

OWNERSHIP STRUCTURE AND FINANCIAL PERFORMANCE OF SMALL FIRMS IN SPAIN

Ntoug A. T. Liou*, Carlos Ferro Soto*, Ben C. Outman*

*University of Vigo, Pontevedra, Spain

Abstract

Ownership structure in companies are key to the performance, however, gaps still exist in the knowledge about the characteristics of ownership with financial performance. This study provides empirical evidence of the characteristics of ownership structure on firm's performance. It examines 254 small and unlisted firms from the SABI database over the period 2000 to 2014. Using panel regression, the findings show that companies with family having majority ownership are more profitable and the market value such companies. The findings indicates that over performance of most firms depends on certain characteristics of their ownership. Companies with active founders perform better companies with passive founders. No significant relationship was found with respect to CEO or Chairman as founders. The presence of another block holder of ownership less than 5% is positive and significantly associated with the firm's performance.

Keywords: Ownership Structure, Active and Passive Founder, Financial Performance

1. INTRODUCTION

The importance of family businesses in the economy is unquestionable. According to the most conservative estimates, between 65% and 80% of companies worldwide are owned by one or more families, or directed by them (Miller et al. 2007; Villalonga and Amit 2009). They estimate that about 70%-90% of GDP and 50-80% of jobs, annually, are created by family ownership (IEF, 2015). Moreover, 85% of start-up companies worldwide have a family background origin. Thus, understanding the peculiarity surrounding the characteristic of family ownership lay the foundation for the changing economy phenomenon cause by family firms around the globe. Recent studies on the family ownership literature have compared the characteristics and performance of family firms to those of non-family firms due to the classical agency problem.

Other studies contribute to the existing body of knowledge by illustrating that a large number of listed firms do not have a widely dispersed ownership structure in most financial markets. And that these firms have in general individual or collective ownership that can be classify as families, other industrial or financial companies or the states. Related to this view, family firms tend to be more dominant ownership among the other type of ownership. According to Demsetz (1983) and Himmelberg et al (1999) and Demsetz and Villalonga (2001) companies' choice on the level of ownership are based on minimizing agency cost rather than the influencing the firm value. Thus, this perspective on ownership structure provokes a critical analysis on the impact of family ownership structure on corporate performance.

Some empirical authors argue that families that have a strong ties to the firms, the firm is managed with a much longer time horizon, are more profitable and have a higher market value than non-family companies. Jensen and Meckling (1976) claim that the family ownership might be a way to resolve

the issue of agency problem arising between shareholder and their managers, because, the controlling shareholder who is the founder monitor work better (and managers worker harder) as the fractional stake increase when they get to keep more of the fruits of their labor. The presence of the controlling shareholder minimizes the possibility of classical conflict of interest between the founder and the managers, and thus reduces agency costs. As oppose to non-family firm or widely held firm which are entitled to a manager with the interest to maximize his own private benefits. However, as ownership becomes more concentrated, controlling shareholder may engage in undesirable behavior at the expense of the minority shareholders. This attitude of controlling shareholder can leads to agency cost of type II.

In most cases, investors will prefer taking minority ownership in countries where shareholders' rights are protected, contrary to a country where the legal framework fail to provide sufficient shareholders' protection, investors will prefer to act as a controlling shareholders in the firms. With respect to the above mentioned, the setting of ownership structure remains uncertain as to whether a greater control right of the controlling shareholder to exhibit undesirable behavior at the expense of the minority shareholders or the manager's ability to maximize his own private utility at the expense of the shareholders is more preferable. Moreover, research evidence over the years using sale growth, productivity and profitability as common measures for performance in both family and non-family ownership have demonstrated very different results. Specifically, non-family ownership has higher performance than family business in term of sales growth and productivity, contrary in term of profitability (Binder and Hamlyn 1994). Similarly, Westhead and Cowling (1997) used the same variables and they found no statistical significant relationship with performance, meanwhile, very little statistical significant

difference was found between performance and sale growth.

Furthermore, prior studies have provided evidence that the agency perspective affect the performance of a company (Jensen and Meckling, 1976; Morck et al. 1988; Denis et al. 1997; Ang et al. 2000). These studies argued that the different forms of ownership control of the shares, and its connection with the management of the company are factors that influence the performance of the company. However, other authors used financial derivative to conclude that the degree of profitability and growth of most family businesses depends on their financial strategies (Binder and Hamlyn, 1994; Westhead and Cowling, 1997; Ganderrio 2002; Anderson and Reeb, 2003).

Empirically, prior studies conducted in Spain provides evidence of effects in performance of family firms. The Spanish family business is of great interest, since the largest family businesses in some of the major sectors of the economy are Spanish, as reflected in the Top 500 global family companies with higher income, according to the index developed by the Centre for Family Business at the University of St.Gallen, In Spain, approximately 90% of the Spanish companies are considered family business, which contributed approximately 60% of the GDP of the country and two-third of the total employment. These percentages differ depending on the size of companies, being remarkable the lower weight of family businesses in the segment of the largest. Also, the work force employed by these family companies represent 70% of the total private employment (IEF, 2015).

This study provides empirical evidence of the characteristics of ownership structure on financial performance. It examines 254 small and unlisted firms from the SABI database over the period 2000 to 2014. Based on the some specific characteristic of Spanish firms, we incorporate the influence of the degree of concentration of ownership. We further consider the presence of generational succession and incentive policy relating to the performance of family business.

The Spanish sample reveals some properties of continental European country, as a consequence its formation is different from the Anglo Saxon with relating studies. We collected data from the SABI database over the period 2002 to 2014. The findings show that companies with family having majority ownership are more profitable and the market value such companies. The findings indicate that over performance of most firms depends on certain characteristics of their ownership. Companies with active founders perform better companies with passive founders. No significant relationship was found with respect to CEO or Chairman as founders. The presence of another blockholder of ownership less than 5% is positive and significantly associated with the financial performance. Our findings are consistent with Daily and Dollinger (1992), Sraer and Thesmar (2007), Anderson and Reeb (2003).

This article is structured as follows: in the first section we review the literature of about family business performance, ownership structure in family business, in listed and no listed companies, and impact in performance of incentive policy, as the same time as some testable hypotheses are formulated. Third section provides information

about the sample and discusses the methodology used in this article. In the fourth section the empirical results are presented. In the five section, we present conclusions of the research study.

2. LITERATURE REVIEW

Empirical studies on the field of ownership structure have attained a significant number of articles in which performance of family firms is compared with those of non-family. The focus of most studies measured performance by using ratios such as Tobin's Q, return on assets, productive and return on equity; whereas ownership structure of firms are based on the percentages of voting rights of the various parties, founders or descendants being active in the firm, the presence of other blockholder in the family and whether the founder or descendants are CEO or Chairman of the firm. The genesis of ownership structure can be traced back to Jensen and Meckling (1976).

Jensen and Meckling (1976) claim that separation between ownership and control can incur important costs and problems to shareholders. Their classical agency problem suggests that one way to resolve the conflict of interest between shareholders and managers is to increase the proportion of share in the hand of the controlling shareholder. In the light of the above, minority shareholders are victimised as ownership becomes more concentrated, controlling shareholders tend to engage in undesirable behaviours. In a similar way, Schulze et al. (2001) examine the consequences of altruism concept and pay of incentives by controlling shareholder, and their influence in the level family firm's performance. They affirm that family firms with concentrated ownership are more exposed to agency danger. Chrisman et al. (2004) conclude that agency cost affect performance of family business. Researches in Austria, Italy and Portugal show a positive and significant relationship between incentive and performance (Bryson et al 2011).

Demsetz (1983) use a sample of 50 US listed firms from the Fortune 500 over the period 193 and 1974 conclude that companies' choice of ownership concentration is to minimize the agency cost and that concentration ownership does not have an influence on firm value. La Porta et al (1998) add that the mean ownership of the controlling shareholder is approximately 46% over the sample of 49 countries. Meanwhile, over the sample of 27 world richest countries at 10% cut-off ownership rate, 52% of medium firms are owned by individual or families (as opposed to 10% dispersed ownership). Also, Anderson and Reeb (2003) provide evidence that the ownership of firms in the S&P 500 are predominantly family of approximately 35% of dispersed ownership as opposed to the widely accepted view of other researchers. They conclude that family business in first generation in the hands of the founder is most efficient due to the fact higher profit and higher market value is common characteristics of such company unlike the case for non-family.

Villalonga and Amit (2006) extend the research done by Anderson and Reeb (2003) and their results suggest that firms with active founder as CEO or Chairman outperform family firms with

descendants as CEO or Chairman. They claim that firms' performances are mostly affected negatively by ownership and control mechanisms such as cross-holdings, pyramidal structure or dual-class share. Finally, their findings suggest that these characteristics of family firms do influence their performance. In Europe, Barontini and Caprio (2006) provide similar evidence to those of Villalonga and Amit. According to them, family firms with founder or descendants as CEO or Chairman outperform other firms; however, family firms with founder as CEO outperform family firms with descendants as CEO. Also, if no member of the family is involved in the management (passive), and then the firms perform worse.

Corresponding to Sraer and Thesmar (2007), two third of the firms in the French stock exchange over the period 1994 to 2000 are family held. Using ROA, ROE and growth in sales as accounting measure of performance they conclude that family firms outperform non-family firms. They argue that the over-performance of the family firms over all the various management is due to fact that founders simply have larger productivity. Binder and Hamlyn (1994) analysed the sale growth, productivity and profitability as common measures for performance in both family and non-family business. Specifically, their results shows that non-family firms have higher performance than non-family firms in term of sales growth and productivity, however, in term of profitability, result show no significant effect on performance for both family and non-family business. With respect to the size of the firms, using small size firms,

Daily and Dollinger (1992) conclude that small family businesses have better performance to small non-family businesses, in term of sales growth and profitability. Meanwhile, Leach and Leahy (1991) apply similar study on large firms and found that a greater degree of control by the family has a positive effect on performance. Thus, larger companies with greater proportion of ownership by the family have better financial ratios, particularly with regard to sales growth, asset growth, profits as well as the rate of return to shareholders. Ganderrio (2002) contrasts the hypothesis of a better long-term performance of family businesses using financial ratios such as return on equity (ROE), thus, obtaining higher equity / debt ratio, and lower equity to assets ratio, meaning that these results stem from the fact that non-family businesses more easily access the market.

In Spain, approximately 90% of the Spanish companies are considered family business, which contributed approximately 60% of the GDP of the country and two-third of the total employment. These percentages differ depending on the size of companies, being remarkable the lower weight of family businesses in the segment. Also, the work force employed by these family companies represents 70% of the total private employment (Instituto de la Empresa Familiar 2015). Lastly, we argue that Spanish family firms are of great interest, due to the fact that very little empirical evidence have been provide about the ownership structure and performance of family firms. Therefore it is the aim of this study to provide an empirical analysis on how family ownership affects the market and accounting performance of Spanish listed Firms over the period 2008 to 2014.

2.1. Hypotheses formulation

It is the aim of this study to provide an empirical analysis on how ownership structure affects corporate performance of Spanish listed firms over the period 2000 to 2014. This leads to the *first hypothesis* which state:

H₁: Ownership of firm significantly enhance financial performance.

Following the premise of *hypotheses 1* our analysis will bias if we no further consider that the over performance firms may be due to some ownership characteristics, especially their involvement in the day to day management of the company. That is, it enable us to investigate if the family members themselves are responsible for the over performance of the firms. This leads to the *second hypothesis* which state:

H₂: Ownership characteristic have a positive and significant association with financial performance.

We can conclude that the ownership characteristics business do add value to companies, thus reducing the agency cost of type I. However, as ownership structure get more concentrated, controlling shareholder may involves in undesirable behaviour at the expense of other minority shareholder, thus enhancing the agency cost of type II. The controlling shareholder can extract private benefits from his company at the expense of other because he has absolute power over the company and the minority cannot easily defence themselves. An effective way to reduce agency cost of type II is by examine the second large shareholder to equalize some of the power of the controlling shareholder and prevent the undesirable behaviour of private interests. *This leads to the third hypothesis which state:*

H₃: The presence of another blockholder is positive and significantly associated with financial performance.

3. METHODOLOGY

3.1. Empirical model

To examine the relationship between firm performance (Tobin's Q and ROA-EBIT, ROA-EBITDA) and ownership structure control, we apply a two-fixed effect model with each industry and each year is considered as dummy. The regression equation is illustrated as follows:

$$\text{Firm performance} = \alpha_0 + \alpha_1 (\text{Ownership structure}) + \alpha_2 (\text{control variable}) + \alpha_3 (\text{year dummy}) + \alpha_4 (\text{CNAE 2009 industry code}) + \varepsilon \quad (1)$$

Where firm performance = Tobin's Q and return on asset with EBIT and EBITDA as numerators; family firm takes dummy equals 1 when a firm is a family firm or zero otherwise; control variable refers to size (logarithm of total assets), leverage (total book value of debt/common shareholders' equity), investment intensity (capex/PPE), age (logarithm of the date of establishment), and return volatility (standard deviation of monthly returns), growth opportunities (increase in one-year sales); industry dummy: equaling 1 as dummy for each CNAE 2009 classification code; year dummy equals 1 for each year considered in the analysis.

Furthermore, to correct the presence of heteroskedasticity and serial correlation in the data, we employ the Huber-White Sandwich estimator for variance. One important observation concerning the Tobin's Q is that sometime the value are extremely high which might cause our dependent variable possess some features of outliers. To correct this, we considered the logarithm of Tobin's Q.

3.2. Data

In this section we examine the ownership structure and market and accounting performance of unlisted family business using data constructed based on the Iberian Balance sheet Analysis System (SABI) of the Bureau Van Dijk, containing detailed financial information on more than 2000,000 Spanish businesses. Next, we employ the CNAE 2009 classification code excluded all financial and utilities firms using the industry classification CNAE 64-66; CNAE 84; CNAE 94; CNAE 97-99. The reason for the exclusion of firms in these industries is due to the fact that firms are strongly regulated and influence by the government. We also excluded all firms with incomplete accounting information. Complete ownership and financial statement information was available for 490 of the 534 companies. Using a criterion of total sales between 700.000 euros and 8.000.000 euros; total assets between 350.000 to 4.000.000 euros and finally, total number of employees ranging from 10 to 49, we found that 254 of the 534 companies could be classified as small and not listed. Our final sample consists of 254 firms and 3810 firm-year observations listed in the Madrid Stock Exchange over the period 2000 to 2014.

3.3. Variables measurement

3.3.1. Dependent variables - performance

Market performance is measured using the Tobin's Q, which is (market value of common equity plus book value of total assets minus book value of common equity) divided by book value of total assets. This is consistent with Anderson and Reeb (2003).

Accounting performance is measured using the return on assets. To calculate return on asset, we employ ROA (EBIT) as Earnings before Interest and Taxes divided by total assets as well as ROA (EBITDA) as Earnings Before Interest Taxes, Depreciation and Amortization divided by total assets. This is consistent with Sraer and Thesmar (2007), Villalonga and Amit (2006), Daily and Dollinger (1992), Binder and Hamlyn (1994).

3.3.2. Independent variables - ownership structure

The criteria used for the ownership structure of firms in Spain are based on Iberian Balance sheet Analysis System (SABI). These criterions focus on the holding of a shareholder ultimate voting rights across these firms which differs from the ultimate cash flow rights. In cases where information was available about the ownership structure of a company, we search this property directly on the company websites. Family firms in Spain were classified through the aid of the BvD independence indicator available in SABI. The BvD independence indicator has 5 levels such as "A", "B", "C", "D" and "U". According to SABI, Independent Indicator "A", denotes that a company is said to be independent if

the shareholder must be independent by itself (i.e no shareholder with more than 25% of ownership of ultimate voting rights); whereas Independent Indicator "B" is when no shareholder with more than 50% but exist one shareholder with voting rights between 25.1% to 50%. For a company to be classified with Independent Indicator "C", the company must have a recorded shareholder with a total or a calculated ownership of 50.1% or higher, whereas a company is classify with "D" when a recorded shareholder with a direct ownership of over 50% with branches and foreign companies.

Independent Indicator "U" is applied when a company does not fall into the categories "A", "B", "C" or "D". Based on the above features and prior studies, a company with a shareholder having more than 25% is classified as family while firms with no shareholder with more than 25% is classified as widely held firms. This threshold of 25% allow shareholder to have significant influence on the firm. Therefore firms categorized with "A" are widely held firms while firms in "B", "C", "D" are family firms. Our next criteria for family is that in a family firm an individual or a family must be the largest shareholder and be categorized in "B", "C", and "D". Individual must be part of the founding family. If this is not the case, the controlling shareholder must have had the largest percentage of ultimate voting right over a long horizon.

We eliminated firms under the category "U". Also, we incorporate the information relating to family management. We check for the name of the CEO, Chairman, and board members, and if they are family member with a daily participation in the management of the family firm. This information is very important because it helps us to check the performance of family firm with active owners verse passive owners. We considered another type of blockholders such as widely held corporation and widely held financial shareholders. A miscellaneous category pools all firms with blockholders that don't represent any of the categories above meanwhile firms with government as shareholders were eliminated due to the limited number.

3.3.3. Independent variables - control variables

To control for certain industry and firm-specific characteristics, we employ variable such as firms size measured as the logarithm of total assets, leverage is measure as total book value of debt/common shareholders' equity, investment intensity is capex/PPE, age defined the logarithm of the date of establishment, industry is defined according CNAE 2009 classification code, return volatility is the standard deviation of monthly returns, growth opportunities as increase in one-year sales.

4. EMPIRICAL ANALYSIS

4.1. Descriptive statistics

Table 1 shows that 69.68% of firms are classified as family firms, of which 41.34% are managed by founder, 22.05% are managed by heirs and 0.06% by outside CEO. However, 47% of the observations are classified as non-family firms. Across industries, our findings show that on average family firms have an involvement of 71% of all industries that make up the Spanish economy.

Table 1. Number and percentage of firm-years observation for ownership type

CNAE 2009 Code	Industry description	All firms	Widely Held	Family Firm	Founder	Heir	Outside CEO	Family Firm in Industry (%)
6920	Accounting services	50	15	35	20	8	7	70%
7400	Air Transport	0	0	0	0	0	0	0%
3111	Casting, iron and steel manufacturing	0	0	0	0	0	0	0%
2420	Cement	0	0	0	0	0	0	0%
5014	Construction	28	11	17	10	5	2	61%
9212	Dustman	1	0	1	0	0	1	100%
5041	Television, radio and phone	13	0	13	8	5	0	100%
6400	Food, beverage, Tobacco	9	2	7	6	1	0	0%
2464	Glass fiber	4	2	2	1	1	0	50%
3111	Engineering Machinery	5	2	3	1	0	1	77%
6810	Hotel and model service	23	4	19	9	10	0	79%
5014	Medical equipment	3	2	1	1	0	0	33%
3299	Chemicals	3	3	0	0	0	0	0%
4239	Other Miscellaneous foods	2	1	1	1	0	1	50%
2542	Pharmaceutical product	29	10	19	11	8	0	65%
4251	Wine and grape	5	2	3	1	1	1	100%
9362	Medical Research	2	1	1	1	0	1	50%
4112	Oil and gas production	1	1	0	0	0	0	0%
5014	Other Service	52	14	38	28	10	0	73%
1515	Electricity	3	2	1	0	0	0	33%
4534	Outerwear	2	0	2	1	1	0	100%
4721	Paper and board	1	0	1	0	1	0	100%
3811	Railway and tramway	0	0	0	0	0	0	0%
8330	Real estate	15	4	11	8	4	2	63%
8494	Security services	0	0	0	0	0	0	100%
7112	Technical Engineer and architectural	0	0	0	0	0	0	50%
7600	Telecommunication	1	1	0	0	1	0	50%
4112	Olive oil production	1	0	1	0	0	0	100%
1515	Electricity	0	0	0	0	0	0	100%
5041	Electrical television and Phone	1	0	1	0	0	0	100%
	Total	254	77	177	105	56	16	53%

Note: family is defined as an individuals or families holding more than 25% of voting right. A 25% ownership level is also used for the remaining ownership types. Widely held firms do not have any shareholder holding 25% or more of voting rights (SABI of the Bureau Van Dijk). The overall sample contains 3810 firm-year observations taken from 254 listed firms for the period 2000 to 2014

Source: Authors elaboration

Table 2 summarizes the descriptive statistic for all the variable used in the study. Tobin's Q for the sample firms is 0,321 while return on assets with EBIT and EBITDA as numerators are 0,91% and 0,28% respectively. With respect to the control variables,

the average age of firms examines is 15 while firms have an average size of 1,532 million euros. For the ownership variables, on average 1,94 family firms have family Chairman while 2,45 have a family CEO and 4,89 have both a family CEO and Chairman.

Table 2. Descriptive statistics of the sample

	Minimum	Maximum	Mean	Standard Deviation
Tobin's Q	0,00	5,32	0,32	0,86
Return on assets (EBIT) (%)	2,31	12,40	0,91	51,92
Return on assets (EBITDA) (%)	4,68	0,95	0,28	0,21
Family firm	0,00	1,00	0,31	0,50
Non-family firm	0,00	1,00	0,21	0,50
Family Chairman	0,00	1,00	1,94	0,35
Family CEO	0,00	1,00	2,45	0,43
Family CEO and Chairman	0,00	1,00	4,89	0,30
Sale Growth (%)	6,38	37,29	11,21	72,13
Capital expenditure/PPE	13,23	98,,56	21,30	48,32
Total debt / shareholder's equity	2,36	29,71	8,15	13,59
volatility	0,00	0,00	0,00	0,00
Firm size (total assets 000 euros)	350,00	3981,71	1532,35	4321,05
Age (Years of Establishment)	10	48	15	31

Note: the variable for the analyzed sample of 254 firms and 3810 firm-year observations includes Tobin's Q, return on assets, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. Family firm denotes a dummy taking the value 1 if the firm has a family or individual with 25% or more voting rights, Family CEO, Family Chairman, and Family CEO and Chairman indicates a dummy equaling 1 if a family member is CEO, Chairman, CEO and Chairman, respectively in a family firm. According to SABI, Non-family are those with no shareholder has at least 25% of voting rights

Source: Authors elaboration

Table 3 shows that return on asset EBIT and EBITDA as numerator are highly significant for both family and non-family firms. However, the return on assets (EBIT) is highly significant for family meanwhile the difference of mean for return on assets (EBITDA) is relatively equal for both family and non-family. The difference of mean for Tobin's Q is found non-significant between family and non-

family firms. Family firms have significantly less volatile share prices and takes on less debt. Also family firms have significant lower investment propensity and maintain a long term outlook than non-family. Even though the difference of mean for size is not significant, our finding shows that family firms are smaller than their counterpart firms.

Table 3. Tests of difference of means between family and non-family firms

	<i>Family Firms</i>	<i>Non-Family Firms</i>	<i>t-stat</i>
Tobin's Q	1,23	0,156	0,063**
Return on assets (EBIT) (%)	1,07	0,293	0,839***
Return on assets (EBITDA) (%)	2,34	0,252	1,032**
Family_Chairman	0,136	0,000	0,912**
Family_CEO	0,729	0,000	0,563**
Family_CEO_Chairman	0,136	0,000	0,218**
Sale Growth (%)	66,048	56,382	0,811
Capital expenditure/PPE	-11,005	-9,892	0,015**
Total debt / shareholder's equity	149,557	274,703	0,061**
volatility	0,004	0,082	0,122
Firm size (total assets 000,000 euros)	2723,929	3475,724	0,297
Age (Years of Establishment)	54,553	49,756	0,000***
Firm-year observations	427	385	
Firms	177	77	

Note: the variable for the analyzed sample of 254 firms and 3810 firm-year observations includes Tobin's Q, return on assets, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. Family firm denotes a dummy taking the value 1 if the firm has a family or individual with 25% or more voting rights, Family CEO, Family Chairman, and Family CEO and Chairman indicates a dummy equaling 1 if a family member is CEO, Chairman, CEO and Chairman, respectively in a family firm. According to SABI, Non-family are those with no shareholder has at least 25% of voting rights. ***, **, * illustrate the significance at the 1%, 5%, 10% level respectively

Source: Authors elaboration

4.2. Regression results

4.2.1. Financial performance and ownership

Analyzing Table 4a shows that the corporate performance of family firms outperform non-family firms. Specifically, column 1, 3 and 5 shows that both the market measure (Tobin's Q) and accounting measure for performance EBIT and EBITDA as numerator are statistically significant at the 5% level. However, higher coefficients are associated with the accounting measures than market measure. This indicating that companies that family have total control are more profitable than those market favor firms that the family does not have total ownership. In addition, columns 2, 4, and 6 show the difference percentage of ownership of family firms are statistically significant at the 5% level. However, the Independent Indicator "C" significantly outperform the Independent Indicator "B" and "D" for ROA (EBIT) and ROA (EBITDA). This indicates that family firm with a total or a calculated ownership of 50.1% or higher are more profitable than those in which no shareholder with more than 50% but exist one shareholder with voting rights between 25.1% and 50%. Family firm with ownership structure categories under Independent Indicator "D" have significantly higher market value than family firms with independent indicator "B" and "C". For market

measure of performance, our results show "D" > "C" > "B" while for accounting performance "C" > "D" > "B". These results support hypothesis 1 that Ownership structure of firm significantly enhance financial performance.

We deduct the ownership structure of non-family firms into widely held corporation, widely held financial, miscellaneous and state categories. We eliminated the state category due to the limited number of firms. Table 4b illustrates the performance of family firm versus the difference categories of ownership of non-family firms. The findings shows that ownership type has a different influence on firm performance. The market seems to value family firms highest while all results of the types of category seem to have difference influence but the results are not statistically significant at the 5% level. With respect to the accounting measure of performance, the family firms seems to outperform all of the other categories of ownership structure of non-family firms for ROA with EBIT (0,451) and EBITDA (0,196) as numerator at the 10% and 5% levels. The result of this study is consistent with Andres (2008) on one hand that family firms significantly over perform non-family firms regarding the accounting performance and on the other hand the results are not consistent for the market valuation.

Table 4a. Financial performance and family ownership

	<i>Tobin's Q</i>		<i>ROA (EBIT)</i>		<i>ROA (EBITDA)</i>	
Intercept	2,645** (4,414)	2,807** (3,441)	1,334** (1,112)	1,833** (4,730)	-1,558* (-2,998)	-1,108 (-0,754)
Family	2,984** (2,446)		3,002** (3,152)		2,995*** (3,328)	
B		1,310** (2,101)		2,761** (2,869)		2,692** (2,991)
C		1,517** (1,990)		3,813** (2,448)		4,116*** (3,987)
D		2,735** (2,376)		3,214** (3,168)		3,635*** (3,901)
Leverage	-0,132** (-2,343)	-0,360*** (-4,350)	-0,161** (-2,720)	-0,297*** (-3,985)	-0,191*** (-3,405)	-0,370 (-5,655)
Sale growth	-0,165** (-2,939)	-0,120* (-1,828)	-0,229** (-3,524)	-0,195** (-3,063)	-0,062 (-1,108)	-0,189* (-0,358)
Volatility	-0,061 (-0,577)	0,001 (0,008)	-0,175 (-1,427)	-0,131** (-1,087)	-0,036** (-1,343)	-0,535 (-2,054)
Investment	0,011 (0,175)	-0,057 (-0,757)	-0,034 (-0,433)	-0,062** (1,514)	-0,020** (-0,311)	-0,035** (-0,580)
Ln(age)	0,220** (4,921)	0,188 (0,658)	0,199** (2,686)	0,444 (-0,817)	0,325* (1,362)	0,573** (2,533)
Ln(Total Assets)	0,542** (1,460)	0,044 (0,305)	0,108** (1,854)	0,020 (0,156)	0,545* (1,751)	0,129 (1,166)
R square	0,114**	0,192**	0,198**	0,274***	0,142***	0,281***
Durbin Watson	2,001	1,859	1,715	1,734	1,934	1,917
Total firms-observation	3810	3810	3810	3810	3810	3810

Note: the variable for the analyzed sample of 254 firms and 3810 firm-year observations includes Tobin's Q, return on assets with EBIT and EBITDA as numerator, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. Family firm, B denotes a dummy taking the value 1 if the firm has a family or individual with 25-50% of voting rights or C for ultimate family owning 50.01% or higher or D for family company with an unknown direct shareholder with 50.01% or higher. Also family firms denotes a dummy variable 1 if the founder actively involves in the decision making and the company must be above 30 years. Heir designates a dummy with the value 1 if the heir actively involves in the decision making and the company must be above 30 years (SABI of the Bureau Van Dijk). ***, **, * illustrate the significance at the 1%, 5%, 10% level respectively

Source: Authors elaboration

4.2.2. Financial performance and ownership characteristics

4.2.2.1. Financial performance and management involvement

Hypothesis 2 posits that the ownership characteristic of firms enhances the financial performance of firms. Evidence from Table 5 shows that financial performance of firms with founder or heir who held active position in the management. Family firms with active founders perform better whereas those with active heirs significantly outperform compared to family firms with passive owners at the 5% level. According to market measure of performance, family firms with active founders significantly outperform family firms with active heirs. However, when the accounting measure of performance is considered, family firms with active descendants do better, meanwhile family firms with active founders significantly outperform passive owners at the 5% level. This indicates that the knowledge of the family is important in running a company. We suggest that the reason of active descendant outperform the others is due to that fact that descendants have superior skills and are

motivated by incentive which enhance the gain of the firm.

4.2.2.2. Financial performance and Founder, heir CEO and Chairman

Next, we argue that the different in family firm performance and active management displayed in Table 7 can be further simplified base on their levels responsibilities in the company (i.e., distinction between CEO and Chairman). Table 5b shows that family firms with descendant as CEO perform better meanwhile family firms with founder as CEO outperform family firms with Outside CEO for accounting measure performance. However, the results were not statistically significant at the 5% level. With respect the market measure performance, none of the categories was significant at the 1% level. Profitability equally augment for family firms with descendants as CEO than with founder as CEO. For both the market and accounting measure of performance, analyzing Chairman shows that family firms with founder and descendant as Chairman does better than those with Outsider Chairman even though the result are statistically significant at the 5% level.

Table 4b. Financial performance and widely held ownership

	<i>Tobin's Q</i>	<i>ROA (EBIT)</i>	<i>ROA (EBITDA)</i>
Intercept	-2,102** (-4,056)	1,519* (1,894)	2,597** (1,937)
Family	0,762** (1,306)	0,451* (2,345)	0,196** (3,372)
Miscellaneous	-0,286* (-3,726)	-0,187 (-1,154)	-0,081 (-2,154)
Widely held Corporation	0,653 (-0,527)	0,324 (0,000)	0,000 (0,000)
Widely Held Financial	-0,613 (-0,493)	0,000 (0,000)	-0,141* (0,797)
Leverage	-0,240*** (-2,267)	-0,159** (-2,635)	-0,692** (-2,635)
Sale growth	-0,148** (-2,386)	-0,232** (-3,465)	-0,101*** (-3,465)
Volatility	-0,677** (-3,534)	-0,169** (-1,298)	-0,073 (-1,298)
Investment	-0,830** (1,185)	-0,035 (-0,448)	-0,015 (-0,448)
Ln(age)	0,954* (0,820)	0,201** (1,856)	0,087 (0,691)
Ln(Total Assets)	1,117 (-0,008)	0,109 (0,691)	0,047 (0,856)
R square	0,153***	0,198***	0,198
Durbin Watson	2,001	1,910	1,710
Total firms-observation	3810	3810	3810

Note: the variable for the analyzed sample of 254 firms and 3810 firm-year observations includes Tobin's Q, return on assets with EBIT and EBITDA as numerator, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. Family firm denotes a dummy taking the value 1 if the firm has a family or individual with 25% or more voting rights. A firm is assigned a dummy with value 1 if the firm is a non-family (when there is no individual or collective shareholder with more than 25% direct or total ownership). Also widely held corporation and widely held financial denote a dummy variable 1 if the largest ultimate shareholder owns more than 25% of the shares in one of the categories. (SABI of the Bureau Van Dijk). ***, **, * illustrate the significance at the 1%, 5%, 10% level respectively

Source: Authors elaboration

Table 5a. Financial performance and management involvement

	<i>Tobin's Q</i>	<i>ROA (EBIT)</i>	<i>ROA (EBITDA)</i>
Intercept	-0,809** (-2,865)	3,683** (2,969)	-1,018** (-2,493)
Founder active	0,271*** (3,546)	2,075*** (5,276)	1,097** (2,565)
Passive owner	-1,623 (-0,720)	0,0437 0,254	0,000 (-1,609)
Descendant active	0,049** (2,565)	10,198* (1,912)	10,214** (21,954)
Leverage	0,005 0,073	-0,024 -0,531	-0,017 (-0,554)
Sale growth	-0,118* (-2,062)	-0,160*** (-3,820)	0,004 (0,169)
Volatility	0,010 0,083	-0,200** (-2,541)	0,343** (1,661)
Investment	-0,088** (-1,382)	-0,094* (0,388)	0,015 (0,516)
Ln(age)	-0,022 -0,133	0,049 (0,086)	0,240** (3,325)
Ln(Total Assets)	0,231** (1,381)	0,007 (0,000)	0,053 (0,971)
R square	0,344***	0,677***	0,646***
Durbin Watson	2,005	1,922	1,834
Total firms-observation	3810	3810	3810

Note: the variable for the analyzed sample of 254 firms and 3810 firm-year observations includes Tobin's Q, return on assets with EBIT and EBITDA as numerator, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. Founder active and descendant active indicate a dummy equaling 1 if the founder or a descendant is actively managing the company as Chairman or CEO. Passive owner indicates that the family only holds shares in the company without taking an active position in it. (SABI of the Bureau Van Dijk). ***, **, * illustrate the significance at the 1%, 5%, 10% level respectively

Source: Authors elaboration

4.2.3. Multiple blockholders and performance of family firms

One suitable approach to hypothesis 3 which state that the presence of another blockholder is positive and significantly associated with financial performance, is by examining the ownership % of second blockholder across various intervals. We create five categories of second blockholder denoting a dummy equaling 1 if a second large blockholder exists in a family firm and controls voting right in one of the given intervals (<5%, 5%, 10-20%, and >20%). Results from Table 6 shows that family firm with a second shareholder having 5% ultimate voting rights is significantly for both the market and accounting measure of performance at the 1% level.

This indicates that the market rate family firms with second shareholder having 5% ultimate voting rights of the company. All the other intervals were not significant for both the market and the accounting performance. One reason for that is due to the fact that family firm with no second shareholder owning strictly less than 5% in the company do not perform better than non-family firm. Also, those with second shareholder owning above 20% neither perform better than non-family firms. Too small will not be sufficient to equalize the family blockholder whereas too large will resolve to a war which might negatively affect the good functioning of the family firm. Thus, 5% ownership of the second shareholder is positive and significantly associated with financial performance.

Table 5b. Financial performance and founder, heir CEO/Chairman

	Tobin's Q		ROA (EBIT)		ROA (EBITDA)	
Intercept	0,891** (2,071)	2,002** (2,159)	3,273** (4,314)	-2,198** (-2,205)	0,404*** (11,334)	0,414*** (11,990)
Founder CEO	1,138 (-1,007)		0,191 (-2,324)		0,010 (3,474)	
Outsider CEO	-0,076 (-0,911)		0,101 (4,917)		0,101 (0,091)	
Descendant CEO	0,120 (-0,527)		0,250 (3,373)		0,233 (2,086)	
Founder Chairman		0,432 (1,551)		0,517 (1,838)		0,778 (-0,518)
Outsider Chairman		-0,150 (-2,465)		0,41 (2,136)		-0,563 (0,679)
Descendant Chairman		0,136 (1,125)		0,465 (1,235)		0,000 (3,819)
Leverage	-0,713*** (-2,798)	-0,152** (-2,595)	-0,171** (-3,048)	-0,203** (-3,170)	0,232 (1,007)	0,156** (0,643)
Sale growth	-0,922** (-3,186)	-0,196** (-3,001)	-0,173 (-1,309)	-0,131** (-2,048)	0,527*** (2,295)	0,445** (1,865)
Volatility	-0,841** (-1,542)	-0,162 (-1,296)	-0,180** (-3,753)	-0,452** (-2,347)	0,822*** (18,807)	0,801* (17,864)
Investment	-0,274** (-2,817)	-0,077** (-1,044)	-0,239** (-2,612)	-0,783 (-1,074)	0,002 (0,930)	0,374*** (1,373)
Ln(age)	0,002 (-1,253)	-0,005 (-1,312)	-0,040** (-1,134)	-0,003 (-0,669)	0,321*** (1,519)	-0,021*** (0,600)
Ln(Total Assets)	0,046 (0,683)	0,069 (0,509)	0,182** (1,275)	0,042 (0,304)	0,000 (-3,897)	0,890*** (-4,093)
R square	0,197***		0,140**	0,160***	0,494***	0,324***
Durbin Watson	1,744		2,021	2,001	2,090	2,039
Total firms-observation	3810	3810	3810	3810	3810	3810

Note: the variable for the analyzed sample of 254 firms and 3810 firm-year observations includes Tobin's Q, return on assets with EBIT and EBITDA as numerator, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. The Founder CEO (Chairman), descendant CEO (Chairman) and Outsider CEO (Chairman), indicate a dummy equaling 1 if respectively the founder, descendant or an outsider holds the CEO (Chairman) position in the family company (SABI of the Bureau Van Dijk). T-statistic are presented in the parentheses ***, **, * illustrate the significance at the 1%, 5%, 10% level respectively

Source: Authors elaboration

5. CONCLUSION

Ownership structure have been debated by prior research that it enhance the performance. Some classical research argue that ownership structure in widely held firm create opportunities for the conflict of interest between managers and shareholders. This can reduce the value of the firm since managers of such firms are more concerned about the maximization of private benefits at the expense of

the owner of the firms (Agency Cost of Type I). Other school of thought claim that the most suitable instrument to correct the action of such sulphurous management behaviour is through concentrated ownership. However, as ownership get more concentrated the corporate governance strategy of resolving Agency cost of type I rises to a type II. Agency cost of type II is when controlling shareholder can engage in undesired behaviour at

the expense of the minority shareholders. The extraction of private benefits by the majority shareholder can negatively affect the value of the firms. Thus, introducing a second blockholder with majority share is thought as an important corporate governance strategy to counterbalance the agency cost of type II. However if the percentage of

ownership of the second blockholder is too small, the power will not be able to counterbalance the family blockholder, too large will resolve to a war which might negatively affect the good functioning of the family firm. We considered that the presence of a second blockholder and the characteristics of family member in the firms.

Table 6. Financial performance and multiple blockholder

	Tobin's Q		ROA (EBITDA)	
Intercept	2,696** (5,137)		2,056** (4,899)	
Family Firms	0,298** (2,459)		0,213** (1,796)	
Second Blockholder <5%		0,102 (0,365)		0,051 (0,086)
Second Blockholder 5%		1,172** (2,931)		1,324** (3,148)
Second Blockholder 10-20%		0,473 (0,935)		0,033 (0,925)
Second Blockholder 20% or more		0,001 (0,000)		0,078 (0,057)
Leverage	-0,157** (-4,256)	-0,042*** (-4,962)	-0,110** (-4,999)	-0,099*** (-4,167)
Sale growth	-0,060** (-1,244)	-0,028* (-1,460)	-0,023*** (-5,476)	-0,055** (-2,692)
Volatility	-0,076 (-0,936)	0,007 (0,798)	-0,053 (-0,068)	-0,053** (-2,068)
Investment	0,451 (0,195)	-0,017 (-0,029)	-0,037 (-0,092)	-0,046* (-1,196)
Ln(age)	0,342** (1,235)	0,382 (0,063)	0,059** (1,459)	0,353 (0,872)
Ln(Total Assets)	0,322** (1,460)	0,032 (1,502)	0,048** (3,594)	0,067 (0,046)
R square	0,182***	0,214**	0,179***	0,199***
Durbin Watson	2,001	1,859	1,715	1,734
Total firms-observation	3810	3810	3810	3810

Note: The variable for the analyzed sample of 254 firms and 3810 firm-year observations includes Tobin's Q, return on assets with EBIT and EBITDA as numerator, capital expenditure/PPE, Sale growth, total debt/shareholder's equity, return volatility, firm size and age. The different second blockholder variable take a dummy equaling 1 if a second large blockholder exists in a family firm and controls voting right in one of the given intervals (SABI of the Bureau Van Dijk). T-statistic are presented in the parentheses ***, **, * illustrate the significance at the 1%, 5%, 10% level respectively

Source: Authors elaboration

Specifically, as a code law country, the Spanish economy provide a peculiar case for understanding the presence of ownership structure in family firms on performance. On average 69.68% of firms are classified as family firms, of which 41.34% are managed by founder, 22.05% are managed by heirs and 0.06% by outside CEO. However, 47% of the observations are classified as non-family firms. Across industries, our findings show that on average family firms have an involvement of 71% of all industries that make up the Spanish economy. Using a panel data of 254 small and unlisted firms over the period 2000 to 2014, the main findings of this study are illustrated as follows:

First, firms with family ownership structure over perform non-family in term financial performance. This result support the hypothesis 1, Ownership of firm significantly enhance financial performance. This indicates that companies that family have total control are profitable and the market rate such firms higher than the counterpart firms. The statistical results are in line with the

family business theory which have been debated that ownership structure enhance the performance family business. And that, family ownership structure is one of the possibility that exists resolving the conflicts of interest between shareholders and managers. Even though other authors believe that as ownership get more concentrated the corporate governance strategy of resolving Agency cost of type I rises to a type II. Therefore, this extraction of private benefits by the majority shareholder can negatively affect the value of the firms.

Second, the high financial performance is due to the ownership characteristic of firms. The findings are consistent with hypotheses 2, thus family firms with active founders perform better whereas those with active heirs significantly outperform compared to family firms with passive. This indicates that the knowledge of the family is important in running a company. We suggest that the reason of active descendant outperform the others is due to that fact that descendants have

superior skills and are motivated by incentive which enhance the gain of the firm. Also, no statistical significant coefficients was found for family members in the company as CEO or Chairman.

Third, the presence of another blockholder with ownership of 5% is positive and significantly associated with financial performance. This means that the presence of a second blockholder who owns between 5% of the voting right enhance the financial performance of the firms as it counterbalance the controlling shareholder from unnecessary behaviors. Therefore investors and other users will value family firm more than their counterpart firms. Further research can be carry out examining the second largest shareholders and how it ownership position can influence the performance of family firms.

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