Innhold

Introduction

Family firms have existed for many centuries without any major signs of declining. And since family firms represent a large portion of firms in any countries, we find the topic very relevant due to its overall impact on the world economy. Family firms have unique features that distinguish from other types of firms, and we wish to further explore and understand the effects of family ownership on firm performance.

Recent studies have shown that there is a connection between ownership structure and performance. However, it is important to distinguish between ownership and control. The owners are, in theory, those who possess voting rights in the firm – shareholders. They have a say in what the company is doing, whether they hold a few or majority of the shares. Naturally, they who possess majority of the shares will be more influential. On the other hand, the control of the firm is in the hands of the management team.

By definition, family firm is controlled and influenced by two or more family members. In many cases multiple generations of a family are involved in the decision-making of the firm. With that said, the key characteristic of a family firm is primarily its ownership structure. By standard, the family should hold majority of the outstanding shares in the firm, i.e. more than 51% of the shares, to be counted as the controlling shareholder. Furthermore, a majority shareholder has the ability and power to have strong control over the board of directors and the management team. Which makes them, in theory, the owner of the firm in a relatively high concentrated ownership environment.

In most cases, family members, who possess majority of the shares, serve on the board of directors and the management team as CEOs. This is considered as a family-owned firm, where both the ownership and control belong to the particular family. With this kind of structure, we are very curious of the possible advantages and disadvantages caused by the great involvement of family members. In essence, we will further explore this fascinating topic through analyses of financial accounting and corporate governance.

Literature Review

In recent past, there have been increased attention towards family businesses, and how they perform in comparison of non-family firms. (Siebles & Knyphausen-Aufseß, 2012)(Miralles-Marcelo, Miralles-Quirós & Lisboa, 2014) The numbers of publications regarding family businesses peaked for the first time in the late 1980's. The publications where more opinion and experienced based rather than empirical papers but they still contributed to the literature regarding the family business theme. (Bammens, Voordeckers & Van Gils, 2011) Thomas B Harris were one of those and he explained how he disagreed that one cannot simply import a model of boards of directors that has evolved with large nonfamily public firms into a family business, based on his insight from family therapy, finance, organizational behavior and management and owners of family firms. (Harris, 1989)

Vishny and Shleifer found in 1986 that 354 of 456 firms in a sample from the fortune 500 (top 500 firms in US at the time based on revenues) had at least one large shareholder owning above 5 % of the firm. (Shleifer & Vishny, 1986) Vishny and Shleifer later stated, "Large shareholders thus address the agency problem in that they have both a general interest in profit maximization, and enough control over the assets of the firm to have their interest respected". (Shleifer and Vishny, 1997, p. 754) Thereby the manager could run the company by their own interest, which not need to coincide with the interest of the other stakeholders, (Shleifer & Vishny, 1997) which is a contra intuitive argument against why such an amount of the top 500 firms would have a large shareholder.

If not looking at economies with very good shareholder protection, relatively few of the 20 largest publicly traded firms in each of the 27 generally richest economies as of 1999 are widely held, in contrast to Berle and Means view of the modern corporation from 1933. These firms are rather typically controlled by the state or families having controlling amounts of shares through use of pyramids (holding large amount of shares with little cash) and participation in management. (La Porta, Lopez-De-Silanes & Shleifer, 1999) Because of this research by Rafael La Porta, Florencio Lopez-De-Silanes and Andrei Shleifer, Berle and Means's

“The Modern Corporation and Private Property “, which were widely accepted in the finance literature, were losing some if its credibility and relevancy.

In 2000 Johannisson and Huse published “Recruiting outside board members in the small family business: an ideological challenge” where they believed that using professional managers, if properly orchestrated, would create an energized and more competitive family business. This was assumed based on a piloting survey of 12 family businesses. Thereby they requested future studies to test the effect of using independent managers (a manager without any relations to the firm when hired) on a large-scale sample with cross-country comparison. (Johannisson & Huse, 2000)

“Disentangling the Incentive and Entrenchment Effects of Large Shareholdings” , a study from 2002 found that managers of East Asian corporations are usually related to the family of the controlling shareholder while manger-owner conflicts still are generally limited. (Claessens, Djankov, Fan & Lang, 2002) A year later Ronald C. Anderson and David M.Reeb found evidence from the Fortune 500 showing what Johannisson and Huse wrote was wrong. Andersen and Reeb found that the performance of the company is better when the company CEO is related to the controlling shareholder. Suggesting that family businesses are a competitive organizational structure. Further testing suggested that the reasoning for the family businesses performing significantly better than the non-family businesses could stem from the companies where the CEO where a family member. (Andersen & Reeb, 2003) They also found that family ownership in public firms reduces agency problems, supporting the “Disentangling the Incentive and Entrenchment Effects of Large Shareholdings”. (Andersen & Reeb, 2003)

It was later discovered that family members at the CEO position not necessarily gave a positive effect on the firm’s performance. There is only a statistically positive effect if the family member serving as CEO is the founder of the firm. “How do family ownership, control and management affect firm value?” shows that if a descendant of the founder takes over as CEO he/she will destroy value. Reasoning for this being that the agency cost of the conflict between manager and owner is higher in descendant-CEO firms than in non-family firms. (Amit & Villalonga, 2006) There is a very little probability that the ancestors of the founder will be the ones best suited for the job.

Commonly most of the papers agrees on that there is relatively little attention on the theme because of the difficulty in obtaining reliable data on these firms. (Johannisson & Huse, 2000) (Amit & Villalonga, 2006)

In 2007 Miller et. al published "Are family firms really superior performers?" questioning whether family businesses really outperform non-family businesses considering that there might be some endogeneity or bias by examining only the fortune 500. They examined instead the fortune 1000 and added another 100 smaller public companies. The result where not supporting family businesses as that dominant as what earlier research suggest. "The results show that findings are indeed highly sensitive both to the way in which family businesses are defined and to the nature of the sample" (Miller, Le Breton-Miller, Lester & Cannella, 2007, p. 1)

Following research in the area assess this endogeneity problem as relevant and evaluate whether the family companies that are compared in the Fortune 500 may be heterogeneous entities, thereby not comparable. (Mazzi, 2011) (Chua, Chrisman, Steier & Rau 2012) (De Massis, Kotlar, Campopiano & Cassia, 2013) (Miralles-Marcelo et al., 2014)

Overall, more research is required to clarify these inconsistent findings. To do that we will only compare family businesses and non-family businesses that are of the same industry and comparable size.

Research question and objective of the thesis

Research question

We wish to further investigate whether family involvement in decision-making will have any effect on the firm's status in regard to financial performance and corporate governance. Thus, our research question is:

Does family ownership have an effect on the performance of the firm?

Objective of the thesis

First and foremost, we will examine the possible agency issues that arises from family-owned business. This includes problems that occur from a circumstance where the large shareholder directly manages the firm which aligns managers' interests with those of the large shareholder. (Laeven & Levine, 2007). This will lead to an agency problem, where the controlling owner may have an incentive to transfer assets and profits out of the firm to benefit the majority shareholder at the cost of minority shareholders (Johnson, La porta, Lopez-de-Silanes & Shleifer, 2000). However, a majority minority shareholders problem may also provide a solution to the free-rider problem (Shleifer and Vishny. 1986). In another case, where no family members are involved in management, the controlling shareholder will have greater incentives to monitor the manager (Amit & Villalonga, 2006). Which ultimately leads to an agency problem between the manager and the controlling shareholder, in regard to aligning their interests. For instance, Yermack (2006) argues that managers' tendency to make more use of private benefits than needed which also leads to workers observing managers' perquisites and reacting adversely. As result, shirking, unethical behavior, or low morale will occur. Ultimately reducing the firm's initial value.

Secondly, we will further explore the relationship between family ownership structure and firm's performance. Whether family involvement creates or destroys value of the firm in terms of financial performance. This includes family business succession, strategic investment decision-making and capital structure.

Recent studies have provided evidences regarding the correlation between family succession and firm performance. According to (Cucculelli & Micucci, 2008), the maintenance of management within the family has a negative impact on the firm's performance. Their research and results, based on Italian firms, indicate that there is no sense of superiority with family ownership structure compared to other types. However, Amran & Ahmad's (2010) recent research, based from

Malaysian firms, provides findings that indicate that family succession positively contributes to firm performance. Moreover, family ownership does positively influence firm performance due to families' motivation to work efficiently when they hold big number of shares in the firm. Most important, results show successors-managed firms have better firm performance than founder-managed firms. With that said, these two particular papers open up the possibility for us to further study the relationship between family succession and firm performance, and why cultural differences might play a huge part of the results.

Another research that has brought interests is the effects of family business owner's gender to firm performance. In common with to family succession, succession planning in family businesses is important for the firm's future performance. While attributes like management skills, technical skills, interpersonal skills, problem-solving, among others, are important for an owner to succeed. Based on Harveston, Davis & Lyden's (1997) research, there are actually similarities and differences between males and females in succession planning in family business. While Karataş-Özkan, (2011) also examines the gender differences in family businesses. However, their findings are small and without much consistency.

Strategic investment decision-making is essential in all organizations. In this section, we will explore the family firms' approach to short-term investments and long-term investments. In other words, their strategy of capital budgeting and working capital management which is heavily related to the firm performance and growth. Moreover, the relation between family ownership structure and the firm's risk-taking behavior. The article written by Naldi, Nordqvist, Sjöberg & Wiklund (2007) provides evidence that, while family firms do take risks, the risks taken are to a lesser extent than nonfamily firms. Moreover, that risk taking in family firms is negatively related to performance. On the other hand, Lee, Chae & Lee (2018) find that, in Korea, family with less ownership takes less risk for pursuing their private benefits, while a family with more ownership takes more risky projects to align their interest with the firm's.

While the risk-taking behavior of the firm is heavily dependent on the characteristics of the CEO, which in this case might be a part of the controlling family owner, we can reasonably assume that the level of risk-taking is affected by the degree of family influence in the firm. To further explore this topic, we will examine several unique conditions that lead family firms to be less risk-averse. Including, size of family ownership, family-involvement for generations, gender, founder- or successors-managed, religion, wealth, among others. For instance, a very recent paper by Jiang, Jiang, Kim & Zhang (2015) proposes that family firms with founders with religious background are less risk-taking than other family firms. Their findings show that firms founded by religious owners have lower leverage and less investments in fixed and intangible assets compared to other nonreligious owners. While a paper written by Memili, Eddleston, Kellermanns, Zellweger & Barnett (2010) demonstrates the relation between risk taking, expectations and family firm image. Highlighting that family firm image plays a crucial role demonstrating their enduring influence on the firm through risk taking. In other words, high expectations from the leader, presumably from the family, promote a family firm image and risk-taking. In turn, risk-taking and family image affects the firm performance. With that said, we find that there are other family-related factors that contribute to the firm performance. Not as simple as being a family-owned or non-family firm. But the attributes and qualities that the family has brought to the table.

Lastly, but most importantly, we will explore family firm's capital structure decision making. What determines a family firm's capital structure? For instance, a CEO's view of debt financing contributes to firm leverage. In turn, firm leverage has an impact on firm investment which ultimately affects firm performance. King & Santor (2008) study shows that family-owned firms with a single share class have higher financial leverage based on debt-to-total assets than other non-family firms. According to Aspenberger, Schmid, Achleitner & Kaserer (2011), family does influence the capital structure of the firm, and that the family impact is mostly through management involvement. In addition, the study indicates a negative relationship between family firm characteristics (ex. Family management) and the level of leverage.

Hypothesis

H0: Family business does not have an effect on firm performance

H1: Family business does not have an effect on firm performance

Data and methodology

Data

We will mainly use Secondary data. We plan to gather the data through BI's Center of Corporate Governance Results (CCGR), Bloomberg or, if necessary, collecting data from their annual reports. CCGR is a database provided by BI, focusing on empirical research and primarily studies Norwegian firms. The CCGR also includes private industry in general and to non-listen firms and family firms in particular (BI Norwegian Business School 2020). The data from CCGR consists of information from 1994-2015, which should be sufficient for later research about firm performance in family firms. The data we wish to use, so far, for this study includes:

1) Revenue
2) Payroll expense
3) Depreciation
4) Other interest expenses
5) Income
6) Total fixed assets
7) Total current assets
8) Total equity
9) Total short-term liabilities
10) Total long-term liabilities
11) Cash flow
12) Dividends playable
13) Information about CEO
    a. Gender
    b. Age
    c. Years as CEO
14) Information about the family ownership structure

a. Number of owners
b. % of owners belonging in the same family

Methodology

Firstly, as mentioned earlier, we will only consider a family firm where the family holds over 50% of the shares. Secondly, as a family tree might be complicated, we only consider family as blood-related or in-laws. Lastly, we will not conclude a daughter company nor subsidiaries in our studies as we are more interested in the larger companies. This is also due to the relationship between the mother and daughter company which, to our knowledge, does not contribute to our research as stock of the daughter company is still an asset on the balance sheet of the holding company.

Primarily, we consider using Return on Assets (ROA) as the dependent variable as an indicator to explain whether family ownership has an affect on the firm performance or not. However, we will likely to also conclude financial parameters as following:

1) Return on equity (ROE)
2) Turnover rate
3) Gross profit margin
4) Operating profit margin
5) Net profit margin
6) Return on invested capital
7) Operating cash flow
8) Working capital
9) Current ratio
10) Quick ratio
11) Debt to Equity ratio
12) Substantial growth

In addition, with the data and variables available, we will utilize a statistical quantitative approach to answer our research question.

Plan for thesis progression

January
- Define the hypothesis
- Collect articles and literatures needed

February
- Gather data
- Processing the data

March
- Processing the data
- Analysis of data

April
- Interpret and comment the given results
- Structerizing and visionalize the thesis

May
- Structerizing and visionalize the thesis
- First draft
- Review the current state of the draft

June
- Final draft

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