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FIRST DRAFT – Work In Progress!

Family Ownership and Effects on Firm Performance in Asia

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Abstract

The current literature on firm ownership around the world shows that concentrated ownership with only one or a few controlling owners is fairly common, especially in many European and Asian countries. Commonly, the controlling ownership is held by an individual, or a group of individuals, usually with family ties. The effects on the governance of the firm, the relation between shareholders and management and furthermore the level of investment performance of the firm is all ultimately affecting the economic development around the world. This paper presents a study of the effects on several measures of firm performance for 1363 firms in seven Asian countries, from family ownership, dispersed ownership and firm owner independence. The results show that the different performance measures must be interpreted separately due to their nature. Furthermore, family firms seem to be valued lower than non family firms, while the investment performance of family firms is higher than for non family firms. These results are in line with previous studies and confirm that family controlled firms are deemed to have competent management for investments but are generally considered to be at higher risk for managerial discretion of minority shareholders.

JEL classification: G30, G32, L25

Keywords: Corporate governance, firm performance, ownership

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1. Introduction

Contrary to the dispersed firm ownership in the US described by Berle and Means (1932) most countries around the world show high levels of concentrated ownership, complex cross-holdings between firms and that individuals or families are often the controlling owners (see for example La Porta et al. (1999), Claessens and Fan (2002), Faccio and Lang (2002)). Depending on the level of property rights and the legal protection of minority shareholders, management under influence of the controlling owner may expropriate minority shareholders to different degrees (see for example Shleifer and Vishny (1997), La Porta et al. (1998), (2008) and Yeh (2005)). Furthermore, management not under control of the owners may enrich themselves through non-monetary benefits such as bigger offices, corporate jets or increasing the number of employees (Williamson (1963)).

The purpose of this paper is to evaluate the effects from family ownership on different measures of firm performance and the consequences for interpretation of results. To achieve this purpose it is necessary to understand how different measures of performance function and what they actually measure. This has consequences on how one should evaluate the performance of a firm and furthermore how to, if possible, compare the different performance measures. However, this is not a study and evaluation of different methods, rather it shows how the different performance measures complement each other for further and deeper understanding of the ownership effects on different aspects of the firm.

Studying a dataset containing 1363 listed firms in Singapore, Hong Kong, Thailand, South Korea, Malaysia, Taiwan and the Philippines in terms of firm valuation, return measures and investment performance it is clear that depending on what type of performance measure one uses, family ownership has different interpretations for the result. While family ownership may have a negative effect on firm valuation in terms of Tobin's q , much in line with the findings of La Porta et al. (2002) it is also important to understand that other measures such as return on assets and return on equity is much more dependent on firm size and sales. Furthermore, a measure of investment performance such as the marginal q shows that family firms are considered to make as good or even better investment decisions than other firms much in line with results from for example Yeh et al. (2001). The reason for this may be that the family owner is often considered to be better informed about the firm's needs and possibilities than an outside manager or owner.

The remainder of this paper is structured as follows; section 2 discuss previous studies of ownership and its effects on firm performance in Asia, ending in the formulation of different hypotheses. Section 3 presents the performance measures in the study and their specific characteristics. Section 4 presents the data used as well as the estimation results. Section 5 concludes the paper.

2. Family firms and corporate governance in Asia

The ownership effects on firm valuation has been studied substantially but still poses interesting question to further research. Maury (2006) studies family ownership in Europe for 1672 firms and find that in terms of Tobin's q and returns on assets actively managed family firms has higher levels of profitability than nonfamily firms. The results suggests that family control of firms lowers agency costs and associated problems between owner and management, but that it may give rise to conflicts between the ownership family and minority shareholders in legal settings with lower shareholder protection.

Similar results have been found for countries in Asia also with similar ownership structures. Most countries in Asia show high levels of ownership concentration and family ownership as the most common type of controlling owner. When describing corporate governance in Asia Roche (2005) presses the issue of the heterogeneity of the region, both within and between countries. The possible consequences and importance of historical factors forming the corporate governance should not be underestimated when studying the Asian countries. Roche does not ignore the influence form legal traditions, but he do recognize that other factors may have a much higher impact in Asia compared to other parts of the world. Corporate governance in the Anglo Saxon countries and in Asian have very different starting points in terms of cultural differences, timing of events, political processes and international affiliations. The informal institutions forming the formal institutions in Williamson's (2000) structure of institutions look rather different at the top level when comparing Asia and Europe for example.

Many of the Asian countries show very different legal origin and high economic diversity, for example the legacy of European colonialism is very strong in countries like Hong Kong, India, Malaysia and Singapore with their Anglo-Saxon origin legal system. Yet, European colonialism has also affected the legal systems in Thailand and the Philippines with French origin legal systems. China, Taiwan, South Korea and Japan with German legal traditions have been influenced by other reasons, Japan for example adopted the German legal system as a step in the country's movement from a feudal agriculture country to an industrialized nation (Morck & Nakamura, 2004). In the case of Taiwan, its legal system originally relied much on that of China which just like Japan looked to the German legal systems during its period of modernization (R. La Porta et al., 2008). Furthermore, as pointed out by Roche (2005) there is also an array of culturally, linguistically and religiously differences in a region with more than two billion people. In many Asian countries it is common that the legislation is implemented in advance of the corporate practice. In some cases, adoption to new legislations may be very slow, for example the implementation of double board structures in China and its effects on firm performance and general recommendations for corporate practice (Dahya et al. (2003).

According to some (for example Roche (2005) and Solomon et al. (2002)), it may actually be the case that the introduction of legislations by the state rather than a reliance on self-regulation in fact accelerate the convergence and achievement of best practice. Formal

international institutions such as the European Union and the OECD may introduce preemptive legislations for increasing convergence toward a best practice. However, in Asia the Association of South East Asian Nations (ASEAN) has historically not been working actively to implement and support cross country legislations. In recent years this has changed however, as the ASEAN countries are working on improving their dialog on corporate governance in the region (ASEAN, 2009).

Singh and Zammit (2006) considers the Asian “way of doing business” and a possible ongoing shift to an US way of doing business. The Asian financial crisis in 1997-1998 is by many claimed to have been caused by poor corporate governance system. However, Singh and Zammit reject this hypothesis and instead claim that in general the Asian corporate governance model has been well-functioning and that the market competition is high, not low as suggested earlier. Furthermore, they claim that the US business model would not benefit Asia as a whole since the area consists of industrialized countries and developing countries at different stages in their development. The US corporate governance has severe limitations for developing countries due to imperfect share prices and imperfect market for corporate control, according to the authors.

Solomon et al. (2002) studies the reforms of the South Korean corporate governance system after the Asian economic crisis in 1997-1998. The effects from the crisis hit South Korea especially hard since the large conglomerates were to large extent financed via debt and also a general low accountability for investors in the corporate governance system itself since the crisis. The reforming of the South Korean corporate governance system has been heavily inspired by western standards and is moving towards globally harmonized corporate governance. It is mainly investor relations, the accountability of *Chaebols* and an increased encouragement of shareholder initiatives that should strengthen the South Korean corporate governance system.

Lee and Yeh (2004) studies the relationship between ownership, corporate governance and sensitivity for economic distress in Taiwan. By using proxies for corporate governance systems such as level of controlling owners and board positions, the loan ratio for shareholders and the dispersion of ownership and cash-flow rights, they test the economic sensitivity from corporate governance factors. Lee and Yeh (2004) finds that firms with weak corporate governance are more vulnerable to economic distress and also that the risk that the firm will fall into financial problems increase with a weaker corporate governance system.

Kao et al. (2004) find indications of a negative relationship between collateralized shares and firm performance in Taiwan. Further, they show that the negative relationship exists only for conglomerates. Kao et al. (2004) suggest that these findings point towards a larger principal-agent problem in conglomerates than regular, non-conglomerate firms. The principal-agent problems may be limited by increasing the monitoring by institutional investors and creditors. Furthermore, dividend policy may affect the principal-agent problem positively and have positive effect on the firm performance according to the authors.

Liew (2007) studies the development of the corporate governance system in Malaysia after the financial crisis in 1997-1998. It gives clear indications of the problems of implementing an Anglo Saxon corporate governance tradition into a traditionally more socially focused governance model. Personal networks, typical for the Asian firms, remain important for the managers, contrary to the Anglo Saxon corporate governance system which focus mainly on the shareholders' accountability on management. Pik Kun (2007) states that the reforms towards a Anglo Saxon inspired corporate governance system has in fact not been achieved and may hurt the Malaysian economy in face of future economical crises.

Ownership structures of Asian firms has been studied extensively during the last couple of decades, they show a concentrated ownership with commonly family, or state, ownership as the predominantly type of owner. La Porta et al. (1999) summaries the ownership of the 20 largest firms in terms of market capitalization of common equity for 27 countries. Of the 27 countries, however, only Hong Kong, Japan, Singapore and South Korea represent Asia in the dataset. Using a cut off of 20 percent of the voting rights to determine control, 90 percent of the large¹ traded firms in Hong Kong has concentrated ownership. The corresponding figures for Japan, Singapore and South Korea are 10, 85 and 45 percent. Using a lower cutoff for controlling ownership at 10 percent, the amount of concentrated ownership remain at 90 percent for firms in Hong Kong, but increase to 40, 95 and 60 percent for Japan, Singapore and South Korea respectively. The share of firms with one controlling owner stand in sharp contrast to the dispersed ownership observed in for example the US.

La Porta et al. (1999) also consider the type of ownership defining a family ownership as whether the controlling shareholder is an individual or not. State ownership is treated in a similar way with controlling shareholders being defined as government ownership. Using the 20 percent cutoff for determining ownership control, Hong Kong has relatively high level of family ownership at 70 percent of the firms with concentrated ownership. Japan, Singapore and South Korea have only 5, 30 and 20 percent family ownership of the firms with ultimate owners respectively. The figures are fairly stable for the lower cutoff at 10 percent of the voting rights for all four countries. With the exception of Singapore with about 45 percent state ownership, state ownership is low at around 5 to 15 percent. This is rather surprising for South Korea since the influence of the often family controlled *Chaebols* is considered to big large.

Claessens et al. (2000) use a further developed version of the methodology from by La Porta et al (1999) and use a dataset with 2,980 firms in nine East Asian countries (Hong Kong, Indonesia, Japan, South Korea, Malaysia, The Philippines, Singapore, Taiwan and Thailand). Finding, and addressing, both a high level of control enhancing mechanisms such as dual voting shares and family ownership (according to the authors more than half of the East Asian firms are family controlled) make the paper interesting from a comparative perspective for the Asian countries. Claessens et al. (2000) find that firms in Japan are most often widely

¹ La Porta et. al. (1999) also study medium-sized firms and find that the medium-sized firms show a higher level of concentrated ownership in all the Asian countries. Family ownership is also more common in the medium sized firms than in the large firms for all the Asian countries.

held, while firms in Indonesia and Thailand in most cases have concentrated ownership often held by families. Furthermore, state control of firms is common in Indonesia, South Korea, Malaysia, Singapore and Thailand. It is also found that size and age of the firms affects ownership in East Asia. For example, the relatively small firm and/or older corporation are more commonly controlled by a family. As the level of economic development increase, the concentration of control generally decreases. Except from Japan, family ownership of firms is common in East Asia. In Indonesia, the Philippines and Thailand about half of the firms in the sample are controlled by ten families. In Hong Kong and South Korea about a third of the firms in the sample are controlled by families. Overall, Claessens et al. (2000) gives a picture of concentrated ownership, high family ownership and high levels of control enhancing mechanisms.

Joh (2003) study 5,829 South Korean firms and the effects from ownership concentration and investor interests prior to the Asian economical crisis in 1997. Joh find that firms with dispersed ownership typically show a lower profitability than firms with high ownership concentration. Firms with high separation between ownership and control i.e. via control enhancing mechanisms such as pyramid ownership show a lower profitability. Furthermore it is found that controlling shareholders expropriate firm resources even when their ownership concentration is relatively low.

Yeh et al. (2001) study the ownership structure of 208 publicly traded family firms in Taiwan. According to Yeh, family control and concentrated ownership is higher in Taiwan than many other Asian countries. They find signs of a non-linear relationship between the level of family control and the performance of the firms. In general, a family firm with low levels of control performs worse than firms with high levels of family control. They also find a negative relation between firm performance and the number of board members being part of the ownership family. These results point to positive effects for the firms from high family ownership but relatively low involvement in the management of the firm.

Sheu and Yang (2005) study the performance of 333 listed Taiwanese electronics firms using total factor productivity measurements and the effects of inside ownership. They find a non-linear relationship between the level of executive-to-insider ownership and performance of the firm. The highest and lowest level of executive-to-insider ownership has a positive effect on productivity. The board-to-insider ownership and the total insider ownership are not found to have any effects on the performance.

Wiwattanakantang (2001) studies a sample of 270 Thai firms. While concentrated ownership in the form of a controlling owner improves the performance of the firm (higher ROA and sales-asset ratio), Wiwattanakantang (2001) does not find evidence for expropriation of firm resources by controlling shareholders. One possible explanation is that control enhancing mechanisms are rarely used to separate control and cash-flow rights. Furthermore, this may explain the higher profitability for firms with high ownership concentration as controlling shareholders might be self-constrained not to expropriate extra benefits. However, a higher involvement of the controlling owner in the management and board affects the firm's

profitability negatively. Last, it is shown that family firms, firms with foreign control and firms with more than one controlling shareholder (>25% of the voting rights) perform better than widely held firms.

Tam and Tan (2007) study ownership impact on performance in the largest 150 firms in Malaysia. Ownership is divided into individual (family), state, foreign and trust fund ownership where individual ownership constitute for 65% of the firms. They find that the type of ownership affect performance of the firm in different ways, foreign owned firms having the best performance, and then followed by family firms and state owned firms. The level of concentration of ownership is also found to have a negative effect on the performance of the firm and is explained by low levels of minority shareholder protection.

In general, the business milieu in Asia is heavily shifting between countries due to their institutions, legal traditions, ownership structures and informal traditions. All these factors affect the ease of doing business in each country. The World Bank presents an index of the ease of doing business around the world. Only focusing on the seven countries, Singapore, Hong Kong, Thailand, South Korea, Malaysia, Taiwan and the Philippines, in this study, it becomes very clear that in terms of ease of doing business the region is heavily diversified. Table 1 shows the world ranking for each of the countries in the study as well as the anti director rights presented by La Porta et al. (1998)

Table 1 Ease of doing business and Anti-director rights*

Country	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business	Anti-director rights*
Singapore	1	4	2	1	16	4	2	5	1	13	2	4
Hong Kong	3	18	1	6	75	4	3	3	2	3	13	5
Thailand	12	55	13	52	6	71	12	88	12	24	48	2
South Korea	19	53	23	150	71	15	73	49	8	5	12	2
Malaysia	23	88	109	61	86	1	4	24	35	59	57	4
Taiwan	46	29	97	153	30	71	73	92	33	90	11	3
Philippines	144	162	111	115	102	127	132	135	68	118	153	3

* Source: La Porta et al. (1998)

While Singapore and Hong Kong enjoy the highest total ranking in the world, the Philippines show a very low ranking. In the group in between, Thailand and South Korea especially stands out since their world ranking in terms of ease of doing business is fairly high, their anti director rights as defined by La Porta et al. is considerably low.

Based on the previous studies and the discussion on family ownership the following hypotheses are formulated:

Hypothesis 1a: Family ownership is has a negative effect on the valuation of a firm

In general, and according to Roche (2005), family owned firms in Asia are valued lower on the stock exchange than non family firms due to a common knowledge that families tend to have higher retention rates than other firms and that there is less insight into the actions of the firm and hence a higher risk of minority shareholder being expropriated.

Hypothesis 1b: Family ownership has a no or a positive effect on investment performance of a firm

When it comes to single investment decisions, however, family controlled firms tend to have controlling owners with a better understanding of the firm and its needs and possibilities than firms with outside owners of managers. Therefore, the investments done by family firms are generally considered to be based on a better foundation of information and hence family ownership has a positive effect on investment performance.

Hypothesis 2a: The valuation of firms are not affected by dispersed ownership

According to Mueller (2003) the value of the firm is not affected by the level of dispersion of ownership. In terms of Tobin's q there should be no effect on the value of the firm if there are no controlling shareholders.

Hypothesis 2b: The investment performance of firms is negatively affected by dispersed ownership

Again, according to Mueller (2003) the dispersed ownership has, however, an effect on the investment decisions made by the firm. Without a strong, controlling owner, there is a much larger risk of managerial discretion than in a firm with a controlling owner. Therefore, the effects on investment performance are negative when ownership is dispersed.

3. Description of firm performance measures

Similar to how Maury (2006) use Tobin's q as a measure of firm performance, firm valuation in terms of market value of equity and liabilities over book value of equity and liabilities are used here. More precisely, using the Bureau van Dijk database ORIANA, Tobin's q is defined as the market value of common equity plus the book value of liabilities, both current and noncurrent, divided by the book value of equity, called "shareholder funds" in ORIANA, plus both current and noncurrent liabilities. This definition resembles the components used by Maury (2006) in his measure of the Tobin's q; as the market value of common equity plus the book value of total assets minus common equity and taxes divided by the book value of total assets². Furthermore, the return on assets (ROA or ROTA) measure can also be used to evaluate the firm performance, here the simple definition given by Bureau van Dijk's ORIANA database; $(\text{Profit before tax}/\text{Total assets}) \times 100$ is used. In addition to the ROA return on equity (ROE) is also used to evaluate the firm's performances, here simply defined as the $(\text{Profit before tax}/\text{Book value of equity}) \times 100$.

The use of Tobin's q as a measure of performance has been criticised during the years due to its relatively low capability to with accuracy predict investments, especially on highly fluctuating markets. Mueller and Reardon (1993) develops an updated measure of how the market values the marginal investment made by the individual firm; the marginal q;

$$\frac{dV}{V} = \frac{I}{V} - \delta \tag{1}$$

Where δ represents the depreciation rate of capital. This measure takes into account the investments, I , made by the firm in a year, defined as:

$$I = \text{ADV} + \text{R\&D} \tag{2}$$

Where ADV represents advertising cost and R&D research and development cost. The availability of data on R&D and advertising cost is usually low which has a general negative effect on the performance measure. In other words, the estimates tend to have a negative bias and hence show somewhat lower figures than anticipated. Still, due to the composition of the marginal q measure it has advantages to the Tobin's q as "*it measures the ratio of the change in the firm's market value to the change in its total assets that caused it*" (Mueller 2003, p. 150). A marginal q equal to one indicates that the firm invest in all projects with net present values above or equal to zero as valued by the market. A marginal q below one would indicate that the firm make investments in projects with negative net present values and a marginal q above one indicates that the firm does not invest in all projects earning a positive net present value. However, already mentioned the estimation of investments made be the

² This definition of Tobin's q is similar to the definition used by La Porta et al (2002) who uses the 1997 Worldscope definition of Tobin's q: "*The ratio of the market value of assets to their replacement value at the end of the most recent fiscal year. The market value of assets is proxied by the book value of assets minus the book value of equity minus deferred taxes plus the market value of common stock. The replacement value of assets is proxied by the book value of assets*" La Porta et al. 2002 p. 1156

firm during the year may be lower than the actual number due to incomplete data. Therefore, the effects on the marginal q measure is that the estimate may be lower, or have negative bias, than expected.

Here, an average marginal q is calculated for each firm in the dataset, much like the Tobin's q is, by transforming equation (1) to:

$$\frac{\Delta q}{q} = \frac{\Delta (MV + BV)}{MV + BV} - \frac{\Delta BV}{BV} - \frac{\Delta MV}{MV} \quad (3)$$

Where Δ is assumed to sum to zero over time. The depreciation rate, δ , is set to three different values; 7, 10 and 13% which results in three different marginal q measures. Each marginal q, q_m , is calculated for each firm for each year during a 6 year period (the whole period is 2002 – 2008 but one year is lost due to the first differentiating nature of the measure) for each of the three depreciation rates. An average of the marginal q's are then calculated for each firm. Eklund (2008) uses a very similar way of estimating the single firm marginal q but with estimated depreciation rates per industry type rather than the fixed depreciation used here. For comparison and consistency to the average marginal q, an average Tobin's q is also calculated for the same time period.

The variables used in the study are presented in the table below. The performance measures are summarized first with their definitions. The variables explaining the performance of the firms in terms of firm value, returns and investment performance are presented and defined as the explanatory variables.

Table 2: Description of variables

Performance measures	Description
Tobin's q 2008	Market value of equity + book value of liabilities divided by Equity book value + liabilities book value
Return on (total) assets	Return divided by total assets
Return on equity	Return divided by shareholder equity
Average marginal q, 2002-2008	Calculated average marginal q for the time period 2002-2008. See equation (3)
Average Tobin's q, 2003-2008	Average Tobin's q during the time period 2003-2008. Tobin's q calculated for each year as above.
Explanatory variables	
Family firm	Dummy variable set to 1 if the controlling shareholder is defined as a family or individual at a 10% level
Multiple block holders	Dummy variable set to 1 if there are more than one owner holding 10% or more of the shares
Widely held	Dummy variable, set to 1 if there are no owners holding more than 10 % of the shares
BvDEP Independence Indicator	Bureau van Dijk's independence indicator where the score 1 is given to the most independent firms and 9 to the most dependent firms
Firm size, log of sales	Control variable, logged values of the sales of the firm
Average sales growth 2005-2008	Average sales growth between 2005 to 2008 of the firm

These performance measures and explanatory variables results in seven different models for estimation, where each performance measure is explained by the family ownership, multiple block holders, widely held, independence indicator, firm size and sales growth variables.

As for the family firm variable, it defines if the firm is directly controlled by a family or not. The definition is more restrictive than many other similar studies since it does not consider pyramid ownership to any greater extent (the variable is actually a composition of direct and indirect ownership, but indirect ownership is very rarely given in the database). To compensate for this lack of pyramidal ownership the Bureau van Dijk independence indicator (BvDEP) is included. The characterise the degree of independence of a company with regard to its shareholders. The scale measures from A+ to D where A+ is the most independent type of firm and D the least independent firm. The scale has then been turned into numbers where A+ correspond to one and D to nine. In other words, as the BvDEP indicator goes up, the independence of the firm decrease.

Also, variables measuring the possibility of multiple block holders is included in the empirical analysis. In theory, firms having several owners holding ten or more percent of the ownership can to some degree block each other on annual meetings and referendums. This may cause the decision process in the firm to be unnecessarily slow and inefficient. Therefore, the ownership structure of the firm in this perspective is also interesting to study. In a similar view, the widely held firm is also interesting. Firms having no owner holding more than 10 percent of the shares may be subject to slow and inefficient decision making processes due to not having any strong owner or controller. Hence, such a variable is interesting to study as it is likely to have effects on the firm performance. This is also tested by hypothesis 2a and 2b.

The firm size variable, log of sales, and the average growth rates of sales are included as control variables in line with Maury (2006). These are expected to have a positive effect on all the performance variables to some extent.

4. Data and results

The original firm data is collected from the Bureau van Dijk database ORIANA on medium sized and large firms³ in Asia. Listed firms from Hong Kong, South Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand are included in the dataset. Only firms listed as active are included. Furthermore, in line with previous research (see for example La Porta et al. (2002)) financial firms such as banks and insurance companies (NAICS 2007, Core code 52 - 525990) are removed from the dataset due to the difference in valuation of these firms compared to other types of firms. The remaining dataset extracted from Bureau van Dijk's ORIANA database then contains 5209 listed firms.

Not all firms in the original dataset of 5209 firms report information on all the variables necessary for the estimations. For firms without sufficient information to calculate the performance variables, the dependent variables, the whole firm is deleted from the dataset respectively of their performance measure. Furthermore, the performance variables are capped at the 2.5 and 97.5 percentile to exclude extreme values, similar to Maury (2006) but with smaller percentile caps to maintain a satisfying number of observations. The removed extreme values are most often caused by errors in the reported data, such as irregularities of reporting in thousands of dollars one year and then reporting in millions of dollars in the following year. The result is that a large portion of the firms are lost to missing information for all variables and also that a large portion of the firms are lost due to removal of outliers. The remaining dataset of 1363 firms show, however, very nice characteristics in the descriptive statistics.

Table 3: Descriptive statistics

Variable name	Mean	Maximum	Minimum	Median	Std dev
Tobin's q	0,963	2,614	0,459	0,895	0,317
	2,958	21,400	-44,571	3,612	8,275
ROA					
ROE	4,892	35,391	-72,806	7,717	17,339
Average marginal q, depreciation 7%	0,735	6,469	-5,869	0,674	1,336
Average marginal q, depreciation 10%	0,802	5,380	-4,280	0,728	1,264
Average marginal q, depreciation 13%	0,887	4,837	-2,672	0,817	1,224
Average Tobin's q 2003-2008	1,202	2,359	0,501	1,177	0,348
Shareholder type (1 if family/Individual)	0,370	1	0	0	0,483
Multiple block holders	0,180	1	0	0	0,385
Widely held	0,213	1	0	0	0,410
BvDEP Independence Indicator	3,19	10	1	3	2,600
Firm size, log of sales	12,054	18,383	5,496	11,875	1,768
Sales growth 2005-2008	0,017	0,704	-7,939	0,060	0,345

³ The firm size is determined by both revenues and in terms of number of employees. The original dataset also contains information on a large number of non listed firms. However, the information available for non listed firms is often very small. Furthermore, there is also a strong correlation between firm size, firm listings and therefore also availability of public information about the firm.

The descriptive statistics reveal some interesting characteristics of the data. Only some 37 percent of the firms in the dataset are actually considered to be family controlled. This is substantially less than in studies by for example La Porta et al. (1999). The reason for such a low number compared to previous studies is foremost that the Bureau van Dijk database ORIANA mainly reports direct ownership in its ownership data. This means that pyramidal structures of ownership with a family on top as the controlling owner does not count as a family controlled firm if the immediate owner is defined as an industry or bank for example. Due to this the definition of family ownership in this study is unusually restrictive. However, the firms defined as family controlled should be able to show more clear family firm characteristics due to its direct ownership of a family. Furthermore, using the Bureau van Dijk independence index will assure how the relationship between number of owners and the independence of the firm is rated.

Regression results of the explanatory variables for each of the seven measures of performance is presented in table 4 below.

Table 4 Results table for model 1-7, all with 1363 observations

Variable	Model 1 Tobin's q	Model 2 ROA	Model 3 ROE	Model 4 Marginal q 7%	Model 5 Marginal q 10%	Model 6 Marginal q 13%	Model 7 Average Tobin's q
Constant	0.681*** (10.27)	-4.804 *** (-2.82)	-15.984*** (-4.49)	0.644** (2.28)	0.715*** (2.68)	0.695*** (2.68)	0.807*** (11.26)
Family firm	- 0.037*** (-2.05)	-0.158 (-0.34)	-0.311 (-0.32)	0.159** (2.04)	0.143* (1.94)	0.118* (1.65)	0.089*** (-4.49)
Multiple block holders	0.011 (0.49)	- 0.430 (-0.73)	- 0.719 (-0.59)	-0.036 (-0.37)	-0.026 (-0.29)	-0.034 (-0.38)	-0.003 (-0.13)
Widely held firm	0.001 (0.03)	0.952 (1.63)	1.310 (1.08)	-0.299*** (-3.00)	-0.290*** (-3.18)	- 0.264*** (-2.99)	0.037 (1.51)
BvDEP Indep. ind.	- 0.007** (-1.98)	0.251*** (2.76)	0.399** (2.10)	-0.007 (-0.49)	-0.004 (-0.29)	0.002 (0.13)	-0.006 (-1.61)
Firm size, log of sales	0.026*** (5.12)	0.566*** (4.31)	1.612*** (5.88)	0.011 (0.49)	0.010 (0.47)	0.017 (0.86)	0.037*** (6.62)
Sales growth 2005-2008	0.023 (0.89)	4.089*** (6.26)	7.764*** (5.69)	-0.233** (-2.15)	-0.184* (-1.80)	-0.128 (-1.29)	0.008 (0.30)
F-value	7.89	14.89	16.48	3.36	3.27	2.60	15.47
R square	0.034	0.062	0.068	0.015	0.014	0.011	0.064

***, ** and * indicates results statistically significant on a 1, 5 and 10 percent level respectively.

The estimation results confirms the hypotheses stated to a high degree. It is clear that, in line with La Porta et al. (2002), family firms have lower valuations while family control actually has a positive effect on investment performance. This confirms the suggestion that minority shareholders expect lower returns to their investments into family controlled firms, but that the family controlled firms often have the capability to make good, or better than average, decisions about new investments. Furthermore, it is clear that the measures ROA and ROE are mostly dependent on firm size and sales effects, but also, somewhat surprisingly on the independence indicator for the firm to its shareholders. It turns out that relatively independent firms have lower ROA and ROE than firms with low independence.

When looking at the effects from multiple block holders no effect is found on any of the performance measures used in the study. It is surprising that the possibility of having several shareholders being able to block others decisions does not have an effect on neither firm valuation, investment performance or return on assets or equity. This could simply be explained as none issue for firms, since large shareholders, or block holders, may very well often agree on important decisions. When it comes to returns measures, these are in theory unaffected by inefficiency in the decision process. The investment performance, marginal q , should also to a large degree be unaffected since most, if not almost all, decisions made are done by the management rather than the large shareholders.

The widely held hypothesis and its effects on firm valuation and investment performance is also confirmed. Firm valuation, in terms of Tobin's q is not affected by the firm being widely held. However, without a strong owner with influence over the management the investment performance is lower. One can conclude that this is due to the lower level of control of the management in firms with dispersed ownership. In these cases, the possibility of Williamson's manager who caters to himself in terms of new corporate jets and bigger offices is a much bigger possibility.

Conclusion

This paper studies the effects on firm performance from different aspects of ownership. It has been shown that different types of performance measures are affected in different ways from ownership characteristics and should therefore be evaluated with this in mind. The measures should be used as complements to each other rather than excluding each other.

It has been shown that valuation of a firm is negatively affected by family control of firms, while the investment performance of family controlled firms are generally better than for other firms. Furthermore, firms lacking a controlling owner is not valued lower than other firms, but the investment performance of that firm is lower than for other firms. Return on assets and equity measures are to a much higher degree dependent on firm size in terms of sales and growth rates of sales than the other measures of performance, affecting the possibilities for comparisons between them. No effect from multiple block holders is found in this study.

It would be natural for a future study to divide the study into country wise datasets and examine the effects on firm performance in terms of firm valuation, return measures and investment performance in the light of different legal origins and hence also deepen the aspect of ease of doing business in each of the countries.

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Appendix A

Correlation for each variable:

	tobinsq	roa	roe	shareh~u	multipl~s	widely~d	bvdepi~r	firmsi~s	salesg~8
tobinsq	1.0000								
roa	0.1266	1.0000							
roe	0.1309	0.9068	1.0000						
shareholde~u	-0.0802	-0.0599	-0.0639	1.0000					
multipl~s	0.0284	-0.0114	-0.0003	-0.0519	1.0000				
widelyheld	0.0186	0.0311	0.0199	-0.0216	-0.2445	1.0000			
bvdepindep~r	-0.0505	0.0650	0.0497	-0.1721	0.0612	-0.3307	1.0000		
firmsize~s	0.1669	0.1615	0.2016	-0.2096	0.1048	0.0018	-0.0303	1.0000	
sal~20052008	0.0640	0.2053	0.1993	-0.0699	0.0126	0.0278	0.0308	0.2546	1.0000
averagemar~7	0.0882	-0.0635	-0.0432	0.0635	0.0083	-0.0845	0.0024	-0.0142	-0.0637
averagema~10	0.1050	-0.0515	-0.0312	0.0593	0.0124	-0.0919	0.0108	-0.0115	-0.0536
averagema~13	0.1192	-0.0293	-0.0102	0.0456	0.0109	-0.0891	0.0227	0.0044	-0.0354
ave~20032008	0.6098	-0.0139	0.0195	-0.1556	0.0088	0.0627	-0.0446	0.2141	0.0637

	averag~7	avera~10	avera~13	averag~8
averagemar~7	1.0000			
averagema~10	0.9872	1.0000		
averagema~13	0.9317	0.9696	1.0000	
ave~20032008	0.0551	0.0684	0.0824	1.0000