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Family ownership and financial performance relations in emerging markets

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ABSTRACT

We use meta-analysis techniques to review the literature on the relation between family ownership concentration and performance for listed corporations in emerging markets. We find underlying positive relations between family ownership and performance that vary over time and across countries. Our tests highlight the importance of institutions in explaining differences across countries. We also find that a significant amount of the differences in relations across studies is influenced by researchers' choices of regression methods for accounting for endogeneity. Generally, our results are consistent with the view that family ownership concentration can enhance monitoring of managers or better align majority and minority shareholder interests to improve corporate performance in emerging markets.

1. Introduction

Family control of public corporations is a dominant feature of emerging equity markets, motivating many studies of ownership-performance relations. Conflicting theoretical predications, variations in countries' institutional development, and diversity in the methods of empirical studies make it difficult to reconcile the variations in reported results and hamper our understanding of family ownership-performance relations. To address this problem and assess whether there is any underlying relation between family ownership and firm financial performance, we apply meta-analytic methods to quantitatively integrate the diverse research results of 43 empirical studies of listed corporations in 17 emerging markets.

The sustained interest in family firms in the literature, as a particular form of ownership concentration, arises from the broad agreement that family firms are conceptually different from non-family firms. Central to this conceptual difference is the expectation that family firms are more likely than firms with other forms of ownership to have some emphasis on non-financial factors (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). This interest is furthered by conflicting expectations of the financial performance effects of family ownership. These conflicting expectations seem to be extenuated in research concerned with emerging markets, which presents competing arguments as to whether controlling family ownership impedes or improves corporate performance. Potential positive and negative performance effects are summarized generally in Gomez-Mejia et al. (2011) and are identified with specific reference to emerging markets in Gedajlovic, Carney, Chrisman, and Kellermanns (2012). The emphasis on potential impediments is mostly based on different types of agency problems involving expropriation risks, manager selection problems, or the pursuit of non-financial family

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interests. Those suggesting a positive relation between family ownership concentration and firm performance typically adopt an interest alignment view of family ownership concentration. In this view, it is argued that large shareholders have more incentives and power to monitor managers (Shleifer & Vishny, 1986, 1997; Stiglitz, 2001) or to directly influence management (Shleifer & Vishny, 1986), thus alleviating traditional agency problems between shareholders and managers (Berle & Means, 1932; Jensen & Meckling, 1976). In emerging markets, where institutions are generally weak, concentrated ownership might better protect shareholder interests (La Porta, Lopez-de-Silanes, & Shleifer, 1999). Unlike family ownership in developed markets such as the US and the UK where founders often hire professional managers early on and family ownership diffuses quickly after the firm goes public, in emerging markets family ownership typically remains highly concentrated long after family firms going public, and family members tend to hold key management positions (Burkart, Panunzi, & Shleifer, 2003; Fan, Wei, & Xu, 2011), which may improve managers' interests in enhancing firm value.

The conflicting theoretical predictions are accompanied by inconclusive empirical evidence, with reported relations between the percentage of family ownership and firm performance that are positive (e.g., Baek, Kang, & Park, 2004), negative (e.g., Silva & Majluf, 2008), and mixed (e.g., Douma, George, & Kabir, 2006; Yammeesri & Lodh, 2004). The observed differences in empirical results may arise because of: (1) true heterogeneity arising from population differences, which are more likely when different studies draw data from countries with differences in the quality of their institutions or from different sample periods where institutions have changed over time; (2) differences in research design (e.g., using different measures of performance, levels of ownership concentration, or estimation methods); or (3) sampling error.

Our study is motivated by the importance of family ownership in business corporations and the conflicting theoretical predictions and empirical evidence regarding the effect of family ownership concentration on firm performance. Previous studies report that family ownership concentration is prevalent in business corporations around the world in general (La Porta et al., 1999) and in emerging markets particularly (Claessens, Djankov, Fan, & Lang, 2002; Fan et al., 2011; Lins, 2003), indicating that family ownership is an important organizational form of economies worldwide. However, the conflicting expectations of the financial performance effects of family ownership and seemingly diverse empirical results pose a barrier to consolidating knowledge and further developing research in this area. We address this problem by using meta-analytic techniques to obtain unbiased generalizations from the pooled results of multiple studies (Glass, McGaw, & Smith, 1981), with higher statistical power (Cohn & Becker, 2003) and higher external validity (Konstantopoulos, 2006) than can be obtained from the individual studies.

Our study complements the studies reported in Sánchez-Ballesta and García-Meca (2007) and Wang and Shailer (2015). The Sánchez-Ballesta and García-Meca (2007) meta-analysis of 33 studies of ownership structure and firm performance is focused on insider ownership and blockholders in developed markets in the US, UK and Europe. However, their sample includes studies from such diverse markets as Hungary, Norway, German and Spain in Europe, and studies of Japanese, Korean and Chinese firms. The data underlying their sample studies are concentrated in the 1990s and earlier and mostly measure performance as market-to-book or Tobin's Q values. Using imputed significance levels of combined reported results, they report that they do not find evidence of a significant overall ownership concentration-performance relation, but suggest there is weak evidence of a positive relation for insider ownership. Although inside ownership in some of their sample countries are characterized by high family ownership (e.g., Korea), and family or government ownership (e.g., China), more generally the nature of inside ownership across their sample countries is highly heterogeneous. Because they examine only the imputed statistical significance of aggregate relations, it is not possible for them to compare the magnitude or economic significance of effect sizes across countries.¹ Different from Sánchez-Ballesta and García-Meca (2007), we examine family ownership-performance relations in emerging markets. This is important because these markets are characterized by family ownership concentration and family management. We thus advance our understanding of the influence of family ownership in the world economy. Our meta-analysis method allows us to compare the magnitude of family ownership-performance relations for different potential moderators. Similar to other forms of concentration in Sánchez-Ballesta and García-Meca (2007), we find an overall positive relation between family ownership concentration and firm performance. We also find that the family ownership-performance relation is larger in emerging markets with relatively higher levels of institutional quality.

Like Sánchez-Ballesta and García-Meca (2007), Wang and Shailer (2015) also examine ownership concentration, rather than identity, but focus on emerging markets. They show that, after adjusting for the effects of population differences, modeling choices and weak estimation techniques, the average ownership concentration-performance relation is negative. The firm-level measures of ownership concentration used in the sample of primary studies in Wang and Shailer (2015) are concentration ratio (77% of cases), Herfindahl index (22%), and entropy (1%). Although their analysis does not distinguish types of shareholders, Wang and Shailer (2015) report that regressions controlling for shareholder identity (irrespective of type) generate higher relations. However, Wang and Shailer (2015) do not consider, nor shed any light on, the debate or diverse empirical results concerning family ownership-performance relations.²

In this study, we specifically investigate the family ownership-performance relation in emerging markets and identify an underlying positive family ownership concentration-performance relation that appears generally robust to the potential moderators. Our results accord with the view that concentrated family ownership can better monitor managers or better align majority and minority shareholder

¹ Sánchez-Ballesta and García-Meca (2007) report a positive relation between insider ownership and firm performance where the statistical significance of the relation is higher in the "Anglo-Saxon" jurisdictions (where insider ownership is more diverse) than in continental Europe (where insider ownership is more concentrated). While they interpret their results as indicating a higher alignment of insiders in Anglo-Saxon countries in comparison to continental countries, the less significant relation for continental countries may be due to the small number of studies (only 3) contributing to the analysis.

² The definitions of ownership concentration used in the studies examined in Wang and Shailer (2015) include measures based on multiple blockholders, that typically include many non-family types of owners. Of the 43 studies included in our analysis and the 42 studies included in Wang and Shailer (2015), there are only 15 in common.

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