Financial Performance of Family Firms in Comparison to Regular Firms: A Literature Review.

Bachelor Thesis

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ABSTRACT

This article is a literature review of studies that empirically compare the performance of family-owned firms relative to firms owned by diverse shareholders. The debate on whether or not family control is a superior form of governance and what factors are of influence is still vivid in the new millennium. Although the field develops and some trends can be identified, in general scholars are still inconclusive. A focus on underdeveloped areas and an increased devotion to investigate causality might help to advance the field.

I. Introduction

Family enterprises, irrespective of scale of operation, legal form, industrial activity, and level of socio-political and market development have been the backbone of corporate life, across nations, remaining a cornerstone of socio-economic development (Handbook of Research on Family Business, 2005). Nevertheless, family business research as an academic field is relatively young. In 1953 Grant H. Calder completed the first doctoral dissertation on family business studies in North America, which is entitled "Some management problems of the small family controlled manufacturing business". In the 1980s a trend for institution building emerged. Today scholars committed to the advancement of family business as a science-based discipline are grouped in the International Family Enterprise Research Academy (IFERA) and the journal Family Business Review (FBR) its academic standard is recognized by the scientific community.

In contrast to the majority of public corporations that are owned by numerous shareholders, family firms are typified by a combination of ownership and control by concentrated shareholders. This raises the question of whether the difference in governance leads to a significant difference in performance. Because of their concentrated ownership, family members also have more power than other shareholders to achieve their goals, and moreover, they are usually actively involved with the business. On the other hand there are challenges, which include finding a balance between equity and efficiency, having good successions, and avoiding altruism and exploitation of the firm for the family's personal benefits. Theory can identify the benefits and drawbacks of a family run firm, but cannot predict in which effects will be decisive for performance. Therefore, academics investigate this relationship empirically, striving towards practical and theoretical consensus.

In 2004 an overview in the field of family business studies was made by Sharma, in which she concluded that there is a positive trend in the field toward more sophisticated research that is based on rich theory-based conceptualizations of various phenomenon of interest. Then there is an overview by Christman et al. (2009), which aims for better understanding of the interrelationships among scholars who have contributed to family business research. Since 2004 lots of new research has been conducted in the field. Therefore, I review family business literature that focuses on firm performance in a basic way, pointing out similarities, contradictions, and trends. I do this in five steps by separating definitions for the family firm, performance measures, samples, methods, and the findings of family business scholars, respectively. Subsequently I discuss the results of the review and in the final section I conclude.

II. Literature Reivew.

A) Defining the Family Firm.

Probably one of the main reasons why scholars' results are often pointing in different directions, when they attempt to answer the question "Is family firms' performance superior to that of nonfamily firms?", is that a wide range of definitions for family business can be applied. Although many scholars have followed the definition "firms where founding family members or descendents hold shares or family members are present on the board of directors, often for multiple generations", it certainly still cannot be pointed out as the dominant definition. This way of classifying family firms was first presented by Anderson and Reeb (2003). What's notable is that they do not dictate minimum requirements like the possession of a certain percentage of ordinary voting shares by the family, a family member as CEO or Chairman, or more than one family member on the board. On the one hand, due to the freedom Anderson and Reeb's definition gives us, it has gained popularity as a starting point for research in this field. On the other hand, many scholars are not satisfied and so attempt to reconcile the conflicting evidence by distinguishing among the three fundamental elements in the definition of family firms, that is, ownership, control and management (Villalonga & Amit 2006). In other words, often additional restrictions are added to the definition, to have a more clearly defined sample, which then may lead to contradictory findings, depending on how the three elements enter the definition of a family firm. So in such cases definitions are made more stringent by, for example, including restrictions like the presence of both one family officer and one family director or only selecting firms where the family is also the largest voteholder or shareholder. Furthermore, first generation family firms can be excluded and other previously named restrictions can be combined to be sure that one is undoubtedly distinguishing true family firms from the others.

Another important contribution to family firm defining is made by Miller et al. (2007). The authors of this paper were puzzled by the vast amount of scholars that report superior performance results for large United States public or private family businesses in comparison to regular businesses (McConaughy et al., 1998; Anderson and Reeb, 2003, 2004; and Villalonga and Amit, 2006), while evidence from Europe and Asia from about that same time is less in favor of the family firm (Claessens et al., 2002; Cronqvist and Nilsson, 2003; Maury, 2006). For example, one of the main findings of Maury (2006) is that at high control levels, the benefits of family control decline, thus benefits are most visible in non-majority family firms. Also, if the family firm does systematically yield superior performance results, it should theoretically outnumber other types of corporations, which is in reality not the case. Therefore, Miller et al. 2007 focused on what could cause this puzzle. In their paper an important distinction is made between "lone founder" businesses like Microsoft, with no further family of the founder involved in the business, and businesses with multiple family members serving as owners or managers. It turns out that performance results are indeed highly sensitive to the way a family firm is defined, as the results of Miller at al. (2007) show superior performance by lone founder firms specifically, and thus not by "real" family firms. After Miller et al. (2007) published their findings, scholars have more often taken into account that there is a significant difference between family and lone founder firms, not only when measuring performance, but also in other cases, like when investigating differences in R&D spending (Block and Thames, 2010) for example.

Varying focuses of scholars on the degree of ownership, control, management, or a combination of these as the leading indicator for performance, is not the only reason why a dominant definition of family business has not been established yet. It is important to notice that research on family business is being done throughout many countries in the world. Each country has its own unique balance between public and privately held firms; small, medium and large firms; industry and service sector firms; and thus also lone founder, family and nonfamily firms. Sraer and Thesmar (2007), report a share of 70% family firms within the sample of all French non-financial and non-real-estate listed firms, whereas Anderson and Reeb (2003) among others report a share of about 35% for a comparable sample of firms within the United States. I would like to point out that Sraer and Thesmar (2007) do not use a less restrictive definition than Anderson and Reeb (2003) to identify family firms which shows that listed family firms are indeed about twice as prevalent in France as in the United States. Continental European family firms are also often more closely held which implies that more stringent definitions can be used to distinguish them for regular firms.

For large and listed companies throughout the world scholars regularly identify a family firm as one where the family has enough influence trough voting rights, top management or board positions, so one can assure that the family has major control over the firm. More specifically, a family is usually demanded to have at least about ten to twenty percent of the voting rights provided that no other party has more and at least one person on the board or in top management (Smith and Amoaku-Adu, 1999; Maury, 2006; Sraer and Thesmar, 2007; King and Santor, 2008; Ibrahim et al., 2008). Conditions applied to identify medium sized and/or privately held family firms are typically more stringent. Often scholars only classify these firms as family businesses when more than half of the voting rights are owned by the family or founder of the firm (Westhead and Howorth, 2006; Barontini and Caprio, 2006; Levie and Lerner, 2009; Molly et al., 2010; Minichilli et al., 2010). The fact that regularly less demanding conditions apply for large and public firms to be defined as family businesses is logical. It makes no sense for a firm to enter the stock exchange market with the intention to keep all voting rights to itself and thereby not to acquire any new capital. Nearly all families need to give up some of their firm ownership to grow large. Hence, as long as the large and/or listed firm is still primarily in control of a family it should be defined as a family firm. A method frequently used to classify small businesses into family and nonfamily firms is to simply ask the owner or CEO whether or not he or she perceives the firm as a family business. This method is sometimes also used for medium sized businesses as a supplementary condition (Kotey, 2005; Westhead and Howorth, 2006; Sorenson et al., 2009; Molly et al., 2010). The reason for this approach is that there is usually little data available on small businesses, so it is very difficult to identify family firms within an extensive sample that is often not complete enough to consistently apply any quantitative measure.

Another approach that is sometimes used by scholars is to look at the fraction of family involvement in ownership, management or both. Hereby no straight cut definition of a family firm is stated but with statistical methods the relation between the level of involvement of the family and its effect on performance is analyzed (Block et al., 2004; Sciascia and Mazzola, 2008; González et al., 2010). The conclusions drawn in such papers will thus often have the format of "A negative relation between the level of involvement of family management in the firm and performance is found" instead of "family managed firms underperform". Therefore, on the downside the results yielded by this method draw no clear lines, while on the upside they are less likely to be subject to biases that can be caused by bad family firm defining.

Insert Table 1 about here.

In summary, the wide variety of definitions used by scholars to classify firms as family or nonfamily businesses is the result of multiple aspects. Factors of influence are the size and type of a firm; the focus of the scholar on control, management, ownership, or any combination of the three; the country or multiple countries considered; the specific results sought-after and the method that is applied. Therefore a world-wide applicable and all-embracing definition of family business has not emerged so far, and moreover, does not seem feasible at all. Nevertheless, scholars do not have to create a new way of defining family business every time when conducting a new research. As the field starts to grow older, more and more satisfying ways of defining are being developed for a wide variety of samples and their corresponding research goals, at a vast pace.

B) Defining Performance.

Besides the possible choices of focusing on small, medium, or large sized family firms, and the choice of paying attention to management, control, ownership or a combination of those, a scholar must also select performance measures for his research, when comparing family businesses to nonfamily businesses.

In this field the most widely used measures are Tobin's q and return on assets and/or equity (Navarro and Anson, 2006). Tobin's q is developed as the ratio between the market value and replacement value of the same physical asset. Thereby it shows the relation between financial markets and markets for goods and services. It is a measure of market value, in view of the fact that when Tobin's q is higher or lower than 1.0, it shows that a firm has more or less value on the market than the objective value of its assets is, respectively. Therefore it is likely that some intangibles are of influence when the value deviates from one. High Tobin's q values encourage companies to invest more in capital because "what they create is worth more than what they pay for it". High values may arise due to significant intellectual capital, reputation, or other intangible assets, but also because of hype and speculation. A typical way of estimating Tobin's q for family business research is as - the market value of common equity plus the book value of total assets minus common equity and deferred taxes divided by the book value of total assets - (La Porta et al., 2002; Maury, 2005). Sometimes a scholar finds superior (Martinez et al., 2007), or lesser (Holderness and Sheehan, 1988), Tobin's q for family firms but most researches show no difference with regular business for this measure (Anderson and Reeb, 2003; Favero et al., 2006; King and Santor, 2008). This indicates that usually the value enhancing aspect of family business like tradition, reputation, and devotion, is offset by the value destroying aspect like managerial entrenchment and exploitation of the firm for personal benefits.

Return on assets (ROA) percentage shows how profitable a company's assets are in generating revenue. ROA is often computed using - earnings before interest, tax and amortization (i.e. net income) divided by the book value of total assets -. Many papers which samples cover more than five years find superior performance of family firms by this measure (Anderson and Reeb, 2003; Maury, 2005; Favero et al., 2006; Ehrhardt et al., 2006; Sraer and Thesmar, 2007; Andres, 2008; Kowalewski et al., 2009). “The family” in these cases can be seen as a competitive advantage in long-run business success. The key factors for superior family firm performance may include leadership development from within the family, quick decision-making ability, employee loyalty, and investing in growth by family owners (Heck et al., 2006). Return on equity (ROE) measures the rate of return on the ownership interest (shareholders’ equity) of the common stock owners. So ROE shows how well a company uses investment funds to generate earnings growth. Both gauge a company's ability to generate earnings from its investments. But because ROE weighs net income only against owners' equity, it doesn't say much about how well a company uses its financing from borrowing and bonds. However, the ratios rarely differ significantly for family businesses because this type of firm usually does not have a lot of debt. Still it makes sense to consider both ratios since together they provide a clearer picture of management’s effectiveness.

Other measures that are used to compare firms are for example market risk (beta), firm growth or job creation, turnover, cash flow, growth in value added, and various industry-adjusted measures. This extension to economic and operational performance can be useful to identify other dimensions that are of influence in family business behaviour and performance (Lee, 2006). So although in the end most scholars are interested in financial performance by family firms, expressed in widely used measures like ROA/ROE and Tobin’s q, various other measures can strongly help to enhance knowledge on the descent of differences and lead to better understanding of the firms in general.

C) Samples Used.

Because family firms are present in many different industries, a lot of various data panels can be utilized for research. Most scholars employ an existing database that provides information on firms' size, some financial measures, and ownership over a period of multiple years, and then define family business and performance amongst other things, to create a sample that can be used for statistical analysis.

One of the reasons why most research focuses on large and listed firms is that information on this type of company is usually much more readily available and complete than information on medium and especially on small firms. There are for instance a lot of samples created on basis of the S&P 500. Usually scholars exclude financial-service and public utilities firms from the list because government regulations potentially affect the performance of these firms, making them not well comparable to the ones from other industries (Anderson & Reeb, 2003; Block et al., 2004; Lee, 2006; Martikainen et al., 2007). Another company list that is interesting to use in research on large family firms in the United States is the Fortune 500 or the Fortune 1000, because it also includes private firms (Morck et al., 1988; Villalonga and Amit, 2006; Miller et al., 2007). All these samples show that in the United States about 35% of the very large firms are family businesses; however, this is not necessarily a representative share for other nations. Also scholars who wish to investigate family influence amongst large firms in other countries (e.g. Western-European countries, Canada, Chile, Taiwan, Colombia, Malaysia, India, Japan, Peru, and Australia) often use the companies listed on the nation's most important stock exchange as their basis (Smith and Amoako-Adu, 1999; Hillier and McColgan, 2004; Gorez and Fumas, 2005; Favero et al., 2006; Martinez et al., 2007; Andres, 2008; Ibrahim et al., 2008; Sravanan, 2008; Tsao et al., 2009; Kowalewski et al., 2009; Benavides et al., 2009; González et al., 2010)

When scholars focus on small and medium sized firms they often draw a random sample from the available data set. This is done because the whole population of these types of firms is very large, but easier to group. Thus, with less effort, results with no lesser value can be obtained, if one tests for bias before interference. Moreover, search of data can be made easier by utilizing tools that combine information provided by regional specialized offices. AMADEUS is a big database that contains financial information on not only large, but also small and medium sized businesses for almost all European countries. Another example of a large database, which is not only focused on Europe, is the Worldscope database.

So although information is most readily available on large and listed firms, it is rarely hazardous for scholars to develop a sample on smaller firms, as long as they do not focus on underdeveloped economic areas.

D) Methods Used.

After defining family business and performance, and creating a suitable sample, family business scholars who are writing an empirical paper are ready to test their hypotheses with the use of statistics. Usually the various methods are applied in three stages. First, an overview is given, where typically the amount of firms that classify for the categories the scholar has defined is projected against the financial data, ownership data, and firm details in a table. This presentation can be referred to as a table with descriptive statistics or summary statistics and is acquired by a univariate analysis. Next, more complex statistical interference is done, to investigate how firms and their details relate to each other, and to make comparisons which show differences that can lead to conclusions. Thereby scholars utilize a variety of regression models (e.g. OLS regression, instrumental-variable regressions, piecewise linear regression, Heckman treatment regression etc.). Before these interferences usually a t-test or an analysis of variance is done, to check if two or more subsamples are legitimately usable for comparison. Results yielded with regression models will be significant up to some extent, which indicates the probability that they reflect the truth, given the input is correct. However, correlation is not yet a sign of causality. Therefore, as an alternative approach Bayesian analysis can be useful, because it does not rely on significance but instead gives probabilities on the effects of variables that are investigated.

Nevertheless, most scholars use regression models. To test for causalities it is regular to do re-estimations, changing the dependant, independent, or control variables. Even so, usually the final step is to utilize an alternative method to better analyze the sensitivity of the dependant variables. In family business research this should be done to check for the endogeneity-effect or self-selection of the family business specific organization and its success. A scholar can design instruments that he deems suitable for his research and/or again do a re-estimation of factors. Models that are regularly used in this final stage of robustness test are for example, tests of multicollinearity, fixed effects and random effects panel data models and treatment effect models. Also, again tests with alternative measures can be done, mean-reversion can be applied, and a discussion on the effect of outliers can be value adding.

So in brief, first data are ordered and presented in a way they make sense for the research. Then, tests are performed to find out about correlation and interdependence of the variables. And finally, the validity of the results is fortified by applying additional methodology and variance in the inputs. Although many different models are available, this is not necessarily a problem, because scholars utilize them with the same goal, which is to produce reliable results that might move forward our knowledge in the field.

E) Main Findings.

Because of the wide variety of ways in which family business is defined, the various performance measures that are used, the diversity of the samples, and the different methodologies that have been applied findings are obviously also more or less ambiguous. Fortunately, as knowledge advances, with the effect that fewer mistakes are made, patterns in the results on firm value, performance, and some other related issues can be identified.

As I have also pointed out in the part where the defining of family firms is discussed, the introduction of clearly separating lone founder and family firms by Miller et al. (2007) was an important advance in the field of family business research. Fortunately, many scholars already noticed the influence of including lone founder firms in their sample, and purposely applied definitions that would exclude lone founders from their sample, before Miller et al. (2007) explicitly proved the importance of doing it. However, some did not do so, and therefore a few findings of earlier papers potentially lose value.

As a starting point I will take a look at the findings of Anderson and Reeb (2003) because of the popularity of this paper. The research focuses on large, publicly traded, United States firms listed on the S&P 500 between 1992 and 1999. Probably, the data that were used in this paper can be identified as the most frequently utilized sample in family business research, if ignoring minor changes that were sometimes done by succeeding scholars. The findings presented are strongly positive, indicating that family ownership, and also management in some cases, implies a superior governance system. The greatest performers, in terms of return on assets, are found to be family firms in which a family member, most preferably the founder, serves as CEO. Also the market based measures like Tobin's q show that family firms perform at least as well as non family firms. However, performance turns out to have a U-shaped relationship to the intensity of family ownership. Therefore they conclude that in well-regulated and transparent markets, family ownership in public firms reduces agency problems without leading to severe losses in decision-making efficiency. The positive influence of a founder-CEO is also strongly emphasized by the research of Villalonga and Amit (2006). They utilize a sample of Fortune 500 firms from the period 1994-2000 and first employ the definition of a family firm by Anderson and Reeb (2003) but then next also perform further sensitivity analysis by adding several restricting conditions. They conclude that whether family firms are more or less valuable depends on how ownership, control and management enter the definition of a family firm.

Research done by Lee (2006), who utilizes the same sample but extended with three years, also yields results that are in favor of the family firm. His findings are that family firms are likely to grow faster and to be more profitable. Furthermore, he concludes that performance is even better if family members participate in management and that despite stronger growth family firms are just as stable as regular businesses in the long run. In addition Lee's earlier research (2004), which utilizes public firms listed in the Family Business Magazine's "150 largest family businesses in America" in 2003 as a sample, reports that family ownership and management tend to enhance efficiency and productivity and thus promote a higher return on investment. These findings are also supported by Martikainen et al. (2007), who use the original S&P 500 sample of Anderson and Reeb (2003). Furthermore, a Bayesian analysis was performed by Block et al. (2004), who utilize an S&P 500 sample from 1994 to 2003. Their findings include that family- and founder-ownership both show a strong positive effect on performance whereas family management has a neutral effect. They conclude that the performance enhancing effect of family ownership is in line with positive agency expectations for family blockholders which are parties that are argued to have information advantages, higher incentives for management control, and lower monitoring costs. In general the findings discussed above are clearly in favor of the family firm. However, the distinction between family and lone founder firms is made not by all existing studies, and the findings are confined to relatively large public firms in the United States (Lee, 2004).

Miller et al. (2007) utilize Fortune 1000 firms with publically accessible data for 1996 to 2004 and investigate a random sample of 100 smaller United States public companies to check on potential for selection bias. A clear distinction is drawn between lone founder firms and family firms. This leads to the finding that superior performance is only shown by the lone founder firms while there is no outperformance by the “real” family firms in both the Fortune 1000 sample and the random sample. This is contradictory to Anderson and Reeb (2003) and therefore Miller et al. (2007) conclude that it’s difficult attributing superior performance to a particular governance variable. However, by far not all results from older papers (e.g. Block et al., 2004; Lee, 2004; Villalonga and Amit, 2006), that imply a positive influence of family on a firm in some way, can be refuted by the findings of Miller et al. (2007).

Furthermore, research on large, and mostly listed, companies from other countries than the United States also often yields results in favour of the family firm. Barontini and Caprio (2006) utilize a sample of very large public corporations from 11 continental Western European countries. They apply a strict definition for classification of family firms to ensure that controlling power of the family is undeniable. The main findings are that family control is highly positive at the founder stage, provided the founder exerts an active role as CEO or non-executive director and family control is also positive at the descendants’ stage as long as they limit themselves to non-executive roles. Performance results worsen when descendants assume the role of CEO or when family firms have no representation on the board. Maury (2006) also focuses on large European corporations and consistently finds that active family ownership improves profitability. However, Maury (2006) also finds that at high control levels the potential for opportunism increases and valuations decline so the benefits of family control lower in that respect. Therefore, the paper concludes that family control improves valuation at lower control levels, while profitability ratios start to increase at higher control levels. These findings are supported by Hamadi (2010), who focuses on Belgian listed firms. Financial outperformance by family firms is also supported by Martinez et al. (2007) who focus on public firms in Chile and, moreover, Kowalewski et al. (2009), who utilize a sample of Polish listed firms, find a U-shaped relationship between family involvement in ownership and a positive relationship of family involvement in management to financial performance. Furthermore, research by Sraer and Thesmar (2007), who focus on French listed firms, finds that family firms largely outperform widely held corporations provided that they are founder, professional or descendant managed. Then there is the research by Andres (2008) and Minichilli et al. (2010), which focuses on German listed companies and large Italian listed and private companies, respectively. The findings are again largely consistent, thus family firms outperform provided that the founding-family is still active either on the executive or supervisory board. Also the paper by Andres (2008) pointed out that the positive effect of family involvement is strongest when the founder serves as CEO. Furthermore, one more research which again focuses on large Western European firms that I will cover due to its unique long term focus. Ehrhardt et al. (2006) utilize a sample of large German companies which were founded before 1913 and are still active today. They form 62 pairs of family and nonfamily firms, where family firms are defined in a way that major influence by the family on the companies' strategic decisions is ensured. The main findings are that German family businesses outperform non-family firms in terms of operating performance, but the transfer of control to heirs seems to have a negative impact on performance. They conclude that these performance results confirm the validity of the families' long-term strategic decisions.

Insert Table 2 about here.

These papers, that is all except but one (Martinez et al., 2007), focus on mostly public firms in Western countries and seem to yield fairly consistent results that are mainly in favor of family firms which are actively managed, preferably by the founder. However, most papers do point out that when family involvement reaches very high levels the value of the firm will probably decline. This is actually the case with any major shareholder and consistent with the theory which dictates that excessive control may lead to entrenchment and pursuit of personal goals which has indeed a negative effect on firm value.

Recently a research on medium sized European family business has been carried out by Ernst & Young (2010), one of the Big Four auditors, together with the ESCP European Business School. German, French, United Kingdom, Spanish and Italian companies with 250 up to 5000 employees are the focus. The methods include statistical performance measuring and a questionnaire. Public firms are defined as family businesses if one or two families have a minimum of a quarter of voting shares and for private firms this has to be half plus at least one family member must be involved as a manager or executive to classify. Findings are clearly in favor of family firms which seem to strongly outperform in terms of growth of added value, turnover, cash flow and job creation. According to the research the unique qualities of family firms are a long term focus, flexibility, good talent management, and a close relationship with their customers.

However, most papers on small and medium sized business do not present findings that are strictly in favor of the family firm. The transition from the first to the second generation is often a turning point after which the small or medium sized family firm is rarely found to still outperform. Especially when after a transition a previously founder-run firm becomes heir-managed, negative effects on performance are often reported. Examples of scholars that share this finding are Ehrhardt et al. (2006), Cucculelli and Micucci (2007), Bennedsen et al. (2007) who carried out their researches in Germany, Italy, and Denmark respectively. However, Molly et al. (2010), who focus on Belgian small and medium sized firms, do not find evidence for a decrease in profitability after transfer, but do report a drop in firm growth. Also Westhead and Howorth (2006), who focus on medium sized companies in the United Kingdom, do not find poorer performance by multi-generation family firms compared to the first-generation ones.

The negative effects of transition can be moderated, or sometimes even be eliminated, when a nonfamily manager succeeds the founder (Smith and Amoaku-Adu, 1999; Hillier & McColgan, 2004; Cucculelli and Micucci, 2007; Bennedsen et al., 2007). The reason why performance of founder-run firms usually drops after succession is probably that the founder is often uniquely talented, knowledgeable, and experienced in his field of business, while the heir rarely is up to the same extent. Professional management is more likely than an heir to identify flaws in the family firm. Sciascia and Mazzola (2008) even find a negative quadratic relationship between family involvement in management and performance for non-listed small and medium sized Italian firms. Also Bennedsen et al. (2007) conclude that in countries where the control of management of assets is commonly transferred among kin can potentially underperform, compared to economies where assets and management are competitively matched. Kotey (2005) who focuses on small and medium sized family business in Australia, reports that family firm proprietors adopt a cautious approach to growth so they can pursue growth concurrently with the goal of maintaining family ownership and control in the long term, while nonfamily firms expand more rapidly to attract outside resources, increase the compensation of managers with little or no ownership interest in the firm, and therefore, cover their inefficiencies much better.

Insert Table 3 about here.

As already expected and discussed above, no all-encompassing statement can be made on the relative performance of “the family firm”. Often if a negative result of influence of the family is found, this is because firms in the investigated sample are more strongly affected by the risks of family involvement, which are in short managerial entrenchment and pursuit of personal benefits, as these may lead to lower firm valuation, performance and growth. When positive results are projected, probably the benefits of family involvement dominate, which are long term focus, flexibility, and a close relationship with customers amongst other things. Therefore, a firm needs to have the right amount of family involvement (i.e. level of management, control, and ownership of the family) to be balanced in such a way that the benefits will be of more influence than the risks. The right balance is most probable in family firms that are large and listed due to the contribution of various stakeholders. In support of this argument, I would like to point out that most of the scholars who report positive influence of family involvement indeed use samples that focus on this type of companies. When following this line of thought, it appears logical that more often various problems instead of benefits of family involvement are identified by scholars, when the firms focused on get smaller. However, my way of reasoning potentially suffers from an endogeneity problem, as I cannot tell whether dominance of family benefits lead to largeness or largeness emerges as a result of other factors, which then automatically creates a structure in which the family involvement benefits dominate. Therefore, I suggest thorough research on the development path and the differences in aspects of family firms that did grow large and those who did not, to enhance our understanding of family businesses keys to success.

III. Discussion.

Nearly all firms start out as family businesses (Lee, 2006). Therefore, the largest share of family firms can be found among small entities. Nevertheless, also a substantial share of the medium and large firms in the world is in major control of family, and therefore family business is a very influential part of our society and economy. I have reviewed the various definitions of family firms, performance, samples, and methods employed by the fields' scholars and the findings their research has yielded. Now I will discuss my ideas on what may be reasons for the inconclusiveness.

In the earlier days of this research field, mostly the disagreement on how to identify "a real family firm" led to ambiguity. For instance, first generation family business is often found to outperform. Generalizing this finding does not seem to be correct, because after a transfer of a family firm to the next generation performance usually drops. Astrachan and Allen (2003) point out that less than 30% of the United States' family firms survive in the second generation. Exceptional talent of the founder is a widely used explanation for the often observed first generations' outperformance. Therefore, in later research on family business often more stringent definitions are employed, which may, among other delineations, require a firm to be multigenerational. Still, results stayed mixed, because how to systematically classify family firms while taking into account variety in firm size, country and industry, ownership, control, and management structure, and what performance measures are best to focus on, remains unresolved.

An important aspect to be aware of is that for many multigenerational family firms, the main aim is not necessarily excellent financial performance. Of course family firms generally do pursue doing good business, as in striving for efficiency. Stock valuations and suchlike are indirect measures of firm competitiveness, so they are not a perfect indicator of operational performance. Gorriz and Fumas (1996) explain that higher firm efficiency may not necessarily translate into higher profitability, because the latter is highly dependent on firm size. This may be seen as a key issue, since many family firms often show reluctance to grow after the first generation. As the family firm grows older preservation of wealth and status for the family usually becomes the main goal instead. Several studies argue that when family firms progress from one generation to the next, they become less willing to attract debt financing because of a reduced readiness to take risk (Molly et al., 2010). For example, Martin and Lumkin (2004) find that in successive generations entrepreneurial orientation tends to diminish and give way to family orientation, as stability and inheritance concerns become the business' principal drivers. This shows that later generations avoid decisions that may dilute family control, even while taking that risk may be the only way to increase firm profitability, as often no other financial sources to achieve growth are accessible. So even when superior efficiency and competitiveness are pursued this does not necessarily lead to high profits in the family business sector, due to the fact that the owners may have other ultimate goals in mind. Therefore, I believe it is arguable whether it makes sense to compare family firms, which may have preservation as their main goal, to regular businesses, in terms of financial performance.

On the other hand, one can argue that this comparison is not wrong since the long term stability approach of family firms may, even when not intended to do so, after all lead to superior performance. However, the tendency seems to be that significant involvement of other parties, which are mainly interested in profits, raises chances of a family firm showing superior financial performance. This is mostly observed among listed family firms, which typically have more involvement of other parties than their small and medium sized counterparts. Nevertheless, a strong emphasis on preservation does not necessarily indicates a lower value added to society.

Family firms appear to distinguish themselves most positively in times of economic crisis. Due to the focus on wealth transfer to next generations and a stronger adherence to core values, family firms more often remain stable in hard times. They can usually react more flexibly than regular businesses, as control is centralized and short term losses are not unacceptable. Therefore, I would not conclude any of the governance structures to be better, but rather just "different" in a positive way.

To increase our understanding of family business and our ability to compare in a useful way, I present some suggestions for future research. Qualitative and quantitative analysis combined with a focus on what the specific goals of family firms are, and how successful they are at achieving them, also when their goals are nonfinancial. For instance, comparing family firms that are mainly focused on preservation, to nonprofit firms might yield new insights. Furthermore, investigation of what specific properties (e.g. values, goals, competencies, and intangible assets) nowadays-large-and-profitable family firms had when they were in their first generation and how these properties might have changed. As well as more research that focuses on less developed economic areas like former-Soviet-territory, Middle-East, and African countries, because this has potential to provide insights on performance of the family firm under less stable political and economic environments.

IV. Conclusion

In this paper I have attempted to review the state of the art knowledge on family businesses' performance in comparison to that of businesses with a dispersed ownership structure. I conclude that, although many common family firms' benefits and drawbacks have been identified, still hardly any all-encompassing statements can be made. Therefore, for advancement of the field, I suggest a reviving discussion of the sense en correctness of comparing different governance systems' performance. Furthermore, I believe that in-depth research on the evolvement of properties of successful family firms, and a focus on politically and economically less developed areas, have the potential to provide valuable insights.

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This translates as:

Ernst & Young and the ESCP European Business School, 2010. – Flexible, focused and future-oriented. How a distinctive business approach supports family firms in times of crisis.

Books:

Poutziouris P., Smyrnois K., Klein S., 2006. Handbook of Research on Family Business.

VI. Appendix

Table 1

Four regularities in defining the family firm.

Type of firms	Conditions applied	Some papers where this can be found
Large and listed companies.	- The family has at least 10-20% of the voting rights provided that no other party has more. - At least one person on the board or in top management.	*Smith and Amoaku-Adu, 1999* *Maury, 2006* *Sraer and Thesmar, 2007* *King and Santor, 2008* *Ibrahim et al., 2008*
Medium sized and/or privately held companies.	- More than half of the voting rights are in hands of the family or founder of the firm.	*Westhead and Howorth, 2006* *Barontini and Caprio, 2006* *Levie and Lerner, 2009* *Molly et al., 2010* *Minichilli et al., 2010*
Small firms and sometimes medium sized companies.	- Ask the owner or CEO whether or not he or she perceives the business as a family firm.	*Kotey, 2005* *Westhead and Howorth, 2006* *Sorenson et al., 2009* *Molly et al., 2010*
For any firm size possible. Alternative approach.	- Work with the fraction of family involvement in ownership, management or both, instead of separating by a clear cut definition.	*Block et al., 2004* *Sciascia and Mazzola, 2008* *González et al., 2010*

Table 2

Some typical findings on large family firms' performance.	
Finding	Papers
Positive relationship for performance to family management or outperformance provided that the family is actively involved in management.	*Andres, 2008.* *Barontini and Caprio, 2006.* *Hamadi, 2010.* *Kowalewski et al. 2009* *Lee, 2006.* *Maritiken et al., 2007.* *Maury, 2006.* *Minichilli et al., 2010.* *Sraer and Thesmar, 2007.*
Positive relationship for performance to family ownership.	*Block et al., 2004.* *Ehrhardt et al., 2006.* *Lee, 2006.* *Lee, 2004.* *Martikainen et al., 2007.* *Martinez et al., 2007.*
U-shaped relationship of performance to the intensity of family ownership.	*Anderson and Reeb, 2003.* *Kowalewski et al., 2009.* *Maury, 2006.*
Neutral or negative influence of family ownership.	*Miller et al., 2007.* *Villalonga and Amit, 2006.*
Neutral or negative influence of descendants' involvement in management.	*Block et al., 2004.* *Miller et al., 2007.*

Table 3

Some typical findings on small- and medium-sized family firms' performance.

Finding	Papers
There is a significant drop in performance after transition from the first generation to the next one, after which the family firm rarely still outperforms.	*Bennedsen et al., 2007.* *Cucculelli and Micucci, 2007.* *Ehrhardt et al., 2006.*
There is at a generational transfer no drop in performance, or one that is not that large, so also many multi-generational family firms outperform.	*Ernst & Young, 2010.* *Molly et al., 2010.* *Westhead and Howorth, 2006.*
The negative effects of transition can be moderated, or sometimes even be eliminated, when a nonfamily manager succeeds the founder.	*Bennedsen et al., 2007.* *Cucculelli and Micucci, 2007.* *Hillier & McColgan, 2004.* *Sciascia and Mazzola, 2008.* *Smith and Amoaku-Adu, 1999.*