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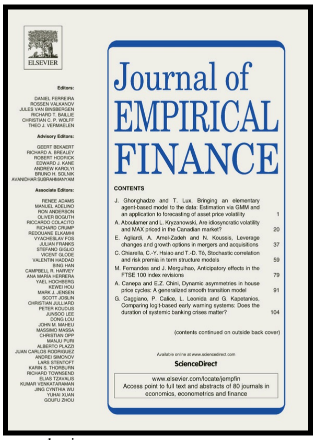


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# Family Ownership, Country Governance, and Foreign Portfolio Investment

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Abstract

We study how different dimensions of family ownership combine to make family firms around the world appealing to foreign investors. Family firms provide the benefits of political connections, but at the same time they are more prone to expropriate minority shareholders themselves. This cost-benefit trade-off depends on the quality of country governance: families are attractive investment opportunities in countries in which the value of political connections is high, but the majority shareholders have limited ability to expropriate, i.e., "useful" countries. Foreign investors – more sensitive both to the risk of expropriation by the government and to the risk of expropriation by majority shareholders – are particularly responsive to this trade-off. While on average foreign institutional investors are less likely to invest in family firms and such firms have lower value, these effects disappear when family ownership in a country is useful.

JEL Classification: F21, G15, G30, G32

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