FAMILY TIES, DO THEY MATTER? FAMILY OWNERSHIP AND FIRM PERFORMANCE IN PERU

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Abstract

This paper studies the relationship between ownership concentration, family ownership, management, and market and accounting performance for 59 industrial firms listed in the Lima Stock Exchange during the period of 1999 to 2005. An inverted U-shaped relationship was found between ownership concentration and market performance in both family and non family firms, pointing out an entrenchment effect or excessive risk aversion of the controlling group. This effect is worsened for family firms. The presence of family members as CEOs, Chairmen and Board Members is also negative for a firm's performance and family ownership was found to increase the leverage of a firm.

Keywords: Family Firms, Ownership Concentration, Performance, Family Management, Peru

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1. Introduction

The agency theory provides a compelling explanation of how ownership affects firm performance. Under conditions of separation of ownership and control, more managerial ownership reduces managerial private benefits by inducing a shareholder-like behavior in the manager, which increases the firm value (Jensen and Meckling, 1976). However, an excess in managerial ownership (Stulz, 1988) can produce managerial entrenchment, which reduces firm value; the result is an inverted U-shaped curve of firm value as a function of ownership concentration. However, high ownership concentration seems to be a major firm characteristic in most countries (La Porta, Lopez-de-Silanes and Shleifer, 1999), including countries identified as emerging markets. Thus,the following research question arises: Is this a disadvantageous situation or are there other forces at work?

Different authors (Bebchuck, 1999; La Porta,Lopez-de-Silanes, Shleifer and Vishny, 2000) have hypothesized that this characteristic is the result of low investor protection, which has been endemic in countries considered emerging markets. In their groundbreaking research,LaPorta, Lopez-de-Silanes, Shleifer and Vishny(1998) find that, relative to Common Law countries, countries with Roman legal traditions (most developing countries included) are characterized by low investor protection. Confronted by the danger of expropriation by managers, unwarranted punishment, or lack of protection by the law, shareholders should maintain controlling (majority) holdings in order to reduce the manager's independence and his/her capacity to extract private benefits. Indeed, in most cases managerial ownership is uncommon, except when the firm is controlled by a family and the manager is a family member.

However, with controlling shareholders tightening the manager's reigns, different problems can arise: 1. Similar to managerial entrenchment, controlling shareholder entrenchment can be expected; 2. With most of their wealth attached to the firm, excessive control by shareholders translates into risk aversion, which can reduce firm value (Demsetz and Lehn, 1985); 3. High levels of controlling shareholder ownership can also reduce managerial initiative (Burkart, Gromb and Panunzi, 1997); and 4. The controlling shareholders can take advantage of minority shareholders, extracting private benefits that reduce firm value (Bebchuck, 1999). Usually there is an inverted U-shaped curve of firm value between these forces working together and the benefits of ownership concentration, similar to the curve hypothesized by Stulz (1988); however, a larger inflection pointmight be expected, given the low level of

investor protection that boosts ownership concentration.

An interesting and additional factor in this equation is the nature of ownership: Are there any differences in firm performance when the controlling shareholders are families? Thus, the debate on family ownership continues. Press releases highlight the positive side of family ownership, for example, a report in *Business Week* (*Weber, Lavelle, Lowry, Zellnerand Barrett*, 2003) claims that family firm managers are willing to put aside their personal interests in order to make sure the legacy of the firmcarries on.

An article in *Forbes* (Swibel, 2004) points out the long-term orientation of family firms compared to non family firms. However, studies show that the effect of family ownership on firm performance is mixed, contrary to what press reports claim. Anderson and Reeb (2003) find that family firms perform better than non family firms; however, Villalonga and Amit (2006) point out a negative side of family ownership, particularly when family members, other than the founding CEO, are involved in management.

In a previous study, Holderness and Sheehan (1988) find that family firms have a lower Tobin's q than non family firms, so they create lower value. Widespread evidence indicates the importance of family ownership in most countries (La Porta, Lopez-de-Silanes and Shleifer, 1999; Claessens,Djankov and Lang, 2000; La Porta, Lopez-de-Silanes, Shleifer and Vishny, 2002); however, the impact of the presence of family firms outside the U.S. has not been thoroughly assessed. Some emerging market studies focus on the impact of ownership concentration, without distinguishing between family and non-family firms (Lins, 2004; Claessens, Fan and Lang, 2002; Benavides, 2005), perhaps due to the difficulty of disentangling family and managerial relationships in settings with less disclosure than that in the U.S.

The issue of ownership concentration is particularly important in Latin America because there quoted companies concentrate more than 60% of the ownership and control of the companies in the hands of the first three shareholders. In this study, the effect of family ownership on firm performance for industrial firms listed in the Lima Stock Exchange (LSE) is studied. By reviewing reports from the LSE (Vademecum Bursatil) and the database Economatica®, it was possible to measure ownership concentration and to classify firms as family firms or non family firms, this information was available from 1999 to 2005. Then, the factors of ownership concentration, ownership nature and family involvement were linked with accounting and market performance. The results support the effect hypothesized by Stulz (1988), that market performance increases with ownership concentration according to the alignment effect, until additional and opposing forces, such us the entrenchment effect, excessive risk aversion or intervention, reduce performance. The effect is more acute when the firm is owned by a family.

The results of this study depart from previous findings where only positive effects of ownership concentration on performance were found: La Porta *et al*. (2002), using data from 27 wealthy economies, found weak evidence of positive effects of ownership concentration on performance; Claessens *et al*. (2002), working with East Asian economies, found positive effects. In the current study, it was found that family ownership has a negative impact on the accounting performance of a firm, affecting the firm's operating return on equity. In addition, when testing the effect of family involvement on management, a negative impact on accounting performance was also discovered. Moreover, the presence of family members in positions such as CEO, Chairman, and members of the Board of Directors of a firm reduces a firm's market performance in an important way.

Family ownership of a firm also appears to affect a firm's leverage. When owners are less willing to issue outside equity, two effects can arise: firms are too cash constrained to fund growth or firms require more debt in order to stay in business. The results of this study show that family firms have more leveraged than nonfamily firms and this leverage increases when ownership concentration increases. When the family involvement in management is higher (e.g., a family member as CEO or Chairman), then firms are more indebted.

The rest of the paper is structured as follows: section 2 describes the data, section 3 presents all the tests and shows the results for which we developed a theoretical explanation. Finally, section 4 concludes.

2. Sample Data

The data from this study comes from 59 Peruvian industrial firms (see Appendix 1), listed in the Lima Stock Exchange (LSE). Listed firms are regulated by and must report their information to the National Supervisory Commission of Companies and Securities (CONASEV). The sample data was compiled by examining LSE records(Vademecum Bursatil) and Economatica®, a financial database for Latin-American listed firms. The information of the Vademecum Bursatil was available for seven years from 1999 to 2005. The aforementioned sources of information were used to determine the construction of firm governance structures, such as board composition, chairman and CEO affiliation, and ownership.

2.1. Variables

The two kind of variables in this study, summarized in Table 1, are 1) financial variables and 2) governance variables. Financial variables include an indicator for firm size (LNVT),which is the log of sales (expressed in thousands of dollars); an indicator for leverage(LEV), which is the ratio of liabilities on total assets; and a measure for cash flow(EBITVTAS), which is the ratio of earnings before interest and taxes on sales. In addition, there are three alternative performance ratios within the group of financial variables: Market to book ratio (M/B); operating income on assets(REBITAT); and operating income on equity(REBITPAT).

Governance variables include the firm age (LNAGE), which is the log of years between the year of foundation and the year 2005; the ownership holdings (voting power) of the controlling shareholders(PRO), regardless of family ownership, (also squared, PRO2); for family firms, the percentage of family members in the board(PJDFAM); and for all firms, the excess of voting power over cash flow rights(EXCCONTROL),as the ratio of the percentage of voting power on cash flow rights for the controlling shareholder or group. There are also four dummy variables for governance: a dummy variable for firms in a family business group (GEMPFAM); a dummy for family firms (EMPFAM); a dummy for firms with a family member as President or CEO (CEOFAM); and a dummy for firms with a family member as Chairman of the Board (CHFAM).

A firm is classified as a family firm if more than 30 percent of ownership or board seats are in the hands of one family. In order to find out whether a particular member of the board belongs to the same family we compare their last names, if they were equal so they belong to the same family.

2.2. Descriptive Statistics

The average industrial firm in our sample is 44 years old and earns 68 million US dollars per year (see Table 2a). The average voting power in hands of controlling shareholders is 59%, and control rights exceed their cash flow rights by a ratio of 1.28. This excess of control rights is due to the fact that firms in Peru can issue ordinary and investment shares, usually with reduced voting power.

From our sample of 59 firms, 26 were classified as family firms according to our definition. Of these, 23 had a family Chairman and 10 had a family CEO for at least one year; however, almost 100% of these positions lasted for the entire seven-year period. We also classified 17 of the firms as being part of a family business group.

To the best of our knowledge there were not any changes in the ownership type during the sample period. During this period, different firms in the beer industry were acquired by Bavaria, a Colombian firm, but because none of these firms were previously defined as family firms, no changes in ownership type were made.

Correlations between the main variables in the study are presented in Table 2b. Interestingly, all correlations between the M/B ratio and family ownership or involvement are negative; this relationship is not present for the accounting measures of performance, perhaps, not surprisingly, due to the low correlation between M/B and the accounting measures of performance. The high correlation between EMPFAM and CHFAM is expected, given that 23 of the 26 family firms have a family Chairman. An expected negative correlation between excess of control rights, EXCCONTROL, and ownership concentration, PRO was found; given that the incentives to expropriate minority shareholders are reduced with higher ownership (La Porta *et al*., 2002).

3. Tests and Results

3.1. Tests

Our unbalanced panel data models are regressed using feasible generalized least squares (GLS) corrected for a heteroskedastic error structure within panels. Our first set of tests regresses the different measures of performance on alternative mechanisms of control (MC):

$$\text{Performance}_{it}=\alpha_0 + \Sigma\alpha_j \text{MC}_{jit} + \Sigma\alpha_k \text{Controlvariables}_{kit} + \varepsilon_{it} \quad (1)$$

Our aim is to explore the impact of two pervasive characteristics of the Peruvian traded firms on their performance: the excess of control rights on cash flow rights and the firm being a family or being part of a family group.

Our second set of regressions explores the effect of ownership concentration on the different performance measures. We were also interested in observing if there was any difference in performance between family ownership and other ownership. For that effect we created the interaction variables NFPRO and NFPRO2, which are equal to:

NFPRO=Dummy for nonfamily firm * PRO
NFPRO2=Dummy for nonfamily firm * PRO2

These variables capture the difference in impact on performance of ownership concentration between family and nonfamily firms. For family firms the coefficients of PRO and PRO2 measure the impact of ownership concentration. For non family firms the coefficients are PRO + NFPRO and PRO2 + NFPRO2. In these regressions we also include the excess of control variable,

EXCCONTROL, to account for the potential additional impact this variable has on performance. The structure of the regressions is:

Family firms:

$$Perf_{it}=\alpha_0 + \alpha_1 PRO_{it} + \alpha_2 PRO2_{it} + \Sigma\alpha_j Controlvariables_{jit} + \varepsilon_{it} \quad (2)$$

Non family firms:

$$Perf_{it}=\alpha_0 + \alpha_1 (PRO+NFPRO)_{it} + \alpha_2 (PRO2+NFPRO2)_{it} + \Sigma\alpha_j Controlvariables_{jit} + \varepsilon_{it} \quad (3)$$

Weran different combinations of these regressions and reported the tests with the stronger results.

Another set of tests is an inquiry of the impact of family involvement in management. Keeping the previous structure, we added three different variables, one per regression, so that the regression is as follows:

$$Perf_{it}=\alpha_0 + \alpha_1 Family\ involvement_{it} + \alpha_j PRO_{it} + \alpha_k Controlvariables_{it} + \varepsilon_{it} \quad (4)$$

The family involvement term accounts for either a family CEO, a family Chairman or the percentage of family members on the board and the other variable accounts for the ownership concentration (PRO).

Our final analysis is related to leverage. Here we wonder whether capital structure decisions are influenced by the nature of ownership, its concentration and family involvement in management. The regressions are as follows:

Family firms:

$$Leverage_{it}=\alpha_0 + \alpha_1 PRO_{it} + \Sigma\alpha_j Controlvariables_{jit} + \varepsilon_{it} \quad (5)$$

Non family firms:

$$Leverage_{it}=\alpha_0 + \alpha_1 (PRO+NFPRO)_{it} + \Sigma\alpha_j Controlvariables_{jit} + \varepsilon_{it} \quad (6)$$

Additionally, we explore how family involvement affects decisions regarding debt levels:

$$Leverage_{it}=\alpha_0 + \alpha_1 Family\ involvement_{it} + \Sigma\alpha_j Controlvariables_{jit} + \varepsilon_{it} \quad (7)$$

3.2. Results

All of our regressions measure the impact of governance variables (mechanisms) on different measures of performance. We include the same control variables in each set of regressions. Two variables are worth to explain from the outset: *age* and *sales*. *Age* is important for two reasons: first of all, older firms are likely to have founder descendants at the helm of the firm. However, it seems that managerial abilities are not inherited; thus, to evaluate the effect of family involvement in firm performance we need to control for firm age. Secondly, older firms tend to be large, enjoying market power that can produce abnormal returns.

The results (see Table 3) show that the market values age positively, while current profitability has a negative relationship to age. This finding illustrates that the market appears to respect seniority, and while survivor firms may have lower current accounting returns, in the end what counts is to stay in business.

Regarding the variable *sales*, we found that the financial market is apparently not attracted to size, even if size means product market power. Although some sale coefficients are positive and significant in regressions of accounting performance, their size is economically too small to infer whether economies of scale or product market power are important determinants of performance.

3.2.1. Ownership Concentration

In Table 3 we explore the effects of ownership concentration on firm performance. To control for differential control and cash flow rights, we include the variable EXCCONTROL. The first regression reports our results for market valuation performance. The second and third regressions, again, report our results for accounting performance. We found that ownership concentration produces an inverted U-shaped effect on M/B. The result is consistent with the ambiguous effect of ownership concentration on firm value, as founded by Mork, Shleifer and Vishny (1988) and Stulz (1988)[10].

At low levels of ownership, higher stakes increase market valuation by aligning the interests of controlling shareholders with those of the rest of the shareholders; however, a further increment of ownership reduces market valuation because the controlling shareholders are less constrained by market forces and become entrenched. Our analysis includes an additional element because we differentiate the effect of ownership concentration when a family is in control.

Here we found that at high levels of family ownership a further increment in ownership hurts market performance more seriously than a similar increment for a non family firm. Two explanations seem plausible for these differential effects: 1) family firms become more risk averse than other types of ownership at high levels of ownership concentration or 2) family firms obtain more private benefits than their counterparts.

[10] Our interpretation is consistent with a close involvement of controlling shareholders in management, which is characteristic of Latin American countries.

There is no evidence of an inverted U-shaped effect of ownership concentration for accounting performance. For return on assets (REBITAT) the effect is unambiguously negative, with no difference between family and non family firms. For return on equity(REBITPAT)the relationship between ownership and performance is positive, but family firms again do worse than non family firms: while an additional 1% of family ownership increases REBITAT by0.035%, the same increment for non family firms increases REBITAT by0.057%.

We consider that our research provides evidence of the negative side of family ownership for high levels of concentration. Indeed, family ownership matches non family ownership in just one regression, while in the other two cases the result is clearly against family ownership.

3.2.2. Family ownership and excess of control

Table 4 looks alternatively for the effect of excess of control, family ownership and family business group ownership. Panel A (first column) reports our results for the market performance measure M/B; panels B and C (second and third columns, respectively) do the same for the accounting performance measures.

Panel A shows that all alternative control mechanisms hurt market performance in an important way. A 1% increment of excess of control reduces market valuation 0.16%, while family firms or firms in family business groups have 21% and 20% respectively; this implies less market valuation for family firms than for non family firms. However, that effect does not translate to accounting performance. In fact, the impact of the three alternative governance mechanisms (excess of control, family ownership and family business group ownership) is positive, and significant in the case of excess of control for both accounting measures.

Together, the results provide evidence against the conventional view of families focusing only on the long term performance of the firm as long as market performance is a proxy for future cash flows. Our results support a vision of families maximizing current profitability, which is likely to be translated into higher dividend payouts.

While the level of tangible assets does not affect market performance, it does affect, negatively, accounting performance, especially the return on equity (Panel C); a 1% percent change in fixed assets divided by total assets (AFAT) is translated into -0.5% return on assets and -0.13% return on equity. The results are consistent with firms with higher levels of tangible assets competing in mature markets with lower returns.

The margin on sales is by far the more influential variable affecting performance: a 1% increment in this variable increases market valuation by 4%, the return on assets by 0.6%, and the return on equity by 1.1%.Clearly, investors agree that charging higher prices (a proxy for market power) or being more efficient translates into higher cash flows now and in the future.

The effect of leverage can be analyzed in two ways: 1) When the dependent variable includes book equity in the denominator (this is the case of panels A and C2) when the dependent variable is the return on assets. In the former case, an increase in leverage increases performance; as a result, an increment of 1% in leverage increases M/B in approximately the same magnitude, while the correspondent increment in the return on equity (REBITPAT) is 0.12%. In the later case, there is a negative relationship between leverage and return on assets; this is consistent with the pecking order theory (Myers, 1984) of more profitable firms having lower levels of debt to reduce the transaction and asymmetric information costs of issuing debt.

3.2.3. Family Management

In Table 5, we address the effectiveness of family management. We do not report ownership concentration and control variables, which have the same behavior as in Table 3 and were discussed previously[11]. The results support the previous conjecture that family ownership, now also expressed as family involvement in management, is generally bad for business. The highest damage of these dummy variables is caused by family CEOs, who reduce market valuation by0.33 units, closely followed by family Chairmen, who reduce market valuation by0.14 units.

If the average M/B is 1.33, a family CEO reduces market valuation by about 25%, implying heavy financial losses. The percentage of family members on the board of directors also produces a negative effect on performance: one extra family member on the board implies a change of 14.3% in the percentage of family members on the board, which translates into a reduction of 0.06 units in market valuation.

Although most of the coefficients for accounting returns are negative just in the more sensitive measure (return on equity), two of the coefficients become significant. Firstly, a family CEO reduces return on equity by 1.1%. Likewise, one more family member on the board, in average, reduces return on equity by 0.2%. While many family businesses will gladly support these accounting losses in exchange for tighter control,

[11]The regressions also exclude the extra variables that analyzed the difference between family and non family ownership (NFPRO and NFPRO2).

our results indicate that more independent board members will improve financial results.

Although we tried to separate founder managers from founder descendant managers in the same way Villalonga and Amit (2006) did, wewere unable to do so due to the lack of data; however, with the average firm being 44 years old, the negative effect of family management on performance is more than likely produced by founder descendants in the same way Villalonga and Amit (2006) report.

3.2.4. Leverage, Ownership and Family Management

Our final results, reported in Table 6, review the effect of ownership concentration on leverage and point out the effectiveness of family management. We find that family firms are more leveraged as ownership concentration increases; the opposite happens for non family firms.

When the CEO or the Chairman is a family member, leverage is higher, in excess of 5.8% for a family CEO and 9.6% for a family chairman. One interpretation for that difference in leverage is that families prefer to keep the ownership in their hands rather than open the firm to outside investors. When family involvement is measured by the percentage of family members on the board, the excess in leverage is lower, around 1%. The difference in leverage with a family CEO or Chairman may indicate that the incentive to reduce outside scrutiny is higher when family involvement is higher.

4. Conclusion

Most of our analyses support the hypothesis that controlling shareholders are entrenched in their firms in order to extract private benefits. Whether or not these benefits are larger than the costs of entrenchment is a difficult issue to disentangle. However, it is clear that external funding will be more difficult for such firms, as this imposes an additional cost that is even more difficult to evaluate, this time in terms of firm size. In the end, it is likely that the costs of family entrenchment will outweigh their benefits, as the corporate governance mechanisms improve. Moreover, large global firms compete directly against local family firms and this increase the pressure for growth, efficiency and better corporate governance and financial performance.

Many firms' owners in emerging markets, who happen to be families or business groups, acknowledge this restriction and are in the process of opening their firms to external capital, despite the fact that these family owners do like to seat strangers in their companies.

Furthermore, we have shown that family management imposes an additional cost on the firms, which suggests that professional outside management could bring benefits to these firms. Thus, it is possible to conclude that less ownership concentration reduces entrenchment by controlling shareholders or families (Maury and Pause, 2004) and minority shareholders can reduce private benefits of controlling shareholders by monitoring their actions.

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Appendix

Firms Included in the Study
All firms are listed in the Lima Stock Exchange; family firms are also identified

#	Name	FamilyFirm
1	AgriBrandsPurina SA	
2	Alicorp SA	X
3	ASEA Brown Boveri SA	
4	Austral Group	
5	Cementos Lima S.A	X
6	Cementos Pacasmayo S.A.A	
7	Agroindustrial Paramonga	X
8	Cerveceria San Juan S.A.A	
9	CIA. Industrial Nuevo Mundo S.A	X
10	Compañía Cervecera del Sur del Peru S.A	
11	Compañía Goodyear del Peru S.A	
12	Compañía Industrial Textil Credisa.Trutex S.A.A	
13	Compañía Universal Textil S.A	X
14	Conductores Electricos Peruano S.A - Ceper	
15	Consorcio Industrial de Arequipa S.A	
16	Construcciones Electromecánicas Delcrosa S.A	
17	Corporación Aceros Arequipa S.A	X
18	Corporación Cerámica S.A	
19	Corporación Jose R. Lindley S.A	X
20	Del Mar S.A	
21	Derivados del Maiz S.A	
22	Embotelladora Latinoamericana S.A	
23	Empresa de la Sal S.A	X
24	Empresa Editora el Comercio S.A	X
25	Empresa Siderúrgica del Peru S.A	
26	Exsa S.A	X
27	Fábrica Nacional de Acumuladores Etna S.A	X
28	Fábrica Peruana Eternit S.A	
29	Filamentos Industriales S.A	X
30	F.I.M.A S.A	X
31	Gloria S.A	X
32	Grupo Sinidicato Pesquero del Perú S.A	X
33	Hidrostal S.A	
34	INCA TOPS S.A	X
35	Indeco S.A	
36	Industria Textil Piura S.A	
37	Industrias del Envase S.A	
38	industrias Electro Químicas S.A-IEQSA	X
39	Industrias Vencedor S.A	
40	Intradevco Industrial	X
41	IQF del Perú S.A	X
42	Kraft Foods Perú S.A	
43	Lapices y Conexos S.A –Layconsa	X
44	Lima Caucho S.A	
45	Malteria Lima S.A	
46	Manufactura de Metales y Aluminio "Record" S.A	X
47	Metalúrgica Peruana S.A	
48	Michell y CIA S.A	X
49	Motores Diesel Andino S.A	
50	Owens- Illinois Peru S.A	
51	PraxairPeru S.A	
52	Quimpac S.A	X
53	Reactivos Nacionales S.A	
54	Sociedad Industrial de Artículos de metal S.A.C.	X
55	Tabacalera Nacional S.A.A	
56	Textil San Cristobal S.A	X
57	Ticino del Peru S.A	
58	Union de Cervecerias Peruanas Backus y Johnston S.A.A.	
59	Yura S.A	X

Table 1. Definition of Variables

Financial	
LNVT	Log of sales
LEV	Ratio of liabilities on total assets
EBITVTAS	Ratio of operating income (EBIT) on sales
Performance	
M/B	(Number of ordinary shares * Market value of ord. shares + Number of investment shares * Market value of inv. Shares)/Book value of equity
REBITAT	Ratio of operating income (EBIT) on total assets
REBITPAT	Ratio of operating income (EBIT) on book equity
Governance	
LNAGE	Log of number of years between the foundation and 2005
PRO and PRO2	Percentage of shares owned by the controlling shareholder and its square
NFPRO and NFPRO2	0 if the firm is a family firm, PRO and PRO2 if the firm is a non family firm
PJDFAM	Percentage of family members in the firm's board
EXCCONTROL	Ratio of percentage of votes on percentage of ownership, for the controlling shareholder or group
GEMPFAM	Dummy, 1 if the firm is part of a family business group, 0 otherwise
EMPFAM	Dummy, 1 if the firm is a family firm, 0 otherwise
CEOFAM	Dummy, 1 if the firm's CEO is a family member, 0 otherwise
CHFAM	Dummy, 1 if the firm's Chairman is a family member, 0 otherwise

Table 2a. Descriptive Statistics of Sample Data

Variable	Obs	Mean	Std. Dev.	Min	Max
M/B	296	1.33	1.64	0.03	12.15
REBITAT	400	7.5%	7.6%	-15.9%	40.7%
REBITPAT	400	13.5%	22.2%	-260.3%	120.6%
AFAT	400	45.45%	18.07%	2.58%	87.20%
LEV	400	45.97%	20.00%	9.05%	127.20%
SALES	400	68,332	106,566	2,015	573,209
AGE	413	44.14	30.39	7	166
EBITVTAS	400	9.99%	10.41%	-28.40%	50.12%
PRO	367	59.18%	26.19%	7.49%	99.83%
EXCCONTROL	362	1.28	0.53	1.00	6.72
CEOFAM	413	18%	38%	0	1
CHFAM	413	39%	49%	0	1
PDJFAM	413	23%	32%	0	1
EMPFAM	413	44%	50%	0	1
GEMPFAM	413	29%	45%	0	1

Table 2b. Correlation between Variables

Correlations for the main variables are presented based on 274 observations.

	M/B	REBITAT	REBITPAT	AFAT	LEV	SALES	AGE	EBITVTAS	PRO	EXCCONTROL	CEOFAM	CHFAM	PDJFAM	EMPFAM
REBITAT	0.23													
REBITPAT	0.10	0.56												
AFAT	(0.09)	(0.17)	(0.15)											
LEV	0.11	(0.39)	(0.05)	0.21										
SALES	(0.00)	0.04	0.02	0.14	0.03									
AGE	0.07	0.03	0.02	(0.09)	(0.06)	0.20								
EBITVTAS	0.26	0.86	0.59	(0.00)	(0.24)	0.08	0.07							
PRO	0.14	0.08	0.18	(0.10)	(0.00)	(0.26)	(0.11)	0.08						
EXCCONTROL	(0.09)	0.08	0.00	(0.08)	(0.11)	(0.08)	0.20	(0.03)	(0.30)					
CEOFAM	(0.12)	0.05	0.03	(0.19)	0.01	(0.08)	(0.05)	(0.00)	0.09	0.14				
CHFAM	(0.09)	0.02	0.03	0.13	0.17	0.03	0.04	0.07	0.01	0.12	0.47			
PDJFAM	(0.10)	0.08	0.05	(0.04)	0.05	0.03	0.01	0.10	0.06	0.16	0.67	0.80		
EMPFAM	(0.11)	0.02	0.03	0.10	0.15	0.05	(0.02)	0.06	(0.03)	0.12	0.49	0.93	0.83	
GEMPFAM	(0.12)	(0.02)	0.02	0.10	0.17	0.17	0.04	0.01	(0.04)	0.00	0.01	0.64	0.59	0.71

Table 3. Ownership Concentration and Performance

The dependent variables are market performance and operating accounting performance. The table reports the results of GLS panel regressions corrected for a heteroskedastic error structure with no cross-sectional correlation. The panel consists of public Peruvian firms covering seven years (1999-2005). Variables are defined in Table 2. All regressions include unreported year dummies. The number of firm-year observations, the regression Log Likelihood and the Wald statistics are also reported. Z statistics are reported in parentheses. Asterisks are associated with p-values (p< 0.1:*, p<0.05:**, p<0.01:***).

	M/B		REBITAT		REBITPAT	
	Coef.					
	z					
PRO	4.703	***	-0.011	***	0.035	**
	(5.34)		(-2.81)		(2.44)	
PRO2	-4.907	***				
	(-5.49)					
NFPRO	-1.111	*			0.022	**
	(-1.86)				(2.42)	
NFPRO2	2.186	***				
	(2.67)					
EXCCONTROL	-0.023		0.011	***	0.014	**
	(-0.3)		(3.02)		(2.3)	
AFAT	0.121		-0.048	***	-0.147	***
	(0.4)		(-8.47)		(-7.08)	
EBITVTAS	3.388	***	0.634	***	1.173	***
	(6.39)		(45.11)		(29.33)	
LEV	1.407	***	-0.058	***	0.138	***
	(4.5)		(-9.22)		(7.06)	
LNVT	0.001		0.002	**	0.000	
	(0.01)		(2.5)		(-0.21)	
LNAGE	0.164	***	-0.003	**	-0.009	**
	(3.38)		(-2.48)		(-1.99)	
CONSTANT	-1.180	*	0.058	***	0.014	
	(-1.94)		(5.04)		(0.44)	
Observations	274		355		355	
Wald	167.4	***	2952.5	***	1085.6	***
LL	-317.1		832.7		499.1	

Table 4. Mechanisms of Governance and Performance

The dependent variables are market performance (Panel A, first column) and operating accounting performance (Panels B and C). The table reports the results of GLS panel regressions corrected for a heteroskedastic error structure with no cross-sectional correlation. The panel consists of public Peruvian firms covering seven years (1999-2005). Variables are defined in Table 2. All regressions include unreported year dummies. The number of firm-year observations, the regression Log Likelihood and the Wald statistics are also reported. Z statistics are reported in parentheses. Asterisks are associated with p-values (p< 0.1:*, p<0.05:**, p<0.01:***).

	M/B						REBITAT						REBITPAT					
	Coef.		z															
EXCCONTROL	-0.165	*	(-1.75)				0.013	***	(4.)				0.011	**	(2.24)			
EMPFAM			-0.219	***	(-2.73)				0.002		(0.85)				0.003		(0.46)	
GEMPFAM					-0.206	**	(-2.58)				0.004		(1.64)				0.004		(0.6)
AFAT	-0.036		(-0.14)		0.094		(0.35)		0.172		(0.69)		-0.047	***	(-7.77)		-0.053	***
EBITVTAS	4.389	***	(8.72)		4.008	***	(8.54)		4.087	***	(8.7)		0.635	***	(45.76)		0.595	***
LEV	0.867	***	(3.21)		1.050	***	(3.62)		0.936	***	(3.36)		-0.059	***	(-9.25)		-0.055	***
LNVT	-0.064	*	(-1.88)		-0.070	***	(-2.62)		-0.032		(-1.03)		0.001	*	(1.71)		0.000	
LNAGE	0.113	**	(2.4)		0.106	**	(2.59)		0.137	***	(3.22)		-0.003	**	(-2.34)		-0.001	
CONSTANT	0.906	*	(1.84)		0.915	***	(2.65)		0.342		(0.87)		0.052	***	(4.93)		0.076	***
Observations	274				296				296				355				400	
Wald	113.0	***			127.5	***			117.5	***			2986.7	***			2629.1	***
LL	-330.2				-364.5				-362.1				833.0				903.0	

	REBITAT				REBITPAT			
EXCCONTROL								
EMPFAM								
GEMPFAM								
AFAT	-0.054	***	(-8.66)		-0.125	***	(-6.17)	
EBITVTAS	0.594	***	(43.02)		1.164	***	(31.63)	
LEV	-0.055	***	(-8.)		0.126	***	(6.41)	
LNVT	0.000		(-0.26)		0.001		(0.59)	
LNAGE	-0.001		(-0.98)		-0.007		(-1.58)	
CONSTANT	0.080	***	(7.74)		0.026		(0.92)	
Observations	400				355			
Wald	2616.9	***			1167.6	***		
LL	904.3				512.1			

	REBITPAT			
EXCCONTROL				
EMPFAM				
GEMPFAM				
AFAT	-0.131	***	(-6.71)	
EBITVTAS	1.152	***	(31.17)	
LEV	0.129	***	(6.66)	
LNVT	0.002		(0.97)	
LNAGE	0.002		(0.37)	
CONSTANT	0.007		(0.24)	
Observations	400			
Wald	1170.2	***		
LL	554.3			

	REBITPAT			
EXCCONTROL				
EMPFAM				
GEMPFAM				
AFAT	-0.131	***	(-6.77)	
EBITVTAS	1.153	***	(31.2)	
LEV	0.127	***	(6.68)	
LNVT	0.002		(0.8)	
LNAGE	0.002		(0.35)	
CONSTANT	0.010		(0.36)	
Observations	400			
Wald	1173.7	***		
LL	553.8			

Table 5. Family Management and Performance

The dependent variables are market performance and operating accounting performance. The table reports the results of GLS panel regressions corrected for a heteroskedastic error structure with no cross-sectional correlation. The panel consists of public Peruvian firms covering seven years (1999-2005). Variables are defined in Table 2. All regressions include unreported control variables (PRO (PRO2 for panel A), EXCCONTROL, AFAT, EBITVTS, LEV, LNVT, LNAGE) and year dummies. The number of firm-year observations, the regression Log Likelihood and the Wald statistics are also reported. Z statistics are reported in parentheses. Asterisks are associated with p-values (p< 0.1:*, p<0.05:**, p<0.01:***).

	Panel A. M/B			Panel B. REBITAT			Panel C. REBITPAT		
	Coef.			Coef.					
	z			z					
CEOFAM	-0.337 ***			-0.003			-0.011 *		
	(-3.25)			(-0.83)			(-1.71)		
CHFAM		-0.145 *			0.002			-0.008	
		(-1.94)			(1.09)			(-1.4)	
PJDFAM			-0.447 ***			-0.003			-0.02 **
			(-3.7)			(-0.71)			(-2.18)
Observations	274	274	274	355	355	355	355	355	355
Wald	135.2 ***	133.2 ***	158.1 ***	2828 ***	2685 ***	2575 ***	1263 ***	1109 ***	1101 ***
LL	-323	-325.2	-320.4	827	828.4	820.5	509.9	507.2	504.6

Table 6. Leverage and Ownership Concentration

The dependent variable is leverage. The table reports the results of GLS panel regressions corrected for a heteroskedastic error structure with no cross-sectional correlation. The panel consists of public Peruvian firms covering seven years (1999-2005). Variables are defined in Table 2. All regressions include unreported year dummies. The number of firm-year observations, the regression Log Likelihood and the Wald statistics are also reported. Z statistics are reported inparentheses. Asterisks are associated with p-values (p< 0.1:*, p<0.05:**, p<0.01:***).

Dependent Variable	LEVERAGE									
	Coef. (z)									
PRO	1.27E-01 (4.91)	***								
NFPRO	1.58E-01 (-7.43)	***								
CEOFAM			5.85E-02 (3.91)	***						
PJDFAM					1.05E-01 (6.12)	***				
CHFAM							9.69E-02 (7.9)	***		
EXCCONTROL									-1.18E-02 (-0.78)	
M/B	2.98E-02 (5.19)	***	3.61E-02 (7.0)	***	3.32E-02 (6.65)	***	3.24E-02 (6.27)	***	2.65E-02 (4.99)	***
AFAT	1.93E-01 (4.72)	***	1.81E-01 (4.28)	***	1.63E-01 (3.98)	***	1.49E-01 (3.68)	***	1.36E-01 (3.17)	***
EBITVTAS	-7.79E-01 (-10.95)	***	-7.15E-01 (-9.66)	***	-7.59E-01 (-10.56)	***	-6.94E-01 (-9.53)	***	-7.82E-01 (-10.05)	***
LNVT	3.68E-02 (10.08)	***	-3.45E-02 (10.22)	***	2.92E-02 (9.05)	***	2.29E-02 (5.5)	***	3.37E-02 (9.86)	***
LNAGE	1.81E-02 (-2.21)	**	-4.82E-03 (-0.62)		-1.32E-02 (-1.74)	*	-1.67E-02 (-2.38)	**	-8.56E-03 (-1.02)	
CONSTANT	1.83E-03 (0.03)		-7.51E-03 (-0.14)		8.56E-02 (1.91)	*	1.48E-01 (2.77)	***	5.70E-02 (1.02)	
Observations	276		296		296		296		274	
Wald	308.39	***	220.08	***	251.46	***	242.85	***	207.06	***
LL	183.04		185.67		188.08		188.78		173.56	