

Family Firm Performance: Further Evidence

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This article empirically investigates the competitiveness and stability of family-owned firms relative to firms owned by diverse shareholders. Founding families are present in about one-third of the S&P 500—the sample of this study. Data gathered over the 1992–2002 period confirm that family firms tend to experience higher employment and revenue growth over time and are more profitable. Regression analysis also supports that firm performance improves when founding family members are involved in management. Although evidence on the relative stability in employment among family firms over the long run is tenuous, data from the most recent recession support the role that founding families play in maintaining employment stability during temporary market downturns.

Introduction

Nearly all firms start out as family businesses. As the most common form of business organization in the world, family-owned or -controlled businesses account for over 80% of all firms, 12% of GDP, and 15% of the workforce in the United States, according to estimates by Shanker and Astrachan (1996). Although many family businesses are small, they make up about 35% of the companies listed on the Standard & Poor (S&P) 500 or the Fortune 500 Index (Anderson & Reeb, 2003a).

A large body of literature has identified the unique attributes of family firms vis-à-vis corporations of diverse ownership. These attributes, including trust, altruism, and commitment, can in principle enhance firm efficiency and performance (e.g., Davis, 1983; Chami, 1999). However, the question of whether family business is an effective business structure remains largely unanswered. Recently, Anderson and Reeb (2003a), Lee (2004), and Villalonga and Amit (forthcoming) showed that family firms perform better financially than nonfamily firms. These findings

notwithstanding, this article seeks to look at other dimensions of family business behavior and performance.

The objective of this article is two-fold. The first objective is to empirically investigate the competitiveness of family versus nonfamily firms. Conventional economic theory does not differentiate management decisions between family firms and other firms that are owned by diverse shareholders. In this study, we specifically test the hypothesis that family ownership or control leads to better performance and thus profitability. Moreover, if family business owners also participate in management, they might command greater loyalty within the firm, thereby enhancing employee productivity and overall firm performance.

The second objective of this article is to investigate the possible effect of family ownership or control on firm stability, particularly during a temporary market downturn, in particular employment stability. A nationwide recession is known to cause massive layoffs, particularly among large firms. Yet a recent survey by Astrachan and Allen (2003) indicates that family firms are committed to keep employment levels

stable and to avoid downsizing during temporary market downturns. In this study, we empirically investigate the significance of this assertion.

Following Anderson and Reeb's (2003a) recent study on the relative financial performance of family firms, we test for the above two hypotheses using multivariate regression analysis with the S&P 500 as the sample. Moreover, we extend Anderson and Reeb's 1992–1999 sample period to 1992–2002, which consists of one full business cycle. Our findings would therefore promote a better understanding of firm behavior as well as any difference in firm performance by ownership during the business cycle, particularly over the most recent recession.

This article is organized in the following manner. The second section provides a review of background literature. The third section discusses the data and research methodology. The fourth section presents empirical results. The last section summarizes some major findings and provides concluding remarks.

Background Literature

A family business can be loosely classified as one in which the family, as broadly defined, either has significant ownership or management control. In the United States, in particular, most family firms are small and the majority of them face the challenge of succession from one generation to the next—less than 30% of family businesses survive to the second generation (Astrachan & Allen, 2003). Hence, the merits of family ownership versus ownership by diverse shareholders as an organizational structure remain controversial.

The modern form of business organization typically features a separation of ownership from control and professional managers' rather than shareholders' control of key business decisions. A major drawback of this type of corporate governance is commonly known as the principal-agent problem, where shareholders (principals) and managers (agents) have different interests. In addition, ownership by diverse shareholders potentially creates difficulty in monitoring manager performance. This agency or contractual

problem of the firm, which involves the costs of writing and enforcing contracts, is the key issue for most existing studies concerning the relationship between firm ownership and performance.

Competitive Advantages

The competitiveness of family firms versus their nonfamily counterparts can be viewed from two perspectives—ownership and management. From the perspective of ownership, the uniqueness of family firms is that family members hold a substantial amount of the firm's assets. From the management perspective, one common characteristic of family firms is that family members serve as the firm's CEOs or fill other top management positions.

A great majority of family businesses are small and sole proprietorships; however, families can be found in many large public corporations. 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. Demsetz and Lehn (1985) argue that the concentrated equity position and control of management, along with the founding family's historical presence, offer an advantageous position for the family to monitor its business. These large, concentrated investors have more incentives than diverse shareholders to avoid the conflicts between owners and managers and to maximize firm performance. Since the family's welfare is closely tied to firm performance, family members have a strong incentive to monitor professional managers. As a result, the free-rider problem associated with nonfamily firms with diverse shareholders can be minimized. Because of their concentrated ownership, family members also have more power than other shareholders to achieve their goals. Indeed, Anderson and Reeb (2003a) and Burkart, Panunzi, and Shleifer (2002) observe that firms with more active involvement by the founding family tend to perform better financially.

The long-term presence of founding families within firms can also engender competitive

advantages. First, the family's lengthy tenure can extend the firm's learning curve in monitoring employee performance. Second, as James (1999) and Stein (1989) indicate, families tend to maintain longer investment horizons than other shareholders, who may make myopic investment decisions that boost current or short-term earnings. Family firms may also attempt to invest more efficiently because they may view their firms as an asset to pass on to succeeding generations. The family's longer outlook also implies a more vital role of firm survival among family firms.

Still, Davis (1983) emphasizes altruism and trust as the primary factors that provide family firms with a competitive edge. In addition, parentalism is often extended to nonfamily employees, promoting a sense of stability and commitment to the firm among all employees. Along this line, it has been shown theoretically how trust mitigates the moral hazard problem between the parents (principals) and the children (agents), raises the children's efforts and productivity, and thus enhances firm performance. Since trust induces the children to internalize the cost of their actions on the parents' welfare, it obviates the need for parents to monitor their children's work effort or to rely on incentive-based compensation. Fama and Jensen (1983) and DeAngelo and DeAngelo (1985) also point out that family business founders have an advantage in monitoring and disciplining managers and other employees. As a result, trust enhances firm efficiency. However, the family business is likely to fail if trust becomes low or altruism is one sided, and thus the principal-agent problem is exacerbated.

Competitive Disadvantages

Arguably, family ownership or control can also generate competitive disadvantages. Many studies have highlighted the complexity of running a family business. For instance, Davis (1983) and Lansberg (1983) observe that a family firm shares values and characteristics with both the family and the business entities, but the fact that the business is not free from family influences creates

many unique challenges. Such challenges include the balance between equity and efficiency and the problem of succession. Broadly speaking, the dilemma is that as head of the family, the parent is altruistic toward his or her family members, but as manager, he or she is motivated to follow sound business practices.

Other studies highlight the power and incentives of founding families to act in their own interests at the expense of firm performance. Shleifer and Summers (1988) and Shleifer and Vishny (1997) posit that firms with large undiversified owners, such as founding family members, may forego maximum profits when they are unable to separate their own financial preferences from those of other owners outside the family. Demsetz (1983) argues that family business owners may also choose nonpecuniary benefits and thus draw resources away from profitable projects.

Moreover, the family is likely to limit top management positions to family members rather than hire more qualified or competent outsiders. Family members are capable of redistributing benefits from the firm through excessive compensation or special dividends that may adversely affect employee morale and productivity. For public firms, founding families may have interests of their own, such as stability and capital preservation, which may not be consistent with the interests of other investors.

The business founder's willingness to sacrifice efficiency for equity can be affected by the structure of the market and competition. In the case of intense market competition, the parent (owner) is more likely to focus more on firm survival or performance by firing any nonperforming child. In other words, market competition forces the family to be efficient.

Most of the above studies are conceptual in nature because family firms resist easy definition, in contrast to those listed by *Forbes* or *Fortune*. Empirical evidence on the relationship between firm ownership and performance is therefore quite sparse. The majority of empirical studies rely on anecdotal observations. Recently, some studies have found that firms controlled by founding families perform better financially than do

other firms. In particular, Morck, Shleifer, and Vishny (1988), McConaughy, Walker, Henderson, and Mishra (1998), Anderson and Reeb (2003a, 2003b), Anderson, Mansi, and Reeb (2003), and Villalonga and Amit (forthcoming) show higher stock valuations or leverages for family firms than for nonfamily firms. In addition, Han and Suk (1998) find evidence that management's equity ownership helps resolve the agency problem and thus improve the firm's stock performance. Their finding supports the competitive advantage of ownership by insiders such as founding family members.

A major shortcoming of the above studies stems from their focus on stock valuations or other measures of financial performance, which are only *indirect* measures of firm competitiveness. A few studies do evaluate the relationship between ownership structure and firm operational performance instead of financial performance. Among these studies are Lauterbach and Vaninsky (1999) and Lee (2004). Lauterbach and Vaninsky's study of 280 public firms in Israel indicates that owner-manager firms, including family-owned firms, are less efficient in generating net income than firms managed by professional (nonowner) managers. In contrast, Lee examines the largest 150 family firms in the United States and finds that these firms tend to be more efficient than their top competitors, as gauged by such variables as asset turnover, days of sales outstanding, and net receivables turnover flow.

However, Gorriz and Fumas (1996) underscore the discrepancy between firm efficiency and profitability. In particular, higher firm efficiency may not necessarily translate into higher profitability, which depends on market conditions and goals pursued by managers. It is therefore important to control for firm size when evaluating the performance of family firms. Gorriz and Fumas illustrate that managers with a preference for firm returns generate a firm size larger than that of firms controlled by shareholders. Moreover, if larger firms possess more market power or greater economies of scale, then using firm returns to assess the performance of family-

controlled firms with their equally efficient nonfamily (management-controlled) rivals without taking firm size into consideration may yield misleading findings.

General Discussion

The analytical literature remains divided on the effect of family ownership or management on firm performance. Many researchers argue that family members with large, concentrated ownership have more incentives to maximize a firm's performance and that they also have the power to do so, unlike diverse investors in a nonfamily firm. Given their ownership, founding family members are also more likely to participate in firm management. Family loyalty, concerns about reputation, and the sustained presence of the family have the potential to create better relationships with nonfamily employees and customers. Despite these arguments, the empirical evidence to date has been incomplete in both scope and depth. In other words, the key question of whether family ownership is an effective business structure has not been adequately answered.

Other than operational performance as measured by, for example, income and revenue growth, this study evaluates the relative stability of family firms over time. To accomplish this task, we examine both the standard deviations of firm data in addition to their levels. In particular, we are interested in the relative stability of employment among business firms. Against the background of massive layoffs by U.S. corporations during the most recent economic recession, a survey by Astrachan and Allen (2003) indicates that family firms tended to keep employment levels stable and to avoid downsizing. This behavior is attributable to the distinguishing characteristics of a family business, particularly the founding family's commitment to firm continuity and stability. Such a commitment may be associated with the formation of a mutual agreement or "implicit contract" between the founding family and its employees. As a result, family ownership may be associated with a lower workforce turnover and, particularly during a market decline, greater resistance to

downsizing. This study seeks to evaluate this line of reasoning using U.S. public firm data.

Data and Methodology

Founding families and their descendents hold substantial equity positions and board seats in about one-third of S&P 500 or Fortune 500 firms. These families represent a unique class of shareholders that exerts influence and control over firms and thus potentially leads to performance differences compared to nonfamily firms.

Anderson and Reeb (2003a) recently analyzed the influence of families on the financial performance of S&P 500 firms. Part of the present study is to extend their work to economic or operational performance, such as the profit margin and growth in revenue and employment. A firm's stock valuation is closely associated with its operational performance only if the stock market is efficient. Without the strong assumption of stock market efficiency, a firm's operational efficiency may not necessarily be reflected in its valuation in the stock market.

The Data Sample

The data sample closely follows Anderson and Reeb's (2003a) list of S&P 500 firms. We exclude banks and public utilities, whose performance is largely affected by government regulations. Excluding these firms, the sample consists of 403 firms. Instead of Anderson and Reeb's sample

period from 1992 to 1999, we extend the period to 2002. Our sample period spans a full business cycle: According to the National Bureau of Economic Research, the U.S. economy expanded from 1992 through March 2001, and then contracted for two quarters before entering another expansion phase. This period allows us to explore firm performance over the length of a business cycle, including the 2001 recession. The data come from various sources, including Hoover's Online database, COMPUTSTAT Industrial Files, and corporate proxy statements.

Following Anderson and Reeb (2003a), a firm is classified as a family business if founding family members or descendents hold shares or if they are present on the board of directors. Table 1 shows the distribution of family firms in broad SIC industry divisions. Out of the sample, 141 firms—about 35%—can be identified as family firms. Families operate in a wide array of industries, present in about 70% of the two-digit SIC codes in the S&P 500. Family firms are more prevalent in manufacturing, particularly lumber, wood, rubber, and plastic products, and printing and publishing. Many family firms can also be found in retail stores, eating and drinking places, and other services.

Research Methodology

To investigate the extent of family influence on firm performance, we employ multivariate regression with cross-sectional data. The regression can be expressed as:

Table 1 Number and Percent of Family and Nonfamily Firms by SIC Division

Sector	SIC Code	Family Firms	Nonfamily Firms	% Family Firms in Sector
Mining	10–14	2	14	13
Construction	15–17	1	3	25
Manufacturing	20–39	86	163	35
Transportation, communication, electric, & gas	40–49	9	19	32
Wholesale & retail trade	50–59	26	25	51
Finance, insurance, & real estate	60–67	4	23	15
Services	70–88	13	15	46
Total		141	262	

$$\begin{aligned}
 \text{Performance}_i &= \beta_0 + \beta_1(\text{Family Firm}_i) \\
 &+ \Phi(\text{SIC Code}_i \text{ \& Other Control Variables}_i) \\
 &+ \varepsilon_i \text{ for firm } i = 1, \dots, 403
 \end{aligned}
 \tag{1}$$

where

- *Performance* = alternative measures of firm performance.
- *Family Firm* = alternative measures of family influence.
- *SIC Code* = binary variable that equals 1 for the primary industry in which the firm operates.
- *Control Variables* = other variables that potentially affect firm performance.

The coefficient β_0 represents the mean of the dependent variable. The coefficient β_1 captures the hypothesized linear relationship between a firm's founding family ownership/control and its performance given the presence of other explanatory variables in regression. The null hypothesis that family ownership or control makes no difference to firm performance is tested against the alternative hypothesis that family ownership or control makes a difference. A statistically significant estimate for β_1 indicates rejection of the null hypothesis. The last term, ε_i , represents a random error. To control for possible heteroskedasticity in cross-sectional regression, we use the White (1980) method to compute heteroskedasticity-consistent standard errors.

The influence of the founding family is captured by two alternative variables. The first is a binary variable that equals 1 for a family firm and 0 otherwise. One might consider using the fraction of stock holdings by founding family members to measure the level of family control. However, ownership levels may not realistically reflect the influence that family members are able to exert on a firm. For some companies, family members may need to hold only a small fraction of the outstanding shares to act as the majority owners, while in others the family has to hold substantially more shares to maintain control. For this reason, in line with Anderson and Reeb (2003a), we use a dummy variable that equals 1 if founding family members or decedents hold shares in

the firm or if they are present on the board of directors.

An alternative measure of family influence is the share of founding family members and descendants serving on the board of directors. This captures the level of control over firm management. Firm performance is more strongly affected by owners who actively participate in management decisions than by owners who only hold shares.

Since industries experience divergent market conditions at any given time, it is important to control for industry affiliation. Hence, we introduce six binary dummy variables, each representing the two-digit SIC code under which a firm operates. Regression analysis also includes a number of conditioning variables other than the dummy variables for industry affiliations. The first variable is a firm's total firm assets (in natural logarithm), which measures firm size; the second variable is the ratio of capital expenditures over gross revenues, which measures firm growth opportunities; the third variable is firm age, which captures differences in firm competitiveness associated with history; and the fourth variable is the portion of share ownership by officers and board of directors, which reflects their incentive to perform better.

Panel A of Table 2 illustrates some attributes of family versus nonfamily firms. Nearly 15% of family founders act as CEOs; founding families hold about one-fifth of ownership for family firms; about 12% of board of director members are founding family members; family firms are smaller on average than other corporations; and the typical family firm is about 10 years younger than other S&P 500 firms.

Panel B of Table 2 displays the means of different measures of long-term firm performance. The first three rows list the number of times revenue, employment, and income (before tax) grew between 1992 and 2002; the next three rows list the standard deviation of revenue, employment, and net income over the 1992–2002 period; and the bottom two rows list the average net profit margin and the average ratio of capital expenditure to total sales for each firm over the same period. It is

Table 2 Tests of Difference in Means

Description	Family Firms (Mean)	Nonfamily Firms (Mean)	t Statistic
Panel A: 2002			
Founder CEO	14.14%	0%	10.48*
Family ownership	20.12%	0%	10.42*
Family as board member	11.74%	0%	12.78*
Total assets (\$ million)	9,612	15,012	-3.21*
Firm age (years)	77.12	89.31	-3.56*
Panel B: 1992–2002			
Revenue change	14.02	9.35	2.74*
Employment change	3.22	2.44	2.73*
Net income change	49.39	36.24	0.68
Revenue <i>SD</i>	2,975.09	5,635.15	-2.12**
Employment <i>SD</i>	9,771.88	10,947.19	-1.78***
Net income <i>SD</i>	502.51	670.35	-1.23
Average net profit margin	0.10	0.08	2.49*
Average capital expenditures/revenues	0.036	0.026	1.74***
Panel C: 2000–2002			
Revenue change	4.58%	1.88%	1.73***
Employment change	3.43%	-0.02%	1.87***
Net income change	-27.36%	-3.84%	-0.41

* Significant at the 1% level.

** Significant at the 5% level.

*** Significant at the 10% level.

evident that family firms as a whole saw more revenue and employment growth compared to nonfamily firms—14 times compared to 9.35 times for revenue growth over the period and 3.22 times compared to 2.44 times for employment. Growth of net income, which is income after income taxes, interest expenses, and other nonoperating expenses, also appears to be higher for family firms. The average profit margin for family firms was 10%, which is 2% higher than that for nonfamily firms. Capital expenditures represent a firm's growth opportunities. Family firms invest 3.6% of their gross revenues in capital expenditures, compared to 2.6% for other firms. On the contrary, the standard deviations are all lower for family firms relative to other firms.

Panel C of Table 2 shows firm performance in the 2000–2002 period, a period that included a national recession (in 2001). Since then, the U.S. economy has been slow to recover and many industries have continued to decline at least through 2002. Although revenue growth for the

sample as a whole was 2.72%, family firm revenues grew almost twice as fast. During the same period, overall employment growth was almost flat. Although a typical nonfamily firm lost jobs, family firms managed to expand employment by 3.4% on average. The period was also a bad time for corporate earnings. Despite higher revenue growth, family firms performed less favorably than their nonfamily counterparts in terms of net income growth. Partly due to income taxes and administrative and other nonoperating expenses, they suffered a 27.4% income loss as compared to the 3.8% loss for other firms.

The *t* statistics for testing the difference of means between the two groups of firms are statistically significant at the 10% level or higher for all variables except for net income growth and standard deviation. In particular, as compared to nonfamily firms, family firms witnessed stronger growth in employment and revenue, but their variability over the observation period was smaller. The mean test for the average net profit

margin also supports that family firms are more profitable than other firms. Partly due to the relatively high variation of income among firms, the t ratios for testing differences in income growth and standard deviation are not statistically meaningful. However, the findings in Table 2 do not take into account factors other than ownership that also affect firm performance.

Empirical Findings

In light of Equation (1), regressions are performed using the S&P 500 data set described in the preceding section. Firm performance is measured alternatively by employment growth, revenue growth, gross income (before taxes) growth, and net profit margin over the 1992–2002 period. The growth terms are proxied by the differences of the natural logarithm levels of the variables in 1992 and 2002. The net profit margin for a firm is the 1992–2002 average of the ratios of its net profit over revenues. We also investigate the stability of family firms relative to other firms. Firm stability is measured alternatively by the standard deviations of employment, revenues, and income.

Table 3 displays regression results for the alternative measures of firm performance. The family firm dummy variable is the key explanatory variable; the industry affiliation dummies are not displayed to save space. The absolute values of t statistics are listed in parentheses. The estimation results support that the presence of families helps foster employment, revenue, and income growth. All coefficient estimates for the family firm variable are significant at the 1% level. Families are also found to generate a higher average net profit margin over the 1992–2002 period, although the t statistic is significant only at the 10% level. For the alternative measures of firm stability, the signs for the coefficient estimates of the family firm dummy variable are all negative, indicating higher stability among family firms. However, the t statistics indicate that none of those estimates are statistically meaningful.

A few observations stand out for other explanatory variables. Larger firms tend to be less stable and perform more poorly than smaller firms.

Firm performance also tends to decline with age but improve with more investment in capital. Contrary to conventional wisdom, there is scant evidence supporting that ownership by officers and directors improves firm performance. Although some of these results are surprising, the overall findings for these conditioning variables are in line with those reported by Anderson and Reeb (2003a).

To investigate the influence of management, instead of ownership, by founding families, we replicated the above regressions but replaced the dummy variable for family firms with the share of family members on the board of directors. As shown in Table 4, the overall regression results are similar to those in Table 3. In regressions where the growth rate or the profit margin is the dependent variable, the coefficient estimates for family management are positive and statistically significant. The estimation results for the other explanatory variables are also similar to their counterparts in Table 3. The adjusted R^2 s, however, are slightly higher in most cases, indicating that the measure of family participation in management better explains firm performance than the dummy variable does.

Assessment of firm performance should be based on data over a long-term period; however, it is also interesting to examine how firms weathered the most recent recession in 2001, which was a temporary downturn for many industries. As the descriptive statistics in Table 2 indicate, overall firm performance between 2000 (last peak) and 2002 was basically flat. Table 5 provides regression analysis on firm performance over the same period.

As expected, the model's explanatory power for data over such a short time span, as indicated by the adjusted R^2 s, is much weaker than that for the long-term time span of 1992–2002. Even though the majority of the industry dummy variables are statistically significant (not shown in Table 5), most of the explanatory variables shown in Table 5 are not. The only exceptions are the two alternative variables measuring the influence of family. In particular, employment growth is positively correlated with the family firm dummy and the

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Table 3 Founding Family and Firm Performance, 1992–2002

Explanatory Variable	Employment		Revenues		Income		Profit Margin
	Growth	SD	Growth	SD	Growth	SD	Average
Intercept	1.30*	5.90*	2.18*	3.95*	1.73*	2.77*	-1.85*
	(3.96)	(17.78)	(6.42)	(13.52)	(3.35)	(9.66)	(9.45)
Family firm	0.30*	-0.02	0.36*	-0.05	0.34*	-0.20**	0.11***
	(2.78)	(0.17)	(3.41)	(0.44)	(2.11)	(2.11)	(1.69)
Assets	-0.03	0.26*	-0.08**	0.35*	-0.04	0.29*	-0.07*
	(1.02)	(7.84)	(2.18)	(11.76)	(0.75)	(9.93)	(3.56)
Capital expenditures	0.09**	-0.09***	0.16*	-0.17*	0.07	0.25*	0.29*
	(2.27)	(1.75)	(3.56)	(4.00)	(1.54)	(4.13)	(10.90)
Firm age	-0.95*	0.02	-1.18**	0.29**	-1.14*	0.58***	-0.56**
	(2.37)	(1.41)	(2.33)	(2.44)	(3.86)	(1.79)	(2.56)
Officers/directors ownership	0.46	-0.01***	0.57	-0.14	0.55	-0.28	0.27
	(0.57)	(1.76)	(0.34)	(0.76)	(0.92)	(0.35)	(1.23)
Adjusted R ²	0.31	0.42	0.32	0.48	0.24	0.32	0.39

* Significant at the 1% level.

** Significant at the 5% level.

*** Significant at the 10% level.

Note: In addition to the above explanatory variables, regressions include six dummy variables, each of which represents a two-digit industry sector. Figures in parentheses are absolute *t* statistics.

Table 4 Family Management and Firm Performance, 1992–2002

Explanatory Variable	Employment		Revenues		Income		Profit Margin
	Growth	SD	Growth	SD	Growth	SD	Average
Intercept	1.26*	5.91*	2.14*	3.96*	1.66*	2.77*	-1.86*
	(3.87)	(17.83)	(6.36)	(13.58)	(3.21)	(9.64)	(9.51)
Family on board	2.11*	-0.67	2.53*	-0.71	2.33*	-0.79	0.67***
	(3.66)	(0.92)	(3.91)	(1.14)	(2.47)	(1.27)	(1.77)
Assets	-0.04	0.26	-0.08	0.35	-0.06	0.29	-0.07*
	(1.12)	(7.85)	(2.42)	(12.13)	(1.21)	(10.18)	(4.24)
Capital expenditures	0.09	-0.08	0.16	-0.17	0.25	0.06	0.28
	(2.24)	(1.62)	(3.54)	(3.92)	(4.13)	(1.45)	(10.87)
Firm age	-1.08**	0.02	-1.34*	0.25*	-1.02*	0.78**	-0.49**
	(2.07)	(1.27)	(2.66)	(2.78)	(4.40)	(2.04)	(2.30)
Officers/directors ownership	0.40	-0.01**	0.65	-0.12	0.63	-0.25	0.31
	(0.50)	(2.01)	(0.30)	(0.66)	(0.80)	(0.40)	(1.07)
Adjusted R ²	0.32	0.43	0.33	0.51	0.27	0.34	0.42

* Significant at the 1% level.

** Significant at the 5% level.

*** Significant at the 10% level.

Note: In addition to the above explanatory variables, regressions include six dummy variables, each of which represents a two-digit industry sector. Figures in parentheses are absolute *t* statistics.

Table 5 Founding Family and Firm Performance, 2000–2002

Explanatory Variable	Employment	% Growth	Revenue	% Growth	Income	% Growth
Intercept	4.19 (0.98)	2.98 (0.68)	2.58 (0.44)	1.68 (0.28)	86.35 (0.57)	147.35 (0.95)
Family firm	4.32*** (1.65)		5.83 (0.46)		31.67 (0.10)	
Family on board		16.15*** (1.67)		13.02 (0.98)		491.65*** (1.65)
Assets	0.12 (0.26)	0.19 (0.41)	0.37 (0.60)	0.42 (0.69)	-13.24 (0.82)	-17.29 (1.07)
Capital expenditures	0.18 (0.63)	0.10 (0.37)	-0.56*** (1.67)	-0.62*** (1.64)	-0.76 (0.09)	1.32 0.15
Firm age	-0.41 (1.31)	-0.39 (1.24)	-0.23 (1.33)	-0.20 (1.15)	-8.11 (1.26)	-7.56 (1.17)
Officers/directors ownership	1.12 (0.58)	1.06 (0.55)	0.67 (0.64)	0.58 (0.55)	10.12 (0.15)	9.43 (0.14)
Adjusted R^2	0.13	0.13	0.11	0.11	0.08	0.09

*** Significant at the 10% level.

Note: In addition to the above explanatory variables, regressions include six dummy variables, each of which represents a two-digit industry sector. Figures in parentheses are absolute t statistics.

family management variable. This finding confirms a recent survey study by Astrachan and Allen (2003) that highlights the role family firms play in maintaining employment stability during market downturns.

Summary and Concluding Remarks

Family businesses are the most common form of business organization in the world. Their unique characteristics include high levels of trust and commitment, which may result in greater efficiency and higher profitability than businesses owned by diverse shareholders. On the other hand, potential conflicts between the family and business can hinder firm performance. The relative merit of the family influence on firm performance is therefore an important empirical issue. Most existing studies on this issue, however, focus on financial performance and do not directly address the issue of economic performance. This article has sought to fill this gap.

Regression analysis using S&P 500 firm data over the 1992–2002 period led to the conclusion

that families indeed generate a positive influence on business. Holding other things constant, family firms are likely to grow faster and be more profitable. Firms may perform even better if founding family members participate in management. Despite their stronger growth, there is no evidence that family firms are less stable than other firms in the long run.

Following the 2001 recession, massive layoffs were prevalent among large corporations. However, it has recently been asserted that families instill more continuity and stability over time than diverse shareholders do, particularly on employment stability. Although empirical evidence in support of a plausible influence of families on long-term stability is tenuous, data over the most recent business cycle do suggest that during temporary market downturns, family firms may suffer as much as other firms but that they are less likely to lay off employees.

A key distinction of this article is its focus on the more *direct* measures of firm competitiveness, namely, income and revenue growth, profit margin, and employment, rather than financial variables, such as stock valuation. Although our

results provide more insight into firm performance, some limitations remain. In particular, the regression analysis has revealed little about the contributions of the unique attributes of family firms, including higher levels of trust, commitment, and loyalty. Despite their role in organizational behavior and strategic management, these variables are not directly observable and thus are largely ignored in the present study. As in most empirical studies on family business, inferences about their significance have been drawn with an implicit assumption that these attributes account for the observed differences between family and nonfamily firms. In this light, future research should aim at narrowing this gap between the analytical and empirical literature. One possible avenue could be to develop measures for these attributes using survey data.

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