Oxford Review of Economic Policy, Volume 36, Number 2, 2020, pp. 241–257

Family ownership

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Abstract: This article reviews the existing literature about the most prevalent form of corporate ownership around the world: ownership by individuals—particularly founders—and families. We summarize the existing evidence about the prevalence and persistence of family ownership around the world, along with its impact on performance—both financial and non-financial—relative to other types of corporate ownership. We discuss how and why these empirical facts and findings come about—why owners in general, and family owners in particular, are critical drivers of firm behaviour and performance, and how they are able to exercise their influence over corporations in which other shareholders, such as institutional investors, and other stakeholders can also play an important role.

Keywords: family, founder, ownership, control, performance

JEL classification: G3, G32

I. Introduction

Most companies around the world are under the control or significant influence of an individual shareholder (typically the founder) and/or his or her family. Such companies, often referred to as 'family firms' (Burkart *et al.*, 2003), include the majority of publicly listed corporations as well as, of course, most privately held companies. Despite their overwhelming prevalence, the important role of these firms as large employers in the economy and its implications for public policy only began to gain broad recognition two decades ago, when La Porta *et al.* (1999) and several follow-on studies (Claessens *et al.* 2000; Faccio and Lang, 2002) provided rigorous empirical evidence of their prevalence over other forms of ownership around the world, and even in the United States (Anderson and Reeb, 2003*a*; Villalonga and Amit, 2006, 2010). This evidence was complemented by the finding that these firms differ systematically from other firms in their behaviour and financial performance—in other words, that family firms matter very much, and to very many people (Claessens *et al.* 2002; Anderson and Reeb, 2003*a*; Villalonga and Amit, 2006, 2009). Before these papers were published, the study of family business was perceived as a niche topic affecting a small group of companies, published by a small group of researchers in an even smaller set of specialized outlets, and therefore as being of limited interest to the academic community at large. It wasn't until a few studies put family firms in the broader business context by comparing their

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doi:10.1093/oxrep/graa007

prevalence and performance to non-family firms that top academic journals opened their doors to family business research, giving it the visibility it deserves.

Since then, however, family business has become one of the fastest growing areas of research within financial economics and management, and one of the most influential ones in terms of academic citations. For instance, ISI Web of Science shows that five out of the ten most cited papers over the past 25 years (on a per-year basis) in both the *Journal of Financial Economics* and the *Journal of Corporate Finance*, and four out of ten in the *Journal of Finance*, are on the subject of corporate ownership. Anderson and Reeb (2003*a*) and Villalonga and Amit (2006) are each the single most cited article over the past 20 years (again, on a per-year basis) in the *Journal of Finance* and the *Journal of Financial Economics*, respectively.

In this article, we review the academic literature that has played a critical role in the growth and recognition of family firms as a subject of scholarly study by comparing the prevalence, evolution, behaviour, and performance of family and non-family firms. Understanding the unique dimensions of family-owned firms and the important roles they play in the economies of different countries, serves as vital input to formulating public policy in such areas as wages, taxation, and more. We do not attempt to review the entire field of family business, in which empirical studies have often focused exclusively on family firms without a control group of non-family firms.

II. Prevalence of family ownership

The question of how prevalent family ownership is around the world or in a given country is deceptively simple. Several factors make this question difficult to answer. First, no country to our knowledge keeps track in its census or other register of whether businesses are family owned or not. Second, there is no universal agreement about what constitutes a family firm and what does not—should first-generation (founder-owned) firms be included? Should firms owned by a sole individual (founder or other) be included? Should there be a minimum threshold of equity ownership, control, or the family's involvement in management? Should publicly listed firms be excluded? Third, most businesses are either privately held or owned indirectly through investment vehicles that are themselves privately held. Thus, it is typically very difficult, when not impossible, to determine who the ultimate owners of a firm are—let alone whether those owners are members of the same family by blood, marriage, or adoption.

The third of these problems has become ever more salient in the United States over the past 20 years, during which, acording to World Bank data,[1] the number of public corporations in the country has declined by almost a half—from over 8,000 in 1996 to close to 4,400 in 2018. Franks and Mayer (2017) document a similar decline in the United Kingdom. Doidge *et al.* (2017) find that 54 per cent of the decline in US public corporations is attributable to a reduction in the number of initial public offerings (IPOs), while the remaining 46 per cent is due to an increase in the number of delistings. The latter, in turn, have been driven by an increase in mergers and acquisitions

[1] https://data.worldbank.org/indicator/cm.mkt.ldom.no

(M&A) activity, with resulting increases in market concentration (Grullón *et al.*, 2019), combined with companies going private due to regulatory changes like Sarbanes–Oxley that have altered the cost–benefit analysis of being public vs private (Engel *et al.*, 2007). The rise of private equity as a major player in the market for corporate control (Wruck, 2008; Kaplan and Strömberg, 2009; Wood and Wright, 2009) has served as an important catalyst for both trends.

It is therefore understandable why reliable estimates of the prevalence of family firms are not so prevalent themselves. Amit and Villalonga (2013) review the empirical literature on this subject and find that the earliest such estimates were those provided for Fortune 500 firms by Sheehan (1967) and Burch (1972), who respectively report 30 and 42 per cent of the largest publicly listed firms as family firms. These numbers are based on a definition of a family firm as one where an affluent individual, or a family, or a group of families owns 4–5 per cent or more of the voting stock or has board representation.[2] Burch also reported an additional 17 per cent in the 'possibly family owned category'.

Several later studies have added to the body of evidence about the prevalence of family ownership or control among large US corporations. Shleifer and Vishny (1986) examine the identity of the largest shareholders in the 1980 Fortune 500 and find that 33 per cent of them are families represented on the boards of directors; an additional 22 per cent includes other corporations or family holding companies not represented on the board—i.e. possibly family owned as well. McConaughy (1994) reports that 21 per cent of the companies on the Business Week 100 list have a direct descendant of the founding family as CEO, president, or chairman. Jetha (1993) finds that 37 per cent of the 1992 Fortune 500 firms have a descendant of the founding family as a key officer, director, or owner.

In their seminal study of corporate ownership around the world, La Porta *et al.* (1999) examine the ownership and control structures of the 20 largest publicly traded firms in each of the 27 richest economies, as well as ten smaller firms in some of these countries. To establish who controls the firms, they look at the identities of the ultimate owners of capital and voting rights. They find that 30 per cent are controlled by families or individuals. For the smaller firms and using a less restrictive definition of control (a 10 per cent threshold as opposed to 20 per cent), the fraction of family-controlled firms in their sample rises to 53 per cent. Claessens *et al.* (2000) examine 2,980 public corporations in nine East Asian countries and find that over two-thirds of the firms are controlled by families or individuals. Faccio and Lang (2002) analyse the ultimate ownership and control of 5,232 public corporations in 13 Western European countries and find that 44 per cent of the firms are family-controlled.

[2] A 5 per cent minimum ownership stake is often used in US data because it is the legal threshold over which beneficial owners have to report their stakes to the Securities and Exchange Commission. While this is a low threshold compared to those often used in studies of European family firms, in practice a 5 per cent or even lower stake can be sufficient for an owner to exert significant influence over the firm's strategy and governance if the rest of the shareholder base is sufficiently dispersed and disengaged, as is often the case in the United States. Moreover, as later studies have shown, the power of a 5 per cent stake is usually magnified through the use of control-enhancing mechanisms such as dual-class stock, pyramids, or disproportionate board representation (La Porta *et al.*, 1999; Villalonga and Amit, 2009).

Anderson and Reeb (2003*a*) find that founders or their families are key officers, directors, or owners in one-third of the S&P 500 corporations during 1992 to 1999. Closer to Anderson and Reeb's estimate, Villalonga and Amit (2006) find that 37 per cent of the Fortune 500 firms between 1994 and 2000 have founders or their families as key officers, directors, or owners. Villalonga and Amit (2006) also find that these estimates are highly sensitive to the definition used; they show that the percentage of family firms in their sample goes down to 7 per cent when using the most restrictive of the nine different definitions they consider. These range from a very liberal definition of a family firm in which one or more family members are officers/directors/block holders, to a very conservative definition that considers a family firm to be one in which the family is the largest vote holder, owns at least 20 per cent of the equity of the firm, has at least one family officer and at least one family director, and is in the second generation or later. Villalonga and Amit (2010) assemble a random sample of public US firms (including not just the largest in the economy as before) and find that, using the same liberal definition of a family business as Anderson and Reeb (2003*a*) and Villalonga and Amit's (2006) primary definition, 55 per cent of the sample are family businesses. If non-founding families are also counted in, the percentage rises to 71 per cent.

Using a sample of more than 40,000 publicly listed firms from 127 countries over 2004–12—by far the most comprehensive one used to date for the study of corporate ownership and control around the world, Aminadav and Papaioannou (2016) find that 15.2 per cent of firms are controlled by an individual or family whose identity they can trace. For an additional 14.6 per cent, the ultimate controlling shareholder is a privately held firm that 'almost certainly' is owned by a family or individual whose identity they are unable to trace, which brings the percentage of family firms to a more realistic estimate of 30 per cent. It is worth noting that family-controlled companies in their study are deemed as such using a Shapley–Shubik algorithm that is more demanding than the 'weakest link in the control chain' approach (with a 10 or 20 per cent threshold) pioneered by La Porta *et al.* (1999). In fact, most of the 56 per cent of firms that they classify as widely held using this algorithm (47 per cent of the whole sample) have a blockholder who owns 5 per cent or more of the company stock, which in many economies gives such shareholders a significant influence over the company, if not outright control. Widely held firms without such blockholders are only 9 per cent of the sample.

There have been many more studies reporting on the prevalence of family businesses in individual countries, but those reviewed here remain the most comprehensive within their respective geographic areas of focus. Table 1 shows how the prevalence of family firms compares to that of firms controlled by the state and to widely held firms, according to some of the same studies cited above.

The findings of these studies confirm that family ownership is the dominant form of corporate ownership of public corporations around the world. A comparison across studies also suggests that, as can be expected, family ownership is significantly more prevalent among smaller firms, and suggests that these percentages would be even higher if private firms were considered. Indeed, in one of the very few studies that cover private as well as public companies, Franks *et al.* (2012) analyse the largest 1,000 firms in each of four European countries (the United Kingdom, Germany, France, and Italy)

Table 1: Prevalence of family ownership as compared to other ownership types

Study	Sample/control definition	Individuals and families (%)	Founders (%)	Families (%)	State (%)	Widely held (%)
La Porta *et al.* (1999)	20 largest firms in 27 countries:					
	20% min control cut-off	30			18	46
	10% min control cut-off	35			20	36
	10 smaller firms in 27 countries:					
	20% min control cut-off	45			15	32
	10% min control cut-off	53			17	20
Claessens *et al.* (2000)	2,980 firms, 9 East Asian countries:					
	20% min control cut-off	37			5	58
	10% min control cut-off	41			6	53
	1,740 firms ex-Japan	61			9	30
Faccio and Lang (2002)	(20% min control cut-off)					
	5,232 firms, 13 Europe countries	44			4	45
	3,279 firms in 12 countries ex-UK	56			6	28
Anderson and Reeb (2003*a*)	S&P500 firms	33				
Villalonga and Amit (2006)	Fortune 500 firms	37	18	19		
Villalonga and Amit (2009)	2,100 US firms	55	40	15		
Aminadav and Papaioannou (2016)	28,643 firms, 85 countries	46			0.1	17

and find that family firms represent 30 per cent of all public firms in their aggregate (4,000-firm) sample, but 41 per cent of private firms.

Unfortunately, there is no equally reliable evidence about the prevalence of family businesses among private firms in other parts of the world. For the United States, the closest is Shanker and Astrachan's (1996) study, which estimates the importance of family businesses in the US economy based on the legal form of organization of business taxpayers. They conclude that, using a broad definition of family business which, similar to the one used most widely for public corporations, calls for family involvement in either ownership or management, 100 per cent of all sole proprietorships and about 60 per cent of all partnerships and private corporations can be deemed family businesses. Aggregating across all businesses in the economy, the resulting estimate is that 92 per cent of all US businesses can be considered family businesses. Astrachan and Shanker (2003) provide an updated figure of 89 per cent based on year 2000 data. Outside of the United States, the empirical evidence about the prevalence of family businesses remains limited to public company data, with the exception of a few isolated countries such as Denmark for which there is evidence from private companies as well (Bennedsen *et al.*, 2007).

Among the studies of corporate ownership reviewed above, those that have analysed multiple countries find significant variation in the prevalence of family ownership and control across countries, even when holding constant the definition of family firm and the criteria for inclusion in the sample (e.g. size), which are obvious sources of variation in results across studies. For instance, Claessens *et al.* (2000) find that the prevalence of family ownership across East Asian countries ranges between a minimum of about 45 per cent in the Philippines and Taiwan and a maximum of about 70 per cent in Indonesia, Malaysia, Hong Kong, and Thailand. Faccio and Lang (2002) find that family ownership in Western Europe ranges between the minimum of 23 per cent in the United Kingdom and the maximum of about 60 per cent in France, Germany, Portugal, and Italy.

The differences observed are consistent with the view that countries' legal origins play an important role: ownership concentration in general, and in the hands of families in particular, is considerably higher in French civil-law (and, to a lesser extent, in German civil-law) countries where shareholder protection appears weaker than in common-law countries such as the United States or the United Kingdom (La Porta *et al.*, 1999; Aminadav and Papaioannou, 2016).

There is also significant variation in the prevalence of family firms across industries, as documented for instance by Anderson and Reeb (2003*a*) and Villalonga and Amit (2006). Villalonga and Amit (2010) examine the drivers of this variation and find that family ownership is higher in industries in which the minimum efficient scale is small, the need to monitor employees is high, investment horizons are long, and dual-class stock is prevalent. Indeed, while dual-class stock has been traditionally portrayed in the finance literature as evidence of the traditional agency problem between owners and managers, DeAngelo and DeAngelo (1985), Nenova (2001), and Villalonga and Amit (2009) show that it is founders and their families, and not managers, who typically put in place and hold most of the super-voting shares in firms with dual-class structures.[3]

These drivers of variation in the prevalence of family ownership across industries are often interrelated: in industries in which the minimum efficient scale is large, dual-class stock allows families to retain control of their firms even as their ownership stakes are diluted in order to raise the additional capital needed to finance necessary growth. Likewise, dual-class stock can protect families and the minority shareholders who invest with them from the short-termistic pressures of the stock market.

III. Persistence of family ownership

A number of studies of family ownership, including several of those reviewed above (e.g. Villalonga and Amit, 2006; Aminadav and Papaioannou, 2016), have used panel data samples covering a large number of firms over a period of time that typically ranges between 7 and 10 years. These studies find that the percentage of family firms in their samples does not change much over time, which suggests that family ownership is remarkably persistent. There are two caveats to this conclusion, however. First, a handful of studies has examined the evolution of family ownership within countries over much longer periods of time (i.e. multiple decades or even a century)

[3] Dual-class stock structures consist of two or more classes of common stock with different voting rights, e.g. one voting and another non-voting, or one with one vote per share and another with ten votes per share.

and found that the apparent stability holds for certain countries such as Germany (Franks *et al.*, 2006) or Japan (Franks *et al.*, 2014), but not for others such as the United Kingdom (Franks *et al.*, 2005). Franks *et al.* (2012) examine the dilution of families' ownership stakes within firms and find that, as firms mature, family ownership gets more dispersed in the United Kingdom, whereas in Germany, France, and Italy, family control increases with firm age. They also examine a cross-section of over 27,000 firms from 27 European countries and conclude that the persistence of family ownership is contingent on the degree of investor protection. In countries where investor protection is high and, as a result, capital markets are more liquid, family firms evolve into widely held companies as they age, whereas in countries where investor protection is weak, family ownership is very persistent over time. These findings are consistent with those of Foley and Greenwood (2010) about the diffusion of insider ownership after a firm's IPO in a sample of 2,700 firms in 34 countries over the period 1995−2006.

The second caveat to interpreting the evidence from panel studies of family firms' prevalence as evidence of the persistence of family ownership over time, arises from the fact that in any of these samples there is considerable turnover from year to year. Namely, new firms enter the sample every year for a variety of reasons (depending on how each sample is constructed), such as having gone public, having joined a given group like the Fortune 500 or S&P500, or having reached a certain size threshold (e.g. the largest 1,000), at the same time that there is significant attrition in the group of firms included at the beginning of the sample period. It is not clear from these studies whether the turnover and attrition are greater for family firms or for non-family firms.

In fact, the more general issue of family firms' survival remains elusive. Of the 114 academic studies of family business succession reviewed by Stamm and Lubinski (2011), 28 mention the 'empirical fact' that only 30 per cent of family businesses survive into the second generation and less than 10–15 per cent make it to the third generation. References to these same statistics outside academic studies count themselves in the thousands. However, Stamm and Lubinski find that none of the studies they review substantiates these statistics with its own empirical analysis. Moreover, they trace the listed references (when any) for the alleged survival rate of family businesses and find that they are only supported by one empirical study—John Ward's (1987) analysis of 200 regionally focused manufacturing companies.

IV. What explains the prevalence and persistence of family ownership?

A number of explanations have been offered regarding the prevalence of family ownership around the world and its overall persistence over time. Some of these also help explain the observed heterogeneity across countries and industries. Villalonga and Amit (2010) classify existing economic explanations into two broad categories: 'competitive advantage' and 'private benefits of control'. The key difference between the two is the group of shareholders for whom value is maximized. Under the competitive advantage hypothesis, family ownership is prevalent because (or whenever) value is maximized for both family and non-family shareholders (Bertrand and Schoar, 2006). Under the private benefits of control hypothesis, family ownership is prevalent because (or whenever) value is maximized for the family, which expropriates non-family investors (Burkart *et al.*, 2003).

One theory within the competitive advantage group is that family ownership reduces the classic agency problem between owners and managers by providing owners with better incentives and ability to monitor managers, or even eliminating the problem altogether by uniting ownership and management in the same individual (Burkart *et al.*, 2003; Villalonga and Amit, 2006). A second explanation within this group is that family ownership serves as a substitute for weak legal structures, since trust between family members can be a substitute for missing governance and contractual enforcement (Bertrand and Schoar, 2006). A third explanation, related to but distinct from the previous one, is suggested by Khanna and Palepu's (2000) arguments about diversified business groups in emerging markets (which are usually family-controlled): when the institutions that contribute to the efficiency of input and output markets are underdeveloped, family firms and business groups can act as substitute markets for capital and labour and thus contribute to mitigate market failures caused by agency and information problems. Families can also add value to their firms in product markets, through their business and political connections or reputation. A fourth explanation is that families provide their firms with a long-term orientation and 'patient capital' that allows them to undertake investments from which, in the long run, all shareholders (and other stakeholders) will benefit.

Within the private benefits of control group of theories, the leading one in the financial economics literature is again an agency explanation: that families have different objectives from those of other shareholders and use their controlling position to expropriate smaller, minority shareholders (Burkart *et al.*, 2003; Villalonga and Amit, 2006). Included among such private benefits are the appointment of an undeserving family member as CEO, whose actions may translate into lower adoption of best practices (Lemos and Scur, 2019) and/or lower performance for the firm as a whole (Bennedsen *et al.*, 2007). The leading theory of family ownership in the management field, which is that families seek to maximize their 'socioemotional wealth' rather than their financial wealth (Gómez–Mejía *et al.*, 2007, 2010, 2011), also falls within this category so long as the family is accompanied by non-family shareholders (as is the case in publicly listed firms) whose objectives differ from the family's.

Perhaps the most direct form of private benefits appropriation is 'tunnelling' profits within business groups—from companies in which the controlling families have lower cash-flow rights, to those in which they have higher cash-flow rights (Johnson *et al.*, 2000), as has been shown to happen in India (Bertrand *et al.*, 2002), or Thailand (Bertrand *et al.*, 2008). On the other hand, this practice is often combined with its flip side—families using their private funds to 'prop up' financially troubled firms (Friedman *et al.*, 2003). This combination suggests a 'competitive advantage' view of family ownership, with family firms exhibiting higher performance than non-family firms during industry or economic downturns and greater performance stability over time, as documented by Villalonga and Amit (2010).

In addition, family firms have been shown to be more stable employers. Using French data, Sraer and Thesmar (2007) and Bassanini *et al.* (2013) show that family firms pay lower wages (to comparable workers) but exhibit lower dismissal rates, suggesting an implicit contract between employers and employees in which the long horizons of family firms allow them to commit to long-term labour contracts.

Several of these theories and evidence are consistent with the differences in the prevalence and persistence of family ownership observed across countries. For instance, the legal investor protection substitute and the internal markets explanations are both consistent with the evidence in La Porta *et al.* (1999) and Aminadav and Papaioannou (2016) that family firms are more prevalent in less developed markets.

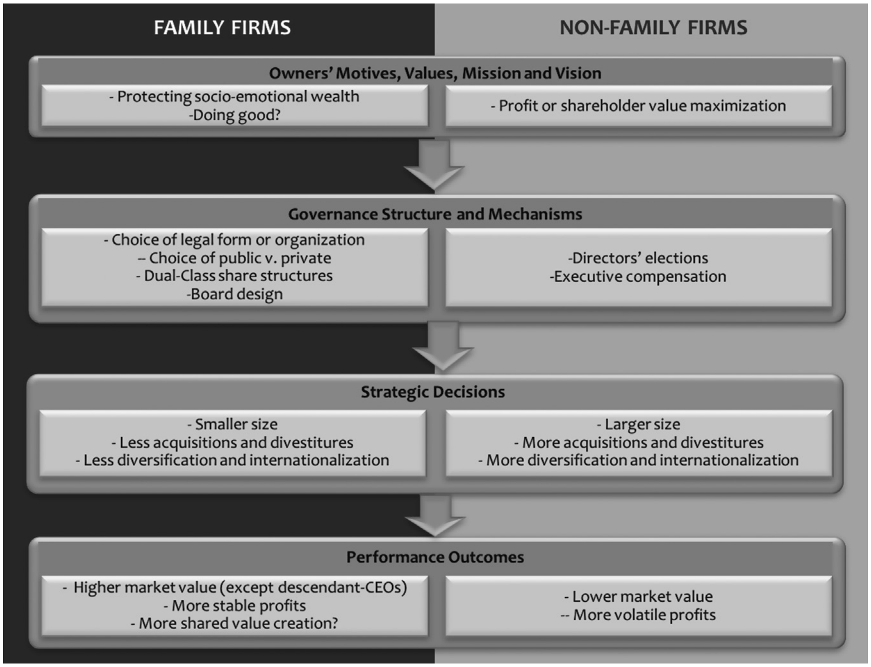
Villalonga and Amit (2010) examine what explains family control of firms and industries and find that the explanation is largely contingent on the identity of families and individual blockholders. Founders and their families are more likely to retain control when doing so gives the firm a competitive advantage, thereby benefiting all shareholders. In contrast, non-founding families and individual blockholders are more likely to acquire and retain control when they can appropriate private benefits of control.

In addition to the two groups of economic explanations to the prevalence and persistence of family ownership, a non-economic explanation has been proposed: that it is the outcome of cultural norms, such as family values or trust, that are deeply embedded in social and economic behaviours in each country (Weber, 1904; Banfield, 1958; Fukuyama, 1995). Some macroeconomic evidence is consistent with this view: Morck *et al.* (2000) show that countries in which inherited wealth is large relative to their gross domestic product (GDP) have slower growth than similarly developed countries where entrepreneurs' self-made wealth is large relative to GDP. Bertrand and Schoar (2006) show that countries with stronger family values, such as children's obedience to parents or parental duties to their children, have lower economic performance in terms of GDP *per capita*. As they acknowledge, however, family values may be the consequence rather than the cause of economic development. Iacovone *et al.* (2019) use variation in trust across different European regions as a proxy for varying strength of contractual institutions, and find that the propensity of firms to be family managed is related to trust, which they interpret as supporting their theoretical model's prediction that better contractual institutions decrease the probability of being family-managed.

However, because economic and institutional development are highly correlated, it is difficult to separate the cultural explanation from the central tenet, common to most of the economic explanations, that the variation in the prevalence and performance of family firms across countries results from differences in institutional and market development.

Amit *et al.* (2015) use Chinese data to investigate the role played by institutional development in the prevalence and performance of firms that are owned and/or managed by entrepreneurs or their families, while controlling for the potential effect of cultural norms—since the country combines great heterogeneity in institutional development across its provinces with homogeneity in cultural norms, law, and regulation. They find that family firms are relatively more prevalent and have higher family ownership stakes in the more developed provinces.

Figure 1: Differences between family and non-family firms



V. The performance of family firms

Together with the overwhelming evidence about the prevalence of family ownership around the world, the other set of empirical findings that has raised awareness of the importance of family firms and spurred the growth in academic research about them is that about these firms' financial performance relative to non-family firms. Amit and Villalonga (2013) review this literature extensively, so we only summarize their key findings here and refer the reader to their paper for further details.

The earlier studies about the question of whether family firms have higher or lower market value and profitability than non-family firms yielded seemingly conflicting answers, even within a single country—the United States (Holderness and Sheehan, 1988; Morck *et al.*, 1988; McConaughy *et al.*, 1998; Anderson and Reeb, 2003*a*).

Villalonga and Amit (2006) provide evidence on the question that helps reconcile prior discrepancies, by bringing together the evidence and empirical methodologies from several streams of research that have proven relevant to the question about the relative financial performance of family and non-family firms: (i) the impact of ownership structure on corporate performance (Morck *et al.*, 1988; McConnell and Servaes, 1990), or lack thereof (Demsetz and Lehn, 1985; Demsetz and Villalonga, 2001); (ii) the founder-CEO premium (Palia and Ravid, 2002; Adams *et al.*, 2009; Fahlenbrach, 2009); (iii) the performance of business groups (Khanna and Palepu, 2000; Bertrand *et al.*, 2002); (iv) the negative performance impact of control-enhancing mechanisms such as pyramids and dual-class stock (La Porta *et al.*, 2002; Claessens *et al.*, 2002; Lins, 2003); (v) the voting premium resulting from dual-class stock (Zingales, 1995; Nenova, 2003); and (vi) the impact of family succession on firm value (Smith and Amoako-Adu, 1999; Pérez-González, 2006).

Based on these different streams of literature, Villalonga and Amit (2006) conclude that, in assessing the financial performance of family firms, it is important to distinguish among three elements in the definition of a family firm: ownership, control (in excess of ownership), and management, and use this approach in a panel of Fortune 500 firms. They find that family ownership *per se* on average creates value, while family control in excess of ownership (achieved through mechanisms such as dual-class stock) reduces it, although not enough to offset the positive effect of ownership. On the other hand, they find that the performance effects of family management are large enough to overpower those of the other two elements, but their sign is entirely contingent on the CEO or chairman's generation: relative to non-family businesses, founder-led firms outperform, while descendant-led firms underperform. These findings help reconcile the puzzle that, despite family CEO successors' negative impact on firm performance (Bennedsen *et al.*, 2007), family ownership remains remarkably persistent.

A large number of studies following these have provided further evidence about the performance of family firms around the world, either directly or indirectly. For instance, Belenzon *et al.* (2017) find that having the founding family name in the firm's name—what they refer to as 'firm eponymy'—is linked to superior performance. As Villalonga and Amit (2010) note, all such firms are family firms (although not all family firms are eponymous, obviously).

Amit and Villalonga (2013) identify four drivers of variation across the results of these studies: family business definition, geographic location, industry affiliation, and intertemporal variation in economic conditions. This variation notwithstanding, the cumulative evidence suggests that three findings are highly robust across different geographies and time periods: the positive impact of family ownership, the negative impact of family control in excess of ownership, and the positive impact of family management by founder-CEOs. Where there is greater variation in results across studies is in the impact of descendant-CEOs—positive in certain countries and samples, negative in others. In general, the differences observed in this regard are consistent with the notion that when there is a deep market for managerial talent, the potential advantages of family management (inside knowledge, commitment, etc.) are more than offset by their potential disadvantages (e.g. nepotism), and vice versa.

A growing number of studies has compared the performance of family and non-family firms along non-financial dimensions, such as environmental, social, and/or aggregate ESG (those two plus governance). Faller and zu Knyphausen-Aufseß (2018) review 19 empirical studies of this issue and find that 12 report a positive relation between family ownership and ESG performance while four find a negative one, and three find no significant relation at all.

Villalonga (2018) reviews these and some more recent studies of the same question and finds results that are even more highly mixed, when not contradictory altogether. For instance, Dyer and Whetten (2006) and Butler and Roundy (2017) find that family firms display fewer environment-related and employee-related concerns, but higher diversity-related concerns, while Bingham *et al.* (2011) show exactly the opposite findings. Likewise, Block and Wagner (2014) find that family ownership is negatively associated with community-related corporate social responsibility (CSR) performance and positively associated with aspects related to diversity, employee relations, environment, and product. In contrast, Cruz *et al.* (2014) find that family firms have a positive effect on social dimensions linked to external stakeholders, yet have a negative impact on internal social dimensions.

VI. What explains the differences in performance between family and non-family firms?

The prevalence, persistence, and performance of family firms are intrinsically linked to one another: family firms are more likely to survive as such and prevail over other types of firms whenever or wherever they can achieve superior performance. Thus, most of the observed results about family firms' performance can be explained by the same theories discussed before. For instance, Villalonga and Amit (2006) use the trade-off between the classic owner-manager agency problem (agency problem I) and the potential conflict of interests between family and non-family shareholders (agency problem II) to explain their findings about the differential effects on performance of family ownership, control, and management.

What the theories of family ownership discussed before do not help us understand are the mechanisms through which the differences between family and non-family firms ultimately lead to the observed differences in firm performance. Figure 1 summarizes the main dimensions along which family firms have been found to differ from non-family firms and the logical chain that connects them.

First, families' preferences often differ from those of other owners. For instance, family firm owners tend to exhibit a strong penchant for control. While this may also be the case for other types of owners as well, founding families are likely to place a uniquely high value on control owing to psychological factors such as pride in having a family member running the business, emotional attachment to the company, or the desire to 'maintain the family heritage'. Moreover, in widely held firms, owners are typically interested in cash flow, not in control, which they are unable to exercise with their small equity stakes. Founding families also tend to have longer horizons than other investors.

Second, as a result of their owners' preferences, family firms face a unique set of governance problems (Burkart *et al.*, 2003), which warrant different solutions to those that have been designed for other types of firms. Villalonga *et al.* (2015) review the evidence about the differences between family and non-family firms in the governance problems they face as well as in the effectiveness of the existing solutions.

Third, the strategic choices made by family firms' decision-makers (owners and managers) based on their preferences and the governance structures and mechanisms they have in place are also likely to differ. Indeed, there is by now a large and growing body of evidence about a wide range of strategic decisions in which family firms have been found to differ systematically from non-family firms. These include, among others, corporate growth and downsizing (Stavrou *et al.*, 2007; Block, 2010); diversification (Anderson and Reeb, 2003*b*; Gómez-Mejía *et al.*, 2010); internationalization (Kontinen and Ojala, 2010; Pukall and Calabrò, 2014; Arrègle *et al.*, 2017; Villalonga *et al.*, 2018); acquisitions (Miller *et al.*, 2010; Caprio *et al.*, 2011; Shim and Okamuro, 2011; Feldman *et al.*, 2019; Gómez-Mejía *et al.*, 2018); divestitures (Sharma and Manikutty, 2005; Praet, 2013; Zellweger and Brauer, 2013; Feldman *et al.*, 2016); capital structure

(Romano *et al.*, 2001); executive compensation (Gómez-Mejía *et al.*, 2003; Cai *et al.*, 2013); and management succession (Bertrand and Schoar, 2006; Mullins and Schoar 2016; Lemos and Scur, 2019).

Fourth, as a result of these differences in strategic decisions between family and non-family firms, the performance of the two groups of firms also differs, in the ways described above.

VII. Conclusion

We have summarized the evidence about the prevalence and persistence over long periods of time of family ownership of corporations in different countries. We highlighted the distinct objectives, strategic choices, behaviours, and performance of family-owned and controlled firms that have been documented by the scholarly literature.

Although research on the macroeconomic implications of family ownership is still in its infancy, the findings of the literature we have reviewed have multiple economic policy implications for both developing and developed countries. For example, in the United States, corporate tax policies are anchored on firm size and industry and do not consider the ownership structure of the firm. As the objectives and strategies of family-owned firms differ from those of non-family firms, incorporating the ownership structure of companies into tax policy may contribute to more efficient allocation of resources in the economy. In one of the few scholarly studies of family ownership and taxation, Tsoutsoura (2015) provides causal evidence that succession taxes in Greece lead to a more than 40 per cent decline in investment around family successions, slow sales growth, and a depletion of cash reserves, and that they strongly affect the decision to sell or retain the firm within the family. More generally, inheritance law (not just taxation) also has an impact on corporate investment: Using data from 38 countries in 1990–2006, Ellul *et al.* (2010) show that stricter inheritance law is associated with lower investment in family firms around succession events.

Family firms are also substantial employers in their respective economies, and provide more stable employment than other firms, which suggests that labour law and regulation should also take into account firms' ownership structure. In fact, there is evidence that family firms have an important insurance function not just to employees but also to investors, a feature that is not always reflected in corporate law and securities regulation.

Overall, the academic findings about family ownership point to the importance of taking the ownership structure of corporations into account when formulating a country's economic policies, since the growth and prosperity of family firms may have a huge impact on GDP growth and employment.

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