The Family Firm's Performance: A Literature Review

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Abstract

The purpose of this article was to provide the understanding of the performance of family firms, explain the relationship of family ownership and family involvement in management and the performance of firms, and to show the differences in the performance of family firms and non-family firms. The analysis carried out based on the results of the review of 29 articles published in the international journals. The selected article is an article that proves the role of family ownership and family involvement in management as a monitoring of firms in order to increase the performance of firms. The results of the literature review found that family ownership and family involvement in management improved the performance of firms. Small scale firms, middle scale firms, and young company positively contributed to the performance of firms. The performance of family firms was better than the performance of non–family firms.
Keywords: Family Firms, Performance of Firms, Family Ownership, Family Involvement in Management.

Introduction

Financial research on the ownership of family firms is the crucial component in the capital market even in developed countries. González et al (2012) claim that the economy of countries in the world are dominated by family firms, especially in Europe, Asia, and Latin America. Culasso et al (2015), La Porta et al (1999) conducted a research about the ownership of firms in 27 countries and performs that more than 50 % of firms used as the sample were controlled by families. Faccio and Lang (2002) prove that family firms listed in France, Italy, and Germany more than 60% of firms in France are managed by founder family, Sraer dan Thesmar (2007).

The ownership structure of firms at a country is decided by the system of law. La Porta, et al (1997) argue that the countries that follow the system of Civil law with low protection toward the shareholders cause the higher ownership concerntration and the consequence proportion of family ownership become higher. In return, the common law countries with protection for large shareholders tend to occur high dispersion of the ownership structure. Al-Saidi and Al-Shammari (2015) add the characteristic of firms in developed countries such as America and England are distinguished based on the ownership of dispersion stock, while the characteristic of firms in Europe, Asia and other developing countries are distinguished based on the concentrated ownership. The opinions above indicate that the ownership of firms in a country that included family firms are decided based on the law of the country.

Family control of company determines the performance of the company. Marcelo et al (2014) said that the studies on the performance of the family firms are growing very rapidly. The family is a common class and important for investors around the world which provides unique additional value to the firm thereby increasing the financial performance of firm and stock market. The approaches are used to examine the theory that the role of the family in influencing the performance of companies. Some of the theory are agency theory (Villalonga and Amit, 2006), (González et al, 2012), (Al-Saidi and Al-Shammari, 2015), agency theory and the theory of institutions, (Jiang and Peng, 2011), agency theory and asymmetry of information, (Martínez-Ferrero et al, 2016), agency theory and stewardship (Basco, 2013), agency theory and efficient monitoring hypothesis, (Alipour, 2012).

Based on the perspective of agency theory, mixing the ownership with management has some advantages that cause the appropriateness between stakeholder and manager, and some studies indicate that family firms have better performance than non-family firms even included the minority of stakeholders, (González et al, 2012). The family involvement in management attracts the researcher in family firms yet performs a different performance implication, (Kim dan Gao; 2013). International evidence about the family ownership is various, (González et al, 2012). The researches about family firms examine the agency theory in developed countries and produce different results. Basco (2013) for example, examines the agency theory about the effect of family firms toward firms' performance and donot fully support the agency theory. Similarly with the research conducted by Villalonga and Amit (2006) that less support the agency theory on the family firms. Otherwise, Martínez-Ferrero et al (2016) conducted a research about family firms of 1.275 nonfinance companies listed in 20 countries during 2002-2010 was successful supporting the agency theory.

The contradiction result of research about the agency theory on family firms also occurrs in developing countries. Jiang and Peng (2011) examines the agency theory and institution at 744 family firms listed in 8 countries in Asia in 1996 (Hong Kong, Indonesia, Malaysia, Filipina, Singapura, Korea Selatan, Taiwan, and Thailand) found that there were not any concrete evidences which claime that family firms are good, bad or irrelevant in influencing performance of company. In the other word, the examination of agency theory at family firms is unproven to all the country in Asia. Otherwise, a research by Alipour (2012) in Iran supports the agency theory and the efficient monitoring hypothesis. González et al (2012) also conducted a research about the family firms in Columbia that supports the agency theory.

The dimensions used in examining the involvement of family firms are the ownership of family stock, involvement of management, and control mechanism, (Villalonga and Amit; 2006), the ownership of family members stock, the family involvement on head manager, and the involvement of family members on board director, (Chu; 2011), family monitoring, family ownership, and family management, (Audretsch et al; 2013), the ownership of family members stock at least 20% and the involvement of family members in top management of firm, Vieira (2014), the involvement of family members in management, the ownership, and control, (González et al; 2012).

This article discusses the relationship between the ownership of family, the involvement of family in management and firm performance. This article also discusses the performance of family firms comparing with non-family firms, and the implication of size and the age of firms toward performance. This article is important to provide the description whether family ownership and family involvement in the management becomes a monitoring tool to improve the firm performance and whether these two variables can be the mean of monitoring in all size and age of firm?

Research Method

This article applies literature review based on 29 articles published in an international journal. The selected articles for review should perform the results of family ownership and the involvement of family in management that contributes positively and significantly on the performance of firms. The article should also prove the relationship between family firms and the involvement of family firms in the management of the firm to illustrate the role of family ownership and the involvement of family in management as the monitoring of firms. Most of the articles obtained from Emerald, Elsevier, and Springer.

This article focuses on the relationship between family ownership, family involvement in management and firm performance, the influence of size and age of family firms toward performance, and the differences between family firms and non-family firms. The results of various researches are reviewed and described in an article.

Results and Discussion

The Definition of Family Firms

The researchers define family firms in various criterias. Generally, the researchers deal with the definition of family firms in which the ownership of firm stock owned by the family, and the family members involve in firm management. Villalonga and Amit (2006) define family firms as the firms that involve the founder or family members as the employee, director, or the owner of equity at least 5 % either individually or in a group. Anderson and Reeb (2003) define family firm in which the founder either the generation or son or daughter in law act out as the employee, director or the owner of a block either individually or in a group. Audretsch et al (2013) define a family firm as family monitoring, family ownership, and family management. González et al (2012) define a family firm as the involvement of family in management, ownership, and control. Martínez-Ferrero et al (2016) define a family firm as the family ownership more than 10% of voting either individually or in a family. Culasso et al (2015) define a family firm as participation that is controlled by the owner of family capital and the existence of family member minimally a family member in Board director.

Martin-Reyna and Duran-Encalada (2012) define family business as the firms those are controlled either directly or indirectly by the family members based on the criterias; the existence of founders or their generation in management in which the vote more than 20 %, of the stockholders is CEO or the key member in board, the member of board at least has relationship one another, and the first stockholder and related group have more than 50 % vote in the firm. Vieira (2014) claims that family firms as the firms which are controlled by founder family or family members around 20% or more, and involve in the top management of the firms. Jiang and Peng (2011) define the family firm as the firm that owned by a family or family members as the greatest owner. Achmad et al (2009), family firm is the ownership of family more than 20 % of the vote either individually or in a group, and the family members are the biggest block controller in the firm.

The ownership of the family firms are not only measured through direct ownership but also through indirect ownership. Indirect ownership is measured through the pyramid ownership .González et al (2012), the pyramid ownership, Audretsch et al (2013). Pyramid ownership is the ownership of the stock majority of the firm at the turn also owns majority stock in the other companies, González et al (2012). Through the ownership, the family may carry out monitoring toward the firm. Monitoring by the ownership of stock also could be carried out by the involvement of family members in board supervision and management, Audretsch et al (2013) dan Surifah (2013).

Family Ownership and Firm Performance

Muttakin et al (2014) conducted a research about family firms, family generation, and firm performance at 141 non-financial firms in Bangladesh during 2005-2009 with the observation sample 705 proven that family ownership influenced positively toward firms performance. While family/personal becomes the great stockholder, they will follow their family concerns, then the other stockholders. Family/personal could be better in monitoring toward family firms and could reduce the agency cost. (Al-Saidi dan Al-Shammari, 2015). Arouri et al (2014) claimed a positive influence of family ownership toward bank performance that indicated that family wealthy were positively related to the prosperity of family ownership, family members were motivated to improve theirs wealthy through the improvement of family performance.

Martínez-Ferrero (2016) proved that family ownership relates to a greater controlling and monitoring toward the managerial decision in order to avoid information asymmetry and to prevent the risk of decretion. Martin-Reyna and Duran-Encalada (2012) proved that family ownership influenced positively toward firm performance.

The involvement of Family in Management and Firms Performance

Villalonga and Amit (2006) documented that family management improved the value of firms if the founders act out as the CEO of family firms and decreases the value of firms if the founders act out as a chairman or CEO. Chu (2011) proved the relationship between family ownership and firm performance is awaken if the family members are not involved in management. Basco (2013) indicate that the involvement of family in family management influences positively toward decision making through family orientation strategy. Poutziouris et al (2015) proved that the involvement of family in management increases firms performances. Jiang and Peng (2011) stated that the existence of family CEO relates positively to the firm's performances. In Indonesia and Taiwan, González et al (2012) proved that most of the family firms have better performance than nonfamily firms if the founders are involved in the operations of the firms. Chu (2011) stated that the relationship between family ownership and firm performance is awakened while the family members do not involved in firms managements.

Size, Age and Performance of Family Firms

Culasso et al (2015) stated that family firms with a small market capitalization index are better than non-family firms toward all economy indicators and financial ratio. González et al (2012) proved that the involvement of family positively toward firms performance at a small and young firms, especially while the founder is getting responsibility. Vieira (2014) claimed that the age of firms influenced negatively on the market to book ratio.

Hereinafter, González et al (2012) found that the influences of famly firms are diluted and changed to be negative toward firms performance at the larger family firms or firms managed by heirs. Culasso et al (2015) stated that a middle-level company, family existence are the relevant variables to achieve a better performance than the same level non-family firms performance. If the firms carry out a great expansion, the existence of family is the irrelevant variable in influencing profit and financial Leverage (Loan Ratio).

Performances of Family Firms and Non-family Firms

Halili et al (2014) proved that family firms with concentrated ownership structure have better performances than non-family firms. Marcelo et al (2014) documented family firms in Portugal and Spain mostly have better performances than nonfamily firms. Pindado et al (2014) found the empirical evidence on family firms that has better performances than non-family firms. Vieira (2014) found that family firms have better performances than nonfamily performances that were examined by using the market to book ratio. Culasso et al (2015) said that family firms have better performances than nonfamily firms that were analyzed by using ROA, ROI, and ROS. Muttakin et al (2014) proved that family firms have better performances than nonfamily firms. Singapurwoko (2013) indicated that non-family company had better performances than family firms.

Family firms have better performances than non-family firm because the family ownership causes a stronger discipline and encourage the non-family manager to carry out beneficial efforts, (Martinez-Ferrero et al, 2016). Family monitoring describes the behavior of family in protecting family assets in order to get a better performance (Audretsch et al, 2013).

Conclusion

General family firms are founded in all country either in developed or developing countries. Family or family member involves in the firm ownership and management. The family ownership of equity positively influenced on the firm performance and the involvement family in the management of firms positively contributed on the firm performance. These results illustrate that family ownership and family involvement in management can be used as a mechanism of monitoring enterprise. These results are not consistent with research by Alipour (2012) which proves the ownership of the family or individual negatively influenced on the performance of the enterprise, and Kim and Gao (2013) which proved that involvement of family in management had no direct impact on the enterprise performance.

Generally, the performance of family firm is better than nonfamily firm that caused by the conformity of management and motivation with the owner in order to protect the fim asset to achieve the welfare of family members. Small scale, middle scale and young family firms positively influenced on the performance of firms. This results are consistence with the research conducted by Achmad et al (2009) which proves that the performance of non-family firms were better than the performance of family firms. Based on the results of the review provides the evidence that the owner-agent conflict does not occur in a family firm because of the suitability of interest both of them. The next study hopefully could be focused on the conflict of majority owner with a minority owner of the family firms. The family owners are suspected of committing the expropriation of minority shareholders.

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