside. This tries to suggest that internal managers are chosen so that they work under family spirit and prepare the company to be handled over to the next generation.

It can be argued that, external managers are professionally trained and may use their managerial skills to boost up the firm performance. Hence, this study suggests that, those companies (which are generally widely held) which are controlled by professional managers are in a position to perform better than family-managed firms. These arguments result into the following testable implication;

Manager-controlled firms have higher performance compared to family-controlled firms whose CEO is the family member.

3. DATA AND EMPIRICAL METHODS

3.1 Data Collection and Sample Choice

The study focuses on a sample of 643 non-financial UK companies. The raw data of this study is adapted from Faccio and Lang (2002) which comprises 5,232 firms in 13 Western European countries between 1996-1999. Faccio and Lang (2002) excluded all companies without ownership data and those which use nominee accounts. Likewise, foreign affiliate companies whose ownership chain could not be traced were not included. Among these companies this study selected 1,953 UK companies from the raw ownership data and screened them. The study eliminates 442 financial companies following the tradition in literature of excluding financial companies as their reporting style and regulations are different from those of non-financial companies as in Rajan and Zingale (1995) who say financial companies such as banks and insurance companies leverage is strongly influenced by explicit (or implicit) investor insurance schemes such as deposit insurance and also their debt-like liabilities are not strictly comparable to the debt issued by nonfinancial firms. After excluding all financial companies 1,511 non-financial companies were remained.

We then matched ownership data for 1,511 companies with financial data using World scope database and DataStream; Only companies with ownership values and at least three years financial values 1997-1999 were taken into account leaving the net number of sample firms to be 643.Laeven and Levine, (2008) also adapted the raw data we used to extract UK ownership data, in their study on UK complex ownership and valuation and their sample size was roughly 689 UK non- financial companies, in their study of complex ownership and firm valuation. Also Attig et al. (2009), in examining the relationship between multiple large shareholders, control contest and implied cost of equity adapted the same raw data. According to Leaven and Levine, (2008) corporate ownership does change very slowly over a long period of time hence the issue of old data will not have a very significant impact to affect the results of this study.

The focus of this study is UK for some reasons which include; First, compared with other European companies included in the raw data adapted, the UK is a relatively developed market as clearly stipulated in Frank et al. (2009). La Porta et al. (1998) also consider the UK to have better investor protection levels than most European countries. Therefore, studying corporate ownership and control, while mixing UK with other countries may not actually provide a reliable picture and therefore dealing with the UK separately is an ideal option.

Second, it is indicated that in Leaven and Levine (2008) that about 42% of the whole Western European sample of firms come from the UK followed by 28% from France. This clearly indicates that the results of their study might have been driven by UK sample. It is then worth studying the nature of ownership and control in the UK separately.

Third, disclosure level for UK companies is higher relative to other Western Europe countries involved in the data set; hence the quality of UK data is also expected to be better. This is supported by Faccio and Lang (2002) when tracing the ultimate ownership of unlisted companies, as they put it: “Where the ultimate owner of a corporation is an unlisted firm, we tried to trace its owners using all available data sources. We had incomplete success because most of our sample countries do not require unlisted firms to disclose their owners. One exception is the UK, where the 3% disclosure rule also applies to unlisted firms. If we failed to identify the owners of unlisted firm, then we classified them as a family”.

To examine the impact of owners’ identity on firm performance the study divides the sample into different clusters such as, widely held listed companies with no controlling shareholder, widely held listed companies with financial institutions as controlling shareholders and companies closely held by family (which include individuals and unlisted companies).

3.2 Variable Constructions and Definitions

3.2.1 Dependent Variables

Financial Performance (Tobin’s Q)

Several studies employ market-related performance measures like Tobin’s Q (Morck et al. (1988); McConnell and Servaes, 1990), and more recently, Davies et al. (2005), King and Santor (2008), Bhattacharya and Graham (2009), Florackis et al. (2009) also use similar measure. Those who employ accounting measures like ROA and ROE, which are based on accounting profits, face some limitations. According to Demsetz and Villalonga (2001), accounting profit rates suffer from accounting manipulation through different valuation methods of tangible and intangible capital which results in a variation of figures for the different methods, unlike market-based measure like Tobin’s Q which measures future firm performance. It is for these reasons that we consider Tobin’s Q to measure firm performance in this study. This variable is calculated as the market value of equity plus the book value of debt and preferred stock divided by the book value of assets following Hillier and McColgan (2008).

3.2.2 Independent Variable

Ownership and Control Characteristics

In this study the largest fraction of voting rights is used to measure the impact of the decision making power of investors as adapted from Faccio et al. (2011). This measure is also used by Thomsen and Pedersen (2000) when dealing with the ownership identity. In this study, a controlling owner of the company is defined as the owner who has over 10% of company's votes like in Leaven and Levine (2008) as adapted from La Porta et al. (1999).According to the authors controlling over 10% of company's shares provides a sufficient power to influence firm's decisions and more control is achieved by increasing their stakes in the company. If more than one category each owns above 10% of firm's shares, each of them are considered as large shareholders and the one with higher votes is considered as the controlling shareholder. In the case where the firm has no owner with above 10% of shares, such a firm is considered as widely held firm. Other cut-off such as 20% (Faccio and Lang, 2002) and 25% (Cronqvist and Nilsson, 2003) are also employed.

3.2.3 Control Variables

The following table summarises control variables in this study as suggested from literatures.

Table 1: Summary table for control variables

VARIABLE	DEFINITION	ADAPTED FROM
Growth Opportunities (SGR)	Three years Sales growth rate	Leaven and Levine (2008)
Leverage (LV)	Book value of all long-term liabilities divided by total assets	Maury and Pajuste (2005), Leaven and Levine (2008) Gugler and Yurtoglu (2003).
Firm size (FSZ)	The natural logarithm of total assets	Rajan and Zingales (1995) Maury and Pajuste(2005), Leaven and Levine (2008) and Yurtoglu (2003) and Farinha (2003)
Investment ratio (IR)	Ratio of capital expenditure to fixed assets	Bhattacharya and Grahams (2009) as in Short (1994)

3.3. Empirical Methods

This paper examines value effect of corporate ownership. In particular the study assesses the performance difference between manager-controlled and family-managed companies Like,Maury and Pajuste (2005), to avoid within-cluster (firm) correlation and any form of heteroscedasticity, we use fully robust variance matrix estimator (to estimate t-statistics).

Ownership studies are commonly associated with the problem of endogenity where ownership and performance are determined together.

To solve this problem, according to Leaven and Levine (2008), like in Demsetz and Lehn (1985) and Bitler et al. (2005), we load the regression with a large number of firm characteristics to capture as much of the error term as possible. Secondly, we compute the ownership data one year before Tobin's Q so as to reduce the possibility of short- term variations in performance to influence ownership structure. This tends to imply a stronger assertion of causality. However, Faccio and Lang (2002) argue that, ownership fluctuate very slowly over time.

Following Maury and Pajuste, (2005), Pooled Ordinary Least Squares Regression specification (OLS) is employed to test whether ownership structure affects firm performance. The model is specified as hereunder;

$$\mathbf{Q_{i,t} = \alpha + \beta_1 * OWN_{i,t-1} + \beta_2 * LV_{i,\,t-1} + \beta_3 * FSZ_{i,\,t-1} + \beta_4 * IR_{i,\,t-1} + \beta_5 * SGR_{i,\,t-1} + e_{it}}$$

Where;

$\mathbf{Q_{i,t}}$ = Performance at time t

$\mathbf{OWN_{i,t-1}}$ = Ownership and control variables : MGTCFR (largest fraction of voting rights of controlling manager) and FMCFR (largest fraction of voting rights of founder family)

$\mathbf{FSZ_{i,\,t-1}}$ = Firm Size a year before Q

$\mathbf{IR_{i,\,t-1}}$ = Investment Ratioa year before Q

$\mathbf{LV_{i,\,t-1}}$ = Leveragea year before Q

$\mathbf{SGR_{i,\,t-1}}$ = Sales Growth Rates a year before Q

4. EMPIRICAL RESULTS

The analysis starts by testing the mean difference of performance between manager-controlled firms and family-managed firms. Manager-controlled firms in this study are defined as those non-family firms with ownership level above 10% managed by professional managers. On the other hand, family-managed firms are those family firms whose CEO/manager is a family member. Table 1 reports the results that manager-controlled companies have higher performance compared to family-managed firms. The difference in mean performance between the two groups of companies is statistically significant at 5% significant level. This may support the view that; the managerial position in family firms is a matter of inheritance and because of their desire to maintain the control on hands of the family and transferring it to the next generation, the successor of retiring or deceased CEO should come within the family even though no member in the family has required level of management skills. On the other hand, in companies controlled by professional managers, best managers are employed and the firms with best professional managers perform better as reflected in the results presented in table 1.

To get more insight on the performance difference between manager-controlled firms and family-managed firms, OLS regression is run and the results presented in table 2. In doing so, the dummy variable on manager-controlled firms is created and interacted with the ownership of the largest sharereholder. Similarly, the dummy of family–managed firms is created and interacted with the ownership of the largest sharereholder .

Table 2 shows that the ownership of the largest shareholder in manager-controlled firms is positively related to firm performance. The relationship is reported to be statistically significant at 5% significant level. On the other hand, the relationship between the ownership of the largest shareholder in family-managed firms is negative and statistically significant at 5% significant level.

These findings confirm the allegation that, external managers are professionally trained and may use their managerial skills to boost up the firm performance as opposed to managers chosen within the family members who might lack sufficient managerial skills as insisted by Morck et al.(2000) who find that heir-controlled companies perform poorly due the lack of sufficient management skills by heirs. The similar findings are reported by Pérez-González (2006) and Bennedsen et al. (2007) who suggests that, inherited control is detrimental to firm performance in particular when the heirs have not gained good managerial trainings. The results are also supported by Villalonga and Amit (2006) as quoted from their own words “When family firms are run by descendant-CEOs, minority shareholders in those firms are worse off than they would be exposed to the classic agency conflict with managers.

Table 1: Univariate Tests on Firm Performance

Variable	Manager Controlled Firms VS. Family Controlled Firms
Q	1.72**

In this table, the mean value of Q between Manager-controlled firms (MGR) and Family-controlled firms. Information from Worldscope and firms’ annual reports for the period 1996-1999 is used to build the dividend payout variables. *, ** and *** stand for statistically significant at 10%, 5% and 1% respectively.

Finally, table 2 shows a consistent relationship between firm performance and firm characteristics or control variables. It is consistently shown that, with slight deviations, relationship between firm size and firm value is negative and statistically significant at 5% significant level except in model 1 where the performance has no an insignificant relationship with firm size. The reults further show that, leverage has a positive and statistically significant relationship with performance. The relationship is reported to be strongly statistically significant at 1% significant level in all models. Similarly, the relationship between dividend yield and performance is reported to be negative and strongly statistcally significant at 1% sgnificant level in all all four regression models as reported in table 2.

Table 2 also reports a strongly statistically positive relationship between growth opportunities and firm performance consistent with Lang and Stulz (1994).The relationship is statistically significant at 1% significant level for all models

It can generally be argued that, companies with higher growth opportunities need more fund to explore the available investment opportunities.These companies will have to borrow more from markets to acquire required cash for such opportunities. Such companies will not be in a position to pay dividends which is reflected by a negative coefficient of dividend yield. If more growth opportunities are explored, the firm expands leading to firm performance increase.

This table presents OLS regressions reporting the wealth effect of ownership and control concentration. The dependent variable is Tobin’s Q. The regressions include ownership of the largest shareholder for manager-controlled firms (MGTCFR) and ownership of the largest shareholder for family-managed firms (FMCFR); ownership. Controls variable include Firm size (log (Total assets)), Investment ratio (the ratio of capital expenditure to assets), and the ratio of total debt to assets (Leverage). The t-statistics (in parentheses) are based on robust standard errors that are corrected for clustering at the firm level. * Stands for significant at 10%; ** at 5%; *** significant at 1%.

Table 2: OLS model: Performance and Ownership and Control Structures

Independent Variable	Model
MGTCFR	-0.005**(-2.44)
FMCFR	-0.035**(2.04)
SIZE	-0.041**(-2.52)
LEV	0.007***(2.97)
SGR	0.073***(-6.33)
IR	0.022***(4.95)
CONSTANT	1.115***(10.31)
R^2	0.182
F-stat	14.78***
Observations	455

5. CONCLUDING REMARKS

This paper tried to join the vibrant academic dialogue on the performance of family firms. The paper clearly distinguished family firms managed by professional non-family members and those managed by family members. Our OLS regressions report a positive relationship between ownership of the largest shareholder and performance in manager-controlled firms and a negative relationship in family-managed firms.These findings confirm the allegation that, external managers are professionally trained and may use their managerial skills to boost up the firm performance as opposed to managers chosen within the family members who might lack sufficient managerial skills as insisted by Morck et al. (2000) who find that heir-controlled companies perform poorly due the lack of sufficient management skills by heirs.

We further argue that family involvement in firm management brings about negative effects on financial performance due to the general lack of professional competencies of family members, the barriers to increasing social capital, conflicts among family managers, and the orientation toward nonfinancial goals. The results are also supported by Villalonga and Amit, (2006) as quoted from their own words "When family firms are run by descendant-CEOs, minority shareholders in those firms are worse off than they would be exposed to the classic agency conflict with managers"

The key implication of the findings of this paper is that, family firms' owners, in sustaining the survival and prosperity of their firms, have to accept the involvement of non-family professional managers because managers from outside family can possibly bring information, competencies, and access to fundamental resources for the recognition of opportunities, as well as for their efficient exploitation to increase performance. They also reduce the possibility of family managers adjusting their decisions toward non-monetary objectives which may ultimately cause conflicts in decision making by mixing family issues with business; in other words, the presence of non-family managers could be beneficial in reducing the institutional overlap between the family and the company.

Alternatively, family companies have to plan in advance the succession arrangements by educating some family members for managerial positions so that when the founder steps down there is a competent member of the family to take over. This may ultimately increase the firm value.

The study is aware that family firms usually appoint individuals from within the family to take over managerial positions so as to retain a family culture and control. Taking this into account, and without affecting those perfectly valid family values which are core to their performance, the study suggests the second option of training managers within family members to be more beneficial to the family companies because doing so may enable core family values to be restored and at the same time corporate financial performance enhanced.

REFERENCES

[1] Allen, J. W., Phillips, G. M. (2000), "Corporate equity ownership, strategic alliances, and product market relationships", Journal of Finance, Vol 55, page 2791-2814.

[2] Anderson, Ronald and David Reeb. (2003) , "Family ownership, corporate diversification, and firm leverage," Journal of Law and Economics, 46, 653-684.

[3] Attig, Najah, Sadok El Ghoul, Omrane Guedhami, and Sorin Rizeanu. (2009) , "Multiple large

shareholders and the value of cash holdings," Working paper.

[4] Becht, M., J. Franks, C. Mayer, and S. Rossi. (2009) , "Returns to Shareholder Activism: Evidence from a Clinical Study of the Hermes U.K. Focus Fund," Review of Financial Studies, The special issue.

[5] Becker, G. (1981) , " A Treatise on the Family," Harvard University Press, Cambridge, MA.

[6] Bitler, M. P., T. Moskowitz, and A. Vissing-Jorgensen, " (2005). Testing Agency Theory with Entrepreneur effort and wealth," Journal of Finance, 60, 539-576.

[7] Bubolz, M. (2001) , " Family as a source, user and builder of social capital," Journal of Socio-Economics, 30,129–131.

[8] Chami, R. (1999) , "What's different about family business?,"Working paper, University of Notre Dame and the International Monetary Fund, Indiana and Washington DC.

[9] Cronqvist, H. and Nilsson, M. (2003) , " Agency Costs of Controlling Minority Shareholders," Journal of Financial and Quantitative Analysis, 38, 695-719.

[10] David Hillier and Patrick McColgan. (2008), "An Analysis of Majority Owner-Managed Companies in the UK," Journal of Accounting and Finance, 48, 603-623.

[11] Demsetz, H. & K. Lehn. (1985), "The Structure of Corporate Ownership, Causes and Consequences," Journal of Political Economy, 93, 1155-1177.

[12] Demsetz, H., and B. Villalonga (2001) , " Ownership structure and corporate performance," Journal of Corporate Finance, 7, 209-233.

[13] Douma, S., George, R., and Kabir, R. (2006) , " Foreign and domestic ownership, business groups, and firm performance: Evidence from a large emerging market," Strategic Management Journal, 27,637–657.

[14] Faccio, M., and L. H. P. Lang. (2002) , " The Ultimate Ownership of Western European Corporations," Journal of Financial Economics, 65, 365–395.

[15] Farinha, J. (2003) , " Dividend Policy, Corporate Governance and the Managerial Entrenchment Hypothesis: An Empirical Analysis," Journal of Business Finance & Accounting, 30, 1173-1209

[16] Florackis, C., Ozkan, A. (2009) , " The Impact of Managerial Entrenchment on Agency costs: An Empirical Investigation using UK Panel Data," European Financial Management, 15, 497-528.

[17] Grossman, S.J. and O. Hart. (1982) , " Corporate Financial Structure and Managerial Incentives": In the Economics of Information and Uncertainty, J. McCall, ed., Chicago, IL, University of Chicago Press.

[18] Gugler, K., and Yurtoglu, B. (2003) , " Corporate governance and dividend payout policy in Germany," European Economic Review, 47, 731-758.

[19] Harris, M. and Raviv, A. (1988) , " Corporate governance: voting rights and majority rules," Journal of Financial Economics, 20, 203-235.

[20] Helen Short. (1994) , " Ownership, control, financial structure and performance of firms," Journal of Economic Surveys 8, 203–249.

[21] J.R. Davies, D. Hillier and P. McColgan. (2005) , " Ownership structure, managerial behavior and corporate value," Journal of Corporate Finance, 11, 645-660.

[22] King, Michael R and Santor Eric. (2008) , " Firm Values: Ownership Structure and Performance of Canadians Firms," Journal of Banking and Finance, 11, 2423-2432

[23] Klaus Gugler. (2001) , " Corporate governance and economic performance. Oxford University Press Inc. New York.

[24] Leaven, L., Levine, R. (2008) , " Complex ownership structures and corporate valuations," Review of Financial Studies, 21, 579-204.

[25] La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny. (1998) , " Law and finance," Journal of Political Economy 101, 678-709.

[26] Mara Faccio, Maria-Teresa Marchica and Roberto Mura. (2011) , " Large shareholder diversification and corporate risk-taking," Review of Financial Studies, forthcoming.

[27] Maury, B., and A. Pajuste. (2005) , " Multiple controlling shareholders and firm value," Journal of Banking and Finance, 29, 1813–34.

[28] McConnell, J.J. and H. Servaes. (1990) , " Additional Evidence on Equity Ownership and Corporate

Value," Journal of Financial Economics, 27, 595-612.

[29] Morck, Randall, David Stangeland, and Bernard Yeung. (2000) , " Inherited Wealth, Corporate Control, and Economic Growth: The Canadian Disease. In R. Morck ed. Concentrated Corporate Ownership. National Bureau of Economic Research Conference Volume. University of Chicago Press.

[30] Pound, J. (1988) , "Proxy contests and the efficiency of shareholder oversight," Journal of Financial Economics 20, 237-265.

[31] Pérez-González, F., (2002) , " Does inherited control hurt firm performance?," Working paper, Columbia University.

[32] Perez-Gonzalez, F. (2006) , " Inherited control and firm performance," American Economic Review, 96, 1559-1588.

[33] Prasad S. Bhattacharya and Michael Graham. (2009) , " On institutional ownership and firm performance: A disaggregated view," Journal of Multinational Financial Management, 5, 370-394

[34] Rajan, R.G., Zingales, L. (1995) , "What do we know about capital structure? Some evidence from international data," Journal of Finance, 50, 1421-1460.

[35] Thomsen, S., Pedersen, T. (2000) , " Ownership structure and economic performance in the largest European companies,' Strategic Management Journal 21, 689–705.

[36] Tufano, P. (1996) , " Who manages risk? An empirical examination of risk management practices in the gold mining industry," Journal of Finance, 51, 1097–1137.

[37] Villalonga, B., R. Amit. (2006) , " How do family ownership, control and management affect firm value?" Journal of Financial Economics, 80, 385-417.

.