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A Review of Family Ownership and Non-Family Ownership Firms' Performance, Productivity, and Profitability

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ABSTRACT *This study has an aim to explain the difference in performance, productivity and profitability between the family ownership and non-family ownership firms. Also has a purpose to explain the ownership structures and impact of corporate governance on both the family and non-family ownership firms. In this review paper write the review of eight papers related to family and non-family ownership firm's performance, productivity, and profitability. Different papers show different results but if I explain the summary of results are the non-family firms are better than the family firms.*

K**eywords:** *Family firms, Non-family firms, ownership and performance, productivity, Profitability*

This review paper analyzes the relationship between the family ownership businesses and non-family owned businesses. Analyze the impact on performance, productivity and profitability of the family owned and non-family owned businesses. Lot of authors from the all world write the articles about the family and non-family owned businesses. Different authors have different criteria to classify the family and non-family firm. Family firms are very very important source of growth and economic development. Family firms are the backbone of Pakistan economy. All world developing countries and developed countries economies rely on family firms. Many countries have very large percentage of registered firms. According to Yasser 2011 Like United kingdom is a developed country have 75% of registered family firms and India is fall in developing country having 95% registered family firms.

Many scholars have different views about family ownership and non-family ownership firms because it is big issue to define the family firms. Scholars has set different criteria to explain the family firms. For example if the 33% company shares had family members that is fall in family firms otherwise the firms is fall in non family firms. According to another scholar family firm is, when lot of family members are working in one business and key position also have a family member In that situation it is fall in family firms otherwise it is fall in non family firms. Different scholars have different results according their analysis regarding the productivity, efficiency and profitability of family firms and non family firms. Mostly scholars results show non-family are better as compare to family firms. Results are discussed later in this review paper in different section of others scholars. Corporate governance also has different issues regarding the family firms. Corporate governance rules effect the family firms and non family firms performance also. Organization culture also play role in family and non family businesses. Long term ownership of any business may be risky also impact on inventions and innovations.

Literature Review

All world has lot of attention about but in Pakistan has very small working about the family and non-family owned firms. I want to discuss about Pakistani context also. Julie C. Dekker et al. (2012) about 532 Belgian family businesses. How the attachment of the family and non family firms with respect to operation and dealings. Internal and external manager how involve with the operations and dealings. Jensen & Meckling (1976) draw the elements from the agency theory, the theory for right for the property and make a finance theory and specially that persons who develop the ownership structure of the firm. These writers clear the concept of agency cost. And clear the relationship with respect to control issue like separation control. Demsetz, 1983: Demsetz and Lehn, (1985) It is a mutual influence in their situation between the market valuation of the ownership and the firm. Market price of any business whether influence may it is sold and may in turn be influenced of probability of sale by the nature of the owner. Holderness and Sheehan (1988) In any business involvement of family goes to lower productivity.

Qaiser Rafique Yasser (2011) How Corporate Governance effects the family and non family firms. This study is about Pakistani firms. Family owned firms is played a very important role in Pakistan. Even family owned listed firms are backbone of the economy of the Pakistan. But in Pakistan has very small working about the family and nonfamily firms. He is working on 792 listed companies in Pakistan Stock exchange. And focus on the performance with respect to the Corporate Governance. Erling Barth et al. (2004) focus on the productivity difference between family and nonfamily owned business.

During last 20 years in all the words has very much increase attention for scholars or writers towards the ownership firms. What is method adopted to give the rights allocation and where and who is owners. Shamaila Jabeen et al. (2012) focuses on financial performance of nonfamily businesses and family businesses. She is studying with Pakistani context. In manufacturing sector play very important role and she study about manufacturing sectors. Most businesses starting from family businesses. Common form in the world and also very common form in Pakistan. She collects four years data of 62 non-financial firms these firms are listed in Karachi stock exchange in Pakistan. Carmen Galve et al. (2011) focus on productivity of the family and non-family owned firms like Erling Barth et al. (2004) discuss above about the Spanish firms listed in stock exchange. Compare the relation between the family and nonfamily listed firms on the bases of performance and Behavior, what these firms wants for shape either that is family firms or either non-family owned firms. In this study he collects the data from 1990 to 2004 of the Spanish listed firms.

JM San Martin-Reyna (2012) About Mexican listed firms in the stock exchange. In this study raise two question in start of the study that is very important question, one is family businesses and second question is firm performance. One side is family businesses and the other side is very tough to maintain the performance of the firm. Danny Miller et al. (2007) this study has a main issue on corporate finance, it is different from earlier studies about that, the main issue is an impact of governance on performance of the firms. Focus the effect of corporate governance because it is a raising body these days. In this study US 1000 firms use as a evidence and from these 1000 firms draw a sample randomly of 100 small level of public limited companies.

Family Firms and Non-Family Firms Ownership Structure

In family business review the first issue is to define family business. Due to that in this review paper I have a separate part to explain the family firms and non family firms according to eight paper which I have studied. Defining the family firms and non family firms' different authors have different criteria to classifying according to their study. Danny Miller et al. (2007) Family firms are those firms who have lot of family members working in the firm on different designation. And the main designation or main rights are remain for family member. To defining the family businesses and non family businesses are more and more sensitive working. Jensen & Meckling (1976) Family members are loyal to save the firm as compare to other types of share holders. Family firms face less debt financing cost. Astrachan (1996) Defined the family firm, when family makes key decisions for the firm or make main corporate strategy at this time we can consider the family firm. Family member making strategies for the firm. Main planning in the hands of family.

Erling Barth et al. (2004) If a person is having a at least 33% share of a firm that is known as family firm. Three categories make this study to classifying the family and non family firms. First category is family firm, and have two sub categories for example, in family firm managers are also from that specific owner family and second, in family firms run by professional manager and daily bases remuneration is received and third is non family firm wholly run by professional managers. In this study focus on two types of firms, first and third purely family and non family firms. Amit (2006) Defined family firms if one member is in firms and other member of same family is also involved like board member or share holder or any key post consider as family firm. Carmen Galve et al. (2011) Listed companies fall in family firms if few members are attached with firm or involved and major part of share hold of that company directly and indirectly that firm is considered as a family firm and others are consider as non family firms.

In 1990 Spanish stock Exchange have 150 listed companies. Out of which 38 percent have family ownership structure and 62 percent have non family ownership structure. But during fifteen years many firms change his ownership structure. Le Breton, miller and steire (2004) defined the family firm and make the difference between family and non family firms. In family firm a leadership makes decision by family members and the family members transfer the rights to other family members when the firm is growing year to year. If the family member in not competent for the decision making than services are hired from outside the family members. Anderson Mansi and Reeb (2002) clear that family member share holders is different from other shareholders. He save the firm from two sides at least, one company is survive many years or for whole life and second is making the good reputation in the market.

Now discuss family owned firms and non family owned firms in Pakistani context. I have discuss above very small study has been done about family and non family ownership structure in Pakistan. Two articles includes in this review paper who do analysis of Pakistani firms. Qaiser Rafique Yasser (2011) Family owned firms in Pakistan have a lot of importance and play very effective role in Pakistan economy. We can say like a backbone of Pakistan economy. Very large portion of Pakistani firms has family ownership structure. But he also said that most of the companies have not known about general rules of corporate governance. Performance is disturbed due to misconduct between agent and principal it is very difficult to stop it in family firms.

Shamaila Jabeen, (2012) has different criteria to classifying the family and non family firms. Family has a share more are largest in the firm or has at least 25 percent voting rights that firm is considered a family firm. And if those firms who did not fulfill that criteria those are consider non family firms. In this study also clear that family businesses play a vital role in Pakistan economy, In other words family businesses is a backbone of the economy of Pakistan. It is the first study in Pakistan who clear the strength and weaknesses of the family firms. Family firms are that firms in which large number of family members involved. Or major ownership has a one family. *Julie C. Dekker et al. (2012)* in the firm managers are working on the bases of professional competencies if that managers from owner family that firm is family firm if the manager from external source that firm is a non family ownership firm.

Family Firms in Pakistan

In Pakistan Family ownership firms have a lot of importance in other words family firms are the backbone of Pakistan Economy. Mostly private limited companies are attached with family businesses. In Private limited companies shares are not transferable easily. The public limited companies also have a major part of family firms. Two papers have been included about Pakistani family firms. Study concludes the result of effect of family businesses and non family businesses ownership structure on firm performance. For that purpose third largest sector in Pakistan select the manufacturing sector after agriculture and mining sector first and second respectively. Large number of manufacturing firms are the family firms in Pakistan.

Data Collection and Methodology

J.M San Martin-Reyna (2012) collect the sample from the Mexican listed companies in Mexican stock exchange and period involved in this study from 2005 to 2009. And 90 companies collects the data for this study. Data collects from financial statements. Apply the regression analysis for showing the result. Danny Miller et al. (2007) Collect data from US firm all data are publically available. 100 firms' random samples draw from the 1000 firms out which 500 firms are manufacturing firms and 500 firm's are services firms.
Shamaila Jabeen et al. (2012) About Pakistani context. Focus on non financial firms in Pakistan. And select the manufacturing sector. Four manufacturing sectors are selected for this study the first is chemical manufacturing sector, second is construction and material, third is automobile and fourth is pharma and bio-tec. Collected from 2006 to 2009 of listed firms in Karachi stock exchange.

Manufacturing sector is growing sector in Pakistan. For the data collection two hundred and forty eight (248) observations have done and finally 62 firms are selected for this study. After 0bservation 50 percent of each sector was selected. All the data are acquired from Karachi stock Exchange, audited financial statement publically available. Qaiser Rafique Yasser (2011) the researcher collect data from Pakistan, Karachi stock exchange. The time period of data collection is from 2003 to 2008. Why he collect data from 2003, The reason behind that he want to judge the implementation of code of corporate governance that was issued in 2002. In this study the size of sample is 132 firms that is from the total observation of 792 firms.

Carmen Galve et al. (2011) focus on non financial firms listed in Spanish stock exchange. Data is collected from 1990 to 2004. In this study clear that how many firms are family firms and how many firms are non family firms. In this sample twenty four (24) are non family companies and twenty nine (29) are family owned companies. Julie C. Dekker et al. (2012) has some difference from others discuss earlier. All the studies above discussed are about listed firm in any stock exchange but this study is about unlisted companies or businesses. Yes he is focus on Small and Medium Enterprises (SME) of Belgium. Minimum criteria is ten (10) employees in any enterprise.

Family Ownership Firms versus Non-Family Ownership (Conclusion)

Shamaila Jabeen et al. (2012) in current scenario family firm plays a vital role in the worldwide economy. Almost sixty five percent (65%) to eighty percent (80%) businesses run by families. The main objective of this study is to investigate the family firms are superior or non family firms are superior in Pakistan. The result shows that family firms are not superior in Pakistan. Family firms give a poor performance as compare to the non family firms. In this study also examine that ownership structure of the firm also effects the controlling the other firms with specific characteristics. Erling Barth et al. (2004) about the productivity of family and non family firms.

The productivity investigate that and result show that non family firms are more productive as compare to the family firms. The result shows that the difference in productivity judged in numerical values. The productivity difference is ten percent (10%). Mean to say family firms are ten percent (10%) less productive. The gap is due to difference in regimes of management. And second result shows that on the bases on managers from family members. This result also shows that family firms are less productive. But this time productivity gap is changed. The productivity gap is raised to fourteen percent (14%). Mean to say non family firms are more productive.

Danny Miller et al. (2007) the result is matched with literature review result. The author working on the pure family firms no relatives are involved in the family firms. Only one generation convert to second generation as it is run. If we consider relatives in the family firm that is unhelpful for the firm performance. JM San Martin-Reyna (2012) shows result and specially focus on agency cost. In this clear that agency cost is low in family firms because multiple of family members are involved in management. Through this savings wealth is increase the investment in the company. But suggested that implementation of corporate governance code 2002 is necessary. Due to this company financial performance is located and looked after by the proper board. Mexican markets have large number of family firms due to this ownership has in few hands.

Qaiser Rafique Yasser (2011) Pakistan family firms have lot of difference with non family firms. It is clear that family firm done meeting a minimum number due to this performance of the family firms is disturbed. As compare to non family firm proper meeting has done by the board members. Independent non executive directors also include in board meetings. He is clear that code of corporate governance have raised the performance of the firm. It is also clear that age of firm, size of the firm and debt effect the performance of firm. Corporate governance has a lot of importance and suggest the Pakistani family firms to influence the better financial performance.

Wall (1998) Analysis the New York firms the effect on ownership on the productivity. He shows the result family ownership firms are less productive as compare to non family ownership firms. And clear that the productivity gap is eighteen percent (18%).

Future Recommendations

In Pakistan mostly firms have family ownership structure and have very small study on family and non family ownership firms in Pakistan. Family ownership firms play a vital role in Pakistan economy. So for the further studies have more space in Pakistan.

Focus only four sub sectors considered for study in Pakistan and select the manufacturing sector mostly. Four manufacturing sectors are selected for studying the first is chemical manufacturing sector, second is construction and material, third is automobile and fourth is pharma and bio-tec. And many sectors are free for this type of research in Pakistan. Mostly in studies sample size are very small in Pakistan like 2 to 4 years only.. For further studies sample size can be increased also.

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