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Impact of family involvement in ownership management and direction on financial performance of the Lebanese firms

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ABSTRACT

The aim of this study is to better understand how family involvement in ownership management and direction affects the financial performance of the Lebanese companies. In order to authenticate our hypotheses, we collected primary data by using a quantitative method. In fact, we performed an inquiry by surveying 75 Lebanese companies through a questionnaire formed by closed and semi-open questions and modulators. While finishing the empirical study, we concluded that family involvement in ownership and management has a positive relationship with the financial performance of the Lebanese company. Moreover, issues like entrenchment and asymmetric altruism did not prove to have a significant relationship with the financial performance. The essential reason to the results previously stated is that family managers in Lebanon act as stewards by considering the success of the company as their own, rather than agents seeking to achieve their personal benefit on the expense of the company.

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1. Introduction

A recent attempt to investigate the state of the corporate governance in emerging markets, highlighted family firms as being an essential yet an understudied topic (Claessens & Yurtoglu, 2012). However, Family businesses play a major role in the economy of both emerging markets and most developed economies. In fact, family firms constitute an essential part of capital markets as most of the large listed

companies present the characteristic of ownership concentration which can be mostly linked to family owned companies. Although family businesses present some advantages in terms of employee loyalty and long-term relationships, they also present some cons by acknowledging the risk of the owner's concentration on firm's survival and neglecting the concept of wealth maximization. As a matter of fact, the owner's goal will be only concentrated on how to safely pass on the business to future generations (Miller & Le Breton-Miller, 2005).

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While having a strong family oriented culture, the Arab world has long had family businesses in the core of its economy. Several historical and cultural values contributed to the family dominance in the MENA region to extend to businesses. Empirical studies in the GOLF exhibited the supremacy of family businesses on commercial activities. The study conducted demonstrated that 98% of commercial activities in the Gulf Cooperation Council presented the characteristic of large ownership by one family.

Moreover, from the time where the Lebanese people were called Phoenicians, family businesses not only predominates the Lebanese economy, but also contributes to the maintenance of its stability.

Acknowledging the fact that the world is filled with family businesses, it is of high importance to study components that may affect their performance. Therefore in this study, we are going to concentrate on the state of ownership management and direction of family firms and their relationship with the financial performance. Our sample will be restricted to Lebanon but the literature can be somehow representative of the MENA region, as Lebanon and the Arab world share some cultural similarities.

To sum up, we are going to discuss in the following: In Lebanon, how does family involvement in ownership management and direction, affect the financial performance of the company?

The first part will include a literature review of family firms as well as the formulation of our hypothesis, and the second part will include the methodology adopted and the performance of the empirical study.

2. Family business review

2.1. Family business particularities

Family enterprises have their important role in the world economy as their presence is not restricted to one country or region but exists all around the world. Thus, it is of high value to understand what a family business is. Different definitions of family firms have emerged in recent years, but there was no clear compromise about what defines them. Although the agreement on one explication of family businesses was absent, common ground could be acknowledged by most definitions. In fact, most interpretations highlighted ownership, family involvement, family control and the intention of transferring the business to future generations as key components of what could be classified as family firms. Even if some definitions could still be questionable, the elements mentioned above present the center variables that are crucial to describe any firm as a family owned company (Chrisman, Chua, & Sharma, 2005).

The notion of family owned businesses derive from many concepts. Bowman-Upton suggests a basic description, by stating that a family business can be defined by having the majority of ownership and control retained by the family members. On the other hand, Churchill and Hatten affirm that a family firm is a company that is operated by the founder and where there is an expectation that a younger family member

will receive the control of the business after an older member (Churchill & Hatten, 1987) (Tables 1–4).

Another definition that unites the first two is that family businesses are managed and/or governed with the aim to shape and engage in the vision of the business that is shared by a dominant alliance, controlled by members of the same family or a small number of families, in a way that is maintainable across generations.

Chrisman et al. also found that a family business is distinguished not only by ownership, governance, and control that are retained by the family, but also by the next generation succession (Chrisman et al., 2005). Therefore, the family will not only retain control of the firm's corporate behavior, but also will acquire the idiosyncratic resources that result from family involvement.

The Family Owned Cultural Scale was developed by Astrachan et al. with the purpose to determine family engagement in business (Astrachan, Klien, & Smyrniotis, 2002). Among their findings, was the attachment of culture to the family business definition; in fact, the family particular culture would be transmitted to the company's culture as time pass.

Villalonga and Amit have clearly specified that there are three main factors common to any family business: First, one or more families detain a significant part of capital (Villalonga & Amit, 2006). Second, family members have significant control over the company that may include statutory or legal boundaries over the voting right and the capital distribution among none family shareholders. Third, top level management is bound to family members.

To sum it up, the definition of family firms is made up of all the above concepts. Factors like ownership, the transition of culture, the aptitude to be transferred to future generations, and family involvement and control are key components for associating any type of business to the family firm concept. Yet, family firms present many particularities. Family firms mostly relate to Small and Medium businesses, and their founder is generally classified as an Entrepreneur. In the following, we are going to discuss these originalities.

The term family will associate many characteristics for these kinds of businesses. In fact, family is a many sided term. Each family has their own values, culture, history, ethnicity, and generations. They are formed by people related with common history, emotional bonding, and shared future objectives. In addition, although the word family can relate the mind to biological blood relation, Stewart affirms that some family businesses may not have direct biological kinship, mentioning in-laws as an example (Stewart, 2003). Consequently, it can be entitled as "none biological family" or quasi-family (Carsrud, 2006; Karra, Tracey, & Phillips, 2006).

Moreover, many of the family firms are Small or Medium Enterprises. SMEs present a set of particularities. The "Commission Recommendation" published by the European Union, set constraints to defining firms as small and medium enterprises by having hired less than 250 employees, along with an annual balance sheet not exceeding 43 million euro, and a 50 million Euros restriction for annual turnover (The Commission Recommendation, 2003). Small and Medium Enterprises have a family oriented ownership and management where the family's culture and values are transmitted throughout the company and employees. These categories of

Table 1 – Spearman test of correlations for the independent variables of section 1 with the 2012 ROA.

| | Correlation | FO | PFM | CEO | ROA |
|---------------------------------|-------------------------|--------------------|--------------------|-------|--------------------|
| Ownership of the business | Correlation Coefficient | 1.000 | .789 ^{**} | -.126 | .695 ^{**} |
| | Sig. (2-tailed) | | .000 | .445 | .000 |
| | N | 39 | 39 | 39 | 39 |
| Family managers in the business | Correlation coefficient | .789 ^{**} | 1.000 | -0.34 | .552 ^{**} |
| | Sig. (2-tailed) | .000 | | .838 | .000 |
| | N | 39 | 39 | 39 | 39 |
| Presence of family CEO | Correlation coefficient | -.126 | -0.34 | 1.000 | -.136 |
| | Sig. (2-tailed) | .445 | .838 | | .409 |
| | N | 39 | 39 | 39 | 39 |
| Return on assets for 2012 | Correlation Coefficient | .695 ^{**} | .552 ^{**} | -.136 | 1.000 |
| | Sig. (2-tailed) | .000 | .000 | .409 | |
| | N | 39 | 39 | 39 | 39 |

Table 2 – Spearman test of correlations for the independent variables of Section 1 with the 2012 EBIT.

| | | FO | PFM | CEO | EBIT |
|---------------------------------|-------------------------|--------------------|--------------------|-------|--------------------|
| Ownership of the business | Correlation coefficient | 1.000 | .789 ^{**} | -.126 | .660 ^{**} |
| | Sig. (2-tailed) | | .000 | .445 | .000 |
| | N | 39 | 39 | 39 | 39 |
| Family managers in the business | Correlation coefficient | .789 ^{**} | 1.000 | -.034 | .477 ^{**} |
| | Sig. (2-tailed) | .000 | | .838 | .002 |
| | N | 39 | 39 | 39 | 39 |
| Presence of family CEO | Correlation coefficient | -.126 | -.034 | 1.000 | -.130 |
| | Sig. (2-tailed) | .445 | .838 | | .431 |
| | N | 39 | 39 | 39 | 39 |
| EBIT for 2012 | Correlation coefficient | .660 ^{**} | .477 ^{**} | -.130 | 1.000 |
| | Sig. (2-tailed) | .000 | .002 | .431 | |
| | N | 39 | 39 | 39 | 39 |

firms are an influential form of enterprises in the globe. In fact, they have a significant impact on economic development of countries. They present a major source of employment, along with being a leading supplier of innovation and new

product development (Fan & Yang, 2010). By having those aspects, small and medium enterprises contribute in reducing the unemployment rate, and thus, influencing the diminution of level of poverty. They also offer an added value output,

Table 3 – Spearman test of correlations for the independent variables with the 2012 ROA.

| | | MFO | LTM | PQ | DO | UPR | ROA | |
|--|---|-------------------------|-------------------|--------------------|---------------------|---------------------|-------------------|-------|
| Sp r | The relationship linking family owners to high corporate managers | Correlation coefficient | 1.000 | -.051 | -.119 | -.130 | .098 | -.187 |
| | | Sig. (2-tailed) | | .756 | .471 | .430 | .554 | .255 |
| | | N | 39 | 39 | 39 | 39 | 39 | 39 |
| Length of occupancy of managerial position | Correlation coefficient | -.051 | 1.000 | .048 | -.012 | .339 ['] | -.033 | |
| | | Sig. (2-tailed) | .756 | | .771 | .945 | .035 | .841 |
| | | N | 39 | 39 | 39 | 39 | 39 | 39 |
| Degree of perceived qualification of managers | Correlation coefficient | -.119 | .048 | 1.000 | -.389 ['] | .240 | .339 ['] | |
| | | Sig. (2-tailed) | .471 | .771 | | .014 | .141 | .035 |
| | | N | 39 | 39 | 39 | 39 | 39 | 39 |
| The manager is open to innovation | Correlation coefficient | -.130 | -.012 | -.389 ['] | 1.000 | -.430 ^{**} | -.299 | |
| | | Sig. (2-tailed) | .430 | .945 | .014 | | .006 | .065 |
| | | N | 39 | 39 | 39 | 39 | 39 | 39 |
| Degree of manager use of company resources for personal objectives | Correlation coefficient | .098 | .339 ['] | .240 | -.430 ^{**} | 1.000 | .137 | |
| | | Sig. (2-tailed) | .554 | .035 | .141 | .006 | | .405 |
| | | N | 39 | 39 | 39 | 39 | 39 | 39 |
| Return on Assets for 2012 | Correlation coefficient | -.187 | -.033 | .339 ['] | -.299 | .137 | 1.000 | |
| | | Sig. (2-tailed) | .255 | .841 | .035 | .065 | .405 | |
| | | N | 39 | 39 | 39 | 39 | 39 | 39 |

Table 4 – Spearman test of correlations for the independent variables with the 2012 EBIT.

| | | MFO | LTM | PQ | DO | UPR | EBIT |
|--|-------------------------|-------|-------|--------|---------|---------|--------|
| The relationship linking family owners to high corporate managers | Correlation coefficient | 1.000 | -.051 | -.119 | -.130 | .098 | -.170 |
| | Sig. (2-tailed) | | .756 | .471 | .430 | .554 | .302 |
| | N | 39 | 39 | 39 | 39 | 39 | 39 |
| Length of occupancy of managerial position | Correlation coefficient | -.051 | 1.000 | .048 | -.012 | .339' | .120 |
| | Sig. (2-tailed) | .756 | | .771 | .945 | .035 | .466 |
| | N | 39 | 39 | 39 | 39 | 39 | 39 |
| Degree of perceived qualification of managers | Correlation coefficient | -.119 | .048 | 1.000 | -.389' | .240 | .170 |
| | Sig. (2-tailed) | .471 | .771 | | .014 | .141 | .302 |
| | N | 39 | 39 | 39 | 39 | 39 | 39 |
| The manager is open to innovation | Correlation coefficient | -.130 | -.012 | -.389' | 1.000 | -.430'' | -.345' |
| | Sig. (2-tailed) | .430 | .945 | .014 | | .006 | .032 |
| | N | 39 | 39 | 39 | 39 | 39 | 39 |
| Degree of manager use of company resources for personal objectives | Correlation coefficient | .098 | .339' | .240 | -.430'' | 1.000 | .114 |
| | Sig. (2-tailed) | .554 | .035 | .141 | .006 | | .490 |
| | N | 39 | 39 | 39 | 39 | 39 | 39 |
| Return on Assets for 2012 | Correlation coefficient | -.170 | .120 | .170 | -.345' | .114 | 1.000 |
| | Sig. (2-tailed) | .302 | .466 | .302 | .032 | .490 | |
| | N | 39 | 39 | 39 | 39 | 39 | 39 |

contribute on reducing the importations, increase exportations, and are a base for skill development. Having all these benefits, their role is vital for attaining economic development and growth.

2.2. Agency theory

Agency theory is regularly used to explain different motivations inside a company, and provide mechanisms seeking to align those interests through the implementation of effective corporate governance structure. The origin of the agency problem is the separation of ownership and management (Berle & Means, 1932). A prime identification of the agency theory states that the agency relationship is a contract under one party (the principal) elects another party (the agent) to execute some services on their behalf (Jensen & Meckling, 1976). In a wider explanation, it is the relationship that relates the owner, in the form of investor, shareholder or equity holder which is considered the principal to the higher corporate positions controlling and directing the particular company which is the agent. The agency theory holds many presumptions about its consequences. First, interests between shareholders and managers are different, as each one of them work to maximize their own personal utility and wealth. The second is that between the principal and the agent, an asymmetry of information exists by acknowledging the fact that the agent will always have more information about what is happening in the company than the owner. Based on these assumptions, costs and conflicts will be created.

First, the agency cost can be viewed as a consequence of the existence of an information disadvantage between the principal and the agent. Hence, the owner will exhibit more costs in order to gather information of what an agent is doing through gathering information about the financial statements prepared, providing extensive auditing measures, and performing

periodical supervision visits. In addition, the attempt to align the interest between the two, the principal may have to endure more costs, reflected by giving the agent stock option compensation. However, in the case of family owned companies, when the top corporate positions are filled by the owner or part of his family, the agency cost problem is mitigated.

In fact, the presence of the founder or family member in the agent position will automatically align shareholders financial incentives with those of the managers (Jensen & Meckling, 1976).

Another issue proposed by the agency theory is the moral hazard problem. The moral hazard problem occurs when managers seek to work for their own interest neglecting the proper interests of the company. Financially, the moral hazard problem sets surface when the agent makes a decision about how much risk will the company take, while shareholders bear the cost, if things get bad. Acknowledging the tradeoff between risk and reward, managers will seek to take more risks, and, thus, rewarding themselves high wages, without thinking morally about the risk they are making shareholders endure. In fact, managerial myopia refers to the fact that people in high managerial positions will focus on having short term profits rather than on long term objectives (Kuttner, 1986). However, in the case of family businesses that have family members as high corporate managers with effective decision making power, the moral hazard effect could be mitigated. Family managers can make better investment decisions since they have a long term focus, and thus avoid managerial myopia in the decision making process. In fact, family members will focus on the long term sustainability of the company, rather than on short term high wages (Bertrand & Schoar, 2006; James, 1999; Stein, 1988, 1989).

As inspected above, family owned firms seem to have less issues and costs than none family firms. In fact, the nature of family firms allows an instinct alignment of interest between

owners and managers. Due to ownership concentration and control over the firm, a competitive advantage in terms of monitoring the firm will be created (Lee, 2004). Moreover, family owned firms having familiar control over its management, will have more resources available due to lesser agency costs, and, thus, will have for example, more funds to finance long term investments (Miller & Le Breton-Miller, 2006). Therefore, firms with high concentration of ownership will reach a reduction in asymmetry of information concerning main factors affecting the shape of the company like risk management, company resources allocation and potential growth strategies. The business resources will not be expected to potential misuse. Hence, monitoring and transaction costs will be minimized. As shown above family businesses that have family members serving as agents, present certain immunity against agency costs and the moral hazard problem.

In a deeper analysis of the agency theory inside family businesses, another issue may reconstitute the costs of agency and the moral hazard problem. This issue is called entrenchment. Entrenchment is defined as a relational contract relating managers and owners that enables both parties to occupy core positions in the company for a significant time. Entrenchment is common to different types of businesses. However it is more dominant in the family owned companies, as executives may be family members or friends therefore, the owners may let their relationship and emotions affect their decision toward their competencies. Schulze, Lubatkin and Dino propose the source of entrenchment as the result of an unbalanced power given to family executives that originated from their relationship with family owners (Schulze, Lubatkin, & Dino, 2003). Thus, family owners relational contracting will be the cause of increasing agency costs as shareholders of family owned firms will separate the managerial family employment from performance. This separation is due to the idiosyncratic expectations set while signing the contract of employment. While none family contracting sets standards of high competencies and expertise, family principal and agent will have different standards as they tend to seek none economic goals. Therefore family principal with family agent contract of employment will have goals related to emotions and sentiments that are far from economic rationality. It is in this case that agency costs will be reconstituted. These agency costs will appear in the form of hold-up problems. Hold-up problems begin their effect when family management acquires high extent of power that is due to their family status rather than their knowledge and expertise. Thus, they will use their position to serve their proper self-interest (Gomez-Mejia, Nufiez-Nickel, & Gutierrez, 2001). Having their positions entrenched in the company, family managers will bound both outside and inside directors to them. This will imply negative consequences on the autonomy of the board and its overseeing role, thus agency costs will be reborn. A basic yet important agency cost will arise from the long period in which family CEO will remain in his position long after he has stopped being effective, therefore harming organizational performance. Furthermore, much rights and power accorded to family management will strengthen their entrenchment and thus leading to a never ending cycle that will eventually inflate the harm on owners' welfare (Gomez-Mejia, Martin, & Marianna, 2003; Schulze, Lubatkin, & Dino, 2001).

Entrenchment will have another negative effect in terms of employee motivation, productivity, morale and ambition. As family members are entrenched in their managerial positions less top managerial positions will be available for employee promotion or outside experts. In addition, entrenched executives possess the power to redistribute benefits for themselves applying excessive self-compensation or special dividends and thus having less profit distribution for employees (Lee, 2004).

Entrenchment negative effects extend to reinitiating the moral hazard problem. The nature of ownership and control in family businesses may consequent in emancipating family management from monitoring and punishment which will result in problems in terms of self-control (Schulze et al., 2001). Many psychological factors may drive executives to act in an immoral way. First, the desire to manage a bigger company and, thus, focusing on sales maximization at the expense of profits. Second, having their positions secured family executives may be unwilling to adhere to innovation. Third, executives will tend to focus on short term profits rather than having a long-term aim (Lee, 2004).

In order to allay the effect of the agency costs and the moral hazard problem, companies must apply effective corporate governance mechanisms in the legal, institutional, and cultural fields. Whether in family firms or in companies having the characteristic of large ownership, appropriate corporate governance will have its positive effect in different aspects of the company. In fact, owners will have more control over inside executives whether they were corporate insiders or outsiders (Jensen & Meckling, 1976).

2.3. Stewardship theory

In contrast to the agency theory which highly stresses on the economic rationality of agents, stewardship theory considers other models of man that emphasizes on organizational psychology and sociology. Stewardship theory implies the transformation of agents into role holders. Role holders will strive for the need to achieve, seek self-satisfaction through being successful at their intrinsic challenging job and abiding to rules and regulations (McClelland, 1961). Stewards are organizationally oriented employees, who seek the best interest of the company rather than their own interests, as they view the prosperity of the company as a factor that will positively affect their own being (Davis, Schoorman, & Donaldson, 1997). Therefore, interests of agents and principals will be automatically aligned, and there will be no more need for processes aiming to control agents. Although owners and executives will continue seeking their own interest within the company, that will only be obtainable by achieving common goals. In fact, owners will seek wealth maximization through their own capital investment, and executives will seek to amplify their own value and involvement in the owners company, in order to retain economic advantages that they benefit of from this involvement (Tosi, Brownlee, Silva, & Katz, 2003). In order to maximize his utility functions, the steward will act in a way that will meet different shareholders interest.

While stewardship theory is used to describe the ethical goal aligning agent-principal relationship in all companies, it also plays a central role in family firms. Leaders that have

an intrinsic role within their organization will dedicate themselves to make it succeed, even at the cost of personal sacrifice. In order to achieve that, the owner of the family firm must transmit a strong oriented values corporate culture, through implementing a stewardship oriented governance initiatives. This will enable leaders to assemble a set of loyal either family or none family agents who will dedicate themselves to achieve organizational best interest (Miller & Le Breton-Miller, 2006; Zahra, Hayton, Neubaum, Dibrell, & Craig, 2008). The consequence of the transmission of steward governance behavior will only take action in a design of core organizational values and in an internal sense of responsibility. This will enable the company to cut off the agency costs that arise from control based methods. In fact, they will no longer be needed as agents will most likely act in a way that will benefit both parties, and thus, benefit the company.

Paradox to the agency theory, stewardship theory argues the psychological and societal aspect of the organization rather than the economical one. However, measuring stewardship in the corporate governance system present difficulties as the case of each leader will differ psychologically from the other. If the stewardship theory is considered inside the family firm the leader will most likely apply rules and regulations favoring internal organizational processes that lead to empowerment. In fact, by having empowered agents, each executive will feel the amount of responsibility accorded to him, and thus will be accountable for his actions. Therefore, goals and motivations of principals and agents will be aligned leading to a constructive form of organizational governance based on stewardship rooted behavior that will benefit the company.

Conversely, the stewardship theory's positive effects will be automatically ceased when there is a risk of a takeover. In fact, having their future inside the company threatened, agents will begin seeking their own interest rather than the interest of the company and its shareholders.

In sum, each of these theories must be taken into consideration according to the situation of each company. It is the level of environmental contingency, in addition to the preferences of the owner that will dictate what theory should be taken into consideration.

3. Family involvement and financial performance

3.1. Family involvement in ownership and management and financial performance

Family involvement in ownership and management is one of the main protagonists influencing the corporate governance of family owned companies. According to Berle and Means ownership concentration will align the interests between ownership and management, and mitigate the amount of agency costs (Berle & Means, 1932). Thus, higher financial performance could be achieved. Similarly, Jensen and Meckling state that the presence of managers that possess high level of ownership will most likely generate better corporate governance since an alignment of managers and shareholders incentives is automatically produced (Jensen

& Meckling, 1976). Furthermore, if the majority of owners are not implicated in the firm's management, they will be less able to supervise and control agents (Shleifer & Vishny, 1986). Therefore, they will endure more agency costs in their attempt to control and supervise the executives. Usually family businesses have high involvement and long tenure in management. Thus, by their high involvement they will succeed at having a better sense of recognition of uncertainties and opportunities and also by establishing a long term focus (Zahra, 2005). Moreover, family firms proved to be better than none family businesses in the investment decision making process. In fact, the presence of family managers will consequent a long term focus and will mitigate managerial myopia (Bertrand & Schoar, 2006). Family business has also outperformed none family business in both profitability and financial structures. In addition, family involvement in terms of control highly affects the profitability of the company (Allouche, Amann, Jaussaud, & Kurashina, 2008). In fact, businesses where the largest shareholder is a family member, the existence of an institutional investor as second shareholder will foster the business value.

In further analysis, the resource based theory inspects the distinctive intangible resources particular to each company. These resources form the particular competitive advantage of the firm over its peers (Barney, 1991). In fact, family businesses have also unique resources that may award them a competitive advantage over their peers. Sirmon and Hitt have stated 5 foundations that favor family owned businesses over its peers: survivability, governance structures, patient, human, and social (Sirmon & Hitt, 2003). In fact, family firms acquire all those sources and transmute them into competitive advantages by:

- The focus on customer and aim on a market niche, that will result in higher profits;
- The concern of protecting the family name which will consequent a higher quality of products;
- Concentrated ownership structure that will result on a long term focus on investment and will enhance corporate productivity;
- Intersecting responsibilities between owners and managers which will mitigate agency costs (Poza, 2006).

Other argumentation exhibited the neutrality of the influence of family involvement on financial results. King and Santor stated that ownership concentration could not have a perceptible effect on the company performance (King & Santor, 2009). They added that inefficient ownership structures might fail over the long run. They summed this issue up by denying the existence of statistical relationship between ownership and performance.

Several empirical studies have backed the vision that the involvement of the family in business will foster its financial performance. In the study of more than 1600 Western European companies, Maury revealed that constant and active control by family executives was linked to higher profits, justified by the mitigation of agency problems between principals and agents (Maury, 2006). Another study of the S&P 500 by Martikainen et al. was done to question whether higher earnings

of family owned companies was associated to efficiency and variations in production technologies (Martikainen, Nikkinen, & Vähämaa, 2009). The end of the study showed no significant difference between the production technologies between family and none family businesses, thereby proposing that differences in output is due to higher efficiency performed in family owned companies. A comparison was done by Andres between family firms and its peers in Germany (Andres, 2008). The result resolved that not only do family owned companies outperform large owned firms, but also is more profitable than other companies having different types of block holders. Nevertheless, he declares that this higher performance is conditioned by having the founder still active in management or on the board of directors. Anderson and Reeb also studied the S&P 500 and demonstrated the superiority of family firms to none family firms in terms of performance (Anderson & Reeb, 2003). Their study resulted on a higher performance of family firms in both accounting and market measures constrained by the presence of founders involved in the company. Their analysis also point to a difference in family business performance based on managerial status. In fact, top level positions occupied by family members whether founders or heirs demonstrate a positive link with accounting profitability. Nonetheless, according to the same study, higher market performance is only achieved when the managerial position is occupied by the owner or an outside director, heirs acting as managers did not affect market performance.

Family firms usually represent the characteristic of being founded by a family entrepreneur owning most shares in the company. When at the start-up phase they have few numbers of employees, where informal behavior is adopted along with a centralized decision making power, and fewer hierarchical levels. Founders of family firms will feel that they have more direct control over the behavior of employees, as well as the ability to directly export cultural and ethical guidelines to the company through their own behavior (Ciavarella, 2003).

Therefore, by complying with what Fama and Jensen argued, family involvement contribute to an alignment of interest between agent and principal and consequent fewer agency problems (Fama & Jensen, 1983). In addition, the desire of protection of family name and long term focus are characteristics of family stewards. Based on what precedes, we formulate our first working hypothesis:

H1. Family involvement in ownership and management is positively correlated to financial performance.

4. Entrenchment, asymmetric altruism and financial performance

Carney identifies “personalism” as the main source of managerial entrenchment (Carney, 2005). This factor will allow the governing family alliance to be less constrained by transparency and accountability (Carney, 2005; Morck, Shleifer, & Vishny, 1988). Entrenchment will present a central cause of negative performance of a family owned company. In fact, the relationship between family owners and close related managers will enable them to keep central positions in the company for a significant time. By sustaining their positions,

the entrenched managers will not only limit the opportunity of appointment of new qualified managers, but also affect employee motivation. In fact, entrenchment will limit the opportunity of qualified employees to get the chance of occupying high corporate positions inside the company (Morck & Yeung, 2003). This will imply a deterioration of employee motivation and consequently productivity. Similarly, entrenched executives have the power to redistribute to their own pocket through special dividends and excessive compensation, which will also negatively affect employee motivation and commitment. While the productivity of family owned businesses relies on the motivation of its employees, their demotivation will negatively affect the firm financial performance, and consequently the whole firm's performance (Lee, 2004).

In addition, in a globalized environment where competition is at its peak the importance of innovation is crucial. Oppositely, having their positions secured, entrenched managers may stick to their own and old ways of doing and refuse to adhere to innovation (Lee, 2004). This will reduce the company's competitive advantage, and thus contributing to lower financial results.

Furthermore, in their desire to manage bigger companies, entrenched managers may focus on the sales maximization at the expense of profit maximization (Lee, 2004). While focusing on sales at the expense of profit, entrenched executives may adopt strategies to increase turnover regardless of the profit.

Plus, even though family shareholders have the largest stake in large family owned companies, minority shareholders still have interests to claim form the company. A conflict arises from this composition, as owners will use their power to gain benefits at the expense of the private wealth of minority shareholders (Miller, Le Breton-Miller, Lester, & Cannella, 2007). Moreover, concentration of ownership will lead large investors to exercise their power in ways that trail to obtaining private benefits. This may not be dangerous in none family business where ownership is spread among a large amount of investors, but it is most harmful in case of family firms where the benefits will remain at the disposal of family members (Villalonga & Amit, 2006). In fact, family shareholders want to secure their proper interests as they intend to ensure the preservation of capital and stability within the company, which may conflict with the interests of minority shareholders.

In addition, particularism is also identified by Carney (Carney, 2005). Particularism explains the emphasis of the dominant family coalition toward psychological ownership of the business. It also discusses the difference that may arise from the conflict between the dominant family group's interests and the firm's interests. This conflict between the economic interest of the firm and both the economic and none economic interest of the family coalition will result in the concept of asymmetric altruism. It is a harmful self-discipline problem idiosyncratic among family owned companies (Chrisman et al., 2005).

In general, asymmetric altruism represents the informal control and monitoring procedures that will result in the avoidance of disciplinary conduct that has repercussions on the familial relations either inside or outside the company (Schulze et al., 2003). It will also lead to family based conflicts due to the different desires among family members which will

emphasize the need for increased governance requirements (Lubatkin, Schulze, Ling, & Dino, 2005).

Moreover, asymmetric altruism will also imply the aversion to external monitoring and outside directors or underestimating their effectiveness (Schulze et al., 2001). In contrast, as ownership dispersion grows companies will highly need outside monitoring for their multiple operations.

Family oriented forms of altruism may create spoiled family agents giving them incentives to act opportunistically, and thus resulting in governance inefficiencies (Lubatkin, Durand, & Ling, 2007). Governance inefficiencies will also negatively affect company procedures and thus leading to poorer performance.

Both issues will also affect family corporates perception of risk. In fact, family owned companies have personal wealth, none economic objectives related to the firm shown by their purpose to transmit the business to future generations, and undiversified human capital. Thus family managers endure superior personal risk (Gomez-Mejia et al., 2001). Considering all those factors, family agents will miss out many opportunities of new investment in their aim to become more risk averse. Therefore, the tendency to be more risk averse along with the divergence between family objectives and firm objectives will lead to poor financial performance. Carney shows that these factors will form a competitive disadvantage for large firms that have high capital and research development requirements (Carney, 2005).

Accordingly, some empirical studies contested the ability of family owned companies to outperform its none-family firm's peers. Baek et al. compared the performance of family owned and none family owned companies during the Korean crisis of 1997 (Baek, Kang, & Suh Park, 2004). He found that firms having high concentration of ownership by family shareholders that also act as agents, suffered larger drop in equity value than firms having wide ownership. Moreover, a study of Norwegian companies uncovered a negative correlation between family involvement in ownership and control and the firm's productivity (Barth, Gulbrandsen, & Schønea, 2005).

In sum, problems caused by asymmetric altruism and entrenchment will lead to excessive risk aversion and thus will limit opportunity for new investments as well as the implementation of profitable growth strategies. Family members will also seek to put into operation mechanisms to constantly retain the private benefits gained from control. Dominating shareholders and high corporate executives can manipulate the firm financial results through rewarding themselves with high salaries, the engagement in poor investments, unnecessary benefits, and by employing family members in high managerial positions that are less qualified than outsiders (Pérez-González, 2006). The existence of large family shareholders will foster entrenchment of none qualified managers that will take advantage of the private benefits gained from control (Santana, Bona, & Pérez, 2007). Thus, more agency costs will arise from the concentration of decision power within little number of people or their family (Bennedsen & Nielsen, 2010).

Considering high agency costs, limitation of opportunity of investments caused by asymmetric altruism and entrenchment, we suggest the following working hypothesis:

H2. Asymmetric altruism and entrenchment in family firms will lead to a negative correlation with financial performance.

5. Methodology

5.1. Data collection and sample description

In order to accomplish our empirical study we will collect primary data using a quantitative method. In this regard, we will survey a sample of 75 Lebanese companies through a self-administrated questionnaire with a nominal and ordinal scale. The questionnaire will include closed questions, semi-open questions, and modulators. We have sent copies of the questionnaire via email to be filled out by managers or employees of the companies surveyed. The purpose of this inquiry is to understand different aspects defining organizational patterns, as well as collecting sufficient data reflecting the reality of the ground to help authenticate this study. However, some of the respondents may be reluctant or uncomfortable responding to these questionnaires; giving as a consequence dishonest answers. In fact, some of the surveyed managers may want to give a good image of their performance.

In the aim of performing our study we will consider the Middle East region, focusing particularly on Lebanon. In fact, our sample consist of Lebanese companies including all types of enterprises (family firms, none family firms, and listed companies in the Beirut Stock Exchange). The enterprises sampled operate in different types of sectors (Real Estate and Construction, Trading, Trading, Food and Beverage, Services, Industrial, and Telecommunications). The diversification of the sample will enable it to be fairly representative of the actual state of the total firms in the Lebanese market. For this reason, we have chosen seventy five Lebanese companies out of approximately five thousand five hundred companies. The sample's diversified identity will be described in the following tables. While the first table will characterize the companies by their type of business, the second table will distinguish the companies in reference to their sector.

5.2. Method of analysis

We accomplished this study to see whether family involvement, entrenchment and asymmetric altruism, later generation governance, and the presence of outside directors affect the financial performance of the Lebanese family firms. The response rate for the questionnaires sent via the internet was approximately 52%, noting that 48% of the companies surveyed failed to give the necessary feedback. The cause of the lack of reply of those companies was possibly due to a lack of enough time to fill out the questionnaire sent, or may be caused by the desire of managers, owners, or employees to keep such information as strictly discrete. Yet, the number of response rate collected will still enable us to proceed with our study.

Although the initial years of our study were three, the questionnaire that was sent to collect primary data regarding the independent variables considered only one year which is 2012. This single year consideration was due to the aspect of the Lebanese culture where management, ownership, and

direction are less likely to change over a period of three years. As for the dependent variables, the questionnaire was initially meant to concern three years, but as we got through with our study, we noticed that the same answers were given over the three years period, thus allowing us to use a single year consideration. The year considered was 2012, consistent with the year that we took into account for the independent variables.

After finishing our data collection, we are going to operate them through the "SPSS program" or the "Statistical package for the Social Science" using the Spearman test of correlation.

5.3. Characteristic of variables

The dependent variable is defined as a factor that is changed by the effect of a related component called the independent variable.

In our case the dependent variable measured is the financial performance. Although many components can measure financial performance of a company, we are going to rely on what we consider main indicators:

1. Return On Assets (ROA)
2. Earnings Before Interest and Taxes (EBIT)

An independent variable can be explained as a variable which is presumed to determine or affect an independent variable. It is also considered a factor that can be manipulated or controlled. All the way through this study, we took into account four independent variables:

1. Family involvement in ownership and management
2. Entrenchment and asymmetric altruism

In order to describe a company as family owned, the family must own at least 50% of its shares owned by the family, confirmed by Bennedsen et al. requirements in their study of family firms in Denmark (Bennedsen, Nielsen, & Wolfenzon, 2004). During this study we have developed three main indicators for family involvement in ownership and management which are:

1. Family ownership of the firm (FO)
2. Proportion of family managers in the business (PFM)
3. Presence of family CEO (CEO)

In the aim of measuring entrenchment asymmetric altruism we have adopted five main indicators which are:

1. The robustness of the relationship between managers and family owners (MFO)
2. The length of time of a managerial position held by a family member (LTM)
3. The perceived qualification of the family manager (PQ)
4. Degree of openness to innovation of the family manager (DO)
5. The use of company resources for personal reasons (UPR)

6. Results

6.1. Relationship linking family involvement in ownership and management to the firm financial performance

In the aim of determining the authenticity of our first hypothesis which states that family involvement in ownership and management is positively correlated to financial performance, we will test the significance of the correlations between the independent and dependent variables using the Spearman test for correlations. We will first test the independent variables with the first dependent variable which is the 2012 ROA, than with the second dependent variable which is the 2012 EBIT.

Regarding the first indicator which is family ownership of the business, as can be seen from the correlations table, there is a high positive relationship between family ownership of the business and the return on assets for 2012 ($r = 0.695$). This relationship is statistically significant since the P -value = sig. (2-tailed) = $0.000 \leq 0.05$.

With respect to the second indicator which is the presence of family managers in the business, as can be seen from the correlations table, there is a moderate positive relationship between presence of family managers in the business and the return on assets for 2012 ($r = 0.552$). This relationship is statistically significant since the P -value = sig. (2-tailed) = $0.000 \leq 0.05$. Considering the third indicator which is the presence of a family CEO, as can be seen from the correlations table, there is a very low negative relationship between presence of a family CEO in the business and the return on assets for 2012 ($r = -0.136$). This relationship is not statistically significant since the P -value = sig. (2-tailed) = $0.409 > 0.05$.

Regarding the first indicator which is family ownership of the business, as can be seen from the correlations table, there is a high positive relationship between family ownership of the business and the earnings before interest and taxes for 2012 ($r = 0.660$). This relationship is statistically significant since the P -value = sig. (2-tailed) = $0.000 \leq 0.05$.

With respect to the second indicator which is the presence of family managers in the business, as can be seen from the correlations table, there is a moderate positive relationship between presence of family managers in the business and the earnings before the interest and taxes for 2012 ($r = 0.477$). This relationship is statistically significant since the P -value = sig. (2-tailed) = $0.002 \leq 0.05$.

Considering the third indicator which is the presence of a family CEO, as can be seen from the correlations table, there is a very low negative relationship between presence of a family CEO in the business and the earnings before interest and taxes for 2012 ($r = -0.130$). This relationship is not statistically significant since the P -value = sig. (2-tailed) = $0.431 > 0.05$.

In Sum, even though the presence of family CEO had no significant impact on the dependent variables, the two main independent variables which are family ownership of the business and the presence of family managers in the firm, respectively demonstrated high and moderate positive correlation with both the return on assets and the earnings before interest and taxes. Hence, one should accept the first working

hypothesis that suggests that family involvement in ownership and management is positively correlated to financial performance.

6.2. Relationship linking asymmetric altruism and entrenchment to the firm financial performance

In the aim of determining the authenticity of our second hypothesis which states that asymmetric altruism and entrenchment in family firms will lead to a negative correlation with financial performance, we will test the significance of the correlations between the independent and dependent variables using the Spearman test for correlations.

We will first test the independent variables with the first dependent variable which is the 2012 ROA, than with the second dependent variable which is the 2012 EBIT.

Regarding the first indicator which is the relationship linking family owners to high corporate managers, as can be seen from the correlations table, there is a very low negative relationship between the relationship linking family owners to high corporate managers and the return on assets for 2012 ($r = -0.187$). This relationship is not statistically significant since the $P\text{-value} = \text{sig. (2-tailed)} = 0.225 > 0.05$.

With respect to the second indicator which is the length of occupancy of managerial position by family managers, as can be seen from the correlations table, there is a very low negative relationship between the length of occupancy of managerial position by family members and the return on assets for 2012 ($r = -0.187$). This relationship is not statistically significant since the $P\text{-value} = \text{sig. (2-tailed)} = 0.841 > 0.05$.

Considering the third indicator which is the family manager is open to innovation, as can be seen from the correlations table, there is a low negative relationship between the openness to innovation of family managers and the return on assets for 2012 ($r = -0.299$). This relationship is not statistically significant since the $P\text{-value} = \text{sig. (2-tailed)} = 0.065 > 0.05$.

Regarding the fourth indicator which is the degree of the perceived qualification of the family manager, as can be seen from the correlations table, there is a low positive relationship between the perceived qualifications of the family managers and the return on assets for 2012 ($r = 0.339$). This relationship is statistically significant since the $P\text{-value} = \text{sig. (2-tailed)} = 0.035 \leq 0.05$.

With respect to the fifth indicator which is degree of family manager use of company resources for personal objectives, as can be seen from the correlations table, there is a very low positive relationship between degree of family manager use of company resources for personal objectives and the return on assets for 2012 ($r = 0.137$). This relationship cannot be regarded as statistically significant since the $P\text{-value} = \text{sig. (2-tailed)} = 0.405 > 0.05$.

Regarding the first indicator which is the relationship linking family owners to high corporate managers, as can be seen from the correlations table, there is a very low negative relationship between the relationship linking family owners to high corporate managers and the earnings before interest and taxes for 2012 ($r = -0.170$). This relationship is not statistically significant since the $P\text{-value} = \text{sig. (2-tailed)} = 0.302 > 0.05$.

With respect to the second indicator which is the length of occupancy of managerial position by family managers, as can

be seen from the correlations table, there is a very low positive relationship between the length of occupancy of managerial position by family members and the earnings before interest and taxes for 2012 ($r = -0.187$). This relationship cannot be regarded as statistically significant since the $P\text{-value} = \text{sig. (2-tailed)} = 0.466 > 0.05$.

Considering the third indicator which is the family manager is open to innovation, as can be seen from the correlations table, there is a low negative relationship between the openness to innovation of family managers and the return on assets for 2012 ($r = -0.345$). This relationship can be regarded as statistically significant since the $P\text{-value} = \text{sig. (2-tailed)} = 0.032 > 0.05$.

Regarding the fourth indicator which is the degree of the perceived qualification of the family manager, as can be seen from the correlations table, there is a very low positive relationship between the perceived qualifications of the family managers and the earnings before interest and taxes for 2012 ($r = 0.170$). This relationship is not statistically significant since the $P\text{-value} = \text{sig. (2-tailed)} = 0.302 \leq 0.05$.

With respect to the fifth indicator which is degree of family manager use of company resources for personal objectives, as can be seen from the correlations table, there is a very low positive relationship between degree of family manager use of company resources for personal objectives and the return on assets for 2012 ($r = 0.114$). This relationship cannot be regarded as statistically significant since the $P\text{-value} = \text{sig. (2-tailed)} = 0.490 > 0.05$.

In sum, the majority of entrenchment and asymmetric altruism variables failed to have a significant negative relationship with both the return on assets and the earnings before interest and taxes. Thus, one should reject the second hypothesis that entrenchment and asymmetric altruism will lead to negative correlation with financial performance.

7. Conclusion

The paramount purpose of this study is to discuss the question of how family involvement in ownership management and direction affects the financial performance of the company. In that aim, we performed an inquiry by surveying 39 Lebanese companies through a questionnaire. The concern of the survey was to reveal whether family involvement in ownership and management, entrenchment and asymmetric altruism have a significant impact on the company's financial performance.

Before performing an analysis of the obtained results, one should bear in mind the particular situation of the Lebanese companies, which will highly effect our deductions. This situation is emphasized by the strong family oriented culture that influences owners as well as managers, directors and employees.

The first significant result obtained was the validation of our first working hypothesis. In fact, family involvement in ownership and management in the Lebanese companies proved to be positively correlated with the firm financial performance. Confirming with our literature review, the family involvement in ownership and management will contribute to a mitigation of agency costs. In fact, the initial conflict of interest between ownership and management will be nearly

none existent, and the family managers will no longer be regarded as agents seeking to achieve their own personal goals, but as stewards that view the success of the organization as their own. This mitigation of agency costs and alliance between ownership and management will enable the company to achieve better financial performance.

The second significant result obtained was the rejection of our second working hypothesis. In other words, entrenchment and asymmetric altruism did not prove to have negative relationship with the financial performance of the Lebanese firms. This is highly due to the Lebanese culture that considers the family manager who has long stayed in his position inside the company as a steward rather than an employee with the characteristic of entrenchment. Moreover, in the aim of preserving the family name, family managers constantly update their knowledge and skills which is not a characteristic of an entrenched manager. What was previously acknowledged can be reflected by 34 (87%) of the respondents, who perceived family managers or managers that have a close relationship with the family, as high qualified or qualified.

Yet, it is important to note that the deductions made above are specific to the Lebanese market. While the results can be somewhat representative of the MENA region due to some cultural similarities shared with Lebanon, those outcomes cannot be generalized to the whole world noting the cultural differences, and noting the constant political instability present in Lebanon.

To sum up, the perception of family involvement in ownership and management in the Lebanese firms must be viewed as an added value for the company, since it demonstrated a positive relationship with financial performance. In addition, the negative consequences of family involvement reflected by entrenchment and asymmetric altruism did not prove to significantly affect the financial performance of the Lebanese firm.

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