

## Are family ownership and control in large firms good, bad, or irrelevant?

Yi Jiang · Mike W. Peng

Published online: 28 September 2010  
© Springer Science+Business Media, LLC 2010

**Abstract** Family ownership and control play an important role in large firms in Asia. There is a puzzle regarding the relationship between concentrated family ownership and control on the one hand and firm performance on the other hand. Three positions suggest that such concentration may be good, bad, or irrelevant for firm performance. This article reports two studies to shed further light on this puzzle. Study 1 uses 744 publicly listed large family firms in eight Asian countries (Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand) to test competing hypotheses on the impact of family ownership and control on firm performance. On a country-by-country basis, our findings support all three positions. On an aggregate, pooled sample basis, the results support the “irrelevant” position.

---

This research was initiated when both authors were at the Ohio State University. It was supported in part by a National Science Foundation CAREER Grant (SES 0552089) and UTD Provost’s Distinguished Professorship. All views and errors are ours and not those of the underwriters. This article draws on a major portion of SSRN Working Paper “Family Ownership and Control in Large Firms: The Good, the Bad, the Irrelevant—and Why” by Peng and Jiang (Abstract No. 938173, also posted as the University of Michigan William Davidson Institute working paper no. 840). Earlier versions were presented at AOM (New Orleans, August 2004), SMS (Orlando, October 2005), AIB/JIBS Research Frontiers Conference (San Diego, December 2006), HEC Montreal, HKU, HKUST, Illinois, LSE, NUS, Ohio State, Rice, UT Dallas, UT El Paso, and Western Washington—the last presentation supported by the Saturna Capital Scholar-in-Residence Program in May 2008. Most recently, it was presented at the *APJM* Special Issue Conference at Simon Fraser University in October 2009. We thank S. Globerman and D. Shapiro (Guest Editors) for editorial guidance, R. Aguilera, A. Ali, M. Anderson, R. Bagozzi, K. Brouthers, L. Brouthers, H.-J. Chiu, T. Day, A. Delios, G. Dess, S. Estrin, E. Gedajlovic, R. Kieschnick, C. Konstans, A. Kriauciunas, K. Law, J. Lawler, S.-H. Lee, M. Leiblein, J. T. Li, A. Low, K. Meyer, R. Murray, C. Pan, S. Radhakrishnan, T. Roehl, Y.-S. Su, and H. Yeung for helpful comments. K. Oh, R. Pinkham, and S. Sauerwald provided assistance. A portion of the data used was collected by L. Lang and colleagues at the Asian Corporate Governance Archival Data Center, Chinese University of Hong Kong, for which we are grateful.

---

Y. Jiang (✉)

College of Business and Economics, California State University, East Bay, 25800 Carlos Bee Boulevard, Hayward, CA 94542, USA  
e-mail: yi.jiang@csueastbay.edu

M. W. Peng

School of Management, University of Texas at Dallas, Box 830688, SM 43, Richardson, TX 75083, USA  
e-mail: apjmpeng@gmail.com

Using 688 firms in the same eight countries, Study 2 endeavors to answer why Study 1 obtains different results for different countries. We theorize and document that Study 1 findings may be systematically associated with the level of (minority) shareholder protection afforded by legal and regulatory institutions. Study 2 thus provides critical insights on a cross-country, institution-based theory of corporate governance.

**Keywords** Family ownership · Family firms · Institution-based theory of corporate governance · Principal-principal conflicts

Large firms in this article refer to publicly listed and traded firms. Most small firms around the world are owned and managed by families. Although many small firms grow into large firms and become publicly listed, families often maintain strong control in these firms (Carney & Gedajlovic, 2002; Chu, 2011; Claessens, Djankov, & Lang, 2000; Faccio, Lang, & Young, 2001; Gedajlovic & Shapiro, 2002; La Porta, Lopez-de-Silanes, & Shleifer, 1999). Are family ownership and control of large firms helpful for or harmful to firm performance? This question remains a huge puzzle (Bertrand & Shoar, 2006; Heugens, van Essen, & van Oosterhout, 2009; Liu, Yang, & Zhang, 2011). For small firms, such a concentration of ownership and control seems to be an uncontroversially optimal arrangement with reasons ranging from more hands-on and less bureaucratic management to reduced principal-agent conflicts (Fama & Jensen, 1983). What is unclear and thus controversial is the impact of concentrated family ownership and control on the performance of *large* firms. One reason that there is no clear answer is because of the relatively insufficient understanding of corporate governance in large family firms (Schulze & Gedajlovic, 2010).

Eight decades ago, Berle and Means (1932) predict that a separation of ownership and control will replace the concentration of family ownership and control as firms grow larger. Fama and Jensen (1983: 306) posit that firms will be penalized “in the competition for survival” when they fail to separate ownership and control. In other words, concentration of ownership and control in the hands of families may be bad for the performance of large firms. However, large firms outside the United States and the United Kingdom are often owned and controlled by families (La Porta et al., 1999). Thus, the Berle and Means (1932) hypothesis on the inevitability of the separation of ownership and control for large firms is inconsistent with evidence from most parts of the world (Morck, Wolfenzon, & Yeung, 2005).

In large family firms characterized by concentrated ownership and control, the “salient agency problem” (Faccio et al., 2001: 55) or the “ensuring corporate governance problem” (Morck et al., 2005: 714) is the conflicts between controlling shareholders and minority shareholders—specifically, *principal-principal* conflicts (Chen & Young, 2010; Jiang & Peng, 2010; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). This article reports two studies that focus on a region with extensive principal-principal conflicts in large firms—Asia. Study 1 tests basic competing hypotheses on whether family ownership and control in large firms are good, bad, or irrelevant for firm performance. Study 2 documents that the findings in Study 1 may be associated with the level of legal and regulatory institutions that protect (minority) shareholders.

Overall, this article departs from the existing literature in at least three significant ways. First, theoretically, we draw on multiple theories including the resource-based

and institution-based theories and the principal-principal perspective (Young et al., 2008). In contrast, most corporate governance research often relies solely on agency theory—and often the principal-agent perspective of agency theory that is less relevant when dealing with principal-principal conflicts. Second, especially through Study 2, we demonstrate how a focus on institutional contexts can generate more nuanced insights above and beyond the typically linear and one-sided assertions such as “family ownership and control are good” (or “bad”). Finally, we empirically adopt a large database covering eight Asian countries. While existing studies either focus on a single country or lump data from multiple countries for an “Asian” model, we substantiate the case (1) that within Asia, family ownership and control in large firms are good (that is, benefits outweighing costs) in some countries, bad in some other countries, and irrelevant in the remaining countries; and (2) that such differences are systematically correlated with different legal and regulatory institutions governing (minority) shareholder protection. Overall, these efforts help sketch the contours of a cross-country, institution-based theory of corporate governance.

### The large family firm puzzle

Theoretically, there is a major puzzle regarding the role of family in large firms (Bertrand & Shoar, 2006; de Vries, 1993; Villalonga & Amit, 2006). There are three positions in the literature: such concentrated ownership and control are (1) good, (2) bad, or (3) irrelevant for firm performance. First, some authors promote concentrated ownership as a corporate governance mechanism to monitor agents more effectively (Anderson & Reeb, 2003; Demsetz & Lehn, 1985). Others suggest that family firms may allocate resources efficiently through the internal capital market, endorsing the positive view of family firms (Arregle, Hitt, Sirmon, & Very, 2007; Chu, 2011; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Mayano-Fuentes, 2007; Habbershon & Williams, 1999; Luo & Chung, 2005; Silva & Majluf, 2008). Second, some scholars emphasize the conflicts in family firms, indicating that family ownership and control are bad (Claessens et al., 2000; Schulze, Lubatkin, & Dino, 2003). A third group does not find family firms or non-family firms outperforming their counterparts (Daily & Dalton, 1992; Miller, Le Breton-Miller, Lester, & Cannella, 2007), implying that family ownership and control are irrelevant for firm performance. Our two studies are designed to shed further light on this puzzle, not by supporting one particular position but by acknowledging the validity of all sides (Study 1) and then endeavoring to address the more interesting question of “why?” (Study 2).

### Study 1: Competing hypotheses

Study 1 directly tests competing hypotheses by focusing on two of the three primary ownership and control mechanisms: (1) appointing a family member as the CEO and (2) pyramiding.<sup>1</sup>

<sup>1</sup> The third mechanism, shares with superior voting rights, is popular in Europe and Latin America (Khanna & Yafeh, 2007). But it is not commonly used in Asia (La Porta et al., 1999), and thus is not considered here.

## Family CEO: The good

Agency theory suggests that there are inherent conflicts between shareholders and professional managers. Family CEOs, on the other hand, mitigate such agency costs because of their aligned interests with the owners (Anderson & Reeb, 2003). The information asymmetry problem in agency relationships may be reduced given the close ties between family CEOs and the owners. Since they hold high ownership stakes, family CEOs have sufficient incentives to place family welfare ahead of personal interests, thus may perform better than firms with professional CEOs.

The resource-based view (Barney, 2001) also suggests that appointing family members as CEOs may be beneficial. Tradition, loyalty, and bonding relationships determine how resources are deployed in family firms. Family CEOs build common interests and identities (Habbershon & Williams, 1999) and play a dual role by being both owners and managers (Chang, 2003; Yiu, Bruton, & Lu, 2005). Through social relationships with managers and employees, family CEOs may help to obtain intangible resources such as goal congruence, trust, and social interactions, providing valuable, unique, and hard-to-imitate competitive advantages (Chu, 2011; Liu et al., 2011; Luo & Chung, 2005).

In emerging economies with inefficient factor markets for labor, capital, and technology, family CEOs may fill the institutional voids to overcome market inefficiency (Chakrabarty, 2009; Khanna & Yafeh, 2007; Lee, Peng, & Lee, 2008). With weak market-supporting institutional frameworks, access to resources is not through formal channels (such as banks) but often through informal and private networks (Peng, 2003). Family CEOs may have competitive advantages in gaining access to unique resources, which professional managers may not have. Therefore:

**Hypothesis 1** The presence of a family CEO is *positively* related with firm performance.

## Family CEO: The bad

On the other hand, having family CEOs may be detrimental. Family relationships are hard to manage effectively (Arregle et al., 2007). Sons, daughters, in-laws, and other relatives, who may be incompetent, may be appointed as family CEOs. Once on the job, they may destroy value. Thus, altruism, especially families' failure to discipline underperforming family CEOs, may harm firm performance (Schulze et al., 2003). When their positions are not threatened, family CEOs do not have to maximize efforts to keep their jobs. Overall, the higher the level of parents' altruism, the higher the risk that parents may spoil adult children serving as family CEOs (de Vries, 1993).

Altruism can create a sense of entitlement among family members for employment, perquisites, and privileges that these individuals otherwise would not receive (Schulze et al., 2003). Altruism may also make family CEOs loath to adopt and enforce formal rules and procedures. In addition, family CEOs themselves may have a hard time dealing with other family members. Family conflicts such as sibling rivalry and power competition often arise among family managers (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001). Family CEOs may be reluctant to let other family

members participate in the process of decision-making (Eddelston & Kellermanns, 2007), which leads to animosity and hurts firm performance. Therefore:

**Hypothesis 2** The presence of a family CEO is *negatively* related with firm performance.

Pyramid structure: The good

With a pyramid structure, a family controls multiple firms, each becoming a member of an informal business group (Almeida & Wolfenzon, 2006). Proponents of the resource-based view emphasize controlling shareholders' contributions, which suggest that a pyramid structure may be beneficial for firm performance (Guillen, 2000). Essentially, business groups form an internal transaction market where allocation of resources is made within groups. Other members of such a group in the pyramid may provide useful information, access to finances and technologies, and important social interactions (Carney, Gedajlovic, Huegens, van Essen, & van Oosterhout, 2011; Khanna & Yafeh, 2007). If the focal firm suffers from poor performance, other member firms may come to rescue it by injecting assets such as funds and talents (Estrin, Poukliakova, & Shapiro, 2009; Gedajlovic & Shapiro, 2002; Hoskisson, Cannella, Tihanyi, & Faraci, 2003; Li, Ramaswamy, & Pettit, 2006). As a result, pyramid firms may outperform independent firms without such pyramid/business group affiliations (Bruton, Ahlstrom, & Wan, 2003; Peng, 2003).

Business groups in emerging economies have often been encouraged by the government (Carney et al., 2011; Guillen, 2000; Yiu et al., 2005). Diversifying business through connecting to other industries in a pyramid structure (Peng, Lee, & Wang, 2005), family firms in business groups are likely to gain more legitimacy, authority, and state funds than other firms. Thus, family firms may gain competitive advantages from such valuable, unique, and hard-to-imitate bundle of resources (Barney, 2001). Thus:

**Hypothesis 3** The presence of a pyramid structure is *positively* related with firm performance.

Pyramid structure: The bad

Large family-owned and -controlled firms are characterized by principal-principal conflicts (Young et al., 2008), which are likely to be intensified in emerging economies where institutions are underdeveloped and markets for corporate control less effective (Jiang & Peng, 2010). Some of the intragroup activities described above may be labeled as "expropriation" of minority shareholders (Claessens et al., 2000; Filatotchev, Zhang, & Piesse, 2011). "Particularly rich opportunities for expropriation arise when the corporation is affiliated to a group of corporations, all controlled by the same shareholder" (Faccio et al., 2001: 55). As a result, minority shareholders may resent these pyramiding activities and reduce the value of their shares (Dyck & Zingales, 2004; Mitton, 2002).

Jensen and Meckling (1976) argue that the tendency of controlling shareholders, such as families pursuing their private benefits at the expense of minority

shareholders, increases when the controlling shareholders own less equity through a pyramid structure. Through pyramiding, one family can control multiple publicly listed firms each with many minority shareholders. Families may tunnel out company resources to other affiliates in the business group (Claessens et al., 2000), or buy from intragroup firms at below-market costs (Chang, 2003; Johnson, Boone, Breach, & Friedman, 2000). As a result, pyramiding may enable the controlling family to realize private benefits of control and may destroy firm value (Dyck & Zingales, 2004). Therefore:

**Hypothesis 4** The presence of a pyramid structure is *negatively* related with firm performance.

## Study 1: Methodology

### Sample and variables

For Study 1, we amass a database covering 744 large, publicly listed, family-owned and -controlled firms in eight countries in East and Southeast Asia: Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand.<sup>2</sup> In the literature, most studies focus on only one country. A smaller number of studies pool data from a number of Asian countries to generate models of “Asian corporate governance” (Lemmon & Lins, 2003), which assume substantial homogeneity among these countries. However, within Asia, “significant cross-country differences exist” (Claessens et al., 2000: 82). We overcome this limitation by performing analysis *both* on a country-by-country basis and on a pooled basis. We are also intrigued by the recent changes in Asia (Peng, Bhagat, & Chang, 2010). Prior to the 1997 financial crisis, family ownership and control were widely regarded as the embodiment of “family values” that contributed to Asian economic growth (also known as “miracle”). However, since the 1997 crisis, this pattern of ownership and control, often in the hands of the *same* families owning and controlling the *same* assets, has often been harshly criticized as evidence of “crony capitalism” (Backman & Butler, 2003; Begley, Khatri, & Tsang, 2010; Dieleman, 2010)—the “good” somehow becomes the “bad.” From a policy standpoint, post-1997 corporate governance reforms aiming at “taming” the leading families,<sup>3</sup> in the absence of concrete empirical evidence, also necessitate our attention. To avoid the potential complications associated with the various post-1997 turbulence and reforms, we follow Joh (2003) to focus on the relatively calm year of 1996. This also avoids

<sup>2</sup> Among major Asian economies, only China and Japan are omitted. China is not included because most listed firms there are state-owned and family ownership and control of large listed firms are very rare (Luo, Wan, & Cai, 2011; Peng, 2004; Wang & Judge, 2011; Wu, Xu, & Phan, 2011). However, most recently family-owned firms have been listed (Ding, Zhang, & Zhang, 2008). Japan is excluded because as the only developed economy in the region, Japan has the highest percentage of professional managers heading its large firms (Claessens et al., 2000: 92). Also, given the size of the Japanese economy and the disproportionate amount of attention on Japan by researchers, there is a potential issue that including Japan may bias the aggregated results across Asia (Heugens et al., 2009).

<sup>3</sup> In South Korea, a number of leading members of prominent business families have been jailed since 1997.

complications associated with the region-wide collapse of the share prices of virtually all listed firms during the 1997 crisis.

Our primary sources are (1) Datastream and (2) Asian Corporate Governance Archival Data Center (which primarily draws on Worldscope and World Bank data). Since all stock exchanges require firms to be sufficiently large in order to qualify for public listing, a publicly listed and traded firm can be justifiably regarded as a “large firm.” A “family-owned and -controlled large firm” is defined as having a family and/or its identifiable members as the largest owner(s). Following Claessens et al. (2000), we trace family ownership of each company to its ultimate owner, which is identified by how much control rights share, in percentage of total outstanding shares, the family owner has. A 5% family control rights cutoff is used to assure that the largest shareholder has sufficiently concentrated ownership and control (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). Given our focus, we exclude firms whose largest owner is the state, a financial institution, or a widely held corporation. In other words, only firms with a family (one individual or several members) as the largest identifiable shareholder are included.

The independent variables are (1) family ownership, (2) family CEO, and (3) pyramid structure. Family ownership is measured by cash-flow rights in percentage of total outstanding shares. The data source recognizes firms with family CEOs and with pyramid structures. Since our dataset only includes firms having a family as the largest shareholder, we can identify the CEO from the largest shareholder as a family CEO. We use a dummy variable equal to one for firms having a family CEO and zero otherwise. Following Hoskisson et al. (2003), we measure the presence of a pyramid structure with a dummy variable.

The dependent variable, firm performance, is measured by the cumulative stock return in 1996 (between January 1 and December 31) reported by Datastream. A stock market-based performance measure is used as the performance indicator for three reasons. First, unlike performance measures based on accounting data, market-based performance measures are not influenced by firm-specific reporting idiosyncrasies and potential managerial manipulation. Second, using stock market data eliminates the problem with accounting data that are distorted by different accounting and tax systems across countries. Third, the use of a market-based measure is consistent with an important principle in agency theory—that is, managers should maximize the *market* value of the firm (Jensen & Meckling, 1976).

Three commonly used control variables are used. The first is firm size, measured by the logarithm of market capitalization transformed to US dollars using the official exchange rate on December 31, 1996. Second, we control firm age. Third, we also include dummy variables for 12 broad industries.

### Econometric issues

We estimate the following ordinary least squares (OLS) model: Stock return =  $\alpha + \beta_1$  (family ownership) +  $\beta_2$  (family CEO) +  $\beta_3$  (pyramid structure) +  $\beta_4$  (logarithm of market capitalization) +  $\beta_5$  (age) +  $\varepsilon$  (including industry dummies). Data are entered country by country, thus resulting in eight models. The ninth model using the pooled data includes dummy variables for the countries to control for country effects.

Multicollinearity does not appear to be a significant problem, because the average variance inflation factor (VIF) for each country is less than 10. Heteroskedasticity is corrected using robust (Huber-White-Sandwich) standard errors.

Another econometric issue is the potential endogeneity of the regressors. If the governance variables are not exogenous, then their estimated coefficients may be inconsistent or unclear. Demsetz and Lehn (1985) show that ownership and firm value can be jointly determined. However, La Porta et al. (1999) report that ownership structures for large Asian firms are relatively stable over time. It seems unlikely that firms can change their ownership structures quickly and frequently in light of temporary over- or under-valuations. Thus, the possibility of endogeneity is less likely to be significant.

### Study 1: Findings

Table 1 provides descriptive statistics. In Table 2, regarding family CEO, Hypothesis 1 (the “good” hypothesis) is supported in Indonesia and Taiwan, and Hypothesis 2 (the “bad” hypothesis) is supported in Hong Kong. The presence of a family CEO has no significant impact in other countries, thereby supporting the default, “irrelevant” perspective. Specifically, holding other things constant, the stock return is 48% *higher* for firms with a family CEO than those with a non-family CEO in Indonesia and 34% *higher* in Taiwan. On the other hand, the stock return of Hong Kong firms with a family CEO performs 28% *lower* than firms with a non-family CEO.

Also shown in Table 2, regarding the pyramid structure, Hypothesis 3 (the “good” hypothesis) is supported in Hong Kong, Malaysia, and Singapore. Hypothesis 4 (the “bad” hypothesis) is supported in Indonesia and South Korea. Specifically, in Hong Kong, Malaysia, and Singapore, the stock return of firms with a pyramid structure *outperform* their non-family counterparts without such a structure by 31%, 17%, and 12%, respectively. Conversely, in Indonesia and South Korea, the stock return of pyramid firms is 37% and 17% *lower*, respectively, than that of non-pyramid firms. On the other hand, the pyramid structure seems to be insignificant and thus “irrelevant” in other countries.

In the Philippines and Thailand, neither family CEO nor pyramid structure has any effect on firm performance. Interestingly, after controlling for country-specific

**Table 1** Study 1: Descriptive statistics and correlations. Whole sample ( $N = 744$ ).

	Mean	S.D.	1	2	3	4	5
1. Stock return	0.21	0.65					
2. Family ownership	24.23	11.91	-0.01				
3. Family CEO	0.81	0.39	-0.00	0.06			
4. Pyramid structure	0.46	0.5	0.06	-0.35	0.14		
5. Market capitalization (log)	12.9	4.71	0.18	0.05	-0.01	0.05	
6. Firm age	27.97	17.55	-0.04	0.00	-0.06	-0.01	-0.05

**Table 2** Study 1: Direct effects of family ownership and control mechanisms on firm performance.

	Hong Kong	Indonesia	Malaysia	Philippines	Singapore	South Korea	Taiwan	Thailand	Whole sample
Family ownership	0.007 (0.006)	-0.002 (0.009)	0.006 (0.004)	0.014 (0.009)	0.002 (0.003)	0.006 (0.005)	0.000 (0.003)	-0.006 (0.004)	0.001 (0.002)
Family CEO	-0.278* (0.156)	0.484** (0.227)	0.151 (0.134)	0.128 (0.151)	-0.05 (0.123)	0.05 (0.096)	0.335** (0.135)	-0.058 (0.090)	-0.011 (0.056)
Pyramid	0.313* (0.174)	-0.368** (0.177)	0.173* (0.098)	-0.075 (0.136)	0.119* (0.064)	-0.174** (0.086)	-0.086 (0.107)	-0.02 (0.152)	0.028 (0.046)
Market cap (log)	-0.01 (0.044)	0.110* (0.065)	-0.038 (0.046)	0.06 (0.048)	0.064* (0.034)	-0.134* (0.072)	0.558 (0.275)	-0.031 (0.035)	0.008 (0.020)
Age	-0.005 (0.003)	0.01 (0.011)	-0.003 (0.002)	0.01 (0.007)	0.001 (0.002)	-0.002 (0.002)	-0.002 (0.004)	-0.005** (0.002)	-0.002 (0.001)
Constant	0.965 (0.898)	-0.836 (0.896)	0.583 (0.645)	-1.117 (0.687)	-1.149 (0.672)	0.44 (0.294)	-11.051** (5.495)	0.547 (0.610)	0.178 (0.295)
N	151	95	125	47	71	131	60	64	744
R <sup>2</sup>	0.1366	0.264	0.1792	0.3343	0.2009	0.1262	0.2977	0.2706	0.1992

Numbers in parentheses are White's heteroskedasticity-consistent robust standard errors. Industry dummies are included in the models, and country dummies are included in the full sample model but are not reported due to space constraints.

\* $p < 0.10$ , \*\* $p < 0.05$ .

effects, the whole, eight-country pooled sample does not show any significant effect of family CEO or pyramid structure either, therefore supporting the “irrelevant” perspective from the whole sample.

In Table 2, family ownership itself is not significant. In further exploratory analysis (Tables 3 and 4), we test if the control mechanisms of family CEO and pyramid structure moderate the relationship between family ownership and firm performance. In Tables 3 and 4, we interact each of the control mechanism variables, family CEO and pyramid structure, with family ownership separately. Generally supporting previous findings in Table 2, Table 3 shows that family CEO *positively* moderates the effect of family ownership on firm performance in Indonesia and Taiwan, and *negatively* moderates the effect of family ownership on firm performance in Hong Kong. Table 4 illustrates that pyramid structure *negatively* moderates the effect of family ownership on firm performance in Indonesia and South Korea, whereas the moderating effect is *positive* in Malaysia. Relative to the results on the effects of having a pyramid structure in Table 2, the results for Indonesia (*negative*), South Korea (*negative*), and Malaysia (*positive*) are similar, whereas the positive sign for Hong Kong and Singapore in Table 2 becomes insignificant.

Overall, the qualitative summary of our findings in Study 1 can be seen in Table 5. Given the support for both the “good” and “bad” hypotheses in different countries and the overall support for the “irrelevant” (default) perspective, at the very least, a “take-home” message is that sweeping, one-sided arguments, such as “Family ownership and control in large corporations are good” (or “bad”), should be avoided.

## Study 2: Institutions matter

Study 1 raises two interesting but unanswered questions: *Why* are large family-owned and -controlled firms in certain Asian countries able to reap performance advantages while those in other countries are not? Why do the same control mechanisms assert *opposite* influence in different countries? To answer these questions, it seems imperative that we probe into the roots of institutions that underpin corporate governance and then investigate their impact on firm performance (Aguilera, Filatotchev, Gospel, & Jackson, 2008; Roe, 2002; Schneper & Guillen, 2004; Young et al., 2008). These endeavors lead to our Study 2.

### Institutional roots of family ownership and control in large firms

The Berle and Means (1932) hypothesis that modern corporations evolve to separate ownership and control is indeed observed in most large US and UK firms that started with concentrated family ownership and control (Chandler, 1990). The institution-based view can explain why family firms in most other countries have not evolved in this way (Carney, Gedajlovic, & Yang, 2009; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998, 2002; Roe, 2002; Young et al., 2008). In the United States and United Kingdom, with developed institutions to protect shareholders, founding families may feel comfortable to hire professional CEOs and release more control to

**Table 3** Study 1: Moderating effects of family CEO on the family ownership-performance relationship.

	Hong Kong	Indonesia	Malaysia	Philippines	Singapore	South Korea	Taiwan	Thailand	Whole sample
Family ownership	0.015* (0.008)	-0.016* (0.009)	0.003 (0.005)	0.010 (0.007)	0.000 (0.007)	0.004 (0.005)	-0.017** (0.007)	-0.004 (0.004)	0.001 (0.002)
Ownership × CEO	-0.010* (0.005)	0.017*** (0.006)	0.004 (0.003)	0.006 (0.007)	0.002 (0.007)	0.003 (0.005)	0.017*** (0.006)	-0.003 (0.002)	-0.000 (0.002)
Pyramid	0.316* (0.176)	-0.298* (0.167)	0.171* (0.098)	-0.067 (0.148)	0.127* (0.064)	-0.174** (0.085)	-0.083 (0.105)	-0.028 (0.152)	0.027 (0.046)
Market cap (log)	-0.007 (0.043)	0.110 (0.066)	-0.04 (0.047)	0.056 (0.052)	0.070** (0.033)	-0.133* (0.071)	0.545* (0.281)	-0.031 (0.035)	0.008 (0.020)
Age	-0.005 (0.003)	0.010 (0.010)	-0.003 (0.002)	0.010 (0.007)	0.001 (0.002)	-0.002 (0.002)	-0.003 (0.004)	-0.006** (0.002)	-0.002 (0.001)
Constant	0.705 (0.810)	-0.509 (0.926)	0.757 (0.659)	-0.964 (0.656)	-1.288** (0.600)	0.477 (0.324)	-10.453* (5.662)	0.504 (-0.619)	0.169 (0.280)
N	151	95	125	47	71	131	60	64	744
R <sup>2</sup>	0.1343	0.2604	0.1773	0.3365	0.1983	0.1271	0.2994	0.2792	0.1992

Numbers in parentheses are White's heteroskedasticity-consistent robust standard errors. Industry dummies are included in the models, and country dummies are included in the full sample model but are not reported due to space constraints.

\* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

**Table 4** Study 1: Moderating effects of pyramid structure on the family ownership-performance relationship.

	Hong Kong	Indonesia	Malaysia	Philippines	Singapore	South Korea	Taiwan	Thailand	Whole sample
Family ownership	0.002 (0.005)	0.006 (0.007)	0.004 (0.004)	0.015* (0.008)	0.000 (0.003)	0.009 (0.006)	0.003 (0.005)	-0.005 (0.003)	-0.000 (0.002)
Ownership × Pyramid	0.01 (0.007)	-0.010* (0.006)	0.008* (0.004)	-0.002 (0.006)	0.004 (0.002)	-0.012** (0.005)	-0.004 (0.004)	-0.000 (0.005)	0.001 (0.002)
Family CEO	-0.262* (0.156)	0.381* (0.194)	0.15 (0.135)	0.133 (0.162)	-0.062 (0.126)	0.045 (0.092)	0.328** (0.132)	-0.058 (0.089)	-0.004 (0.057)
Market cap (log)	-0.016 (0.046)	0.120* (0.064)	-0.044 (0.046)	0.062 (0.049)	0.068* (0.034)	-0.133* (0.071)	0.56 (0.268)	-0.03 (0.034)	-0.009 (0.016)
Age	-0.005* (0.003)	0.01 (0.011)	-0.004 (0.002)	0.01 (0.007)	0.001 (0.002)	-0.002 (0.002)	-0.002 (0.004)	-0.005** (0.002)	-0.002 (0.001)
Constant	1.226 (0.932)	-1.131 (0.855)	0.74 (0.622)	-1.183* (0.668)	-1.119* (0.662)	0.453 (0.293)	-11.167** (5.334)	0.512 (0.585)	0.511** (0.234)
N	151	95	125	47	71	131	60	64	744
R <sup>2</sup>	0.1268	0.2592	0.1852	0.3313	0.191	0.1377	0.2983	0.2704	0.1957

Numbers in parentheses are White's heteroskedasticity-consistent robust standard errors. Industry dummies are included in the models, and country dummies are included in the full sample model but are not reported due to space constraints.

\*  $p < 0.10$ , \*\*  $p < 0.05$ .

**Table 5** Study 1: Summary.

A. Direct effects of family ownership and control mechanisms on firm performance			
	Good	Bad	Irrelevant
Family CEO	Indonesia, Taiwan	Hong Kong	Malaysia, Philippines, Singapore, South Korea, Thailand, Pooled sample
Pyramid structure	Hong Kong, Malaysia, Singapore	Indonesia, South Korea	Philippines, Taiwan, Thailand, Pooled sample
B. Moderating effects of family ownership and control mechanisms on the family ownership-firm performance relationship			
	Positive	Negative	Irrelevant
Family CEO × family ownership	Indonesia, Taiwan	Hong Kong	Malaysia, Philippines, Singapore, South Korea, Thailand, Pooled sample
Pyramid structure × family ownership	Malaysia	Indonesia, South Korea	Hong Kong, Philippines, Singapore, Taiwan, Thailand, Pooled sample

minority shareholders. On the other hand, when formal legal and regulatory institutions are less developed, founding families are not willing to hire outside managers—unless they are married into the family (Burkart, Panunzi, & Shleifer, 2003). Concentrated ownership becomes the common practice when minority shareholders are less willing to invest without sufficient legal protection.<sup>4</sup>

In the United States, Anderson and Reeb (2003) refute the Fama and Jensen (1983) proposition that “Family ownership and control are bad for large firms,” which forms the basis of our Hypotheses 2 and 4 in Study 1. However, Anderson and Reeb (2003) are careful to note that their results may be contingent upon the particular institutional frameworks governing large family firms in the United States and may not hold in Asia. While this interpretation is consistent with the generally understood, coarse-grained differences in institutional frameworks between the United States and Asia, our Study 1 suggests that even within Asia, some “good” results may be found in certain countries. The institution-based theory suggests that a finer-grained exploration *within* Asia may answer the questions raised from Study 1.

### How institutions matter

Given the simultaneous existence of the benefits and costs of having a family CEO and a pyramid structure (see Study 1), the research question arising in Study 2 is: Under what conditions do the benefits outweigh the costs? Shareholder protection varies across countries due to differences in legal and regulatory institutions, which govern firms externally (Dyck & Zingales, 2004; La Porta et al., 2002). When the external governance mechanism is less effective, alternative internal governance mechanisms may be more important to shoulder the responsibility of corporate

<sup>4</sup> “What is the best way to avoid losing out as a minority shareholder in Asia?” Two prominent consultants answer in an influential book on Asian business, *Big in Asia*, “Don’t be one” (Backman & Butler, 2003: 235).

governance development (Dalton, Certo, & Roengpitya, 2003; Jiang & Peng, 2010). We argue that different levels of (minority) shareholder protection in institutional frameworks may play a role in placing different priorities in internal governance structures, thus explaining the positive or negative findings in different countries. Table 6 divides countries in two groups: those with more developed legal and regulatory institutions protecting shareholders and those with less developed institutions. When plotted together with the two family ownership and control mechanisms used in Study 1, Table 6 generates a 2×2 matrix with four cells. Each leads to a hypothesis for Study 2.

In countries with less developed legal and regulatory institutions to protect investors (Cell 1), having a family CEO may be beneficial. Outside, non-family managers may significantly deviate from pursuing the interests of both the family and the minority shareholders (Burkart et al., 2003). Under these circumstances, the benefits of having a family CEO play a more important role in corporate governance. Despite the potential drawbacks associated with having a family CEO (such as those noted in Study 1), having a family CEO, on balance, may still add value.

Conversely, in countries with more developed legal and regulatory institutions to protect investors (Cell 2), reducing the conflict between the owner and the manager may not be the priority of corporate governance since external governance mechanisms are more effective to play the monitoring role. With a better regulated factor market, outside, non-family managers may be more effectively disciplined. Under these circumstances, having a family CEO in order to combat agency problems brought by non-family managers may be redundant and even counter-productive.

This line of reasoning is supported by one of the most interesting findings from our Study 1: Having a family CEO is *good* for firm performance in Indonesia and *bad* in Hong Kong. In the absence of concrete information that controlling families in Hong Kong are systematically more “greedy” than those in Indonesia, it seems plausible to suggest that different levels of investor protection in their institutional frameworks may play a role in placing different priorities in internal governance structures. Reducing agency costs may be the priority in internal corporate governance in Indonesia, but not in Hong Kong. Exploring the generalizability of such Study 1 findings, Study 2 tests the following two hypotheses:

**Hypothesis 5** The presence of a family CEO is *positively* related with firm performance in countries with less developed legal and regulatory institutions to protect shareholders.

**Table 6** Study 2: How institutions matter.

	Countries with <i>less</i> developed legal and regulatory institutions (Indonesia, Philippines, South Korea, and Thailand)	Countries with <i>more</i> developed legal and regulatory institutions (Hong Kong, Malaysia, Singapore, and Taiwan)
Family CEO	Cell 1: Good (H5)	Cell 2: Bad (H6)
Pyramid structure	Cell 3: Bad (H7)	Cell 4: Good (H8)

**Hypothesis 6** The presence of a family CEO is *negatively* related with firm performance in countries with more developed legal and regulatory institutions to protect shareholders.

In countries with less developed legal and regulatory institutions, given the ineffective external governance mechanism in the market, corporate governance may need to emphasize shareholder protection. Having a pyramid structure, often set up by the controlling family, may increase the incentive of expropriation of minority shareholders (Faccio et al., 2001). This problem may become especially severe as the number of “tiers” of the pyramid increases and controlling shareholders have lower cash-flow ownership levels (Chang, 2003; Dyck & Zingales, 2004; La Porta et al., 2002). The pyramid structure, thus, is “bad” for firm value since minority shareholder protection is not emphasized. Conversely, in countries with better investor protection, although controlling families, who are tied with business groups through a pyramid structure, may have the same incentive to expropriate minority shareholders, their ability to do so may be constrained by the legal and regulatory frameworks.

A pyramid structure may help member firms in business groups (Khanna & Yafeh, 2007). But these benefits may only outweigh the costs of principal-principal conflicts when expropriation of minority shareholders is curbed. In other words, pyramid structure may need to be scrutinized by stronger legal institutions that protect minority shareholders. Again, Study 1 findings on the contrast between Indonesia (Cell 3) and Hong Kong (Cell 4) are indicative of this reasoning. While controlling shareholders in Hong Kong are also known to expropriate minority shareholders (Claessens et al., 2000; Filatotchev et al., 2011), the scale and scope of such expropriation in Indonesia are in a different league (Johnson et al., 2000). In Study 1, a pyramid structure in Hong Kong is found to be generally beneficial, despite its drawbacks. Thus:

**Hypothesis 7** The presence of a pyramid structure is *negatively* related with firm performance in countries with less developed legal and regulatory institutions to protect shareholders.

**Hypothesis 8** The presence of a pyramid structure is *positively* related with firm performance in countries with more developed legal and regulatory institutions to protect shareholders.

Overall, building on Study 1, Study 2 directly links the “good” and “bad” sides of family ownership and control with one country’s institutional framework. It aims to shed light on *how* institutions matter.

## Study 2: Methodology

### Sample and variables

While Study 2 continues to draw on the same data sources used in Study 1, we have collected significant additional data to better account for firm characteristics and

institutional frameworks. However, the quest for additional data reduces our sample size from 744 to 688 publicly listed, family-owned and -controlled firms in the same eight Asian countries in Study 1. We continue to focus on firm value, measured as the cumulative stock return in 1996. To better control for other factors that may affect stock return, we use an additional set of control variables—in addition to firm size, age, and industry used in Study 1. Firm leverage (measured as the ratio of total debt to total assets) and market-to-book ratio (measured as the market value of equity divided by the book value of equity) are obtained from *Worldscope*. Stock risk (beta) is computed by regressing a firm's monthly stock return on the corresponding country index return in 1996 from *Datastream*. Because market value in the previous year may also affect stock return in the current year, we control for firm stock price at the beginning of 1996 in US dollars using the prevailing exchange rate.

We measure institutional variables based on La Porta et al. (1998), whose index has been widely used and validated in recent cross-country studies (Dyck & Zingales, 2004; Fogel, 2006; Johnson et al., 2000; Peng & Jiang, 2010; Schnepfer & Guillen, 2004). Table 7 represents country scores in the index for (1) efficiency of judicial system, (2) rule of law, and (3) corruption, which are three broad institutional measures crucial for investor protection.<sup>5</sup> Hong Kong, Malaysia, Singapore, and Taiwan, with each score higher than the average, are considered as countries with *more* developed legal and regulatory institutions. Indonesia, the Philippines, South Korea, and Thailand, with each score lower than the average, are considered as countries with *less* developed legal and regulatory institutions. A total of 302 and 386 firms are found in countries with less and more developed institutions, respectively.

Table 8 reports mean values of variables of these two groups of firms. The average stock return in countries with less developed institutions is significantly lower than that in countries with more developed institutions. Family ownership averages 24% across the sample. There are no significant differences in family ownership, family CEO, pyramid structure, firm age, and stock risk beta across the sample. Firms in countries with less developed institutions have significantly lower market capitalization, firm value, and market-to-book ratio as well as higher debt-to-asset ratio. Overall, there are differences in almost every financial measure across institutional regimes, but no differences in governance variables. This suggests that institutions may be more important than firm-specific governance structures. Firms may not make different choices in different institutional environments, but the choices they do make have more different effects depending on the institutional environment. This indication will be explored in Study 2.

### Econometric issues

In Study 2, we estimate the following OLS model: Stock return =  $\alpha + \beta_1$  (family ownership) +  $\beta_2$  (family CEO) +  $\beta_3$  (pyramid structure) +  $\beta_4$  (logarithm of market

<sup>5</sup> Judicial efficiency is the assessment by Business International Corporation of “the efficiency and integrity of the legal environment as it affects business” (La Porta et al., 1998: 1124). Rule of law and corruption, assessed by International Country Risk Services, focuses on the law and order tradition of the country. Corruption is the extent of corruption in the government—particularly the extent to which businesses have to pay bribes (La Porta et al., 1998). All of these measures are calculated well before the 1997 Asian financial crisis.

**Table 7** Study 2: Rankings of legal and regulatory institutions.

	Efficiency of judicial system	Rule of law	Corruption
Countries with <i>more</i> developed institutions			
Hong Kong	10	8.22	8.52
Malaysia	9	6.78	7.38
Singapore	10	8.57	8.22
Taiwan	6.75	8.52	6.85
Countries with <i>less</i> developed institutions			
Indonesia	2.5	3.98	2.15
Philippines	4.75	2.73	2.92
South Korea	6	5.35	5.3
Thailand	3.25	6.25	5.18
Average for the 8 countries	6.5	6.3	5.8

Adapted from La Porta et al. (1998).

capitalization) +  $\beta_5$  (age) +  $\beta_6$  (debt to asset ratio) +  $\beta_7$  (starting stock price) +  $\beta_8$  (stock risk beta) +  $\beta_9$  (market to book value) +  $\varepsilon$  (including industry dummies). Firms with less developed legal and regulatory institutions are fit into the model first, then firms with more developed legal and regulatory institutions, and lastly, pooled data. Multicollinearity does not appear to be a significant problem, because the average VIFs for all the models are less than 10. Heteroskedasticity is corrected using robust (Huber-White-Sandwich) standard errors.

**Table 8** Study 2: Similarities and differences between firms in countries with less and more developed institutions for shareholder protection.

	Firms in countries with <i>less</i> developed institutions ( $N=302$ )	Firms in countries with <i>more</i> developed institutions ( $N=386$ )	Difference
Stock return	2.84%	36.84%	-0.34***
Family ownership (% of total share outstanding)	24.189	24.163	0.03 <sup>ns</sup>
Family CEO (1 = having a family CEO)	0.798	0.8316	-0.03 <sup>ns</sup>
Pyramid structure (1 = having a pyramid structure)	0.447	0.4793	-0.03 <sup>ns</sup>
Market capitalization (log)	11.939	12.564	-0.62***
Firm age	28.626	29.497	-0.87 <sup>ns</sup>
Debt-to-asset ratio	37.711	21.904	15.8**
Firm value (start of 1996) (US\$)	7.4402	157.54	-150***
Stock risk beta	0.9748	0.916	0.06 <sup>ns</sup>
Market-to-book ratio	1.413	2.2082	-0.8***

\* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

## Study 2: Findings

Table 9 reports descriptive statistics. Table 10 documents the regression results with three models. Model 1 focuses on countries with less developed legal and regulatory institutions to protect shareholders, Model 2 deals with countries with more developed institutions, and Model 3 pools data from all the countries.

Model 1 supports both Hypotheses 5 and 7. Specifically, in countries with less developed institutions, having a family CEO is value-enhancing (12% *higher* than having a non-family CEO), while having a pyramid structure is value-destroying (14% *lower* than non-pyramid firms). Both findings are significant. Model 2 supports Hypothesis 8 in that having a pyramid structure is beneficial for firm value (14% *higher* than non-pyramid firms) in more developed countries. However, Hypothesis 6 is not supported: Although the coefficient sign is in the predicted direction (negative), it does not reach significance. Finally, Model 3 on the whole, eight-country, pooled sample (like Study 1) does not show any significant impact of family CEO or pyramid structure on firm performance. Therefore, this finding, again, supports the “irrelevant” perspective. Overall, Study 2 is strongly supportive of the view that whether family ownership and control in large firms are good, bad, or irrelevant is *systematically* correlated with the legal and regulatory institutions governing shareholder protection in one country.

While our findings support the view that family CEOs enhance firm value in less developed institutional environments, it is worth noting that Peng and Jiang (2010) show a negative relationship between family CEOs and firm value in countries with less developed institutions. While our current article explores a relatively calm period before the 1997 Asian financial crisis, Peng and Jiang’s (2010) data come from the crisis period. It is likely that in a financial crisis, firms with family CEOs are more likely to expropriate minority shareholders, and thus destroy firm value. Principal-principal conflicts become the dominating problem in an economic shock, which changes the priority of internal corporate governance structure.

## Discussion

### Contributions

Overall, three sets of theoretical and empirical contributions emerge. First, theoretically, to the best of our knowledge, ours are among the first studies that address all sides of the family firm puzzle head-on. Although the agency theory-based Fama and Jensen (1983) prediction that large family firms that do not separate ownership and control will suffer from inefficiency is supported by Study 1 in some countries in Asia, it is refuted in other countries and refuted in the aggregate, pooled sample. Overall, just like the Berle and Means (1932) hypothesis on the inevitable separation of ownership and control in large firms turns out to be supported only in certain parts of the world (La Porta et al., 1998, 1999; Morck et al., 2005), the Fama and Jensen (1983) prediction has only received partial support in Study 1.

A second theoretical contribution lies in the identification that the benefits and costs of family ownership and control vary systematically according to the level of legal and

**Table 9** Study 2: Descriptive statistics and correlations.

	Mean	S.D.	1	2	3	4	5	6	7	8	9
Firms in countries with less developed legal and regulatory institutions to protect shareholders ( <i>N</i> =302)											
1. Stock return	0.03	0.75									
2. Family ownership	24.19	12.68	-0.03								
3. Family CEO	0.80	0.40	0.09	0.08							
4. Pyramid structure	0.45	0.50	0.11	-0.22	0.12						
5. Market capitalization (log)	11.94	1.53	0.04	0.07	0.02	0.06					
6. Firm age	28.63	16.89	-0.01	-0.19	-0.10	0.02	0.06				
7. Debt-to-asset ratio	37.71	24.22	-0.12	-0.05	0.03	-0.07	-0.16	0.07			
8. Firm value (start of 1996)	7.44	25.45	-0.12	0.27	0.02	-0.14	0.21	-0.05	-0.12		
9. Stock risk beta	0.98	0.92	-0.03	-0.03	0.07	-0.06	0.15	-0.04	0.11	0.01	
10. Market-to-book ratio	1.41	1.33	0.27	0.18	0.00	0.01	0.47	-0.04	-0.19	0.08	-0.01
Firms in countries with more developed legal and regulatory institutions to protect shareholders ( <i>N</i> =386)											
1. Stock return	0.37	0.57									
2. Family ownership	24.16	11.42	0.03								
3. Family CEO	0.83	0.38	-0.15	0.05							
4. Pyramid structure	0.48	0.5	-0.02	-0.45	0.16						
5. Market capitalization (log)	12.56	1.40	0.17	-0.16	-0.21	-0.00					
6. Firm age	29.5	18.58	-0.07	0.14	-0.03	-0.02	0.23				
7. Debt-to-asset ratio	21.9	15.39	-0.00	-0.07	0.07	0.11	-0.1	-0.13			
8. Firm value (start of 1996)	157.5	342.1	-0.05	-0.08	-0.11	0.04	0.46	0.15	-0.10		
9. Stock risk beta	0.92	0.93	0.26	0.01	-0.02	-0.02	0.21	0.06	-0.01	0.05	
10. Market-to-book ratio	2.21	2.27	0.08	-0.03	0.02	0.03	0.06	-0.04	-0.01	0.12	0.09
Whole sample ( <i>N</i> =688)											
1. Stock return	0.22	0.67									
2. Family ownership	24.17	11.98	-0.00								
3. Family CEO	0.82	0.39	-0.02	0.06							
4. Pyramid structure	0.47	0.50	0.05	-0.34	0.14						
5. Market capitalization (log)	12.29	1.49	0.15	-0.05	-0.09	0.03					
6. Firm age	29.11	17.85	-0.04	-0.00	-0.06	-0.01	0.15				
7. Debt-to-asset ratio	28.84	21.24	-0.16	-0.05	0.03	-0.00	-0.20	-0.03			
8. Firm value (start of 1996)	91.65	267.2	0.04	-0.04	-0.07	0.03	0.38	0.12	-0.16		
9. Stock risk beta	0.94	0.92	0.10	-0.01	0.02	-0.04	0.18	0.01	0.06	0.02	
10. Market-to-book ratio	1.86	1.95	0.10	0.04	0.02	0.03	0.22	-0.03	-0.14	0.16	0.05

**Table 10** Study 2: Direct effects of family ownership and control mechanisms on firm performance.

	Model 1 Countries with less developed institutions	Model 2 Countries with more developed institutions	Model 3 Whole sample
Family ownership	-0.0022 (0.0027)	0.0042* (0.0023)	-0.0002 (0.0018)
Family CEO	0.1167* (0.0691)	-0.0715 (0.0969)	0.0013 (0.0603)
Pyramid	-0.1396** (0.0685)	0.1436** (0.0679)	0.0129 (0.0476)
Market cap (log)	-0.056 (0.0385)	0.0863** (0.0268)	0.025 (0.0173)
Age	0.0028 (0.003)	-0.004** (0.0016)	-0.001 (0.0015)
Debt-to-asset ratio	-0.0015 (0.002)	0.0004 (0.0019)	-0.0009 (0.0014)
Firm value (beginning of 1996)	-0.0011* (0.0007)	-0.0002*** (0.0001)	-0.0002*** (0.0001)
Stock risk beta	0.0169 (0.0504)	0.1022** (0.041)	0.0663* (0.0352)
Market-to-book ratio	0.1673* (0.0964)	0.0239 (0.0164)	0.0493* (0.0275)
Constant	0.0530 (0.3797)	-1.3150*** (0.4142)	0.4142*** (0.2466)
N	302	386	688
F	4.6	8.04	12.68
R <sup>2</sup>	0.2402	0.253	0.2335

Numbers in parentheses are White's heteroskedasticity-consistent robust standard errors. Industry dummies and country dummies are included in the models but are not reported due to space constraints.

\* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

regulatory protection for shareholders. Extending Carney et al. (2009, 2011), Davis (2005), La Porta et al. (2002), Liu et al. (2011), Peng and Jiang (2010), Roe (2002), Schnepfer and Guillen (2004), and Young et al. (2008), our Study 2 helps delineate a cross-country, institution-based theory of corporate governance. This theory provides insights to the puzzle on concentrated family ownership and control, by proposing that the enabling and constraining forces of the institutional frameworks may explain the contradicting findings from previous single-country and cross-country studies. This theory thus can greatly enrich the broader institution-based view literature in management (Peng, Sun, Pinkham, & Chen, 2009; Peng, Wang, & Jiang, 2008).

Empirically, perhaps the strongest message out of Study 1 is that given the simultaneous findings of the "good," "bad," and "irrelevant" family firms within Asia, models on "Asian corporate governance" may have ignored the differences in

institutional frameworks within Asia. Another empirical contribution, out of both Studies 1 and 2, lies in the discovery of the *opposite* effect of the two main mechanisms for family ownership and control—family CEO and pyramid structure. This contrast is especially noteworthy between Hong Kong (a highly developed common law practitioner that had been a British colony until 1997) and Indonesia (an underdeveloped civil law country that had been a Dutch colony until 1945).<sup>6</sup> Finally, from an institution-based standpoint, Study 2 empirically answers why such opposite findings are found.

In summary, this article contributes to the literature by leveraging the Asian context (or more specifically, the multiple institutional contexts within different countries in Asia) to advance an institution-based theory of corporate governance, and by (at least partially) solving the family firm puzzle on the link between family ownership and control on the one hand and firm performance on the other hand.

### Limitations and future research directions

Limitations of our two studies need to be tackled by future research. First, institutions are complex. While we have followed La Porta et al. (1998, 1999) to focus on the legal and regulatory development of institutions,<sup>7</sup> we have not investigated informal aspects of institutions such as cultural and societal norms (Ahlstrom, Chen, & Yeh, 2010; Berrone et al., 2010; Bertrand & Schoar, 2006; Chakrabarty, 2009). Future research that includes different measurements of institutions may provide more nuanced insights.

A second limitation is that we do not investigate family firms' history and evolution. There may be differences between founder-controlled and successor-controlled family firms (Daily & Dalton, 1992). In the United States, studies document that only founder-controlled family firms outperform non-family firms (Anderson & Reeb, 2003; van Essen, Carney, Gedajlovic, Heugens, & van Oosterhout, 2010) and second- and third-generation family CEOs destroy value (Villalonga & Amit, 2006). In Thailand, ethnic Chinese families dominate businesses and family structures are affected by the number of sons of the founder (Bertrand, Johnson, Samphantarak, & Schoar, 2008). In Korea, over time some family business groups are more stable than others (Chang, 2003). Our data do not enable us to identify the generations of families or the evolution of business groups. Future research that tracks the dynamic changes of families and business groups will further enhance our ability to solve the family firm puzzle.

Finally, it is important to acknowledge that our exploratory efforts have only reported correlations, which are *not* causations. Studies have documented that companies in countries with less shareholder protection tend to adopt the pyramid structure (La Porta et al., 1999), indicating that corporate governance structures may

<sup>6</sup> However, this contrast is not as strong in some “mid-range” countries, such as Thailand. Although La Porta et al. (1998: 1130) classify Thailand as a common law country, the *CIA World Factbook* (2005) suggests that Thailand has a civil law system “with influences of common law.” Thus, it is not surprising that the findings out of Thailand are not as strong in either direction as those out of Hong Kong or Indonesia.

<sup>7</sup> While the institutional origins variables advocated by La Porta et al. (1998) have been influential, there is some debate regarding their validity (Davis, 2005; Rajan & Zingales, 2003).

be endogenous. While our hypotheses are carefully phrased in the language of correlations (“A is related with B,” not “A causes B”), it will be important to push this research further.

## Conclusions

A cross-country, institution-based theory of corporate governance has emerged out of our two studies. In the eight Asian countries that we sample, while some of the family firms with family CEOs or pyramid structures indeed suffer from poor performance, many others benefit from the affiliation with family control, and still others manage to have their performance unaffected. Overall, there is no concrete evidence documenting that family business is always “good,” “bad,” or “irrelevant”—our Study 1 suggests that they are “all of the above.” Addressing why this is the case, our Study 2 theorizes and documents that the effect of family ownership and control systematically depends on the differences in the legal and regulatory institutions that protect (minority) shareholders in various countries. Taken together, our two studies show how institutions matter in corporate governance (Peng et al., 2008, 2009; Young et al., 2008).

Our findings also have important implications for corporate governance reforms, which have been called for in Asia after the 1997 financial crisis. Concerns are expressed about the ability of family business groups to restrain competition (Rajan & Zingales, 2003), and some groups are forced to restructure (Almeida & Wolfenzon, 2006). However, attempts to dismantle family business groups may be ignoring the complex nature of business groups given their benefits to member firms and shareholders in some countries (Carney et al., 2011). Certain reforms such as improving minority shareholder protection will help institutional development, and may even curtail the “bad” side and bring out the “good” side of family ownership and control of large firms. In conclusion, a uniform set of restructuring initiatives may not be appropriate in different institutions across Asian countries (Chen, Li, & Shapiro, 2011). Reforms need to be embraced with a deep understanding of the puzzle surrounding family ownership and control of large firms.

## References

- Aguilera, R., Filatotchev, I., Gospel, H., & Jackson, G. 2008. An organizational approach to comparative corporate governance: Costs, contingencies, and complementarities. *Organization Science*, 19: 475–492.
- Ahlstrom, D., Chen, S.-J., & Yeh, K. S. 2010. Managing in ethnic Chinese communities: Culture, institutions, and context. *Asia Pacific Journal of Management*, 27(3): 341–354.
- Almeida, H., & Wolfenzon, D. 2006. Should business groups be dismantled? The equilibrium costs of efficient internal capital markets. *Journal of Financial Economics*, 79: 99–144.
- Anderson, R., & Reeb, D. 2003. Founding-family ownership and firm performance: Evidence from the S&P 500. *Journal of Finance*, 58: 1301–1328.
- Arregle, J.-L., Hitt, M. A., Sirmon, D. G., & Very, P. 2007. The development of organizational social capital: Attributes of family firms. *Journal of Management Studies*, 44: 73–95.
- Backman, M., & Butler, C. 2003. *Big in Asia*. New York: Palgrave MacMillan.

- Barney, J. B. 2001. Resource-based theories of competitive advantage: A ten-year retrospective on the resource-based view. *Journal of Management*, 27: 643–650.
- Begley, T. M., Khatri, N., & Tsang, E. W. K. 2010. Networks and cronyism: A social exchange analysis. *Asia Pacific Journal of Management*, 27(2): 281–297.
- Berle, A. A., & Means, G. C. 1932. *The modern corporation and property*. New York: Harcourt.
- Berrone, P., Cruz, C., Gomez-Mejia, L. R., & Larrazza-Kintana, M. 2010. Socioemotional wealth and corporate responses to institutional pressures: Do family-controlled firms pollute less?. *Administrative Science Quarterly*, 55: 82–113.
- Bertrand, M., Johnson, S., Samphantarak, K., & Schoar, A. 2008. Mixing family with business: A study of Thai business groups and the families behind them. *Journal of Financial Economics*, 88: 466–498.
- Bertrand, M., & Schoar, A. 2006. The role of family in family firms. *Journal of Economic Perspectives*, 20: 73–96.
- Bruton, G. D., Ahlstrom, D., & Wan, J. C. C. 2003. Turnaround in East Asian firms: Evidence from ethnic overseas Chinese communities. *Strategic Management Journal*, 24: 519–540.
- Burkart, M., Panunzi, F., & Shleifer, A. 2003. Family firms. *Journal of Finance*, 58: 2167–2201.
- Carney, M., & Gedajlovic, E. 2002. The coupling of ownership and control and the allocation of financial resources: Evidence from Hong Kong. *Journal of Management Studies*, 39: 123–146.
- Carney, M., Gedajlovic, E., Huegens, P., van Essen, M., & van Oosterhout, J. 2011. Business group affiliation, performance, context, and strategy: A meta-analysis. *Academy of Management Journal* (in press).
- Carney, M., Gedajlovic, E., & Yang, X. 2009. The varieties of Asian capitalism: Toward an institutional theory of Asian enterprise. *Asia Pacific Journal of Management*, 26(3): 361–380.
- Chakrabarty, S. 2009. The influence of national culture and institutional voids on family ownership of large firms: A country level empirical study. *Journal of International Management*, 15: 32–45.
- Chandler, A. 1990. *Scale and scope*. Cambridge: Harvard University Press.
- Chang, S. J. 2003. Ownership structure, expropriation, and performance of group-affiliated companies in Korea. *Academy of Management Journal*, 46: 238–253.
- Chen, V. Z., Li, J., & Shapiro, D. M. 2011. Are OECD-prescribed “good corporate governance practices” really good in an emerging economy?. *Asia Pacific Journal of Management*, 28 (this issue, doi:10.1007/s10490-010-9206-8).
- Chen, Y. Y., & Young, M. N. 2010. Cross-border mergers and acquisitions by Chinese listed companies: A principal-principal perspective. *Asia Pacific Journal of Management*, 27(3): 523–539.
- Chu, W. 2011. Family ownership and firm performance: Influence of family management, family control, and firm size. *Asia Pacific Journal of Management*. doi:10.1007/s10490-009-9180-1.
- Claessens, S., Djankov, S., & Lang, L. 2000. The separation of ownership and control in East Asian corporations. *Journal of Financial Economics*, 58: 81–112.
- Daily, C. M., & Dalton, D. R. 1992. Financial performance of founder-managed versus professionally managed corporations. *Journal of Small Business Management*, 30: 25–34.
- Dalton, D. R., Certo, S. T., & Roengpitya, R. 2003. Meta-analysis of financial performance and equity: Fusion or confusion?. *Academy of Management Journal*, 46: 13–26.
- Davis, G. F. 2005. New directions in corporate governance. *Annual Review of Sociology*, 31: 143–162.
- Demsetz, H., & Lehn, K. 1985. The structure of corporate ownership: Causes and consequences. *Journal of Political Economy*, 93: 1155–1177.
- de Vries, M. F. R. K. 1993. The dynamics of family controlled firms: The good and the bad news. *Organizational Dynamics*, 21: 59–71.
- Dieleman, M. 2010. Shock-imprinting: External shocks and ethnic Chinese business groups in Indonesia. *Asia Pacific Journal of Management*, 27(3): 481–502.
- Ding, Y., Zhang, H., & Zhang, J. 2008. The financial and operating performance of Chinese family-owned listed firms. *Management International Review*, 48: 297–318.
- Dyck, A., & Zingales, L. 2004. Private benefits of control: An international comparison. *Journal of Finance*, 59: 537–600.
- Eddelston, K., & Kellermanns, F. W. 2007. Destructive and productive family relationships: A steward theory perspective. *Journal of Business Venturing*, 22: 545–565.
- Estrin, S., Poukliakova, S., & Shapiro, D. 2009. The performance effects of business groups in Russia. *Journal of Management Studies*, 46: 393–420.
- Faccio, M., Lang, L., & Young, L. 2001. Dividends and expropriation. *American Economic Review*, 91: 54–78.
- Fama, E. F., & Jensen, M. 1983. Separation of ownership and control. *Journal of Law and Economics*, 26: 301–326.

- Filatotchev, I., Zhang, X., & Piesse, J. 2011. Multiple agency perspective, family control, and private information abuse in an emerging economy. *Asia Pacific Journal of Management*, 28 (this issue, doi:10.1007/s10490-010-9220-x).
- Fogel, K. 2006. Oligarchic family control, social economic outcomes, and the quality of government. *Journal of International Business Studies*, 37: 603–622.
- Gedajlovic, E., & Shapiro, D. M. 2002. Ownership structure and firm profitability in Japan. *Academy of Management Journal*, 45: 565–575.
- Gomez-Mejia, L. R., Haynes, K. T., Nunez-Nickel, M., Jacobson, K., & Mayano-Fuentes, J. 2007. Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly*, 52: 106–137.
- Gomez-Mejia, L., Nunez-Nickel, M., & Gutierrez, I. 2001. The role of family ties in agency contracts. *Academy of Management Journal*, 44: 81–95.
- Guillen, M. 2000. Business groups in emerging economies: A resource-based view. *Academy of Management Journal*, 43: 362–380.
- Habbershon, T., & Williams, M. 1999. A resource-based framework for assessing the strategic advantage of family firms. *Family Business Review*, 12: 1–25.
- Heugens, P. P. M. A. R., van Essen, M., & van Oosterhout, J. 2009. Meta-analyzing ownership concentration and firm performance in Asia: Towards a more fine-grained understanding. *Asia Pacific Journal of Management*, 26(3): 481–512.
- Hoskisson, R., Cannella, A., Tihanyi, L., & Faraci, R. 2003. Asset restructuring and business group affiliation in French civil law countries. *Strategic Management Journal*, 25: 525–539.
- Jensen, M. C., & Meckling, W. 1976. Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3: 305–350.
- Jiang, Y., & Peng, M. W. 2010. Principal-principal conflicts during crisis. *Asia Pacific Journal of Management*. doi:10.1007/s10490-009-9186-8.
- Joh, S. W. 2003. Corporate governance and firm profitability: Evidence from Korea before the economic crisis. *Journal of Financial Economics*, 68: 287–322.
- Johnson, S., Boone, P., Breach, A., & Friedman, E. 2000. Corporate governance in the Asian financial crisis. *Journal of Financial Economics*, 58: 141–186.
- Khanna, T., & Yafeh, Y. 2007. Business groups in emerging markets: Paragons or parasites?. *Journal of Economic Literature*, 45: 331–372.
- La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 1999. Corporate ownership around the world. *Journal of Finance*, 54: 471–517.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 1998. Law and finance. *Journal of Political Economy*, 106: 1113–1155.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 2002. Investor protection and corporate valuation. *Journal of Finance*, 57: 1147–1170.
- Lee, K. B., Peng, M. W., & Lee, K. 2008. From diversification premium to diversification discount during institutional transitions. *Journal of World Business*, 43: 47–65.
- Lemmon, M. L., & Lins, K. V. 2003. Ownership structure, corporate governance, and firm value: Evidence from the East Asian financial crisis. *Journal of Finance*, 58: 1445–1469.
- Li, M., Ramaswamy, K., & Pettit, B. 2006. Business groups and market failures: A focus on vertical and horizontal strategies. *Asia Pacific Journal of Management*, 23(4): 439–452.
- Liu, W., Yang, H., & Zhang, G. 2011. Does family firm excel in firm performance? An institution-based view. *Asia Pacific Journal of Management*. doi:10.1007/s10490-010-9216-6.
- Luo, X., & Chung, C. N. 2005. Keeping it all in the family: The role of particularistic ties in business group performance during institutional transition. *Administrative Science Quarterly*, 50: 404–439.
- Luo, J.-H., Wan, D.-F., & Cai, D. 2011. The private benefits of control in Chinese listed firms: Do cash flow rights always reduce controlling shareholders' tunneling?. *Asia Pacific Journal of Management*. doi:10.1007/s10490-010-9211-y.
- Miller, D., Le Breton-Miller, I., Lester, R. H., & Cannella, A. 2007. Are family firms really superior performers?. *Journal of Corporate Finance*, 13: 829–858.
- Mitton, T. 2002. A cross-firm analysis of the impact of corporate governance on the East Asian financial crises. *Journal of Financial Economics*, 64: 215–241.
- Morck, R., Wolfenzon, D., & Yeung, B. 2005. Corporate governance, economic entrenchment, and growth. *Journal of Economic Literature*, 63: 655–720.
- Peng, M. W. 2003. Institutional transitions and strategic choices. *Academy of Management Review*, 28: 275–296.

- Peng, M. W. 2004. Outside directors and firm performance during institutional transitions. *Strategic Management Journal*, 25: 453–471.
- Peng, M. W., Bhagat, R., & Chang, S.-J. 2010. Asia and global business. *Journal of International Business Studies*, 41: 373–376.
- Peng, M. W., & Jiang, Y. 2010. Institutions behind family ownership and control in large firms. *Journal of Management Studies*, 47: 253–273.
- Peng, M. W., Lee, S.-H., & Wang, D. 2005. What determines the scope of the firm over time? A focus on institutional relatedness. *Academy of Management Review*, 30: 622–633.
- Peng, M. W., Sun, S. L., Pinkham, B., & Chen, H. 2009. The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives*, 23(4): 63–81.
- Peng, M. W., Wang, D., & Jiang, Y. 2008. An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39: 920–936.
- Rajan, R., & Zingales, L. 2003. The great reversals: The politics of financial development in the twentieth century. *Journal of Financial Economics*, 69: 5–50.
- Roe, M. J. 2002. *Political determinants of corporate governance*. New York: Oxford University Press.
- Schneper, W., & Guillen, M. 2004. Stakeholder rights and corporate governance: A cross-national study of hostile takeovers. *Administrative Science Quarterly*, 49: 263–295.
- Schulze, W. S., & Gedajlovic, E. R. 2010. Whither family business?. *Journal of Management Studies*, 47: 191–204.
- Schulze, W. S., Lubatkin, M. H., & Dino, R. 2003. Toward a theory of agency and altruism in family firms. *Journal of Business Venturing*, 18: 473–490.
- Silva, F., & Majluf, N. 2008. Does family ownership shape performance outcomes?. *Journal of Business Research*, 61: 609–614.
- van Essen, M., Carney, M., Gedajlovic, E. R., Heugens, P., & van Oosterhout, J. 2010. Do US publicly-listed family firms differ? Does it matter? A meta-analysis. Working paper, Erasmus University, Rotterdam, The Netherlands.
- Villalonga, B., & Amit, R. 2006. How do family ownership, management, and control affect firm value?. *Journal of Financial Economics*, 80: 385–417.
- Wang, L., & Judge, W. Q. 2011. Managerial ownership and the role of privatization in transition economies: The case of China. *Asia Pacific Journal of Management*. doi:10.1007/s10490-010-9205-9.
- Wu, J., Xu, D., & Phan, P. H. 2011. The effects of ownership concentration and corporate debt on corporate divestitures in Chinese listed firms. *Asia Pacific Journal of Management*, 28 (this issue, doi:10.1007/s10490-010-9208-6).
- Yiu, D., Bruton, G., & Lu, Y. 2005. Understanding business group performance in an emerging economy: Acquiring resources and capabilities in order to prosper. *Journal of Management Studies*, 42: 183–206.
- Young, M., Peng, M. W., Ahlstrom, D., Bruton, G., & Jiang, Y. 2008. Governing the corporation in emerging economies: A review of the principal-principal perspective. *Journal of Management Studies*, 45: 196–220.

**Yi Jiang** (PhD, The Ohio State University) is an assistant professor of management at California State University, East Bay. Her research interests are in the areas of international business, corporate strategy, and institutional perspectives.

**Mike W. Peng** (PhD, University of Washington) is the Provost's Distinguished Professor of Global Strategy at the University of Texas at Dallas and a National Science Foundation CAREER Award winner. His research interests are global strategy, international business, and emerging economies, with a focus on the institution-based view.