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"Corporate Governance and Performance in Public Listed, Family-Controlled Firms: An Empirical Evidence from Italian Corporate Sector"

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Abstract:

This paper provides an analysis of the governance-performance relations in public listed and family-controlled firms. After controlling of potential endogeneity problems, by suing GMM estimators, the results show that family firms perform better compared to nonfamily firms. The active family involvement in management positions implies high firm performance. The results also indicate that beside the fact that family management increase efficiency such control does not imply an increase in valuation levels, and thus may not accrue to minority shareholders. Moreover, the results also sustain an incentive alignment effect between the coalition of large shareholders and firm value. Thus, the results confirm that the incentive to collude or monitoring controlling shareholders is affected by the type of blockholder. Additionally, the results support evidence that board dominance is another channel through which families can extract private benefits.

Keywords: ownership structure, performance, corporate governance, family firms

JEL Codes: G3, G32, G34

1. Introduction

Recent studies such Shleifer and Vishny (1997), Holderness et al., (1999) and La Porta el al., (1999) suggest that Berle and Means´ (1932) model of widely disperse corporate ownership is not common, even in developed countries. In fact, large shareholders such as family are common in public traded firms around the world. Anderson and Reeb (2003) show that one-third of S&P 500 firms are family controlled. In Western Europe, the majority of public held firms remain family-controlled (Faccio and Lang, 2002). Claessens et al., (2000) provide similar evidence for East Asia. Such controlling families often hold large equity stakes and frequently have executive representation (Burkart et al., 2003).

The concentration of ownership and management in the hands of a family (which typically have managerial and board representation) has shifted the focus from the traditional conflict of interest between managers and dispersed shareholders (Berle and Means, 1932) towards an equally important agency conflict between large controlling shareholders and minority shareholders (La Porta et al., 1999). A number of studies suggest that ownership concentration creates a trade-off between incentive alignment and entrenchment effects (e.g., Shleifer and Vishny, 1997). In this context, the question of whether a family ownership hinders or facilitates firm performance becomes an empirical issue that is related to institutional and politico-regulatory factors (Anderson and Reeb, 2003). Although, the notion that large concentrated shareholder are inherently less efficient is not a universal view. Combining ownership and control can be advantageous, as large shareholder can act to mitigate managerial expropriation. Shareholders with relative long investment horizons can mitigate the incentives for myopic investment decisions by managers and leading to greater investment efficiency (James, 1999). Empirical evidence reinforces the idea that family performs as well as, if not better than non-family firms (e.g., McCnnaughy et al., 1998; Anderson and Reeb, 2003; Maury, 2006). Thus, the conflicts of interest between minority shareholders and the controlling family rise when family control is tight (Shleifer and Vishny, 1997). In this context, families seek to entrench themselves and extract private benefits from the firm (La Porta et al., 1999). The lack of strong external monitors and discipline agents potentially permits them to pursuit this path. Thus, the monitoring activity seems to be critical in family firms.

Indeed, previous research shows that the presence of large shareholders can benefit minority shareholders by monitoring the actions of managers, consequently reduce profit diversion (e.g., Shleifer and Vishny, 1986). Nevertheless, these studies have focused on separate organizational outcomes of family/insider owners, outside blockholders and board characteristics in firm performance (e.g., Dalton et al., 2003). For example, Shivdasani and Yermack (1999) provide empirical evidence that firm performance depends on the efficiency of a number of governance mechanisms, such as board independence, monitoring by large outside shareholders and incentive effects of directors´ shareholding. However, their research is focused on the roles of various governance mechanisms in mitigating principal-agent conflict associated with disperse share ownership. Thus, this study analyses the governance roles of various blockholders and corporate boards on firm performance in the context of family firms. More specifically, this study provides an analysis of governance-performance relationships using multi-industry dataset of 208 firms listed on Milan Stock Exchange (MSE) in 2006. The option to study Italian firms is sustained on the one hand in preliminary results provide by Faccio and Lang (2002), who found substantial discrepancy between ownership and control in Italy, a situation which potentially aggravate problems associated with a combination of principal-agent and principal-principal relationships. In this environment, complementarities between ownership and board related governance factors may be particularly important; on the other hand analysing a single legal and institutional environment allow us to hold constant a number of important contextual factors. For instance, Shleifer and Wolfenzon, (2002) emphasize that ownership may vary across countries depending on their legal systems. This strategy also avoids endogeneity problems between ownership structure and country-specific institutional characteristics (e.g., Demsetz and Villalonga, 2001).

The Italian corporate sector also represents an important laboratory that provides an opportunity to develop further previous research and to make a number of contributions. First, it allow us to analyse corporate governance effects on performance in situations where the managers are frequently family members, where families are also represented on a firm's board, and where they are often the major providers of capital, if not directly, then through relational holdings in other firms. Second, previous studies on family firms document a nonmonotonic relationship between family control and firm performance (e.g., Anderson and Reeb, 2003), consequently, these results suggest that

family opportunism may increase at high control levels; so, a closer analysis between the connection of family control and different types of monitoring, including independent boards members and financial institutions is an important research issue. Third, while previous research has focuses on separate organizational outcomes of family/insider owners, outside blockholder and board characteristic, this study provides an integrated framework that brings together the analysis of simultaneous performance effects of various insiders and outside investors, as well as their participation in corporate boards. Therefore, this paper also contributes to previous studies by showing that one governance channel may be complement for another.

This paper proceeds as follows. Section 2 briefly reviews literature and discusses the expectations on the effect of family ownership, multiple blockholders and governance effects of boards on firm performance. Section 3, describes the data set, variables and provide a summary of statistics. Section 4 presents the empirical results. Section 5 concludes the paper.

2. Theoretical Background

2.1. Family Ownership and Firm Performance

A number of researches express concerns about the problems associate with family control, and the increase likelihood of the abuse of managerial power. Morck et al. (1988), Smith and Amoako-Adu (1999), provide evidence of the negative effect of a controlling family on corporate performance. In addition, strategy research identifies family firms to be altruistic in the relationship between parents and children (Schulze et al., 2001), which may have an impact on the effective succession process when the founder retires. Moreover, family interest may dominate over the interest of non-family shareholders, since the concentration of personal and family wealth in owner-managed firms normally creates a preference for income and for wealth preservation over other dimensions of firm performance such as maximization of dividends payments to outside shareholders (DeAngelo and DeAngelo, 2000). Additionally**,** family control tends to shield a firm from the disciplinary pressure of the market for corporate control since

concentrated ownership reduces the probability of a hostile take-over (Barclay and Holderness, 1989; Gomez-Mejia et al., 2001).

Although, whether families or professional managers run companies better for society in general is still open to debate. The current prolonged recession, corporate scandals and the collapse of stock markets have result in a return to the kind of values prevalent in family-owned companies. Family businesses that survived their own internal succession dramas have tended to taken a longer-term view rather than live and die by stock market evaluation of their performance (Casson, 1999). Because of the extension of altruism from the family system to the firm, owners in the current generation have the tendency and obligation to serve wealth for the next generation. As a result, family firms often possess longer horizons compared to non-family firms (James, 1999). Therefore family firms represent a special class of large shareholders that have unique incentive structure, a strong voice in the firm, and powerful motivation of managers (Demsetz and Lehn, 1985). Such characteristic can alleviate agency conflicts between the firms´ debt and equity claimants and reduce the agency costs of debt (Anderson et al., 2003). Because the family's wealth is so closely linked to the firm welfare, families may have strong incentives to monitoring managers and minimize the free-riding problem inherent with diffused shareholders (Demsetz and Lehn, 1985). If monitoring requires knowledge and information about firm technology and processes, families potentially provide superior oversight because of their length involvement with the firm (Morck et al., 1988; Burkart et al., 2003).

The above arguments suggest that family ownership can lead to better monitoring of managerial discretion and reduce principal-agent costs associated with diffused share ownership. As a result family presence in the firm may provide a competitive advantage and improve short and long term performance. Sustained in previous arguments, this study hypothesizes that family control should increase firm performance. So, the first hypothesis states:

H1: Family ownership and control are positively associated with firm performance.

2.2. Multiple Blockholders and Firm Performance

The above arguments suggest that, other things equal, family control over the firm may be associated with superior oversight and strong incentives to monitor managers that should mitigate principal-agent cost. Families can seek to maximize firm performance but yet still create severe conflicts over the distribution of wealth among different groups of shareholders. Indeed, the concentration of ownership and management in the hands of a family gives a lot of power to that family and it enables them to take actions that are beneficial to the family and are detrimental to the minority owners (e.g., family paying themselves excessive compensation, consuming perquisites, pursuing non-profit objectives). As a result, the primary agency problem in this environment is not the failure of professional managers to satisfy the objectives of diffused shareholders, but rather the expropriation of minority shareholders by family interests (La Porta et al., 2000) what Villalonga and Amit (2006) call a "principal-principal" or horizontal agency relationship. In this context family firms pose special concerns to outside (or minority) investors and represent challenges to good corporate governance. The potential for moral hazard conflict between the family and outside shareholders creates a new set of agency costs, including mutual monitoring and opportunity costs that may have an adverse effect on the firm performance. Therefore, divestments through sales of large blocks of shares to institutional investors may be a viable alternative to ownership dispersion from the minority shareholders point of view (Shleifer and Vishny, 1997).

Indeed, institutional investors (e.g., mutual funds, pension funds, insurance funds) have both the incentives and the means to restrain the self-serving behaviour of managers (Maug, 1998). For example, large shareholders may not allow a poor strategy such as diversification to evolve into poor performance, therefore decreasing the magnitude of restructuring; when managers have an opportunity to conduct a self-serving deal that damages shareholders, the decision to sell a block of shares to non-management investor's increases shareholder wealth. Building on this research, this study states that:

H2: The presence of institutional investors has a positive impact on firm performance.

As suggested by Maury and Pajuste (2005) when families are in exceptional control positions, the presence of large shareholders can mitigate the potential for moral hazard conflict between the family and outside shareholders. Indeed, Outside the United States,

the presence of several large shareholders with substantial block of shares is common (Barca and Bech, 2001). For European companies Faccio and Lang (2002) show that 39 percent of firms have at least two blockholders that hold at least 10 percent of the voting rights and 16 percent of the firm have at least three blockholders[1]. The theoretical literature provides models in which multiple blockholders compete for control (Bloch and Hege, 2001), monitor the controlling shareholders (Winton, 1993) and form controlling coalitions to shares private benefits (Zwiebel, 1995; Pagano and Roell, 1998). In fact, multiple blockholders can have two different roles in firms. On the one hand, by holding a substantial block of shares, a blockholder has the power and the incentives to monitor the largest shareholder and therefore the ability to reduce profit diversion. On the other hand can form a controlling coalition with other blockholders and share the diverted profit. According the Maury and Pajuste (2005) model´s the incentives to collude with or to monitoring the controlling shareholder is affected by the type of blockholder. In line with McConnell and Servaes (1990), Maury and Pajuste (2005) demonstrated that the propensity to extract benefits at the expenses of minority shareholders is likely to be lower if the controlling coalition includes a financial institution. Since the opportunity cost of getting caught for diverting the firm´s proceeds is higher for financial institutions that are supervised by regulatory authorities, so diversion is less likely to be an attractive. On these views, this study sustain that multiple blockholders have the ability to restrain management, consequently the controlling family from divert of profits. Therefore, the more shares a blockholder own the greater is their motivation to monitor the firm. Thus, the third hypothesis states that:

H3: There is a positive relation between a more equal distribution of share ownership among the three largest shareholders and firm performance.

A subsidiary hypothesis states that:

H4: If the controlling coalition includes an institutional investor the firm performance should be greater.

[1] In this paper, terms large shareholders and blockholders are used interchangeably as synonyms.

2.3.The Governance Effect of Boards on Firm Performance

The previous discussion links firm's performance with the presence of large-block shareholders, such as family owners and outside institutional investors. Nevertheless, this combination of different large-shareholders may create its own problems. For instance, cultivating thrust between insiders and outsiders in a family-controlled business is difficult as owners are reluctant to share information they consider proprietary (Schulze et al., 2001). Paternalism also contributes to the highly centralized decision-making structure, concentrating power and control among people with family links to the owners of family firms. As pointed out by Shleifer and Vishny (1986) one of the greatest costs that large shareholders can impose is remaining active in management even if they are no longer competent or qualified to run the firm. Having the initial human capital deriving from family members, there is a tendency for owners´ entrenchment as managers in their firms (Gomez-Mejia et al., 2003). Although, family and institutional ownership concentration overcomes some of the agency costs associated with lack of legal protection of minority shareholders, other complementary governance mechanisms are needed to deal with possible entrenchment of dominant owners.

Corporate governance studies increasingly recognize that board of directors has a central role in reducing agency problems (Hermalin and Wisbach, 2003; Schulze et al., 2001). Effective monitoring is usually a function of structural factors such as the proportion of independence directors on the board, CEO/Chairman roles held jointly or separately. Therefore, institutional theorists suggest that board independence may be used as a signalling device by organizations that act to enhance or protect their legitimacy, especially in the investor community (Peng, 2004). In fact, existing studies on corporate-governance in family-controlled firms provided evidence that family members dominate the board of directors (Anderson and Reeb, 2004). Management is exercised through a senior owner-manager who typically assumes the presidency of the firm and current holds the top executive position and therefore, has complete control of the firm and its decisions. The management of these firms in often autocratic, consequently minority shareholders may be disadvantage (Burkart et al., 1997, 2003). In this environment, research focus is studying organizational outcomes of directors´ independence from controlling families.

On one hand, the previous arguments suggest that, family control may be associated with better performance. Therefore, the appointment of "controllers" that are related to the largest family may re-enforce positive effects of family ownership. On the other hand, this family control over board may lead to greater executive entrenchment and potential conflicts with outside investors, in particular with institutional shareholders whose strategy preferences may differ from the family. For instance, the altruism can bias the CEOs´ perception of their relatives employed on the board, which hampers their ability to monitor and discipline those. Family-related directors face higher exit costs because leaving the firm would mean forgoing certain rights, perquisites and privileges associated with being part of the controlling family. These high exit cost translate into a higher level of entrenchment[2]. Given an emphasis in the literature on the links between controlling coalitions of large shareholders and the effectiveness of the board, this study hypothesizes that non-family directors may have an important governance role that is complementary to monitoring by blockholders in terms of reconciling potentially different interests of the family and outside investors (especially minority investors) and leading to more efficient organizational outcomes. Building on this research, the five hypothesis states:

H5: The Board Independence from the controlling families is positively associated with firm performance.

3. Data and methods

3.1. Sample

The data set is obtained from AMADEUS, a private database provided by Bureau van Dijk. Italian firms listed in Milan Stock Exchange (MSE) with ownership data in 2006 in the AMADEUS dataset were collected. Banks (SICs 6000-6900) and public utilities (SICs 4900-4999) are excluded given the nature of corporate governance in financial institutions differs from that in non-financial firms and because government regulation potentially affect firm performance (e.g., Faccio and Lasfer, 2001). The firms-specific

[2] Theoretical models on succession demonstrate that professional managers will be more productive than family descendants (due the restricted size of labor pool to choose from), but also hiring a professional manager will lead to misalignment of interests (e.g., Burkart et al, 2003).

control variables are calculated from 2000 through 2006. As a result the final sample comprises an unbalanced panel data of 208 non-financial firms. Data on board structure and CEO characteristics was taken from the BoradEx a database collected by *Harvard University*.

3.2. Variables description

Variable used are in four main groups: family and institutional ownership, board characteristics, measure of firm performance and control variables. The use of ownership structure as a proxy for corporate governance varies considerably in the literature. As pointed out by La Porta et al., (1999) a theoretical appropriate measure of ownership concentration requires a model of the interactions between large shareholders, which we do not have. So, in order to measure family control this study collects ultimate ownership data for a sample of 208 listed firms in M.S.E[3]. In a first step, shareholders are classified based on the information related to the ultimate owner into the following type: family, corporation, financial institution, state and other (e.g, Faccio and Lang, 2002). In order to track control relationships rather than patrimonial relationships, the percentage recorded are those attached to voting rights of ultimate owner. Then, this study identifies the three largest shareholders in each firm.

Following Maury (2006) and Andersan and Reeb (2003) this study uses two dummy variable to identify family firms. The first variable, called *Family* is set equal to one if global ultimate owner is a family, an individual, or an unlisted firm, and zero otherwise. Unlisted firms are classified as family firms because they are often closely held (Faccio and Lang, 2002). The second variable, *Family-managed* is set equal to one if the controlling shareholder is a family or an individual who holds the CEO, Honorary Chairman, Chairman, or Vice Chairman position, and zero otherwise. This variable controls for active versus passive family ownership (e.g., Andersan and Reeb, 2003). The dummy variable *Widely Held* is used to control for firms that do not have any controlling shareholders (i.e., firms classified by Amadeus with the indicator A, which indicates that any shareholder do not have more than 25% directly or indirectly in the firm). Moreover, the dummy variable *Nonfamily* takes the value one if the controlling

[3] We follow the methodology proposed by Bureau van Djik to identify the ultimate owner in Italian listed firms (see appendix A).

shareholder is not classified as family or widely held firm, and zero otherwise. The variable *ownership* measures the fractional equity ownership held by the largest shareholder. Based on previous research (e.g., Shleifer and Vishny, 1986) that show that institutional investors, such as financial institutions, mutual or pension funds play a significant role in monitoring and discipline managers, this study defines the variable *Blockholder* as a dummy variable that assumes the value one if there is an institutional investor with at least 5% of equity holdings, and zero otherwise. To measure the capacity of other large shareholders in reducing profit diversion by monitoring controlling shareholders, this study uses two variables to measure the allocation of control between multiple blockholders (e.g., Maury and Pajuste, 2005). The first variable is the *HI-Differences* measured by the sum of the squares of the differences between the first and the second largest shareholder, and the second and the third largest equity stakes $(\text{Equity1-Equity2})^2+(\text{Equity2-Equity3})^2$. The second variable namely *HI-Concentration* is calculated as the sum of squares of the stakes of the three largest owners $(\text{Equity1}^2+\text{Equity2}^2+\text{Equity3}^2)$. Both variables are transformed into natural logarithms to control for the skeweness[4]. Additionally, this study defines two dummy variables to control the type of shareholder in the controlling coalition. The first one namely *Family 2nd shareholder*, which takes the value one if a family is the second largest shareholder, and zero otherwise; the second namely *Nonfamily 2nd shareholder* equals one if the second shareholder is not a family, and zero otherwise.

Several variables are used to measure board characteristics, such as composition, size, and leadership. In terms of board composition, previous studies differentiate between "insider" directors (e.g., current and retired firm employees, their family members) and "affiliate directors" whose relations with the firm is restricted to their board membership only (see Anderson and Reeb, 2004, for a discussion). Although, because this study is interested on the organizational outcomes of board members´ direct family links with family owners, the board independence from the family was operationalised using four variables. The first variable controls for the size of the *Board* (the natural log of the total members in the board). The second variable, the percentage of independent directors *(% IndepDirectors*) is the percentage of the total seats on the board of directors and supervisors whose only affiliation with the firm is their directorship. This study also

[4] The results remain unchanged if we do not take logarithmic transformations of both variables.

considers a measure of CEO compensation due the relation between executive pay and firm performance (e.g., Gomez-Mejia et al., 2003; Cheng and Firth, 2006). Thus, the variable *Bonus* is defines as the bonus paid as a percentage of total pay[5]. Compensation data comes from BoardEx a database collected by Harvard University. Because only 24 firms' report data related to board compensation, thus, the analysis of governance effects of boards on performance is restricted to those firms (section 4.3). Due the fact that both databases do not have information related to the equity holdings of officers and directors (less family ownership) no variable could be defined to capture the incentive effects of other insiders´ ownership. The fourth variable is a dummy variable *Chairman* which denotes 1 if the chairman is also the chair of the board, and zero otherwise.

To measure firm performance, this study uses Tobin´s q and return on assets (ROA) as primary performance measures. Following La Porta et al., (2000) Tobin´s Q was estimated as the market value of common equity plus the book value of total assets minus common equity divided by the book value of total assets[6]. To compute the variable ROA this study uses earnings before interest and taxes (EBIT) divided by the book value of total assets. Five additional variables are introduced to control factors that have been shown to have an impact on firm performance (eg., Anderson and Reeb, 2003). Firm *size* is measured as the natural logarithm of book value of total assets. To control for debt in the capital structure this study employs the ratio *total debt over total assets*. *Growth* in net sales is sued to proxy for the value of growth opportunities. The *investment intensity* is measured by capital expenditures relative to total assets. The firm *risk* is the standard deviation of the ratio of net income to total assets. *Age* is the numbers of years since firm inception.

3.3 Statistics

Table 1 presents statistics on average Tobin´s q in different owner categories by industrial classification. The industrial classification follows the classification proposed

[5] Because firms do not disclose information related to bonus pay schemes we have no details on how the bonuses are derived.

[6] The ratio market to book value is the most common measure in empirical corporate governance research (e.g., Morck et al., 1988; McConnell and Servaes, 1990; Cho, 1998; Himmelberg et al., 1990).

by Campbell (1996)[7]. Family firms are presented in all industries, indicating that families operate in a broad of industries. Nevertheless, family firms appear to be prevalent in organizational forms in Textile and Trade Industries. These results suggest the importance of controlling for industry affiliation in empirical analysis. So, this study includes dummy variables to denote each two-digit SIC code.

Table 1
Number and Percentage of Family and Nonfamily Firms by Two-Digit SIC Code (n=208)

Industry Description	Family Firms			Widely Held			Nonfamily Firms		
	Freq.	%	Mean Q	Freq.	%	Mean Q	Freq.	%	Mean Q
Petroleum	10	8.55%	1.52	2	4.26%	1.74	4	3.42%	2.27
Consumer Durables	6	5.13%	1.53	4	8.51%	1.36	3	2.56%	1.72
Basic Industry	13	11.11%	1.48	6	5.13%	1.67	4	3.42%	0.85
Food and Tobacco	1	0.85%	0.87	1	0.85%	2.91	0	0.00%	____
Construction	9	7.69%	1.51	4	3.42%	0.80	8	6.84%	2.69
Capital Goods	4	3.42%	1.61	0	0.00%	____	0	0.00%	____
Transportation	16	13.68%	1.64	5	4.27%	1.49	9	7.69%	1.43
Textiles and Trade	25	21.37%	2.60	6	5.13%	2.32	7	5.98%	2.78
Services	8	6.84%	2.30	11	9.40%	2.84	3	2.56%	2.73
Leisure	6	5.13%	2.73	0	0.00%	____	1	0.85%	2.66
Others	19	16.24%	1.88	8	6.84%	1.55	5	4.27%	3.17

The ownership categories are: Family, the controlling shareholders is a family, an individual, or an unlisted firm; Widely Held the firm has no controlling shareholder; Nonfamily the controlling shareholder is not classified as family and not Widely Held. Mean Q is the average of Tobin´s q value measured by market value of common equity plus the book value of total assets minus common equity divided by book value of total assets. Industry description is based on Campbell (1996) classification.

Table 2 provides means and medians for the key variables and differences of means tests for different ownership categories. For the variables Tobin´s q, ROA, size, leverage, growth, investment intensity and risk, the means tests are based on time-series average for each firm in the sample (e.g., Anderson and Reeb, 2003). Family firms represent 56% (117/208) of the Italian sample firms. From these, 57% (67/117) the

[7] According Campbell (1966) industries are defined as follow: Petroleum (SIC 13,29), Consumer durables (SIC 25,30,36,37,50,55,57), Basic Industry (SIC 10,12,14,24,26,28,33), Food and Tobacco (SIC 1,2,9,20,21,54), Construction (SIC 15,16,17,32,52), Capital goods (SIC 34,35,38), Transportation (SIC 40,42,44,45,47), Textile and trade (SIC 22,23 ,31,5153,56,59), Services (SIC 72,73,75,76,80,82,87,89), Leisure (SIC 27,58,70,78,79) and Other includes all companies whose SIC codes are not assigned to any of the eleven Campbell industries.

CEO, chairman or Vice Chairman comes from the controlling family. Firms without any controlling shareholder represent 23% (47/208) of the sample firms. With respect to accounting performance, measured by the variable ROA, the results show that family firms have higher return on assets than widely held firms, whereas return on assets are not statistically significant between family and nonfamily firms. Regarding family-managed firms, the results indicate that family-managed firms are significantly at 1% level better performers compared to family nonmanaged firms. Using Tobin´s q as the performance measure, the results show no statistically differences between the three groups of firms, that is, family, nonfamily and widely held firms.

Table 2:

Summary Statistics by Ownership

Variables	Mean	Median	Family Mean	Family Managed Mean	Family Nonmanaged Mean	Widely Held Mean	Nonfamily Mean	Family vs. Widely Held t-stat	Family vs. Nonfamily t-stat	Family Managed vs. Nonmanaged t-stat
Tobin´s q	2.00	1.58	2.00	1.95	2.13	1.84	2.13	-0.96	0.70	1.18
ROA	0.10	0.09	0.10	0.13	0.06	0.04	0.09	-3.64***	-0.26	-4.38***
Ownership	45.92	50	53.61	54.21	52.55	18.75	54.72	-18.94***	0.41	-0.58
Blockholder	0.77	1.00	0.74	0.74	0.72	0.91	0.70	3.10***	-0.46	-0.26
HI-Concentration	7.76	7.93	8.22	8.29	8.11	6.22	8.17	-14.91***	-0.40	-1.55
HI-Differences	6.34	7.14	7.21	7.14	7.28	3.20	7.44	-8.45***	1.28	0.63
Board	6.74	6.00	6.48	6.84	6.02	6.93	7.26	0.80	1.13	-1.39
% IndepDirectors	0.79	0.83	0.76	0.61	0.94	0.82	0.85	1.47	2.24*	10.50***
Chairman	0.47	0.00	0.59			0.29	0.37	-3.58***	-2.36*	-10.47***
Bonus	1.18	0.00	1.35	1.86	0.42	0.38	1.43	-2.19**	0.07	-2.14**
Size	12.46	12.25	12.30	12.56	12.03	12.43	12.97	0.96	5.43***	-4.44***
Leverage	0.23	0.22	0.23	0.24	0.23	0.20	0.24	-2.93**	0.79	-1.09
Investment Intensity	0.32	0.05	0.32	0.24	0.43	0.42	0.24	0.65	-1.00	1.60
Growth	0.19	0.08	0.18	0.16	0.22	0.23	0.25	0.69	0.79	1.11
Risk	0.66	0.65	0.68	0.68	0.67	0.64	0.62	-1.77	-2.25*	-0.32
Age	27.74	20.00	26.21	29.67	22.48	25.09	34.64	-2.27	1.51	-1.59
Number of firms			117	67	50	47	44			

The table presents summary statistics for 208 non-financial Italian firms. The performance variables are: **Tobins´s q** value measured by market value of common equity plus the book value of total assets minus common equity divided by book value of total assets and return on assets **(ROA)** measured by earnings before interest and taxes (EBIT) divided by the book value of total assets**.** The ownership categories are: **Family**, a dummy variable that equals one if the controlling shareholders is a family, an individual or an unlisted firm and zero otherwise; **Family-managed**, is set equal to one if the controlling shareholder is a family or an individual who holds the CEO, Honorary Chairman, Chairman, or Vice Chairman position, and zero otherwise; **Widely Held**, a dummy variable that equals one if the firm has no controlling shareholder; **Nonfamily,** a dummy variable that is set equal to one if the controlling shareholder is not classified as family and not widely held, and zero otherwise. **Ownership is** the percentage of ownership held by the largest shareholder; **Blockholder** is a dummy variable that equals one if there is an institutional investor with at least 5% of ownership in the firm; **HI-Concentration** is the natural logarithm of the sum of squares of the equity of the three largest owners´; **HI-Differences** is the natural logarithm of the sum of the squares of the differences between the first and the second largest shareholder, and the second and the third largest shareholder; **Board** is the natural log of the total members in the Board; **% IndepDirectors** is the percentage of the total seats on the board of directors and supervisors whose only affiliation with the firm is their directorship; **Chairman**, a dummy variable that takes the value 1 if the chairman is also the CEO of the Board zero otherwise; **Bonus** is the bonus paid as a percentage of total pay; **Size** is the natural logarithm of total assets; **Leverage** is the total debt over total assets; **Growth** is the growth in net sales; **Investment Intensity** is the ratio of capital expenditures over total assets; **Risk** is the standard deviation of the ration net income to total assets; **Age** is natural logarithm of years since firm inception.
(*), (**) and (***) Significant at the 10%, 5%, and 1% levels, respectively.

Concerning ownership, the results confirm that onwership is more concentrated in family firms as well as in nonfamily firms compared to widely held firms. Indeed, for the variables HI-Concentration and HI-Differences the differences between means are statistically significant at 1% level only between family firms and widely held firms. Concerning, to corporate governance variables, beside the fact that for the variables Board and percentage of independent directors the differences of means are not statistically different for any group, for the dummy variable Chairman, only for 29% of the widely held firms the CEO is also the chairman. This result contrast with the result reported by family firms (the means is 59%). Indeed, the percentage of Bonus paid is much higher in family firms compared to widely held firms. Furthermore, the differences between family managed and nonmanaged firms is statistically significant at 1% level, which indicates that families will ensure that management (through themselves) serves the families interests. Related to the size, family managed firms on

average are bigger than family nonmanaged firms, although all the firms show a substantial size. Family firms appear to use more debt than widely held firms. Family firms employ 23% of debt on their capital structure compared to 20% for widely held firms. Regarding the variables growth, investment intensity, age and risk no statistically differences were found. Summarizing, the univariate analysis confirms that the management as well as the ownership is in the hands of a family. In these circumstances, if families seek entrench themselves and extract private benefits from the firm, the lack of strong external monitors and discipline agents potentially permits them to pursue this path. Appendix B presents the single correlation matrix for the variables in the sample.

4. Regression results

Modelling the relation between corporate governance factors and firm performance has generally been approached through standard econometric techniques such as regression analysis. The real problem arises around the issue of endogeneity, and much of the robustness testing in this study is concerned with statistical procedures that investigate the existence of endogenous variables and correcting for this where it is found (e.g., Demsetz and Lehn, 1985). To address endogeneity problems this study uses the Generalized Method of Moments (GMM) (Arellano, 2003), which correct for endogeneity by using instruments. Specially, this study follows the analysis of Hermelin and Weibach (1991) that is this study uses the lagged values of ownership variables as their instruments because some changes in ownership occur within firms over the time. To test for the over-identifying restrictions, this study employs the Sargan test which tests for the absence of correlation between instruments and the error term. To control for unobserved firms' effects this study uses panel data. On the basis of the discussion in the previous sections, the basic form of the model used by this study is:

$$Firm\ performance_{it}=\alpha+\beta_1(Family\ firms_{it})+\beta_2(Control\ Variables_{it})+\beta_3(Industry\ Dummy\ Variables)+\eta_i+\lambda_t+\varepsilon_{it} \quad (1)$$

where firm performance is measure using Tobin´s q and ROA. Family firm is a dummy variable that equals one if the global ultimate owner is a family, an individual or an unlisted firm and zero otherwise. Control variables include size, leverage, growth

investment intensity, risk and age. η_i is the firm fixed effects; λ_t is year fixed-effects and v_{it} is the error term.

4.1. Family ownership effect on firm performance

Table 3 presents the results related to the relation between family ownership and firm performance. In the columns 1, 2, 3 and 4 the dependent variable is the variable Tobin´s q. Columns 5, 6, 7 and 8 show the results using as dependent variable the variable ROA.

Table3:

Regression Analysis of Family Ownership Effects on Firm Performance

	Full Sample	Full Sample	Full Sample	Family sample	Full Sample	Full Sample	Full Sample	Family sample
	Tobin´s q	Tobin´s q	Tobin´s q	Tobin´s q	ROA	ROA	ROA	ROA
Independent Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Family	0.008**				0.011***			
	(3.236)				(8.012)			
Family-managed		0.017***	0.011***	0.012***		0.017***	0.024***	0.014***
		(8.702)	(9.420)	(13.005)		(19.176)	(18.274)	(40.698)
Widely Held	0.017***	0.020***	0.013***		-0.005***	-0.024***	-0.002	
	(5.316)	(5.879)	(5.966)		(-4.748)	(-9.242)	(-1.0577)	
Nonfamily		-0.004	-0.007***			0.007***	0.007***	
		(-1.410)	(-4.418)			(5.026)	(4.812)	
Ownership	0.001***	0.002***	0,006***	0.001	0.0004***	0.0001***	0.002***	0.001***
	(21.125)	(31.195)	(38.163)	(-1.917)	(14.270)	(4.486)	(13.662)	(63.589)
$(Ownership)^2$			-0.001***				-0.001***	
			(-30.240)				(-11.660)	
Blockholders	0.016***	0.021***	0.002	0.018***	0.027***	0.012***	0.004**	0.025***
	(9.219)	(12.695)	(1.550)	(20.676)	(33.755)	(18.034)	(3.021)	(57.769)
Size	0.033***	0.022***	0.014***	0.023***	0.015***	0.017***	0.008***	0.013***
	(37.861)	(21.668)	(40.164)	(84.887)	(42.082)	(50.050)	(29.850)	(86.762)
Leverage	-0.033***	-0.041***	0.082***	0.047***	-0.070***	-0.087***	-0.096***	-0.104***
	(-6.550)	(-9.110)	(26.124)	(39.832)	(-34.187)	(-32.620)	(-39.528)	(-77.234)
Investment .Intensity	0.012***	0.014***	0.002***	-0.001***	-0.005***	-0.002***	0.001***	-0.002***
	(45.425)	(51.604)	(43.022)	(-6.850)	(-18.622)	(-2.726)	(45.678)	(-7.822)
Growth	-0.021***	-0.022***	-0.003***	0.003***	0.010***	0.003*	-0.001***	0.002***
	(-69.210)	(-64.096)	(-42.115)	(22.685)	(25.223)	(2.541)	(-47.855)	(6.683)
Risk	-0.145***	-0.117***	-0.090***	-0.067***	-0.135***	-0.060***	-0.269***	-0.038***
	(-11.397)	(-8.127)	(-29.117)	(-24.723)	(-22.178)	(-26.017)	(-128.545)	(-52.784)
Age	-0.001***	-0.001***	-0.001***	-0.001***	0.0002***	-0.0002***	-0.001***	0.0003***
	(-35.172)	(-23.521)	(-10.743)	(-42.657)	(14.99)	(-11.151)	(-3.515)	(17.756)
C	0.524***	0.611***	0.524***	0.596***	-0.113***	-1.132***	-0.095***	-0.103***
	(61.990)	(73.023)	(104.328)	(186.20)	(-24.90)	(-37.148)	(-19.703)	(-46.821)
Two Digit SIC Code	Included	Included	Included	Included	Included	Included	Included	Included
Number of Observation	826	826	826	770	1380	1380	1380	770

The table presents regression of firm performance on family ownership and control variables. The dependent variables are **Tobin´s q** value measured by market value of common equity plus the book value of total assets minus common equity divided by book value of total assets on columns 1 to 4 and return on assets **(ROA)** measured by earnings before interest and taxes (EBIT) divided by the book value of total assets on columns 5 to 8**.** The independence variables are: **Family**, a dummy variable that equals one if the controlling shareholders is a family, an individual or an unlisted firm and zero otherwise; **Family-managed**, is set equal to one if the controlling shareholder is a family or an individual who holds the CEO, Honorary Chairman, Chairman, or Vice Chairman position, and zero otherwise; **Widely Held**, a dummy variable that equals one if the firm has no controlling shareholder**; Nonfamily**, a dummy variable that is set equal to one if the controlling shareholder is not classified as family and not widely held, and zero otherwise. **Ownership is** the percentage of ownership held by the largest shareholder; **Blockholder** is a dummy variable that equals one if there is an institutional investor with at least 5% of ownership in the firm; **Size** is the natural logarithm of total assets; **Leverage** is the total debt over total assets; **Growth** is the growth in net sales; **Investment Intensity** is the ratio of capital expenditures over total assets; **Risk** is the standard deviation of the ration net income to total assets; **Age** is natural logarithm of years since firm inception. (*), (**) and (***) Significant at the 1%, 5%, and 10% levels, respectively.

The principal result from table 3 is that family ownership is positively associated with firm performance when both measure of performance (i.e., Tobin´s q and ROA) are considered, in line with the first hypothesis. Specifically, the results show that under the family control the firm valuation (Tobin´s q) is similar for family firms and widely held firms (regression 1). Although, when ROA is used as performance metric (regression 5), family firms report about 11% higher firm profitability in relative terms (i.e., family coefficient/ average ROA of family firms, 0.011/0.10). Indeed, the group of widely held firms reports a negative coefficient. Thus, this result provides empirical evidence that family firms perform better compared to nonfamily firms, that is, firms with no controlling shareholder. These results support the idea that families have longer investment horizons, leading to greater investment efficiency. Furthermore, beyond monitoring and control advantages, family can bring special knowledge to the firm that outside managers do not possess. So, to control the effect of active versus passive family control on firm performance, the variable family-managed, which takes the value one if the controlling shareholder is a family or an individual who holds the CEO, or Chairman position, and zero otherwise is introduced in regressions 2 and 6. The coefficient estimated on family-managed is positive and statistically significant at 1% level (regression 2 and 6). Based on the average ROA, family firms appear to return

17% (i.e., family coefficient/ average ROA of family firms, 0.017/0.10) relative to other firms. Thus, these results confirm that active family involvement in management position implies high firm performance. Although, because previous research suggest that the relationship between equity ownership structure and firm performance may be nonlinear if the incentive structure of equity claimant changes as the holdings increase (e.g. Morck et al., 1988), the square of the variable ownership is introduced as a continuous variable in regressions 3 and 7. The negative coefficient of the variable square of ownership indicates a nonmonotonic relation between firm performance even when both measure of performance are considered. The results are similar if the analysis includes using dummy variables to denote families with different ownership stakes (results available upon to request from the authors). Thus, these results suggest that family opportunism may increase at high control levels. Although, when family control (i.e., family control in terms of board) is analysed on a sub sample of family firms (regressions 4 and 8), the results show that the increasing of 14% (i.e., family coefficient/ average ROA of family firms, 0.014/0.1) in accounting performance is not followed by an increase in firm valuation in the same magnitude. The increase is only 0.6% (family managed coefficient/average Tobins´q of family firms; 0.012/2.0). Taken together these results suggest that family management can increase efficiency but such control does not imply an increase in valuations levels. Furthermore, for comparison widely held firms, in which there is no controlling shareholder, appear to have approximately equally Tobin´s q (but not higher profit rates) compared to family firm. One possible explanation for the positive valuation of diffused owned firms, arises from the liquidity and risk-diversification benefits obtained through such dispersed ownership structures. Therefore family control has a different impact on the profitability compared to valuation and thus difference could be driven by the agency problem between the controlling family and minority shareholders. This result is confirmed by the results obtained for the dummy variable Blockholders. The coefficient of this variable is positive and statistically significant in all regressions. This result suggests that multiple blockholders positively moderate the effects of family control, which provides support to the second hypothesis. Therefore the incentive to monitor or conclude with the leading shareholder becomes important from a valuation/performance perspective. Regarding the control variables, the results indicate that firm's value (Tobin´s q and ROA) is positively related to size and investment intensity. The variables leverage, growth and risk are negatively associated with firm value. Moreover, the results

reported to control variables are generally consistent with results of previous research (e.g., Anderson and Reeb, 2003; Maury, 2006).

4.2. The multiple blockholders effects on firm performance

Table 2 shows that family-controlled firms almost always have managerial representation. This result suggest that private benefits could substantially increase (and the firm value decrease) if the ability to monitor the insiders is low. So, this section analyses the connections between the presence of multiple blockholders, who can monitor the actions of controlling family and the firm performance. Table 4 reports the results.

Table 4:

Regression Analysis of Multiple Blockholders Effects on Firm Performance

	Full Sample	Full Sample	Family Sample	Family Sample	Full Sample	Full Sample	Family Sample	Family Sample
	Tobin´s q	Tobin´s q	Tobin´s q	Tobin´s q	ROA	ROA	ROA	ROA
Independent Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
HI-Concentration	0.035***				0.013***			
	(32.84)				(30.508)			
HI-Concentration*Family	-0.003***				-0.0003***			
	(-12.66)				(-2.852)			
HI-Differences		0.013***				0.012***		
		(32.530)				(67.157)		
HI-Differences*Family		-0.002***				-0.001***		
		(-8.817)				(-8.402)		
Family 2[and]Shareholder			-0.0257***				0.016***	
			(-28.553)				(20.748)	
Nonfamily 2[nd]Shareholder				0.015***				0.037***
				(13.069)				(38.418)
Size	0.018***	0.0180***	-0.010***	0.006***	0.013***	0.005***	0.003***	-0.014***
	(24.569)	(23.832)	(-38.380)	(7.981)	(61.053)	(18.662)	(16.254)	(-57.888)
Leverage	-0.020***	-0.024***	0.113***	0.028***	-0.082***	-0.109***	-0.127***	0.108***
	(-4.356)	(-5.438)	(80.305)	(10.919)	(-31.863)	(-65.163)	(-106.171)	(81.465)
Investment Intensity	0.011***	0.011***	-0.002***	0.002***	-0.005***	-0.001***	-0.0005***	-0.001***
	(41.740)	(43.003)	(-22.950)	(3.924)	(-11.874)	(-7.890)	(-3.797)	(-10.025)
Go	-0.017***	-0.017***	0.0121***	0.0005***	0.007***	0.013***	0.008***	0.012***
	(-58.237)	(-57.770)	(66.632)	(0.080)	(15.715)	(58.824)	(30.831)	(64.484)
Risk	-0.176***	-0.177***	-0.145***	-0.016***	-0.037***	0.0002***	-0.099***	-0.164***
	(-14.608)	(-14.489)	(-35.005)	(-2.098)	(-24.826)	(-12.942))	(-6.940)	(-49.219)
AGE	-0.001***	-0.001***	-0.0004***	-0.0004***	-0.0001***	0.0003***	0.0001***	-0.0003***
	(-27.153)	(-29.716)	(-20.583)	(-15.600)	(-42.973)	(15.589)	(8.548)	(-13.704)
C	0.430***	0.616***	1.011***	0.812***.	-0.180***	-0.089***	0.027***	1.026***
	(45.301)	(76.921)	(305.325)	(107.850)	(-42.973)	(-28.814)	(10.386)	(350.963)
Two Digit SIC Code	Included	Included	Included	Included	Included	Included	Included	Included
Number of Observation	826	826	770	770	1380	1380	770	770

The table presents regression of firm performance on multiple blockholders and control variables. The dependent variables are **Tobin´s q** value measured by market value of common equity plus the book value of total assets minus common equity divided by book value of total assets on columns 1 to4 and return on assets **(ROA)** measured by earnings before interest and taxes (EBIT) divided by the book value of total assets on columns 5 to 8**.** The independent variables are**: HI-Concentration** is the natural logarithm of the sum of squares of the equity of the three largest owners´; **HI-Differences** is the natural logarithm of the sum of the squares of the differences between the first and the second largest shareholder, and the second and the third largest shareholder; **Family is** a dummy variable that equals one if the controlling shareholders is a family, an individual or an unlisted firm and zero otherwise; Family 2nd Shareholder, a dummy variable that takes the value one if the second largest shareholder is a family and zero otherwise; Nonfamily 2nd shareholder, a dummy variable that takes the value one if the second shareholder is a non family owner; **Size** is the natural logarithm of total assets; **Leverage** is the total debt over total assets; **Growth** is the growth in net sales; **Investment Intensity** is the ratio of capital expenditures over total assets; **Risk** is the standard deviation of the ratio net income to total assets; **Age** is natural logarithm of years since firm inception; **Age** is natural logarithm of years since firm inception.
(*), (**), (***) Significant at the 10%, 5%, and 1% levels, respectively.

Both variables HI-Differences and HI-Concentration measuring the differences in the equity stakes among the three largest shareholders and the total concentration of ownership in the hands of the three main blockholders, respectively, when interacting with the variable family report a negative and statistically coefficient at 1% level. A negative coefficient indicates that a more equal distribution among the largest blockholders has a positive effect in both measures of performance. Thus, these results confirm the hypothesis 3 which states that there is a positive relation between a more equal distribution of share ownership between the three largest shareholders and firm performance. These results are consistent with Benendeson and Wolfenzon (2000) model's, which show an alignment effect of a coalition of large shareholders, that is a positive relation between the cash-flow stake of the controlling coalition and the firm value. Although, beside the fact that large shareholders can benefit minority shareholders by monitoring the actions of managers the level f private benefits may actually depend on the type of blockholder. Thus, to examine the role of different types of blockholders in family controlled firms, this study introduces two dummy variables related to the identity of the second largest shareholder. The first variable namely Family 2nd Shareholder takes the value one if the second largest shareholder is a family and zero otherwise. The second variable, Nonfamily 2nd shareholder takes the value one

if the second shareholder is a non family owner. The (unrecorded) distribution of ownership types among the second large shareholders reveals that the families dominate with 37% whereas financial institutions report 19%. Regressions (3) and (4) show the results related to the variable Tobin´s q. Regression (6) and (7) present the results related to the variable ROA. The positive coefficient of the variable Nonfamily 2nd shareholder indicates a positive and highly significant effect on both measures of performance (regression 4 and 8). If the second shareholder is a family the positive impact on accounting performance is not translate into an increase in terms of valuation (regression 5 and 7). This result, in line with Faccio et al., (2001) suggests that some coalitions (such as two families) can make profit diversion easier, while in other coalitions expropriation can be more difficult. Indeed, it is easier for two families to form a coalition and extracts private benefits within the legal bounds than for a coalition that includes an institutional investor. This assumption seems plausible because such owners have different objectives and decision making horizons. Furthermore, such investors have a higher cost of engaging in profit diversion activities since they are subject to more scrutiny from regulatory authorities. Summarizing, the results strongly confirm the third and four hypotheses, that is, the presence of multiple blockholders have a positive effect on firm performance. Furthermore, the level of private benefits depends on the type of blockholders. So, the identity of the shareholders is relevant for understanding corporate governance. Regarding the control, variables, the results are quite similar to those obtain in table 3.

4.3. The governance effect of boards on firm performance

Previous results show that family ownership can be advantageous because the family has the incentive and the power to monitor managers. Nonetheless, the results also reveal a nonmonotonic relation between family control and firm performance, suggesting that family opportunism may increase at high control levels. Furthermore, the presence of multiple blockholders seems moderate the effects of family control. Although, the incentives to monitor or collude with the leading shareholder are affected by the type of blockholders. In this context, the conventional corporate governance mechanisms are less effective (e.g., Gomez-Mejia et al., 2003). Thus, this section analyses the role of independent directors in promoting firm performance. Table 5 presents the results. The positive coefficient of the variable %IndepDirectors in

regressions (1) and (3) support the hypothesis five, which states that the board independence from the controlling families is positively associated with firm performance. Because the variable Bonus reports different results regarding the performance measures, that is Tobin´s q versus, regression 2 and 4 includes an interactive variable between family firms and the board independence. The interaction coefficient is negative and statistically significant at 1% level, suggesting that the board independence is at stake. Thus, the family´s influences as such that potentially outweighs outside directors' influence in board matters, consequently, family can pursue their own interests without substantial interference from the board. This interpretation is reinforced by the result of the variable Chairman. The positive coefficient of this variable indicates that when the chairman is also the CEO, the higher accounting performance is not translated into higher valuations suggesting a direct association between family ownership and managerial entrenchment and extraction of private benefits of control, which should be detrimental to the performance.

Table 5:

Regression Analysis of the Governance Effect of Boards on Firm Performance

	Full Sample	Family Sample	Full Sample	Family Sample
	Tobin´s q	Tobin´s q	ROA	ROA
Independent Variables	(1)	(2)	(3)	(4)
Board	0.068***	0.079***	0.097***	0.131***
	(12.650)	(137.498)	(20.798)	(126.600)
%IndepDirectors	0.044***	0.0188***	0.154***	0.023***
	(4.217)	(19.650)	(12.437)	(6.816)
%IndepDirector*Family		-0.051***		-0.217***
		(-49.609)		(-142.736)
Chairman	-0.036***	-0.004***	0.059***	0.062***
	(-8.031)	(-7.177)	(17.209)	(44.990)
Bonus	-0.007***	0.005***	0.001*	0.013***
	(-11.836)	(79.564)	(2.373)	(198.601)
Size	-0.007***	-0.036***	0.011***	-0.008***
	(-68.414)	(-200.972)	(38.240)	(-37.447)
Leverage	0.300***	0.045***	0.189***	-0.204***
	(30.834)	(56.890)	(23.553)	(-136.738)
Investment Intensity	0.022***	0.039***	0.022***	0.007***
	(12.428)	(142.622)	(15.875)	(11.506)
Go	0.084***	-0.162***	-0.003	0.043***
	(15.981)	(-292.605)	(-1.454)	(53.742)
Risk	-2.646***	-2.121***	-0.377***	-0.080***
	(-45.225)	(-863.004)	(-60.487)	(-81.464)
AGE	-0.001***	0.002***	0.002***	0.003***
	(-7.913)	(159.608)	(23.583)	(197.337
C	1.717***	1.173***	-0.274***	-0.049***
	(88.753)	(502.317)	(-13.188)	(-7.373)
Two Digit SIC Code	Included	Included	Included	Included
Number of Observation	166	83	166	83

The table presents regression of the firm performance on the effect of governance effect of boards and control variables. The dependent variables are **Tobin´s q** value measured by market value of common equity plus the book value of total assets minus common equity divided by book value of total assets on columns 1and 2 and return on assets **(ROA)** measured by earnings before interest and taxes (EBIT) divided by the book value of total assets on columns 3 and 4**.** The independent variables are**: Board** is the natural log of the total members in the Board); **% IndepDirectors** is the percentage of the total seats on the board of directors and supervisors whose only affiliation with the firm is their directorship; **Chairman**, a dummy variable that takes the value 1 if the chairman is also the CEO of the board zero otherwise; **Bonus** is the bonus paid as a percentage of total pay; **Size** is the natural logarithm of total assets; **Leverage** is the total debt over total assets; **Growth is the** growth in net sales; **Investment Intensity** is the ratio of capital expenditures over total assets; **Risk** is the standard deviation of the ration net income to total assets; **Age** is natural logarithm of years since firm inception; **Age** is natural logarithm of years since firm inception.

(*), (**), (***) Significant at the 10%, 5%, and 1% levels, respectively.

5. Conclusion

This paper analyses the effect of ownership structure, the role of multiple blockholders and board characteristics on performance in public listed and family-controlled firms. By using GMM estimators to control for potential endogeneity problems, the results show that family firms have better accounting performance relative to non-family firms. Thus, family ownership seems to reduce managerial opportunism. Indeed, active family ownership in which the family holds the CEO or Chairman position improves the firm profitability. But this improvement is not reflected in firm value and thus may not accrue to minority shareholders. The results also show a nonmonotinic relation between ownership and performance, which suggest that at high control levels, the potential for family opportunism increases and valuation start to decline. Thus, monitoring activity is critical in family-controlled firms. In fact, the results indicate a positive relation between the firm performance and the presence of multiple blockholders. This result is consistent with a blockholder coalition framework that sustains an incentive alignment effect of a coalition of large shareholder and firm value. Moreover, the results also show that the incentive to collude with or to monitoring the controlling shareholder is affected by the type of blockholder. In other words, multiple blockholders, especially institutional investors have a positive impact on firm performance by mitigating principal-principal conflicts associated to family control. The results also provide evidence that board dominance is another channel through which families can extract private benefits of control. Summarizing, this study contributes to understanding the link between family control and firm performance, by showing that the firm performance depends on the efficiency of various governance mechanism such as various blockholders and board characteristics. Nevertheless, a number of extensions of this research can also be suggested. For instance, it is important to verify board appointment mechanisms that are used by family firms. More specially, since external board members may be vetted and approved by the family or other dominant blockholders what is the extent of their independence from the dominant owners? Because, this study focus on direct, family links between board members and family-owners, consequently, it does not account for "affiliate" directors, that is, non-family board members with business ties to the firm. So, further research of the governance rules of these board members would be useful. The findings of this research also highlight the value of integrating institutional theory with agency research in the

analysis of factors affecting board composition and share ownership. Thus, an analysis of efficiency out comes of various combinations of board and ownership characteristics in family firms are in order.

APPENDIX A

Panel A1: BvDEP independence indicator

The BvDEP independence indicator classifies the degree of independence of a company regard to its shareholders. The independence indicators are noted A, B, C, D and U. A firm with known recorded shareholders none of which having more than 25% of direct or total ownership is classified with the indicator A. According BvDEP terminology "A companies" are classified as independent. If a known recorded shareholders have an ownership percentage above 25 percent but none of which with an ownership percentage over 50 percent, the firm is classified with the indicator B. The indicator C is attached to any company with recorded shareholders with total ownership over 50 percent. A company with a recorded shareholder with a direct ownership over 50 percent is classified with indicator D. The indicator U is allocated to companies with unknown degree of independence.

Panel A2: Ultimate Owner identification

To define the Ultimate Owner (UO), BvDEP database analysis the shareholding structure of a company having a BvDEP independence indicator different from A, which means that the company is independent, consequently, has no UO. The first step is to identify the shareholder with the highest direct or total percentage of ownership. If this shareholder is independent (to be independent, the shareholder must be independent by it self, that is, an entity having one of the following type: individuals and families, Public authorities/State, employees/managers/directors must be classified with the independence indicator A), it is defined as the UO of the subject company. If the highest shareholder is not independent, the same process is repeated to him until BvDEP finds an UO. To define the UO this study uses as the minimum percentage to characterize the path from a subject company to its UO is 25.01%. In order to track control relationships rather than patrimonial relationships, the percentages recorded are those attached to the category of Voting Rights.

Appendix B:

Correlations data

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1. Tobin´s q	1																			
2. ROA	0.25*** (7.38)	1																		
3. Family	0.14*** (3.98)	0.13*** (4.81)	1																	
4. Family-managed	0.18*** (5.24)	0.16*** (5.82)	0.60*** (31.93)	1																
5. Widely Held	-0.20*** (-6.00)	-0.21*** (-7.87)	-0.61*** (-33.30)	-0.36*** (-16.65)	1															
6. Nonfamily	0.04 (1.21)	0.05* (1.98)	-0.58*** (-30.63)	-0.33*** (-15.05)	-0.28*** (-12.61)	1														
7. Ownership	0.18*** (5.11)	0.17*** (6.55)	0.44*** (20.94)	0.29*** (12.85)	-0.73*** (-46.39)	0.20*** (9.03)	1													
8. Blockholder	-0.04 (-1.19)	0.04 (1.53)	-0.07** (-3.23)	-0.02 (-0.71)	0.18*** (7.84)	-0.11*** (-4.91)	-0.24*** (-0.83)	1												
9. HI_Concentration	0.23*** (6.93)	0.18*** (6.65)	0.49*** (24.51)	0.31*** (15.82)	-0.78*** (-53.02)	0.19*** (8.37)	0.92*** (104.22)	-0.26*** (-11.57)	1											
10. HI_Differences	0.07* (1.90)	0.01 (0.03)	-0.04 (-1.51)	-0.02 (-0.94)	-0.12*** (-4.98)	0.16*** (7.05)	0.10*** (4.17)	0.01 (0.60)	0.12*** (5.10)	1										
11. Board	0.01 (0.34)	0.11*** (3.92)	-0.06** (-2.60)	0.05* (2.28)	0.02 (0.98)	0.01 (0.16)	0.05* (2.27)	0.04* (1.74)	0.04* (1.53)	0.14*** (6.29)	1									
12. % IndepDirectors	-0.12*** (-3.39)	-0.07* (-2.48)	-0.17*** (-7.23)	-0.46*** (-21.73)	0.05* (2.02)	0.12*** (5.12)	-0.02 (-0.73)	-0.15*** (-6.35)	-0.05* (-2.19)	0.02 (1.03)	0.11*** (4.58)	1								
13. Chairman	0.14*** (3.92)	0.15*** (5.30)	0.24*** (10.26)	0.55*** (27.47)	-0.20*** (-8.31)	-0.08** (-3.23)	0.13*** (5.40)	0.06* (2.37)	0.17*** (7.14)	-0.06* (-2.59)	-0.04* (-1.82)	-0.05*** (25.68)	1							
14. Bonus	-0.02 (-0.35)	-0.04 (-0.75)	0.05 (1.01)	0.14** (3.02)	-0.011* (-2.45)	0.04 (0.95)	-0.13** (-2.77)	-0.22*** (-4.86)	-0.05 (-1.12)	-0.03 (-0.60)	0.04 (0.86)	0.07 (1.46)	0.09* (1.96)	1						
15. Size	0.13*** (3.70)	0.13*** (4.81)	-0.11*** (-430)	0.02 (0.86)	0.01 (-0.38)	0.13*** (4.89)	0.06* (2.38)	-0.02 (-0.91)	0.06* (2.26)	0.25*** (9.45)	0.37*** (14.27)	0.17*** (6.06)	-0.15*** (-5.28)	0.01 (0.25)	1					
16. Leverage	0.05 (1.58)	-0.01 (-0.11)	0.04 (1.42)	0.05* (1.69)	-0.09** (-3.43)	0.06* (2.16)	0.07** (2.74)	-0.04 (-1.49)	0.12*** (4.62)	0.05* (1.77)	-0.04 (-1.57)	-0.13*** (-4.79)	0.01 (0.31)	-0.14* (-2.57)	0.25*** (9.64)	1				
17. Growth	0.11** (-2.97)	-0.03 (-1.13)	0.02 (0.80)	-0.04 (-1.16)	-0.02 (-0.83)	-0.01 (-0.16)	0.01 (0.50)	0.03 (0.96)	0.01 (0.34)	-0.01 (-0.07)	0.02 (0.77)	0.02 (0.66)	-0.04 (-1.35)	-0.02 (-0.30)	0.04 (1.31)	0.04 (1.25)	1			
18. Investment Intensity	0.10* (-2.51)	-0.02 (-0.60)	0.02 (0.77)	-0.036 (-1.18)	-0.02 (-0.79)	-0.01 (-0.15)	0.01 (0.43)	0.03 (0.93)	0.01 (0.24)	-0.01 (-0.08)	0.02 (0.70)	0.02 (0.74)	-0.04 (-1.40)	-0.02 (-0.30)	0.04 (1.41)	0.05 (1.58)	0.98*** (181.81)	1		
19. Risk	0.08* (2.19)	-0.10** (-2.76)	0.08* (2.50)	0.06* (1.82)	-0.03 (-0.97)	-0.07* (-1.98)	-0.04 (-1.27)	-0.05 (-1.55)	0.014 (0.43)	0.16*** (4.94)	0.11** (3.15)	0.10** (2.95)	-0.03 (-0.88)	0.10 (1.57)	0.32*** (9.56)	0.15*** (4.49)	-0.01 (-0.35)	-0.02 (-0.56)	1	
20. Age	-0.03 (-0.83)	0.05* (1.82)	-0.08*** (-3.68)	0.02 (0.77)	-0.04* (-1.77)	0.14*** (6.22)	0.04 (1.51)	-0.12*** (-5.07)	-0.01 (-0.18)	0.20*** (8.65)	0.05* (2.22)	-0.01 (-0.44)	0.03 (1.26)	0.08* (1.66)	0.21*** (7.79)	0.01 (0.51)	-0.04 (-1.31)	-0.04 (-1.25)	0.11** (3.18)	1

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