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Founding family ownership, stock market performance and agency problems

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Main takeaways of the paper

□ Goals of the paper

- Extend the empirical evidence on the economic impact of **founding family firm** in Continental Europe, more specifically **Switzerland**.
- Examine if there are **differences in stock returns** between founding family firms and non-family firms.
- Explain observed returns with potential **agency problems** that are present in such firms.

□ Results and contributions

- Founding family yield **positive abnormal returns** and have a better performance than non-family firms.
- **Family firms characteristics** have **an impact** on results.
- Findings are **consistent** with **investors' fear of expropriation** by founding family firms

Motivation

- ❑ Family ownership is predominant outside the US and the UK...
 - Documented in Faccio and Lang (2002) for Western Europe, Carney and Child (2013) for South-East Asian countries, Gugler et al. (2014) for Eastern Europe.
 - Family ownership can both have a positive impact on economic efficiency (e.g. long-term perspective, political connectedness) and a negative impact (e. g. nepotism, preserving family legacy, incompetence of heirs)
 - Many articles focus on family firm (operational) performance (Anderson-Reeb (2003) among others) and indirectly on private benefit extraction and conflicts between majority and minority shareholders.
 - Nearly none looks at the stock market performance of family firms although it is widely discussed by practitioners.

Erfolgsgeschichte Familienunternehmen

DEUTSCHLAND Gesellschaften in der Hand des Gründers und der Angehörigen dominieren. An der Börse schneiden solche Firmen besser ab.

THORSTEN RIEDL

Wäre Schaeffler ein normales Unternehmen, es würde vielleicht nicht mehr existieren. Doch der deutsche Automobilzulieferer ist alles andere als «normal» – denn hinter Schaeffler steht eine starke Familie, und das schon seit sieben Jahrzehnten. Mitten in der Finanzkrise hatte sich Schaeffler mit dem Kauf von Continental erhoben, stand vor dem Aus. Integraler Bestandteil des Turn-around-Plans: der Börsengang Ende vergangenen Jahres – mit der Familie weiter am Schalthebel.

Leicht im Plus liegen die Schaeffler-Papiere noch seit dem Börsengang, schlagen sich aber deutlich besser als der Deutsche Aktienindex (Dax) – und das gilt generell für Gesellschaften in Familienbesitz. «Im Vergleich zu anderen Unternehmen haben Familiengesellschaften drei Vorteile: Dort wird langfristiger geplant, das Management stärker kontrolliert – und gekämpft, wenn es einmal nicht so gut läuft», sagt Professorin Nadine Kammerlander, Inhaber des Lehrstuhls für Familienunternehmen an der WHU – Otto Beisheim School of Management. Anleger legen sich Unternehmen wie Schaeffler ins Portfolio – und fahren so sicherer und rentabler.

Hälfte in Familienhand

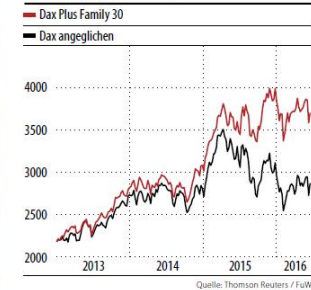
Experten schätzen, dass sich neun von zehn Unternehmen in Deutschland in der



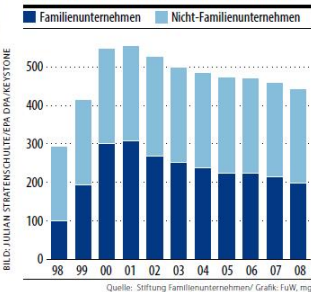
Sohn Georg und Ehefrau Maria-Elisabeth Schaeffler des Gründers Georg Schaeffler: Beide stehen noch hinter dem Autozulieferer.

eine wichtige Rolle. Die Grössten sind im nicht ganz so gut – aber natürlich gibt es tern inzwischen so organisiert, dass es erklärt Experte Rügen. Gemäss einer Um-

Familien gegen den Rest



Inhaber der deutschen Börsenunternehmen





However there might be some problems with these firms: the Sika case

- ❑ Sika AG was founded in 1910 by Kaspar Winkler. It is active in the chemical specialties sector. Today the company has 17,000+ employees, subsidiaries in 93 countries, and an annual sales turnover of CHF 5.49 billion (2015).
- ❑ Sika has a controlling shareholder, the descendants of K. Winkler, through a holding company (Schenker Winkler Holding, SWH). SWH has 16% of capital and 52% of voting rights.
- ❑ On December 14, 2014, the SWH holding has announced its intention to sell its complete stake to the French company Saint-Gobain with a premium of 80%.
- ❑ Other shareholders could not benefit from this premium and are at risk with this change of control as there are no guarantees for the future of Sika as Saint-Gobain is a competitor of Sika in many sectors. The stock price dropped significantly.
- ❑ After that the other shareholders felt disadvantaged and started a legal battle against this decision. The case is not settled yet (as of July 2016)

Literature (I)

- Literature on family firms has essentially looked at profitability (ROA) and relative valuation (Tobin's Q).
 - Several results in the US: Anderson-Reeb (2003), Villalonga-Amit (2006)
 - Some cross-country results for Europe: Maury (2006), Barontini-Caprio (2006).
 - Some country studies in Europe: Favero et al.(2006) for Italy, Sraer-Thesmar (2007) for France, Andres (2008) for Germany, Isakov and Weisskopf (2014) for Switzerland.
 - In general family firms perform better than non-family firms
 - Performance differs if firm is run by the founder or descendants

- Research has almost ignored stock market performance of family firms. A few papers address this question
 - Corstjens et al. (2006), Sraer and Thesmar (2007), Cella (2009) find better or equal performance than non-family firms

Literature (II)

- ❑ More recently literature is looking more closely at some possible inefficiencies
 - Edmans (2011) shows that firms with better employees satisfaction outperform other firms in the US (Forbes 100 best companies to work for)
 - Lilienfeld-Toal and Ruenzi (2014) find that forms with high CEO ownership outperform.

- ❑ Market seems to be inefficient in some situations!

Background information on the Swiss market

- ❑ The Swiss market has approximately 250 listed companies.
- ❑ It has a large market cap with respect to the size of the economy (2.5x).
- ❑ This market is characterized by a high ownership concentration with 1/3 of family firms.
- ❑ It is a German-origin civil law country that provides average investor protection
- ❑ Almost no activity in the market for corporate control
- ❑ It is very good in law enforcement and displays low levels of corruption.
- ❑ In this setting, a controlling shareholder may potentially easily extract private benefits and might impact pay-out policy.

Data

- ❑ All non-financial companies listed on SIX during period from 2003 to 2013
 - Ownership data hand-collected from annual reports
 - Exclude financials and firms with very low free-float
 - Total of 195 firms and 19'928 firm-months observations
 - 20% cut-off to be considered having a large shareholder

- ❑ Founding family characteristics
 - Stake of the firm
 - Founder vs. descendants
 - Active family management vs. passive investors

- ❑ Financial and accounting data
 - Datastream and Worldscope

- ❑ Financial analysts data
 - FactSet

The sample

	All	2003	2008	2013	Number of firms per year		
	Mean	Mean	Mean	Mean	Mean	Min	Max
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Widely held firms	0.33	0.35	0.36	0.29	49.7	41	55
Family firms	0.35	0.38	0.35	0.33	52.8	46	60
Family firms at founder stage	0.12	0.13	0.13	0.11	18.7	14	23
Family firms at descendant stage	0.23	0.25	0.22	0.22	34	31	37
Other blockholders	0.32	0.27	0.29	0.38	47.5	40	58
State	0.05	0.04	0.05	0.05	7.5	6	9
Private Investor	0.15	0.12	0.13	0.21	21.6	17	30
Widely held corporation	0.05	0.08	0.03	0.04	7.5	5	12
Widely held financial	0.04	0.01	0.04	0.04	5.8	1	9
Miscellaneous	0.03	0.02	0.04	0.04	4.9	3	6
N	19'604	1'795	1'800	1'680	150	140	156

Descriptive statistics

	All	Family firms	Non-family firms	Widely held firms	Other blockholder	FF vs. NFF	FF vs. WH	FF vs. OB
	Mean	Mean	Mean	Mean	Mean	Difference	Difference	Difference
Stock Returns (%)	0.59	0.91	0.41	0.25	0.58	0.49***	0.65***	0.32**
Return on Asset	0.0058	0.0569	-0.0224	-0.0063	-0.0400	0.0793***	0.0631**	0.0968**
Return on Equity (%)	-10.2688	4.9807	-18.7505	-7.3146	-31.0767	23.7312*	12.2953*	36.0574
Beta	1.01	0.98	1.03	1.19	0.87	-0.05***	-0.21***	0.10***
Volatility_mth	0.11	0.10	0.12	0.12	0.11	-0.01***	-0.02***	-0.01***
Wedge	1.22	1.57	1.02	0.98	1.07	0.55***	0.60***	0.51***
Age (in years)	73.2	69.8	75.1	57.5	93.6	-5.3***	12.3***	-23.8***
Book-to-Market	0.82	0.87	0.80	0.65	0.97	0.06***	0.22***	-0.10***
Amihud's Illiquidity (*10 ³)	0.62	0.58	0.65	0.46	0.86	-0.08	0.12*	-0.29***
Dividend Yield	1.60	1.92	1.42	1.36	1.49	0.50***	0.56***	0.43***
Leverage	0.13	0.12	0.14	0.13	0.16	-0.03***	-0.01***	-0.04***
Market Value (in mio)	5159	4786	5363	9076	1463	-576*	-4289***	3323***
Total Asset (in mio)	3852	3629	3976	6358	1375	-348*	-2730***	2254***
Net Sales (in mio)	3257	3296	3235	5051	1258	61	-1754***	2039***
N	19604	6924	12680	6495	6185	19604	13419	13109

Returns according to ownership structure

- We run a Fama-French type of regression and estimate the alpha of equally weighted portfolios

$$R_t = \alpha + \beta_1 RMRF_t + \beta_2 SMB_t + \beta_3 HML_t + \beta_4 WML_t + e_t$$

- We then estimate characteristics based regressions with a family firm dummy variable:

$$r_{it} = a_i + b_i X_{it} + c_i Z_{it} + e_{it}$$

- We use 2 techniques pooled panel regressions and Fama-MacBeth regressions.

Results (I)

Panel A: 4-factor model

	(1)	(2)	(3)	(4)	(5)
	Founding Family - Risk Free	Non- founding Family - Risk Free	Widely Held - Risk Free	Founding Family - Non- founding Family	Founding Family - WH
	b/se	b/se	b/se	b/se	b/se
Alpha	0.0023 (0.0016)	-0.0002 (0.0014)	-0.0023 (0.0018)	0.0025* (0.0014)	0.0047*** (0.0017)
RMRF	1.1129*** (0.0487)	1.2120*** (0.0438)	1.3405*** (0.0470)	-0.0991** (0.0459)	-0.2276*** (0.0493)
SMB	0.7334*** (0.0595)	0.8867*** (0.0608)	0.9147*** (0.0715)	-0.1533** (0.0633)	-0.1813** (0.0712)
HML	0.4031*** (0.0762)	0.4393*** (0.0664)	0.3798*** (0.0824)	-0.0362 (0.0770)	0.0233 (0.0858)
WML	0.0373 (0.0686)	0.0442 (0.0579)	0.1127* (0.0673)	-0.0069 (0.0491)	-0.0754 (0.0562)
N	132	132	132	132	132
r2	0.8719	0.9016	0.8648	0.0850	0.1470

Results (II)

Panel B: 1-factor model

	(1)	(2)	(3)	(4)	(5)
	Founding Family - Risk Free	Non- founding Family - Risk Free	Widely Held - Risk Free	Founding Family - Non- founding Family	Founding Family - Widely Held
	b/se	b/se	b/se	b/se	b/se
Alpha	0.0057** (0.0023)	0.0038 (0.0025)	0.0023 (0.0028)	0.0019 (0.0013)	0.0034** (0.0016)
SPI_RmRf	0.9185*** (0.0727)	0.9782*** (0.0751)	1.0648*** (0.0775)	-0.0597* (0.0347)	-0.1462*** (0.0393)
N	132	132	132	132	132
r2	0.6580	0.6478	0.6443	0.0240	0.0852

Results (III)

	(1)	(2)	(3)	(4)
FoundFam	0.0055*** (0.002)	0.0028** (0.001)		
Stake_FF			0.0101*** (0.003)	0.0066*** (0.002)
Wedge	0.0004 (0.001)	0.0010 (0.001)	0.0004 (0.001)	0.0008 (0.001)
logBM	0.0042* (0.003)	0.0031 (0.003)	0.0041 (0.003)	0.0029 (0.003)
logSize	0.0131*** (0.003)	0.0124*** (0.004)	0.0133*** (0.003)	0.0125*** (0.003)
logTA	-0.0127*** (0.003)	-0.0130*** (0.003)	-0.0129*** (0.003)	-0.0131*** (0.003)
price_mth	0.0000 (0.000)	0.0000 (0.000)	0.0000 (0.000)	0.0000 (0.000)
Volatility_mth	0.1103** (0.055)	-0.0213 (0.041)	0.1124** (0.055)	-0.0224 (0.041)
Amihud_mth	-1.1917*** (0.390)	-3.4609*** (1.321)	-1.2067*** (0.383)	-3.5352*** (1.310)
DY	-0.0024** (0.001)	-0.0015*** (0.000)	-0.0023** (0.001)	-0.0015*** (0.000)
Lev	0.0136 (0.010)	0.0096 (0.008)	0.0142 (0.010)	0.0106 (0.008)
OM	0.0000* (0.000)	0.0002* (0.000)	0.0000* (0.000)	0.0002* (0.000)
S_T	0.0014 (0.001)	0.0006 (0.001)	0.0015 (0.001)	0.0007 (0.001)
AG_1year	0.0268*** (0.008)	0.0211*** (0.007)	0.0270*** (0.008)	0.0210*** (0.007)
AG_5year	-0.0237 (0.016)	-0.0168 (0.013)	-0.0243 (0.016)	-0.0167 (0.013)
SG_1year	-0.0003 (0.001)	0.0190*** (0.006)	-0.0003 (0.001)	0.0189*** (0.006)
SG_5year	-0.0025 (0.005)	-0.0182* (0.010)	-0.0017 (0.005)	-0.0185* (0.010)
Return_2_3	0.0377* (0.022)	-0.0175 (0.012)	0.0376* (0.022)	-0.0177 (0.012)
Return_4_6	0.0357** (0.016)	0.0136 (0.009)	0.0355** (0.016)	0.0133 (0.009)
Return_7_12	-0.0271** (0.013)	-0.0090 (0.006)	-0.0273** (0.013)	-0.0089 (0.006)
_cons	-0.0102 (0.015)	0.0232* (0.012)	-0.0125 (0.015)	0.0222* (0.012)
Controls	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes
Methods	POLS2C	FMB	POLS2C	FMB
N	15546	15546	15546	15546

Results (IV)

	(1)	(2)	(3)	(4)
FoundFam	0.0055*** (0.002)	0.0028** (0.001)		
Stake_FF			0.0101*** (0.003)	0.0066*** (0.002)

Decomposition of family firms performance according to the stake

	(1)	(2)	(3)	(4)	(5)	(6)
	Family firms	Family firms 20-50	Family firms 50-80	Family firms 80-100	Family active	Family non- active
	Mean	Mean	Mean	Mean	mean	mean
Stock Returns (%)	0.91	0.88	0.91	1.01	0.97	0.79
Beta	0.98	1.16	0.86	0.91	0.94	1.05
Volatility_mth	0.10	0.11	0.10	0.10	0.10	0.10
Wedge	1.57	1.30	1.80	1.56	1.47	1.76
Age (in years)	69.8	67.8	67.3	95.7	63.5	81.0
Book-to-Market	0.87	0.82	0.72	2.00	0.89	0.82
Amihud's Illiquidity (*10 ³)	0.58	0.63	0.57	0.35	0.58	0.56
Dividend Yield	1.92	1.86	1.86	2.58	1.78	2.16
Leverage	0.12	0.11	0.13	0.06	0.11	0.12
Market Value (in mio)	4786	3263	6658	401	2516	8829
Total Asset (in mio)	3629	3622	4095	693	1729	7058
Net Sales (in mio)	3296	3381	3643	662	1895	5813
N	6924	2800	3572	552	4434	2490

Involvement of the family into the firm

	(1)	(2)	(3)	(4)
FoundFam_20_50	0.0033	-0.0002		
	(0.002)	(0.002)		
FoundFam_50_80	0.0071***	0.0045**		
	(0.003)	(0.002)		
FoundFam_80_100	0.0097***	0.0094***		
	0.0033	-0.0002		
Family active			0.0067***	0.0037**
			(0.002)	(0.002)
Family not active			0.0032	0.0012
			(0.002)	(0.002)
Intercept	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes
Methods	POLS2C	FMB	POLS2C	FMB
N	15546	15546	15546	15546

How does the market react when firms disclose reliable information (earnings announcements)?

- Measures of market surprise:

$$Surprise_{FactSet} = \frac{Consensus\ After\ Event - Consensus\ Pre\ Event}{Consensus\ Pre\ Event} * 100$$

$$Surprise_{SelfCalculated} = \frac{Real\ EPS - Consensus\ EPS}{Share\ Price} * 100$$

- Measures of price reaction on announcement days:

- Price impact (return on announcement day)
- CAR (-1;+1)

Surprises and reactions results

	All	Family firms	Non-family firms	Widely held firms	Other blockholder	FF vs. NFF	FF vs. WH	FF vs. OB
	Mean	Mean	Mean	Mean	Mean	Difference	Difference	Difference
Surprise_Factset (%)	2.4542	4.0626	1.4912	1.9203	0.8294	2.5714	2.1423	3.2332
N	1004	376	628	381	247			
Surprise_Selfcalculated (%)	-1.9530	-1.3055	-2.3355	-2.2596	-2.4381	1.0300***	0.9541**	1.1326**
N	1201	446	755	434	321			
Price Impact (%)	0.3882	0.9992	0.0224	-0.3410	0.5829	0.9768***	1.3402***	0.4163
N	1004	376	628	381	247			
CAR (%)	0.4608	1.1577	0.0832	0.1564	0.0078	1.0745***	1.0013***	1.1499***
N	1548	544	1004	509	495			

Reactions, surprises and stake (I)

	Family firms	FoundFam_20_50	FoundFam_50_80	FoundFam_80_100	FoundFam_80_100 vs. FoundFam_50_80	FoundFam_80_100 vs. FoundFam_20_50	FoundFam_50_80 vs. FoundFam_20_50
	Mean	Mean	Mean	Mean	Difference	Difference	Difference
Surprise_Factset (%)	4.0626	3.3680	3.8721	12.1258	8.2538	8.7578	0.5040
N	376	169	188	19			
Surprise_Selfcalculated (%)	-1.3055	-2.0556	-0.7432	-0.7479	-0.0047	1.3077	1.3123**
N	446	191	229	26			
Price Impact (%)	0.9992	0.5753	1.1345	3.4302	2.2956**	2.8549**	0.5592
N	376	169	188	19			
CAR (%)	1.1577	0.8521	1.2176	2.6047	1.3871	1.7526*	0.3655
N	544	222	287	35			



Reactions, surprises and stake (II)

	(1)	(2)	(3)	(4)	(5)	(6)
	Surprise_ Factset	Surprise_ Factset	Surprise_ Factset	Surprise_ Selfcalculated	Surprise_ Selfcalculated	Surprise_ Selfcalculated
FoundFam	2.4400 (1.955)			0.7790** (0.366)		
Stake_FF		5.2257 (4.537)			2.0298** (0.848)	
FoundFam_20_50			2.1410 (1.750)			-0.0835 (0.459)
FoundFam_50_80			2.0788 (2.924)			1.2997** (0.580)
FoundFam_80_100			8.8282* (4.621)			2.6151** (1.332)
lag_logSize	0.0205 (0.267)	0.0298 (0.268)	0.0441 (0.264)	0.5220*** (0.157)	0.5238*** (0.155)	0.5256*** (0.154)
lag_logBM	2.9277 (1.921)	2.7791 (1.988)	2.7860 (1.897)	-0.3221 (0.712)	-0.4067 (0.733)	-0.4313 (0.740)
_cons	-0.0684 (6.579)	-0.2240 (6.536)	-0.4624 (6.410)	-20.2645*** (3.442)	-20.3161*** (3.425)	-20.3533*** (3.428)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes
Methods	POLS2C	POLS2C	POLS2C	POLS2C	POLS2C	POLS2C
N	979	979	979	1182	1182	1182

Reactions, surprises and stake (III)

	(1)	(2)	(3)	(4)	(5)	(6)
	Price Impact	Price Impact	Price Impact	CAR	CAR	CAR
FoundFam	1.0085*** (0.327)			0.9819*** (0.234)		
Stake_FF		2.0055*** (0.683)			1.7961*** (0.455)	
FoundFam_20_50			0.6248* (0.365)			0.7523** (0.296)
FoundFam_50_80			1.1973*** (0.384)			1.0614*** (0.265)
FoundFam_80_100			2.6151*** (0.690)			1.7401 (1.431)
lag_logSize	-0.2413*** (0.084)	-0.2358*** (0.082)	-0.2424*** (0.086)	0.0288 (0.089)	0.0408 (0.088)	0.0318 (0.090)
lag_logBM	0.0696 (0.229)	0.0180 (0.233)	0.0127 (0.226)	0.3004 (0.291)	0.2757 (0.288)	0.2718 (0.287)
_cons	4.7052*** (1.197)	4.6128*** (1.156)	4.7229*** (1.253)	0.2195 (.)	0.0167 (.)	0.1679 (.)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes
Methods	POLS2C	POLS2C	POLS2C	POLS2C	POLS2C	POLS2C
N	979	979	979	1521	1521	1521

Conclusions

- Founding family firms (FF) are a good investment in Switzerland!
- FF yield **positive abnormal returns** and have a better performance than non-family firms.
- **Family firms characteristics** have **an impact** on results.
- Findings are **consistent** with **investors' fear of expropriation** by founding family firms members
- Abnormal returns is related to the stake of the family and to the fact that family is active.
- FF have larger surprises at earnings announcements and the market reacts more positively. This is related to the stake.
- **COMMENTS/SUGGESTIONS ARE WELCOME !!!**