Family Ownership and Firm Performance evidence from Integrated Latin American Stock Market

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Purpose

This research explores the empirical relationship between family ownership and firm performance for companies listed in the Integrated Latin American Market, MILA by its Spanish acronym. Our analysis is based on that family firms have a better performance than non-family and present evidence that Tobin's Qs are higher for family than for non-family firms.

Number and Percentages of family and non-family firms

Year	Family Firm	Non Family Firm	Total (number)	Total (%)
2000	57,8%	42,2%	**436**	100,0%
2001	57,4%	42,6%	**432**	100,0%
2002	57,1%	42,9%	**431**	100,0%
2003	56,9%	43,1%	**425**	100,0%
2004	56,9%	43,1%	**427**	100,0%
2005	55,4%	44,6%	**455**	100,0%

Year	Family Firm	Non Family Firm	Total (number)	Total (%)
2006	55,9%	44,1%	**456**	100,0%
2007	57,0%	43,0%	**451**	100,0%
2008	57,8%	42,2%	**474**	100,0%
2009	57,6%	42,4%	**476**	100,0%
2010	57,3%	42,7%	**461**	100,0%
	57,0%	43,0%	**4924**	

Basic Model

The data set for our test samples of listed companies covered the period between January 2000 and December 2010
The independent control variables, measured for each firm, are:
Family dummy (DFAM): Dummy variable that equals 1 for family firms.
Debt/Assets: Leverage, defined here as the debt/assets ratio.
Size: Size of the firm, measured as the natural logarithm of total assets.

$$ROA = ai + \beta_1 DFAM_{it} + \beta_2 Size_{it} + \beta_3 Debt_{it} + u_{it}$$

$$ROARISK_{i,t} = ROA_{i,t} / \sigma_{j,t}$$

Hypotheses

Hypothesis 1. Family firms listed on the MILA stock market are more profitable than non-family firms.

Hypothesis 2. The returns to family firms in the MILA market exhibit greater variance than returns to non-family firms, and thus are consistent with the equilibrium risk-return tradeoff.

Hypothesis 3. After adjusting for risk, the difference in profitability between family and non-family firms disappears.

Practical Implications

The results we obtained confirmed those presented in in the literature reviewed. We hypothesize that the reason why family firms exhibit higher returns in the MILA market is because of the quality of the institutional set up and the capital market regulations improvements implemented in the last 20 years, which make difficult the extraction of value from the minority stakeholders. Also, given the social structure of the Latino-American society is highly likely that the family members' human capital is among the highest in the others emerging country

Table 4: Fixed-Effects Estimation of Model 1

Variable	ROA	ROARISK
Size	1,414 ***	0,088 ***
	(0.000)	(0.000)
Debt/Assets	-0,144 ***	-0,010 ***
	(0.000)	(0.000)
Dfamily	2,860 ***	0,321 ***
	(0.003)	(0.000)
R^2	0,0644	0,1233
F statistics	9,87	13,3
p-value	(0.000)	(0.000)
Haussman (X^2)	21,18	32,54
p-value	(0.000) ***	(0.000) ***
Obs.	3207	3207

: Significance level between 5% and 10%, *: Significance level < 1%