The effect of ownership structure and family control on firm value and performance. Evidence from Continental Europe

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Abstract

We investigate the relation between ownership structure and firm performance in Continental Europe, using data from 675 publicly traded corporations in 11 countries.

We find that firm valuation and operating performance decrease when the control rights of the largest shareholder exceed its cash-flow ownership. This is consistent with the hypothesis that control power unrelated to cash-flows ownership allows extraction of private benefits and/or entrenchment of less efficient management.

We also find that operating performance increases with the largest shareholder's cash-flow ownership, that is consistent with the hypothesis that more cash-flows rights lead to more wealth production and less expropriation of minority shareholders. We don't find, however, a clear relation between stock market valuation and cash-flows ownership.

Families are the type of owners that most recur to control-enhancing devices associated with lower performance. However, even after taking into account that family-controlled corporations exhibit larger separation between control and cash-flow rights, our results do not support the hypothesis that family control hampers firm performance. Valuation and operating performance are significantly higher in founder-controlled corporations, and are at least not worse than average in descendants-controlled corporations. Thus, our results lead to the conclusion that family control is not negative for firm value and operating performance in Continental European firms.

More specifically, when we consider as explanatory variables both a family-dummy and the continuous variables representing cash-flow rights and wedge, the effect of family control results neatly positive, meaning that for a given cash-flow and voting rights combination the average family firm performance is better. If we consider the effect of family control jointly with ownership (by including as independent variable a family-dummy and omitting the other ownership variables), we obtain that large part of the former positive effect is wasted by the high use of wealth-reducing control-enhancing devices, but a residual positive effect still seems to remain. Thus, our results – that are novel in supplying multi-country non-U.S. evidence about family-controlled corporations – provide a contribution to the existing literature by warning that the simple observation of a large use of control-enhancing devices by family firms does not imply a global negative effect of family control, as it is often assumed.

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