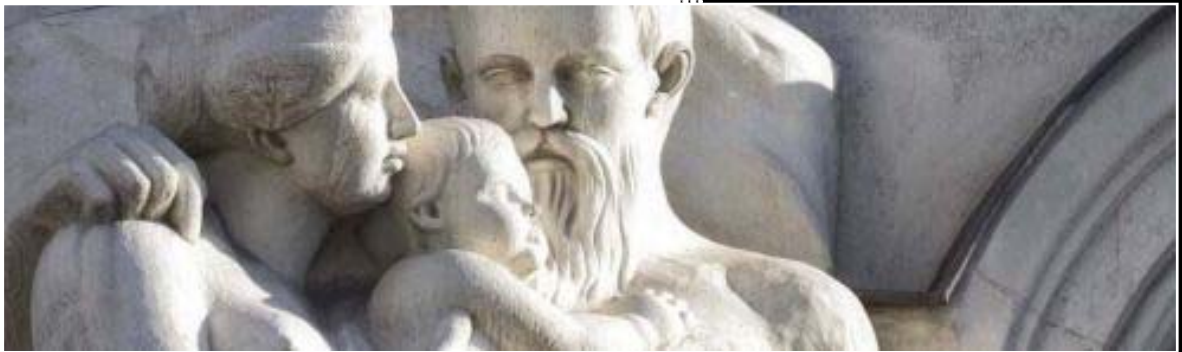


Value creation in listed European family firms (2001-2010)



Dear reader,

Over the last few years we have been experiencing the worst economic recession since the end of the Second World War and even today there is no end to it in sight. In these difficult times many people are affected by the serious consequences of this crisis, yet it is also true that major changes are taking place in the economy and new opportunities are emerging for investors who take a long-term approach.

Here at Banca March we are committed to supporting the major contribution made by family businesses to creating value and jobs. This is why we have created *The Family Businesses Fund* for our customers, a global equity fund that only invests in listed family firms. The fact that Banca March is also a family business with over 100 years of history behind it puts us in a unique position to understand the dynamics of these businesses, which in our experience tend to be much more profitable in the long term.

We also decided to combine Banca March's experience with the academic prestige of an institution like IE Business School which is internationally recognised for the support it gives to entrepreneurs and family businesses. The result of this partnership is this first **Banca March-IE Business School** report, one of the most comprehensive studies about family businesses to have been conducted in Europe in recent years.

We hope that you will find it interesting and informative.

Yours faithfully,



José Luis Jiménez Guajardo-Fajardo
General Manager, March Gestión

March Gestión is the “boutique” fund management company of Banca March. With more than EUR 1,9 bn of AuM and a team of 25 professionals, Its investment philosophy combines long-term value creation with wealth protection. Global Equity and Asset Allocation are the “core competences”.

Banca March is one of the largest Spanish financial groups with one of the highest solvency ratios in Europe (Core Capital of 21%). It has been ranked nº 1 in the banking stress test and has won the Best Private Bank award in Spain in 2010, 2011 and 2012 by World Finance . It is a family-owned institution with a heavy focused on Wealth Management, Corporate Banking and Fund Management.

IE Business School shapes leaders that promote innovation and change in organisations, equipping directors with an entrepreneurial mindset that generates employment, wealth and social wellbeing. Recognised as one of the world’s leading business schools, IE Business School has an urban campus in Madrid and a faculty of more than 400 professors who teach students from 93 countries on its master, PhD and executive education programs. IE students use innovative online and presential learning formats, including the IE Communities platform where they exchange knowledge and experiences with 40,000 IE graduates that currently hold management positions in some 100 countries.

Authors:

Cristina Cruz Serrano

Professor of Entrepreneurial Management and Family Business
IE Business School

Laura Nuñez Letamendia

Professor of Finance
IE Business School

Support staff:

Roberto Merino Pérez

IMBA
IE Business School



CRISTINA CRUZ, Professor of Entrepreneurial Management and Family Business, IE Business School

Cristina Cruz holds a PhD in Economics and Quantitative Methods from Carlos III University, an Executive Development program qualification in Family Business from the Instituto de Empresa, a BA in International Economics from Manchester University and a degree in Economics from Murcia University.

The results of her research, which focuses mainly on entrepreneurial management and family business, have been published in leading international academic journals including the *Academy of Management Journal*, *Administrative Science Quarterly*, *Journal of Business Venturing* and *Entrepreneurship Theory and Practice*. Her academic work has been internationally recognised on numerous occasions. For example in 2009, her article entitled *Socioemotional wealth and Corporate Response to Institutional Pressures: Do Family-Controlled Firms Pollute Less?* received the Best Paper Award in the Corporate Governance Division at the European Academy of Management Conference. In recognition of this research work, IE Business School gave her its Research Excellence Award in 2010, a prize that the school presents to its best researchers.

Professor Cruz brings the results of her research to the classroom, where she instils in future generations the need to preserve and pass on entrepreneurship in business families. Her teaching on MBA courses and in Executive Education is always highly rated by students and internationally recognised as well. In 2011 she was one of the lecturers selected by the Family Firm Institute (FFI) to present their innovative teaching methods in family business issues at the Family Business Research & Education Symposium. She is also the author of numerous cases studies involving successful family entrepreneurs and businesses.



LAURA NÚÑEZ LETAMENDIA, Professor of Finance, IE Business School

Laura Núñez has a degree in Economics from the Autonomous University of Madrid and a PhD in Finance (specialising in Banking and the Stock Exchange) from the same university. Her doctoral thesis about investment in listed companies was given an award by the Caja Madrid Foundation.

She began her career working as a financial market analyst and portfolio and fund manager at Bestinver SVB, GVC SVB and Norwich Union. She then joined the IE Business School where in addition to teaching on various programmes (MBA, Executive MBA, LL.M, PhD, DBA and MiM) she also served as Director of Research from 2001 to 2007. In recent years she has been a Visiting Scholar at Bentley University in Boston and has done specialised courses at Harvard Business School.

Her research is mainly into capital markets and investment and risk management as well as improving quantitative analysis techniques. One of the issues she is passionate about is using artificial intelligence techniques to select stock market, financial and economic indicators in order to anticipate market movements and limit risk. Her research has been funded by competitive public programmes such as the EU Framework Programme and Spain's National R&D Plan, and her findings have been published in international journals with anonymous peer review and recognised impact in the *JCR (Journal Citation Report)*, *Energy Policy*, *Soft Computing*, *IMA Journal of Management Mathematics*, *Computational Statistics & Data Analysis*, *European Journal of Operational Research*, *Int. J. Data Mining, Modelling and Management* and *Managerial Finance*, as well as in international books (*Studies in Computational Intelligence* - Springer 2012, *Lecture Notes in Computer Science* - Springer 2012) and domestic journals.

1. INTRODUCTION	1
THEORETICAL BACKGROUND	
2. WHAT IS A FAMILY BUSINESS?	3
2.1. Definitions	3
2.2. Implications	4
3. VALUE CREATION IN FAMILY BUSINESSES: REVIEW OF THE STATE OF THE ART	9
3.1. The generation of economic and financial value: relationship between family ownership and profitability	9
3.2. Value creation in other dimensions	13
EMPIRICAL ANALYSIS	
4. DESCRIPTION OF THE SAMPLE	14
5. SNAPSHOT OF LISTED EUROPEAN COMPANIES IN 2010	15
6. VALUE CREATION IN FAMILY BUSINESSES COMPARED TO NON-FAMILY FIRMS IN THE PERIOD 2001-2010	
6.1. Creation of economic value	22
6.2. Other value creation indicators	23
6.2.1. Employment indicators	35
6.2.2. PP&E investment indicators	
7. WHICH FAMILY BUSINESSES CREATE MOST VALUE?	
7.1. Family involvement in company management and its impact on value creation	39
7.2. What do the family businesses with the best stock return have in common?	42
8. CONCLUSIONS	48
9. REFERENCES	56
10. ANNEX I: REGRESSION ANALYSIS	57

1. INTRODUCTION

The importance of family businesses is undeniable. Although results vary depending on what is meant by family business, statistics show that they account for 50-80% of GDP in most world economies.¹ Families are also commonly blockholders in listed companies (Burkart et al., 2003). In the U.S., for example, one third of the companies in the S&P 500 are family firms (Anderson and Reeb, 2003) while in Asia and Latin America families control more than 50% of listed companies (Credit Suisse, 2011, Martínez et al., 2007). They are also highly significant in Europe where it is estimated that a large majority of listed companies are still family controlled (La Porta, Lopez de Silanes, 1999). It is also the case that the founding family's control endures even after it leaves management positions (Burkart et al., 2003).

Hence it comes as no surprise that analysis of the relationship between family ownership and value creation has been defined as “the quest for the Holy Grail” in the field of family businesses (Gomez-Mejía, Cruz, Berrone and De Castro, 2011). In spite of the large amount of research conducted in this area in recent years, this quest is by no means over because the end result of this relationship is still the subject of much controversy. Indeed, this controversy is also reflected in how European public opinion perceives listed family businesses. On the one hand, companies that have managed to thrive over time under the control of a family are admired and respected, particularly for the strength of their values and long term strategy. Conversely, it is also felt that the different priorities of family shareholders with respect to other shareholders create a conflict of interest that is an obstacle to the creation of value.

In the midst of this controversy, this first BANCA MARCH-IE study plays an important contribution to the analysis of value creation in family businesses both from the methodology standpoint and also because of the theoretical approach it uses to explain the differences between family and non-family firms in terms of value creation.

From a methodological perspective, the study is based on a sample of companies (2,423 firms, 649 family businesses) which is larger than the ones used in almost all other published works. The number of countries analysed is also bigger since it includes firms from 38 European countries whereas published multi-country studies about European companies only encompass firms in Western Europe or the European Union. Furthermore, the study period

¹ Figures from the Family Firm Institute website www.ffi.org

(2001-2010) is the longest of those carried out to date and makes it possible to examine the long-term creation of value and also to look at the performance of firms over the business cycle. Finally, the use of restrictive criteria to define a family business combined with rigorous interpretation when deciding whether companies meet these criteria guarantees the sample's validity and enables the differing impact of family ownership on value creation to be more precisely depicted.

The approach used to capture value creation is also unquestionably an initial contribution of this first BANCA MARCH-IE report. Unlike existing studies that focus on economic and financial performance and/or market valuation metrics, the BANCA MARCH-IE report uses new indicators that are more directly related to value creation including stock return and Economic Value Added (EVA). The report also takes a much broader view of value creation to embrace other dimensions that go beyond purely economic or financial value since it also considers, for example, the contribution of family businesses to job creation and their performance in the various stages of the business cycle.

The sum of all these contributions means that this first BANCA MARCH-IE report is unique in its field. Irrespective of whether its findings may be disputed, it marks a turning point in studies about the relationship between family ownership and profitability in listed companies. The report indicates firstly the need to distinguish clearly between what each of the economic and financial value creation indicators is measuring. Secondly it shows the need for additional value creation indicators that go beyond the value generated for company shareholders and/or the owning family. Failure to do so would mean underestimating the contribution of family businesses to the growth of economies in particular and to the welfare of society in general.

THEORETICAL BACKGROUND

2. WHAT IS A FAMILY BUSINESS?

2.1. Definitions

Despite the importance and growing interest in the study of family businesses, there is still no consensus when it comes to defining this type of organisation. The definition of family business used in the BANCA MARCH-IE report is based on previous research which shows:

- that controlling more than 20% of voting rights is enough for a shareholder or group of shareholders to exercise significant influence on a firm (Faccio and Lang, 2000).
- that this influence becomes even more significant if at least one family member is on the Board of Directors (Anderson and Reeb, 2003; Gómez-Mejía, Larrazza-Kintana and Makri, 2003).

Based on these two criteria we have defined a family business as one which meets two conditions:

The BANCA MARCH-IE study defines a family business as one in which an individual or family holds at least 20% of the company's shares and at least one family member is on the Board of Directors.

Compared to other empirical studies, the combination of these two criteria yields a restrictive definition of a family business. However, in view of the difficulty of identifying the percentage of voting rights in some cases, the use of both criteria ensures that even when the 20% voting threshold is not reached, the family influences the management of the company through its presence on the Board and therefore the results really do capture what sets family-owned companies apart.

2.2. Implications

In spite of the lack of consensus in defining what a family business actually is, there is no doubt among family business researchers and experts that the presence of a family which influences a firm's decision-making affords it some unique features that create differences when it comes to making strategic decisions. In fact, there is ample empirical evidence that indicates the divergence between family and non-family firms in their diversification strategies (Gómez-Mejía, Makri and Larraza Kintana, 2010), capital structure (Mishra and McConaughy, 1999), executive compensation (Cruz, Gómez-Mejía and Becerra, 2010) and many other factors.

What really makes a family business different?

Although there is no unanimity about this either, the experts argue that one of the key differentiating factors is that profit maximisation in these organisations exists side-by-side with achieving other non-economic objectives which are important to the owner family, such as employing other family members and handing down a legacy to future generations. In recent years the concept of socioemotional wealth (SEW) has gained ground to refer to these non-financial benefits that affect the utility function of family shareholders.

SOCIOEMOTIONAL WEALTH:

- **Benefits that family shareholders obtain from non-economic aspects of the company**
- **Stock of "affective value" that a family gets from its position as a blockholder in a company**

(Gómez-Mejía et al., 2007; Berrone, Cruz, Gómez-Mejía, 2010).

What aspects does this socioemotional wealth include?

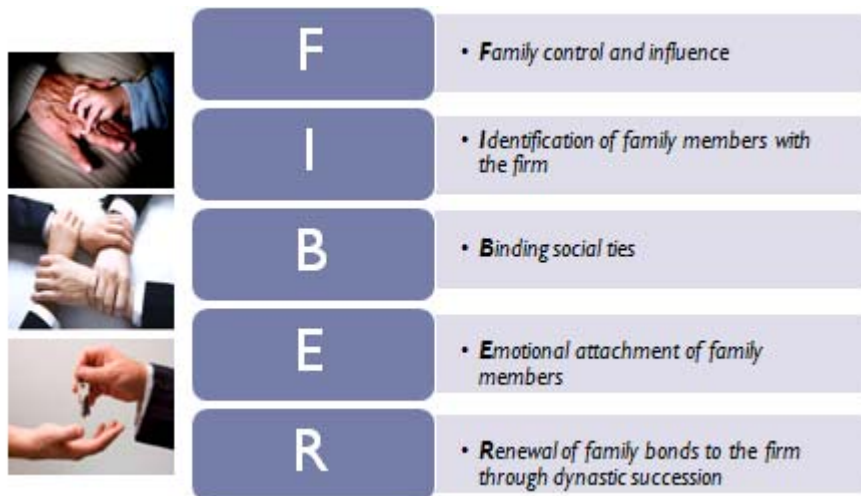
The definition shows that socioemotional wealth includes all those aspects that bring value to the owner family and are not necessarily related to the creation of economic value. These aspects have been mentioned since the first research was carried out into family businesses, although the literature on this point was very fragmented. The concept of socioemotional

wealth brings together all these non-monetary aspects that set a family business apart in five dimensions which include:²

- 1) The family's desire to exercise control and influence over decision-making in the firm.
- 2) Family members' identification with the firm to such an extent that it is sometimes difficult to separate the identity of the two.
- 3) Building lasting relationships with internal and external stakeholders, including employees, customers, suppliers, etc.
- 4) The presence of strong emotional ties between family members, ties that often extend to others outside the family.
- 5) A strong desire for continuity, to hand the company down to future generations.

Exhibit 1

Dimensions of socioemotional wealth (FIBER model)



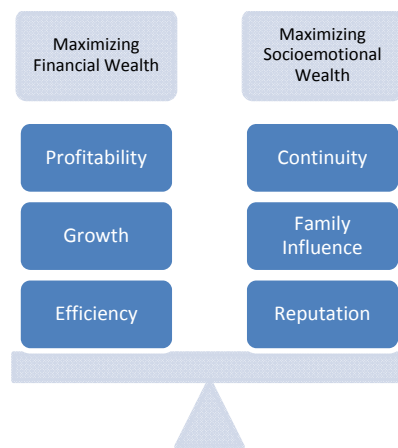
How does this socioemotional wealth affect value creation in a family business?

In addition to unifying positions about the hallmarks of family businesses, the socioemotional wealth model is also useful in explaining how these differences are reflected in strategic decision-making. Thus it is assumed that for family shareholders, preserving socioemotional

² These five dimensions of socioemotional wealth are known as the FIBER model after their acronym (Exhibit 1). They have recently been put forward by Berrone, Cennamo, Cruz and Gómez-Mejía (2012).

wealth is an end in itself and that therefore any strategic decision will seek to protect this wealth (Gómez-Mejía et al., 2007). Of course, this does not imply that family shareholders do not also look to increase their financial wealth, but rather that both goals exist side-by-side in the family business at once. This duality of goals gives a family business its unique features that set it apart from other companies.

Exhibit 2
Goals of family shareholders



The literature about family firms clearly identifies the positive and negative impact on value creation of the emphasis placed by family shareholders on preserving socioemotional wealth (Table 1). For example, in trying to ensure the family’s influence on the business, family shareholders may decide that the company's key positions should be occupied by family members which can result in nepotism and talent flight. However, it may also help to reduce agency costs as there is no separation between ownership and control.

The construction of lasting relationships with other stakeholders such as employees, suppliers and customers is another advantage that is often cited in the case of family businesses. These lasting relationships build trust and reputation which reduces transaction costs and fosters the loyalty of these stakeholders while also providing these firms with intimate knowledge of the market they serve. It is also thought that the desire to hand the company down to future generations means that decision-making is less affected by short-term considerations and provides a family business with “patient capital” (Sirmon and Hitt, 2003) that is willing to stay in the company in the long term. Others, however, believe that these lasting relationships and

this extremely long-term vision result in stagnation, resistance to change and a lack of innovation in family firms.

Table 1.
Positives and negatives of socioemotional wealth

SEW DIMENSIONS	Positives	Negatives
Desire for control and influence	Lower agency costs as there is no separation between ownership and control	Expropriation of minority shareholders' rights Nepotism
Identification of the family with the firm	Greater commitment to the business project Enhanced reputation	Resistance to change Degree of risk aversion
Building lasting relationships with stakeholders	Share capital Greater trust, loyalty and motivation Greater market knowledge	Little innovation Resistance to change High salary costs
Emotional ties	Greater trust, loyalty and motivation Greater flexibility	Nepotism Lack of meritocracy Inability to attract non-family members Less flexibility
Desire for continuity	Long-term vision Patient capital	Nepotism/Lack of meritocracy Resistance to change

Source: authors' own compilation based on the literature review

The problem implicit in this discussion about the positives and negatives of family firms (summarised in Table 1) is that the studies conducted to date are assuming that by pursuing objectives other than purely economic ones (to preserve their SEW), the family is jeopardising profit maximisation and therefore destroying economic value for the company. While it is true that this may happen on occasion, the following sections of the BANCA MARCH-IE report show that this standpoint involves a somewhat "short-sighted" view of family businesses and their contribution to economic growth and the welfare of society.

Thus although it does not deny these negative effects, this study adopts a novel approach for analysing value creation in family businesses based on the socioemotional wealth model. In particular it assumes that even though there may be some conflict between profit maximisation and preserving socioemotional wealth, there are also some complementary effects. These effects are reflected in a family firm's greater capacity to create value for its shareholders and also in its greater capacity to generate value for other stakeholders.

This “other value” may or may not be directly related to the generation of economic and financial value, but in any event it has a positive impact in terms of, for example, greater business survival, the ability to generate more stable employment and greater involvement in corporate social responsibility strategies by family businesses. In turn, many of these actions will eventually be reflected in greater economic and financial value creation in the long term. These positive “spillover effects” of family businesses are rarely taken into account when analysing their impact, which means the role of family businesses in the economy is undoubtedly underestimated.

3. VALUE CREATION IN FAMILY BUSINESSES: REVIEW OF THE STATE OF THE ART

3.1. The generation of economic and financial value: relationship between family ownership and profitability

During the past 15 years great efforts have been made to grasp the direct effect of family ownership on the performance of listed companies. However, this research has not yet yielded conclusive results. As shown in Table 2, which lists the most relevant studies published in this area over the last ten years, on average family businesses seem to create more value than other organisations. For example, in studies of American companies on the S&P 500 and samples from the Fortune 500 respectively, Anderson and Reeb (2003) and Villalonga and Amit (2006) report that Tobin's Q^3 for family firms is greater than for other businesses. Similar results were obtained by Maury (2006), who examined listed European companies, and Allouche et al. (2008), who sampled firms quoted on the Japanese stock market. However, there is also evidence to the contrary (e.g. the study by Morck et al. [1998] in Canada).

Table 2 shows that the apparently contradictory data may be due not only to differences in context, as a result of taking samples from different countries, but also to the use of different definitions of family business, different study periods and different methodologies to estimate value creation (Sacristán-Navarro et al., 2011). Empirical evidence also indicates that superior family firm performance is sensitive to the presence or absence of its founder (Miller, Le Breton-Miller, Lester and Cannella, 2007) and the degree of family involvement in management (Allouche et al., 2008; Villalonga and Amit, 2006). Nevertheless, whether these effects are positive or negative is a source of controversy.

Thus although research to date is unanimous that family ownership has a different effect on economic and financial value creation, the debate about the positive or negative impact of that influence is still ongoing.

³ Tobin's Q is the ratio between the market value of a company and its book value.

Table 2
Empirical evidence about family ownership and economic value creation

AUTHOR	GEOGRAPHIC AREA	SAMPLE SIZE	%FB	FAMILY BUSINESS DEFINITION	PERIOD	PERFORMANCE VARIABLES	FB ADVANTAGE	FINDINGS
Lee, 2006	USA	403	35%	The founding family owns equity and/or is on the Board	1999-2002	Growth in employment and sales	YES	Higher revenue, profits and job creation. Growth in employment during crisis (2000-2002) significantly greater
Miller and Miller, 2007	USA	896	45%	Family owns more than 5%	1996-2000	Tobin's Q	DEPENDS	The advantage exists only for companies in which the founder serves
Anderson and Reeb, 2003	USA	403	34%	The founding family owns equity and/or is on the Board	1992-1999	ROA and Tobin's Q	YES	FB greater ROA and Tobin's Q, although the relationship between family ownership and performance is not linear.
Villalonga and Amit, 2006	USA	508	37%	The founder or a member of their family is on the BD and/or owns at least 5% of equity individually or as a group	1996-1998	Tobin's Q	DEPENDS	Family firms create more value than non-family firms only when the founder serves as CEO or as Chairman with a hired CEO
Allouche et al., 2008	JAPAN	1271	38%	The family is one of the majority shareholders and/or is on the BD		ROE, ROA, ROIC, efficiency ratio and other ratios	YES	The best results are achieved with a strict definition of family business (ownership and on BD)
Lauterbach and Vaninsky, 1999	ISRAEL	280	33%	The family is the main shareholder	1992-1994	Net income, debt, remuneration	NO	
Morck, Stangeland and Young, 1998	CANADA	500	50%	Family owns more than 10% of equity	1994-1999	ROA, ROE, Tobin's Q	NO	
Maury, 2006	EUROPE (13 countries)	1,672	33%	Family holds more than 10% of voting rights	1998	ROA and Tobin's Q	YES	FB 16% greater ROA and better valuation (Tobin's Q 7% higher).
Pindado et al., 2008	EUROPE (13 countries)	779	33%	Family holds more than 10% of voting rights	2000-2006	Market value of equity/replacement value of assets	YES	Family ownership effect on performance is not linear

Table 2
Continued

AUTHOR	GEOGRAPHIC AREA	SAMPLE SIZE	%FB	FAMILY BUSINESS DEFINITION	PERIOD	PERFORMANCE VARIABLES	FB ADVANTAGE	FINDINGS
Barontini and Caprio, 2005	EUROPE (11 countries)	675 worth more than €300 m in assets	34%	Family owns more than 10% of equity	1999-2001	ROA and Tobin's Q	YES	The advantage disappears when the next generation CEO is family. Does exist if the family is on the Board and the CEO is hired
Nieto et al., 2009	EUROPE (15 countries)	2,759 with more than 50 employees	14%	The main shareholder is an individual or there are at least two shareholders from the same family who hold at least 25% and the family is represented on the BD	2004-2005	Tobin's Q	DEPENDS	If the CEO is family in the following generations the company destroys value
Sraer and Thesmar, 2004	FRANCE	420	70%	Family owns more than 20% of equity	1994-2000	ROA/ROE/payout and market to book ratios	DEPENDS	FB better performance with accounting data but when using market data only companies where the founder serves have a better valuation
Cronqvist and Nilsson, 2003	SWEDEN	309	57%	Family owns more than 25% of equity	1991-1997	Tobin's Q	NO	
Favero et al., 2006	ITALY	155	57%	Family owns more than 20% of equity	1998-2003	ROA, ROE, Tobin's Q and absolute and relative stock market returns	DEPENDS	FB have higher ROA but there are no significant differences
Kowaleski et al., 2001	POLAND	217	30%	Family owns more than 25% of equity	1997-2005	ROE, ROA and operating income	YES	The relationship with family ownership is not linear.
Andrés et al., 2008	GERMANY	275	37.50%	The founder or the family holds more than 25% of votes or if they have less, at least one family member is on the Board	1998-2004	ROA and Tobin's Q	DEPENDS	The advantage exists only for companies where the founder serves
Sacristán Navarro and Ansón, 2011	SPAIN	118	59.77%	Family owns more than 10% of equity	2002-2008	ROA	NO	

3.2. Value creation in other dimensions

Alongside the publication of studies linking the effect of family ownership to company profitability, in recent years in particular there has been research that examines the effect of a family business on other value creation indicators that go beyond purely economic and financial aspects. Unlike analyses focussing on economic value which view only shareholders and the family as relevant stakeholders, recent research looks at how the family can create value for its stakeholders in a broad sense, including suppliers, customers, employees and even society as a whole.

The findings of these studies are more conclusive than the previous ones, even though empirical evidence is still limited given the recent nature of the subject. The empirical evidence shows that compared with non-family firms, family businesses are able to generate more value for their stakeholders in, for instance, more stable employment policies (Stavrou, Kassinis and Filotheou, 2007), lower pollution levels (Berrone, Cruz and Gomez-Mejia, 2010) and greater involvement in corporate social responsibility activities (Dyer and Whetten, 2006) (Table 3).

TABLE 3
Relationship between family ownership and other value creation indicators

AUTHOR	GEOGRAPHIC AREA	SAMPLE SIZE	VARIABLE	FINDINGS
Berrone, Cruz and Gomez-Mejia, (2010).	USA	194 listed companies, 101 family businesses	Pollution indicators	FB pollute less and the more involved they are in their communities, the greater is the effect
Dyer and Wheten, (2006).	USA	S&P 500 companies	Corporate social responsibility	FB are more likely to shun actions that are deemed "socially irresponsible"
Lee (2006)	USA	403	Employment growth	Employment growth in times of crisis significantly higher
Stavrou et al., 2007	USA	Fortune 500 companies	Employment policies	FB more reluctant to lay off employees regardless of financial results

SEW theory helps explain this behaviour by avoiding value judgments about "the greater kindness or greater altruism of family shareholders". For example, carrying out socially irresponsible policies seriously damages the image of a company and because the latter is strongly identified with the family, this damage is directly translated into a loss of SEW. Hence in trying to protect

their socioemotional wealth, family owners are voluntarily or involuntarily contributing to improving the welfare of other stakeholders.

To summarise, the review of the “state of the art” in value creation by listed family businesses shows there are two distinct schools of thought. One is based on economic and financial studies and examines the impact of family ownership on company performance metrics. These studies look almost exclusively at economic indicators for value creation and assume that the presence of non-economic objectives creates a conflict of interest that destroys shareholder value. The other more recent school of thought is driven by management and strategy researchers rather than financial or economics researchers and examines how the goal of preserving socioemotional wealth helps to create value for a wider set of stakeholders than just the company’s shareholders.

Surprisingly, in spite of the existence of numerous synergies between the two standpoints, both schools of thought have gone in entirely different directions. The BANCA MARCH-IE study combines these two approaches for the first time as it considers the creation of value in a broad sense using the logic of the socioemotional wealth theory. Unlike previous studies, this emerging approach sees profit maximisation and the preservation of socioemotional wealth as complementary rather than conflicting objectives between which there are numerous synergies that can explain many of the advantages to be found in value creation in family businesses. In line with this method, the sections below set out the empirical analysis which seeks to answer, *inter alia*, the following questions:

- **What is the profile of listed European family businesses?**
- **Do family businesses generate more value for shareholders than non-family firms?**
- **Do they generate more value for other stakeholders?**
- **What sets apart the family businesses that create most value?**

EMPIRICAL ANALYSIS

4. DESCRIPTION OF THE SAMPLE

The BANCA MARCH-IE study's universe of companies centred on **all listed companies in any European country reported in the ORBIS database⁴ that were not in the financial sector and whose market capitalisation was over €50 million at the end of 2010.**

The total number of shortlisted companies in our sample using these criteria was 2,881. We identified 649 of these companies as family businesses in 2010 based on the criteria referred to above and 1,774 as non-family firms. The available data did not enable us to establish whether the remaining 458 companies met the definition of family business we were using, so it was decided to leave them out of our sample so as not to distort the findings if they were wrongly included in either group of companies.

The sample size was reduced for the analysis of longitudinal data (2001-2010) as not all companies identified in 2010 had economic and financial data for the entire period and not all the companies listed in 2010 had been quoted for the entire period. Specifically, the panel of firms in the case of longitudinal data analysis was reduced to 408 family businesses compared to 977 non-family companies.

FINAL STUDY SAMPLE

- **CROSS-SECTIONAL DATA ANALYSIS, 2010:**
 - **649 family businesses and 1,774 non-family firms**
- **LONGITUDINAL DATA ANALYSIS, 2001-2010:**
 - **408 family businesses and 977 non-family firms**

In terms of our information sources, financial and accounting data were obtained from Bloomberg while the data about company characteristics (size, sector, country, age, etc.) and whether or not they were family firms came from the ORBIS database.

⁴ ORBIS is a database developed by Bureau van Dijk Electronic Publishing (BvDEP) which contains information about approximately 60 million companies

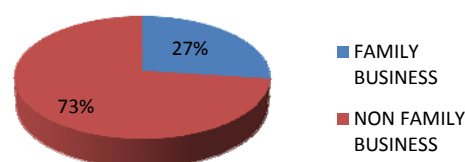
5. SNAPSHOT OF LISTED EUROPEAN COMPANIES IN 2010

- **What is the profile of listed European family businesses?**
 - **What is the contribution of family businesses in terms of size and employment?**
 - **Which European countries have the largest number of family businesses?**
 - **Are there differences compared to non-family firms with respect to sectoral distribution?**
 - **Are Europe's family businesses older?**

This section analyses the cross-sectional data for 2010 for the 2,423 companies identified as family and non-family firms which in that year were listed on European stock exchanges and had a market capitalisation in excess of €50 million. The purpose of this section is to “take a snapshot” of family businesses in the last year for which data are available.

As noted above, 649 of these companies met the family business criteria used in this report. This accounted for 27% of the total, as shown in Exhibit 3. This percentage is slightly lower than that obtained by the studies reviewed in Table 2, but as has already been mentioned, they used a broader definition of family business.

Exhibit 3
Percentage of family businesses over the total listed companies in 2010

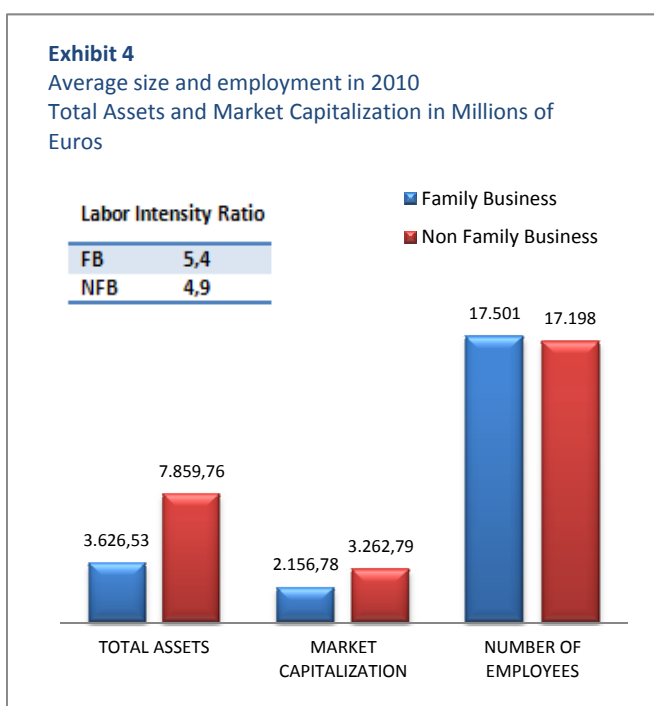


Size and employment

In 2010, the family firms analysed had a market capitalisation of €1.4 trillion (accounting for 19% of the total), held assets worth €2.4 trillion (14% of the total) and had sales valued at €1.6 trillion (20%). They also provided jobs for about 8 million people, accounting for 27% of employment (Table 4). This percentage, which is significantly higher than the contribution of these companies in terms of their assets, sales and capitalisation, is a first indication of the important role played by family businesses in creating jobs.

Table 4.
Data for aggregate size; family versus non-family firms

	Family		Non-family	
	Value	Percentage	Value	Percentage
TOTAL ASSETS (million euros)	2,353,615	14%	13,943,206	86%
SALES (million euros)	1,616,016	20%	6,458,623	80%
MARKET CAPITALISATION (million euros)	1,393,277	19%	5,788,198	81%
EMPLOYEES	7,922,850	27%	21,414,609	73%
N	649	27%	1,774	73%



This effect was even more evident when comparing the mean values for size and employment in both types of organisations (Exhibit 4). These data showed that in spite of their smaller size employment figures were very similar, indicating that family firms were more labour intensive and made a bigger contribution to job creation in Europe in relative terms in 2010. In fact, the labour intensity ratio⁵ is higher in the case of family businesses and the difference is statistically significant ($p < 0.01$). The role of family businesses in relation to

employment is discussed in detail in section 6.2.1.

Table 5 shows the ranking of the 25 largest family businesses in terms of market capitalisation and number of employees. In the case of Spanish companies, only Inditex is in the group in terms of capitalisation although it is joined by FCC, Ferrovial and Prosegur in the ranking of companies with most employees.

⁵ Labour intensity is the ratio of the number of employees vis-à-vis the total assets of a company in millions of euros.

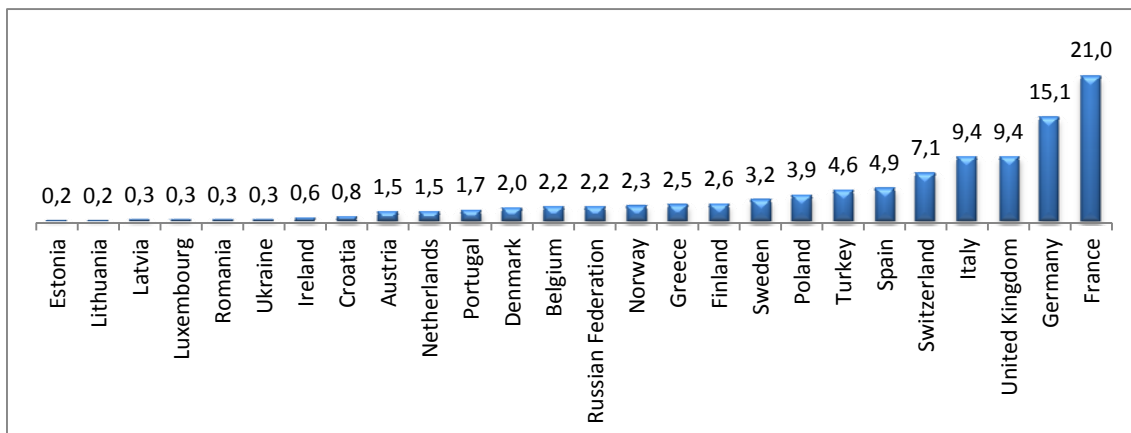
Table 5
Ranking of family businesses by size and number of employees

COMPANY	CAPITALISATION (million euros)	Ranking	COMPANY	No. EMPLOYEES
ROCHE HOLDING AG	95,412.79	1	RANDSTAD HOLDING NV	546,980
ANHEUSER-BUSCH INBEV	68,176.12	2	VOLKSWAGEN AG	399,381
LVMH	58,891.32	3	SODEXO	379,137
VOLKSWAGEN AG	49,263.45	4	ARCELORMITTAL S.A.	262,832
L'OREAL SA	48,988.61	5	METRO AG	252,258
ARCELORMITTAL S.A.	43,948.18	6	SECURITAS AB	236,713
HENNES & MAURITZ AB	42,971.49	7	FIAT S.P.A.	199,924
BMW	38,556.08	8	PEUGEOT S.A.	198,220
A P MOLLER – MAE	29,576.41	9	THYSSENKRUPP AG	187,495
INDITEX	28,443.81	10	RALLYE SA	175,380
AUDI AG	27,305.00	11	CASINO GUICHARD-PERRACHON	159,230
HEINEKEN NV	21,073.72	12	BOUYGUES SA	133,456
CHRISTIAN DIOR SA	19,126.92	13	ANHEUSER-BUSCH INBEV	114,313
FIAT S.P.A.	19,085.12	14	MICHELIN	111,100
HENKEL AG & CO. KGAA	18,322.83	15	A P MOLLER - MAE	108,000
HOLCIM LTD.	18,109.22	16	PROSEGUR C	104,363
THE SWATCH GROUP LTD.	18,088.74	17	FERROVIAL, S.A.	101,416
METRO AG	17,607.31	18	ASSOCIATED BRITISH FOODS	96,915
PERNOD RICARD SA	16,807.62	19	BMW	95,453
HERMES INTERNATIONAL SA	16,484.26	20	INDITEX	92,301
COMPAGNIE FINANCIERE RICHEMONT	16,480.22	21	FCC	92,293
PPR S.A.	15,074.58	22	OPEN JOINT STOCK COMPANY	90,998
MAN SE	13,085.09	23	CHRISTIAN DIOR SA	86,818
OA0 SEVERSTAL	12,779.80	24	LVMH	83,542
KUEHNE & NAGEL INTERNATIONAL AG	12,406.10	25	ROCHE HOLDING AG	80,653

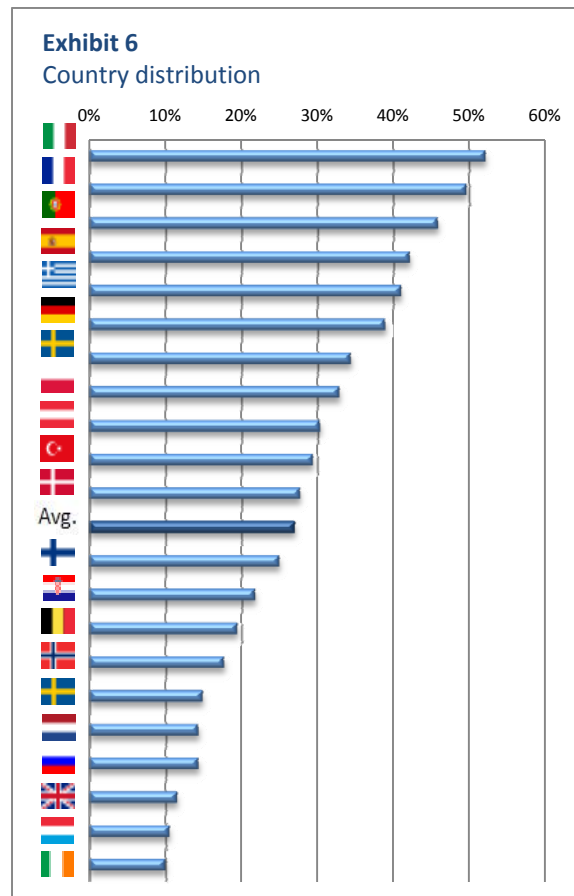
Geographical distribution

Exhibit 5 shows the geographical distribution of family firms in the sample in 2010. France has the largest number of companies (21% of the sample) followed by Germany (15.1%) and the UK (9.4%).

Exhibit 5
Geographical distribution of family firms in the sample



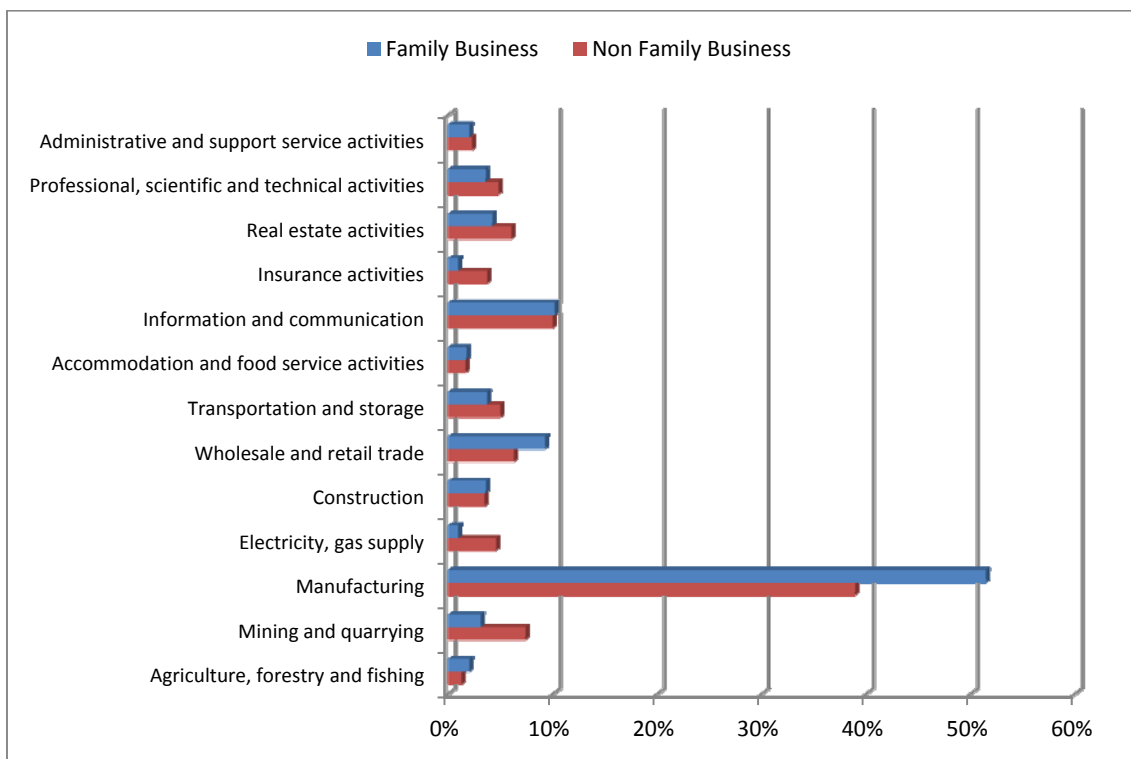
However, this classification hides important differences in the relevance of family versus non-family firms in each of the countries analysed. As shown in Exhibit 6, Italy is the country where family businesses are most important, accounting for more than half of listed companies (52.14%). Family businesses are also crucially important in the other southern European countries (Spain, Portugal and Greece) at percentages of over 40%. In the UK by contrast, in spite of having 9.4% of the family firms analysed, these only make up 11% of the universe of listed companies.



Sectoral distribution

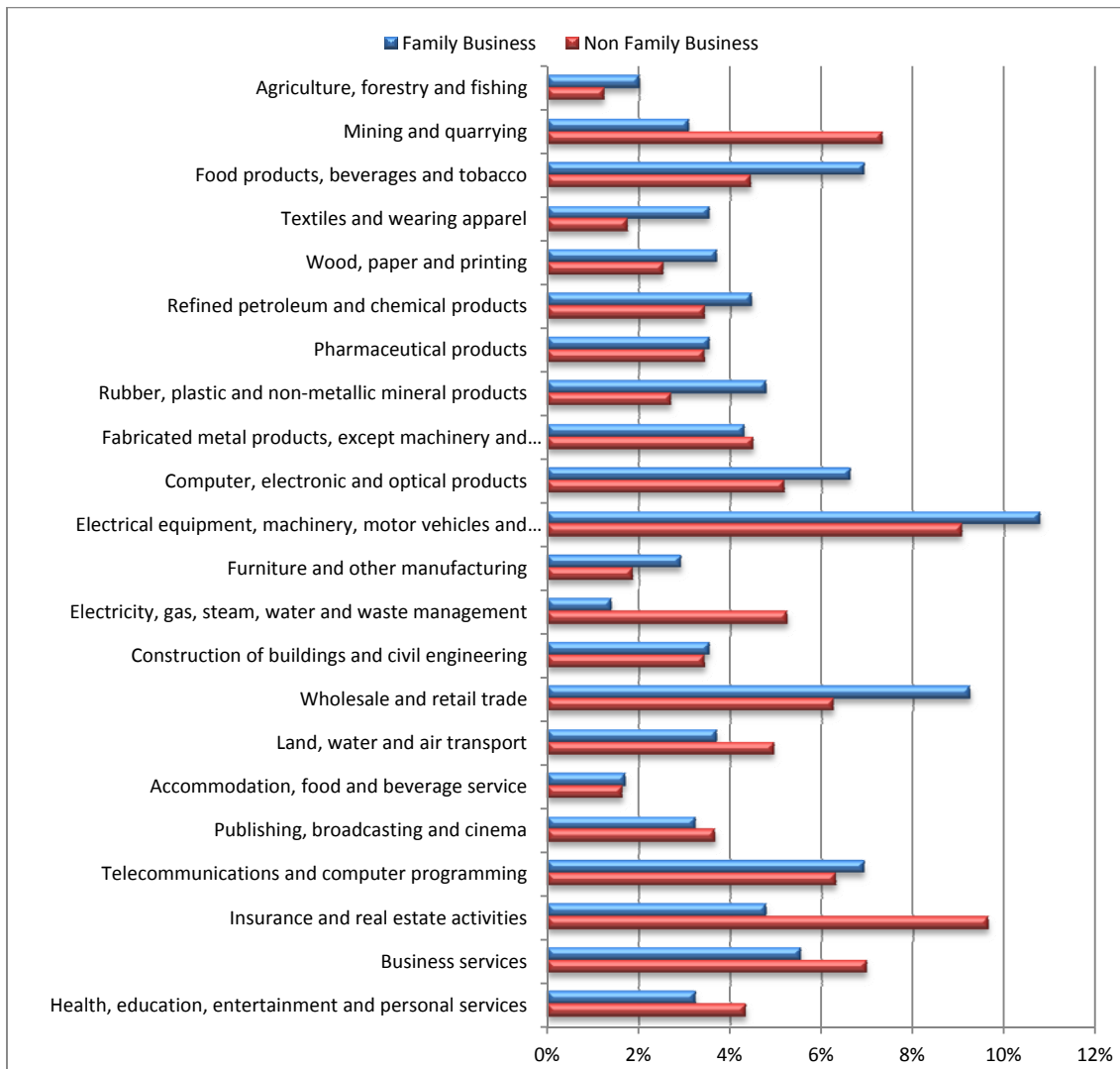
Existing studies indicate family businesses are predominant in the most traditional sectors which are more labour than capital intensive (Villalonga and Amit, 2008). Exhibit 7 confirms that this is also the case for listed family businesses in Europe. The majority of family firms (51%) are in the manufacturing sector which, together with wholesale and retail, are the only ones in which the percentage of family firms is noticeably greater than that of non-family firms.

Exhibit 7
Sectoral distribution (NACE Rev. 2)



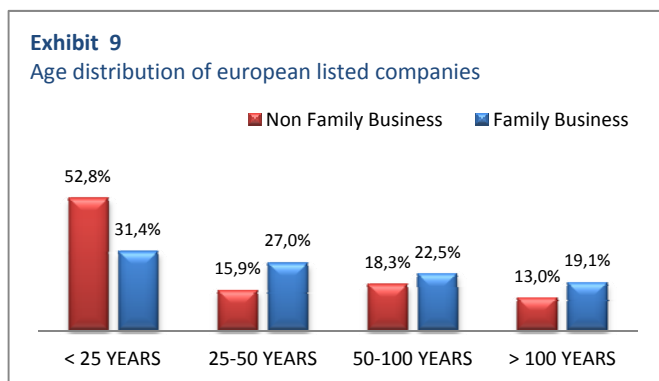
Given the high concentration of companies in the manufacturing sector, Exhibit 8 shows a more detailed classification which confirms the larger numbers of family firms in more traditional industries such as food and textiles. Similarly, family firms have a significantly higher presence than non-family firms in almost all product manufacturing sectors (electrical equipment, furniture, IT, etc.). As expected, family businesses are under-represented in sectors such as insurance and utilities.

Exhibit 8
Sectoral distribution (disaggregated)



Age

The comparison with non-family firms confirms the longevity of family businesses. The average



age of family businesses is 60 years while the figure for non-family firms is 43 years (these differences are also statistically significant). In addition, as shown in Exhibit 9 the proportion of non-family firms is only higher than family businesses in the case of the youngest companies.

Of the 15 oldest companies in the whole sample, 13 are family businesses whilst 2 are non-family firms. There are 3 family businesses which date back to the 17th century and 12 companies that were founded in the 18th century, of which 10 were classified as family concerns.

The oldest is the Norwegian firm Orkla ASA, founded in 1654, which began operating as a mining company in the Løkken Verk deposits in Sør-Trøndelag. Nowadays it is highly diversified in sectors such as consumer products, aluminium and investments.

Table 6
Oldest listed European companies

Company	Country	Year founded	Classified
ORKLA ASA	Norway	1654	Family
CHAM PAPER GROUP HOLDING AG	Switzerland	1657	Family
BELJE d.d. Darda	Croatia	1697	Family
REMY COINTREAU SA	France	1724	Family
VILLEROY & BOCH AG	Germany	1748	Family
OAO VYKSUNSKII METALLURGICHESKII ZAVOD	Russia	1757	Family
MAN SE	Germany	1758	Family
BERENTZEN-GRUPPE AG	Germany	1758	Non-family
LANSON-BCC	France	1760	Family
MENNICA POLSKA S.A.	Poland	1766	Family
ROYAL TEN CATE NV	Netherlands	1766	Non-family
NEW WORLD RESOURCES PLC	UK	1782	Family
FLUGGER A/S	Denmark	1783	Family
BAUER AKTIENGESELLSCHAFT	Germany	1790	Family
JERONIMO MARTINS SGPS SA	Portugal	1792	Family

6. VALUE CREATION IN FAMILY BUSINESSES COMPARED TO NON-FAMILY FIRMS IN THE PERIOD 2001-2010

The snapshot of listed European companies taken via the cross-sectional analysis of 2010 data enabled us to compare the profiles of family and non-family businesses to reveal their most significant differences. This section contains a longitudinal study of firms in the sample which examines the differences in their performances and the markets' perception of their value over time and analyses whether the patterns found are equally present in periods of growth and economic downturn. To that end we selected the last decade, 2001-2010,⁶ which gave us a reasonable panel of companies together with a time frame in which we could analyse the various stages of the business cycle.⁷ As noted in section 4 of this report, the sample of firms that made up this panel consisted of **408 family businesses and 977 non-family firms**.

In line with the approach followed throughout the BANCA MARCH-IE report, the first section analyses the creation of value from an economic and financial standpoint while the second deals with other aspects of value creation which go beyond analysis of returns or valuation ratios and affect a broader group of stakeholders.

⁶ 2011 is not included as the audited financial statements of a large proportion of listed companies had not been published at the time this report was drawn up.

⁷ According to Eurostat data for GDP growth and considering periods of real GDP growth above 2% as periods of expansion and those in which growth is below 2% as periods of economic downturn, our period of analysis comprises three distinct stages of the business cycle. The first stage was in 2002 and 2003 which featured a downturn after a period of expansion that had lasted 5 years and which by 2001 had already slowed significantly. After that the European economy grew between 2004 and 2007, a stage which ended abruptly in 2008 when almost all European economies went into a recession that has continued to the present day.

6.1. Creation of economic value

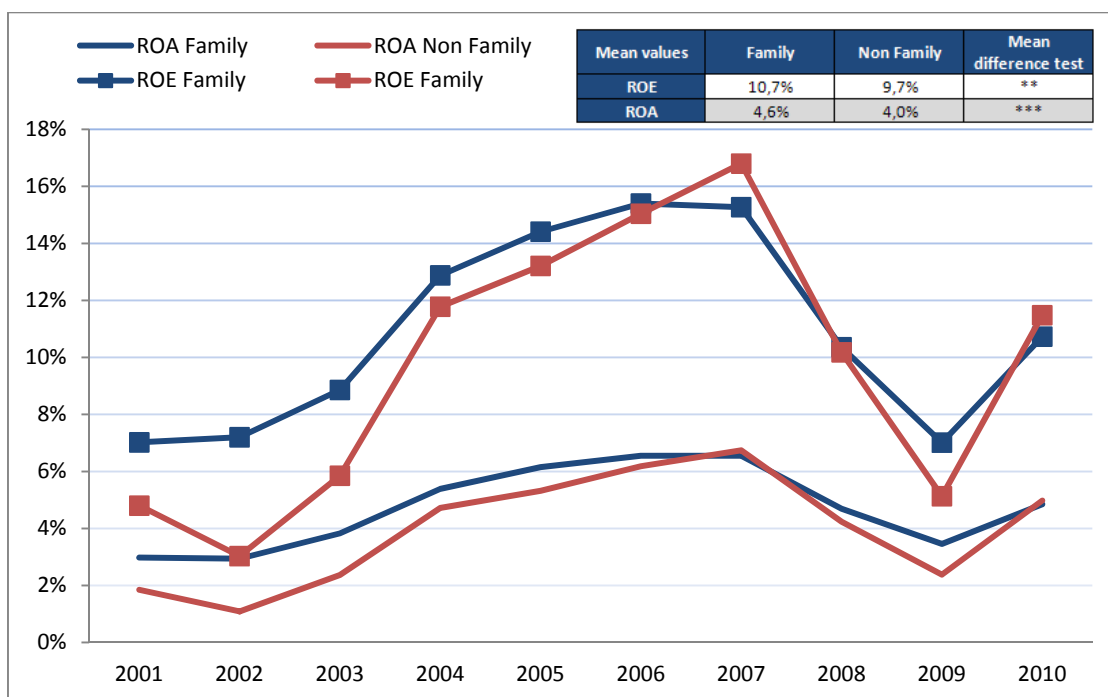
- **Do family businesses generate more value for shareholders than non-family firms?**
 - **How profitable were family businesses during the decade 2001-2010?**
 - **How did the markets value family businesses compared to non-family firms?**
 - **Did family businesses generate higher stock returns than non-family firms during this period?**
 - **What was the economic value added (EVA) by family businesses during the period 2001-2010?**

The profitability of listed European companies in the period 2001-2010

The most common way to measure a company's profitability is by using ROA, which indicates its ability to generate profits with the assets it has available (net income divided by total assets). The data shown in Exhibit 10 indicate that this ability was greater in family firms. In turn, if we look at ROE, which reveals how much profit a company generates with the money shareholders have invested (net income divided by shareholders' equity), family businesses also performed better than non-family firms over the decade with the differences being statistically significant ($p < 0.05$ for ROE and $p < 0.001$ for ROA).

It is very telling that these differences were maintained over a period of 10 years during which companies went through business cycle upswings as well as major downturns. Analysis of ROA performance shows that irrespective of whether the economy was growing (2004-2007) or contracting (2002-2003 and 2008-2010), family business ROA was consistently above non-family firm ROA with the exception of 2007 and 2010 in which they achieved similar values. These differences are statistically significant for most of the years in the period. The pattern for ROE is the same as for ROA as shown in Exhibit 10. Obviously enough, both ratios presented higher values in the economic expansion phase for both groups of companies.

Exhibit 10
Trends in profitability ratios 2001-2010



(**) Difference of means test significant at 5%
(***) Difference of means test significant at 1%

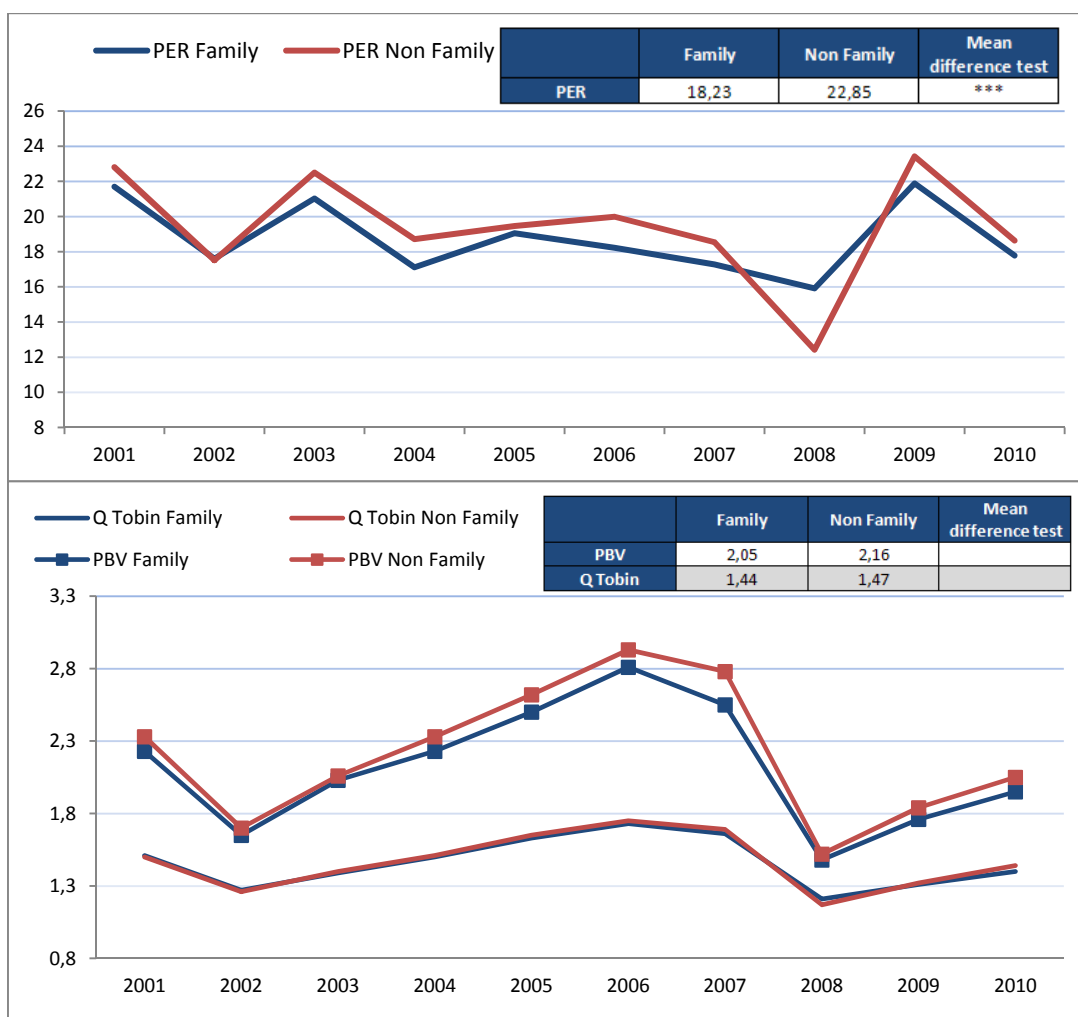
Market valuation of family businesses versus non-family firms in the period 2001-2010

It is somewhat surprising that even though family businesses achieved a higher ROA over the decade, this was not reflected in their stock market valuation at the end of 2010 when they had a discounted price compared to non-family firms in terms of PER (market capitalisation divided by net income), PBV (market capitalisation divided by shareholders' equity book value) and Tobin's Q (market value of the company divided by its book value) (Exhibit 11). Analysis of these valuation ratios over the referenced time frame shows that except for 2002 and 2008 the discount on the price of family businesses was recurrent especially in terms of PER. There are smaller differences over the period in PBV and Tobin's Q for both groups of companies.

Hence the data indicate that family businesses were priced at a discount throughout the decade, although the difference is statistically significant only in the case of PER (p<0.001).

It may be that family businesses had a higher risk which would justify a discount on their price. This question is addressed in later analysis in this report, although its findings do not support this hypothesis so the contradiction remains.

Exhibit 11
Trends in valuation ratios 2001-2010



(***) Difference of means test for PER significant at 1%.
The rest of the means tests are not significant

It can also be seen that the market's valuation of all listed companies increased during periods of economic boom and fell during contractions, which is intuitive given the behaviour of stock markets in reality. The trend over time for PER suggests that underpricing of family businesses is even greater in business cycle upswings.

The analyses conducted so far have replicated the metrics mainly employed in previous studies about family businesses and profitability, using both accounting metrics (ROA and ROE) and also

other market valuation indicators (Tobin's Q, PER and PBV). This report explores two additional indicators to compare the performance and profitability of family firms versus non-family businesses:

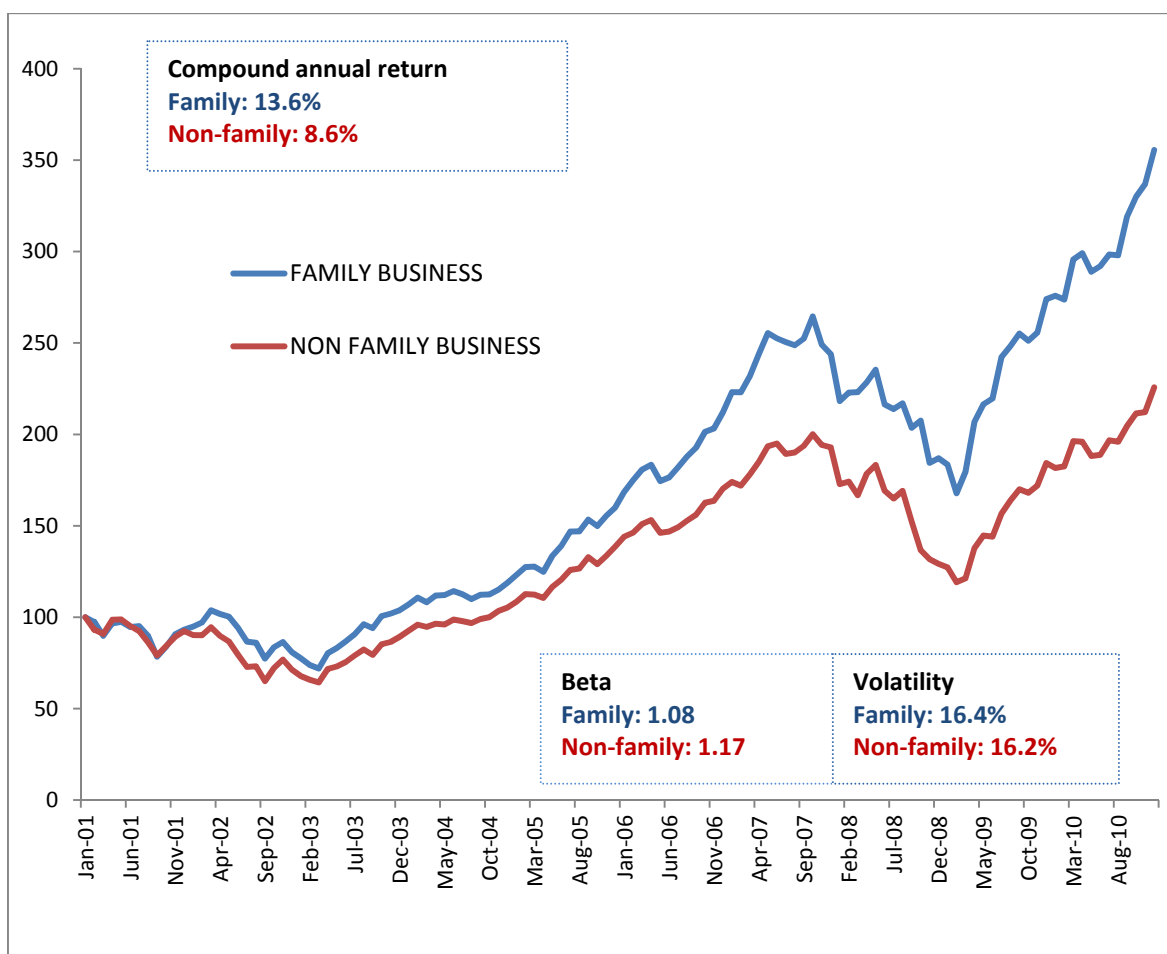
- An indicator of the stock returns obtained by family and non-family firms during the reference period 2001-2010. These returns are those that an investor would have achieved if they had chosen to invest in the family firms in the sample as opposed to the non-family firms and held that investment over the 10 year period. To do this we built two portfolios weighted by market capitalisation, one for family businesses and another for non-family firms, and the respective indexes were constructed from the returns earned by these portfolios.
- A direct indicator of the creation of economic value in both groups of companies: EVA (Economic Value Added). This indicator shows the value created by companies (in their operating profit) in excess of the required return of the company's investors (these being shareholders and debt holders).

Return on investment in family businesses versus non-family firms: Stock Return Index 2001-2010

To construct the stock return indicator for family and non-family firms, we built two portfolios for the two groups of companies weighted by market capitalisation and then calculated the monthly returns obtained by each of these portfolios from 2001 to 2010 using monthly share prices adjusted for dividends, splits and capital increases and refunds.

This estimated monthly return is thus the total return given not only by capital gains but also by the distribution of dividends and other payments to shareholders. Taking a value of 100 at the beginning of 2001, we calculated the evolution of the index over the period for both portfolios based on their monthly returns. Exhibit 12 shows how the family business index is clearly superior to the non-family firm index.

Exhibit 12
Market capitalisation-weighted index (2001-2010)



Given that the average compound annual return on investment in the family firm portfolio is 13.6% as opposed to the 8.6% generated by the non-family firm portfolio in the period 2001-2010, it is surprising that as shown in Exhibit 12 the risk levels associated with family businesses are similar to those for non-family firms, which means risk is not the factor that would explain this difference in return.

Volatility, although slightly higher, is not enough to explain such a significant difference in return. In fact, the return per unit of volatility generated by the family business portfolio over the 10 years was far superior to that generated by the portfolio of non-family firms, and the difference was also statistically significant (0.83 for family versus 0.53 for non-family, $p < 0.001$).

Nor can this difference in performance be explained by the beta, which only measures a company's systematic risk (also called market risk) and does not include its unsystematic or specific risk (as opposed to volatility that includes both), as firm-specific risk can be diversified by forming a portfolio with a sufficient number of companies and therefore does not need to be remunerated.⁸ Surprisingly, the beta obtained for the family business portfolio (1.08) was lower than that obtained for non-family firms (1.17), with this difference being statistically significant ($p < 0.001$).⁹

An analysis of the trend in this annual return over the period (Exhibit 13) also shows that, with the exception of 2004, the stock return obtained by family businesses was always greater than that obtained by non-family firms.

⁸ To estimate the beta of the portfolios, we estimated the beta of each of the companies in them using the data from the period for the returns of the firms in the panel, the monthly 10-year German bond yield as a risk-free asset during the period and data from the market portfolio built from all the companies that were listed between 2001 and 2010 in European markets.

⁹ In addition we calculated the beta of all firms in the panel using the Eurostoxx 50 as a benchmark and the results did not change; the beta of family businesses was lower than the one for non-family firms.

Exhibit 13
Annual return of listed European companies 2001-2010

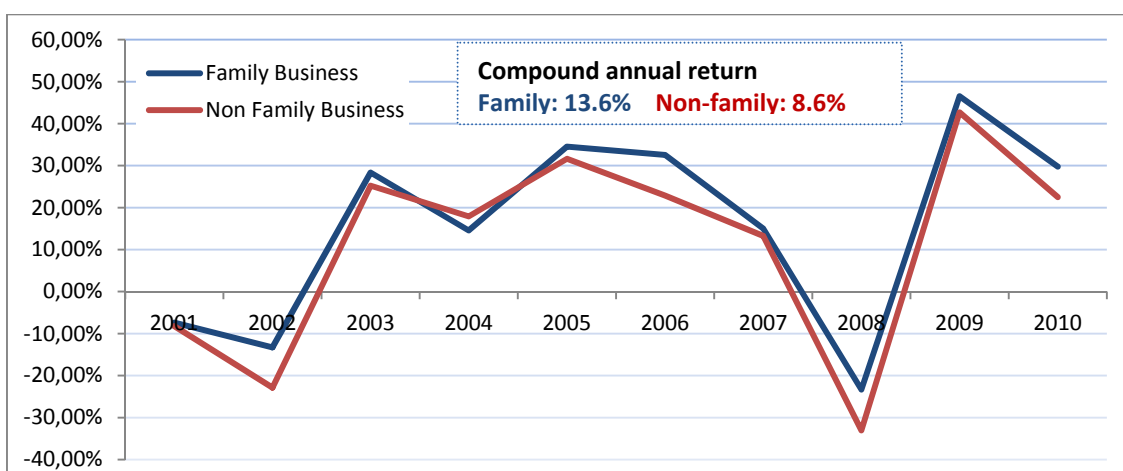


Table 7 compares the average annual return and volatility of family businesses in the major European economies compared with their respective national benchmark indexes. It shows that family firms achieved higher average returns yet their volatility was very similar to or even lower than the markets’.

Table 7
Family firms return and risk compared to local indexes

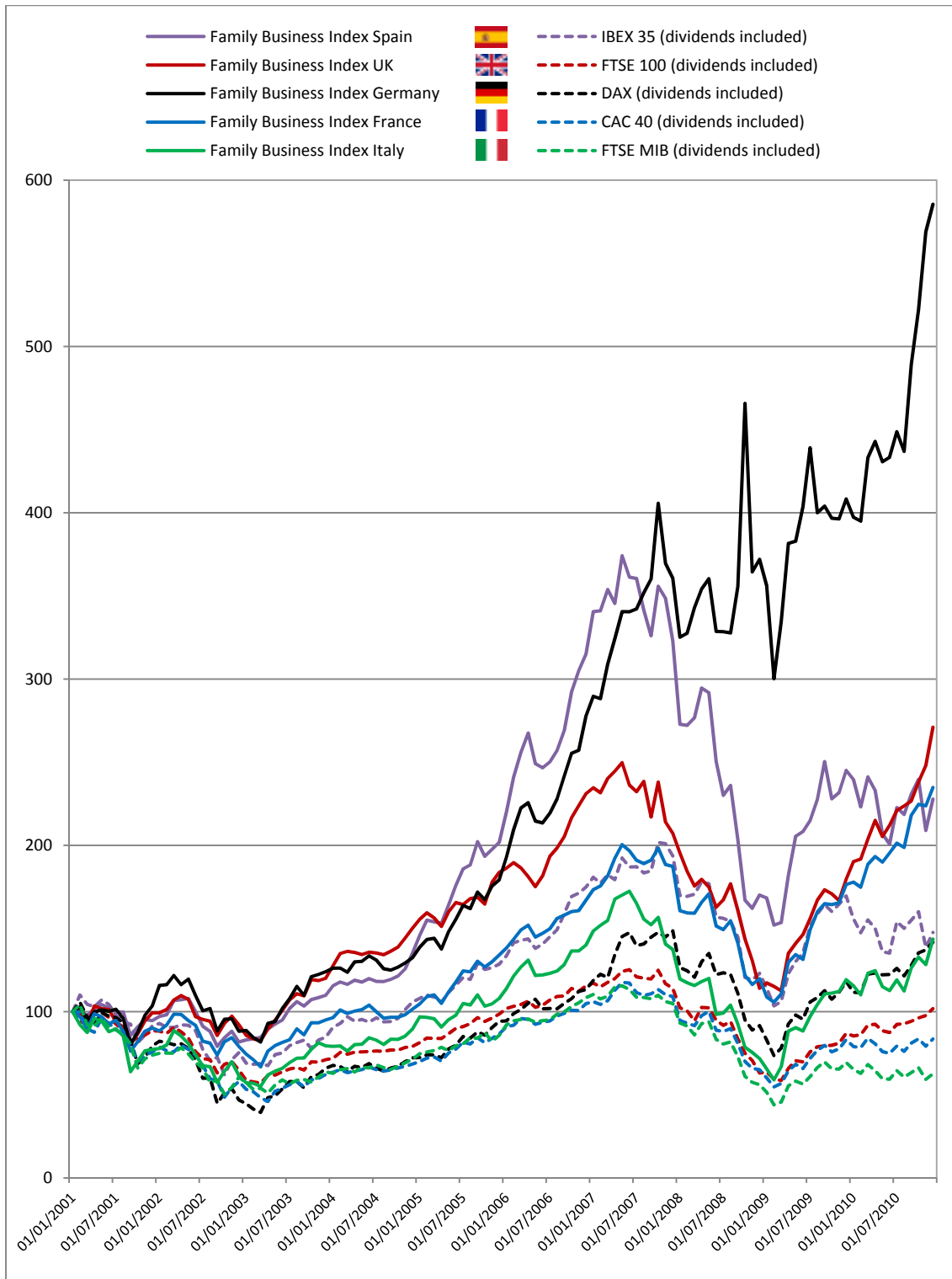
	Average annual return (2001-2010)	Average annual volatility (2001-2010)
Family firms Spain	8.66%	0.218
IBEX 35 with dividends	4.01%	0.203
Family firms United Kingdom	10.58%	0.188
FTSE 100 with dividends	0.18%	0.155
Family firms Germany	19.51%	0.234
DAX with dividends	3.58%	0.239
Family firms France	8.99%	0.189
CAC 40 with dividends	-1.80%	0.194
Family firms Italy	3.72%	0.254
FTSE MIB with dividends	-4.61%	0.213

As before, we constructed a stock return indicator for family businesses in each of these countries and compared it with another indicator built from the returns on their local stock indexes, also adjusted for dividends (Exhibit 14). It demonstrates that the stock performance of the portfolios

of family firms was significantly better than that of local indexes throughout the decade under study.

Exhibit 14

Return rates of listed European family firms by country (2001-2010) compared to local indexes



Economic value creation indicator: EVA (Economic Value Added)

Making profits is not enough for an enterprise to generate wealth and create economic value; it also has to obtain a return above its capital cost. This creation of value is calculated using EVA, an indicator that subtracts the cost of the capital used to finance a business from a company's operating profit. For the purposes of this analysis we calculated the EVA data for all the years in the period 2001-2010. This indicator shows whether or not family businesses actually created more economic value than non-family firms over the course of this decade.¹⁰

The weighted average cost of capital for the companies in the panel for each of the years had to be obtained prior to the estimation of EVA. Hence below we examine the funding structure of the companies (borrowing and shareholders' equity) and the cost of both types of financing.

How did listed European companies finance their activities in the period 2001-2010?

The findings of the BANCA MARCH-IE study about the borrowing costs of family businesses are in line with other studies in the U.S. (Anderson and Reeb, 2003) and Europe (Sraer and Thesmar, 2007) and indicate the advantage family businesses have in this area. As they are shareholders with a long-term vision, it is assumed that their risk of default is lower, thus reducing the risk premium. This would explain the lower cost of borrowing in the case of family businesses at 7.6% as opposed to 8% on average during the period.¹¹ This lower cost of borrowing is even more remarkable bearing in mind that the level of debt (debt to shareholders' equity ratio) of family businesses was higher than for non-family firms (Exhibit 15).

¹⁰ The operating profit of the companies is reported in Bloomberg. However, the cost of capital contributed by the shareholder and the cost of borrowing had to be calculated in order to subtract the cost of the capital used to finance the business from this operating profit. The cost of borrowing for the panel of companies was estimated through the financial expense figures reported by these firms. The cost of capital for shareholders was estimated using the CAPM (Capital Asset Pricing Model) in which this cost was estimated using the risk-free return (for which 10-year German bonds were used), the companies' beta (which we estimated for each of the companies in the panel) and the difference between the market premium and the risk-free asset which was estimated at 500 basis points (alternatively, we took a market premium of 400 basis points and the results remained stable).

¹¹ Although the difference is not statistically significant on average for the period, it is when the cost of borrowing for both groups of companies is examined year-by-year for all the years except from 2001 to 2003.

Exhibit 15
Level of debt and cost of borrowing

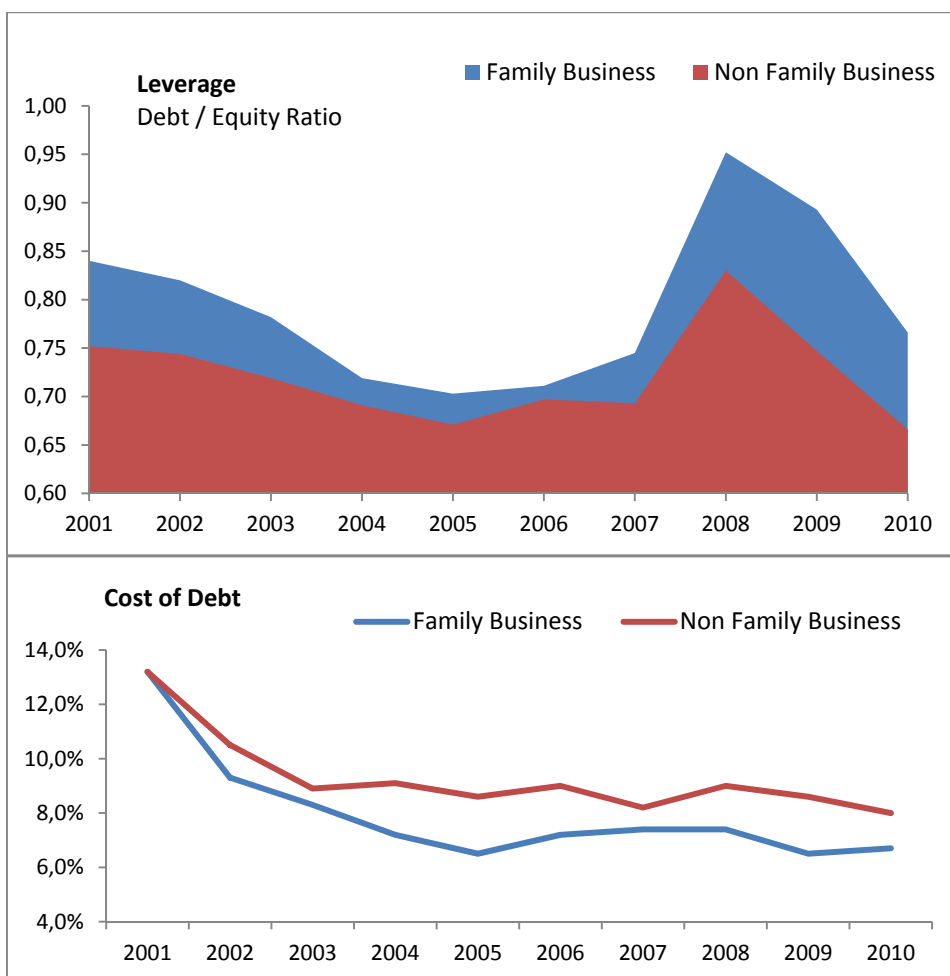


Table 8 also shows that in spite of the differences found in the weight of debt to shareholders' equity, the debt to total assets ratio is similar for both types of firms, suggesting that non-bank financing is greater in the case of non-family firms.

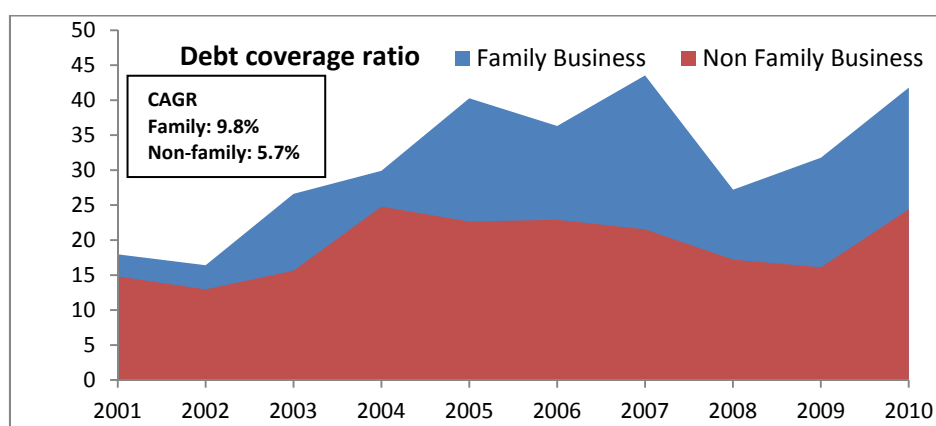
Table 8
Financial structure and borrowing costs. Mean values (2001-2010)

	Familiar	No Familiar	Test dif medias
Deuda / AT	23,4%	22,9%	
Deuda / Fondos Propios	78,3%	70,3%	**
Coste Deuda	7,6%	8,0%	
Cobertura Deuda	18,67	12,96	***

(**) Difference of means test significant at 5%
(***) Difference of means test significant at 1%

Therefore, if family firms have more debt and its cost is lower than that borne by non-family firms, it could be argued that it is cheaper for family firms to finance their activities. The reason for this lower cost might be due to family businesses' greater coverage of interest expenses compared to non-family firms, as shown in Exhibit 16, which implicitly means lower default risk for financial institutions.

Exhibit 16
Evolution of the cost of debt coverage



Given this pattern of borrowing over the previous decade by listed European companies (higher debt level of family businesses at a lower financing cost) and knowing that the beta of family businesses is lower than for non-family firms, resulting in a lower cost of shareholders' equity, it is not surprising that the weighted average cost of capital (WACC) of family businesses was lower than for non-family firms as shown in the bottom right of Exhibit 17.

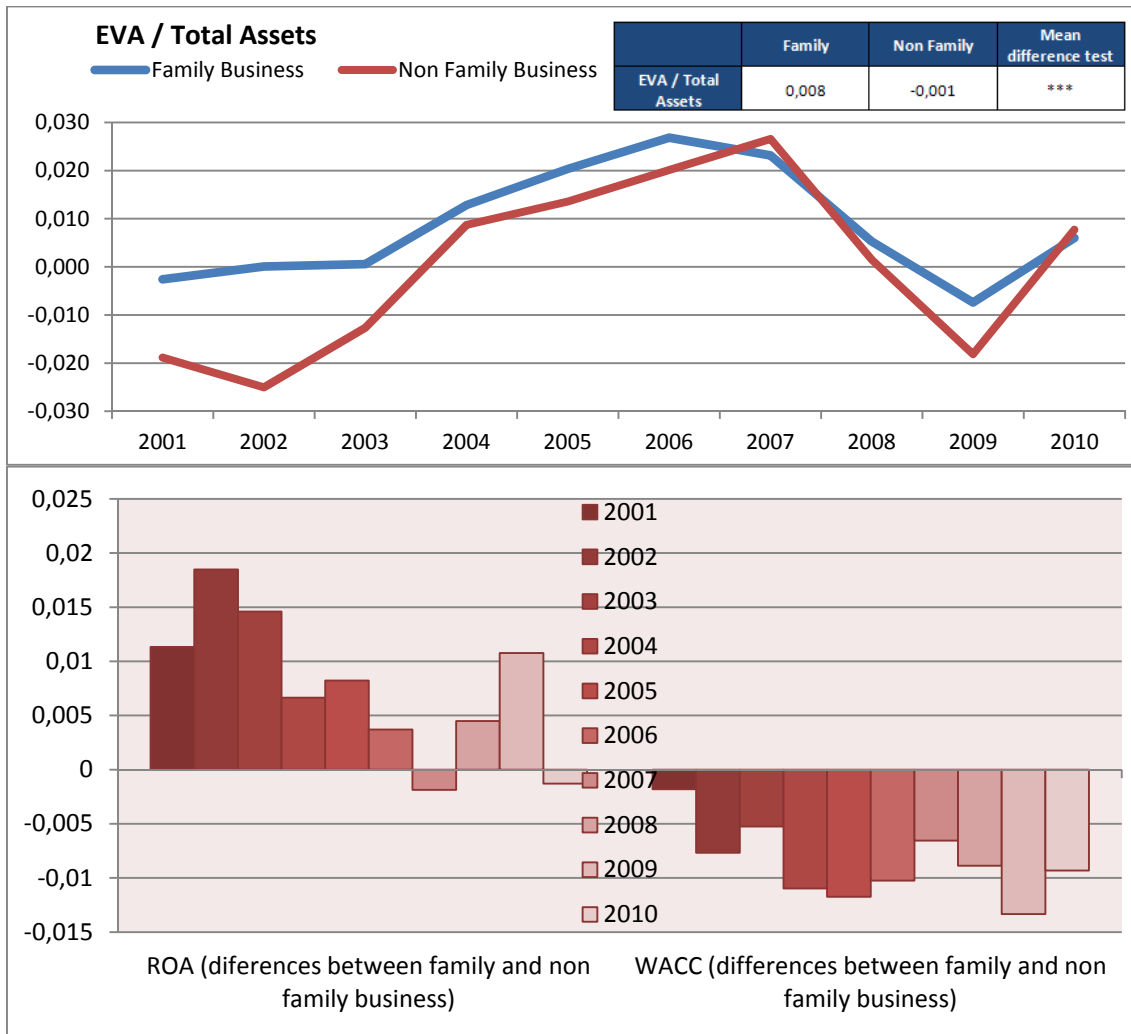
Therefore, greater profitability (ROA) along with lower financing costs (WACC) should create more economic value in a family business (after controlling for total assets to scale the ratio) as does in fact happen. Exhibit 17 shows at the top the time pattern of value creation over the past decade by both groups of companies, and in the lower part the differences over time in the ROA generated by both groups of companies (always higher in family ones) and in the WACC (always lower in family firms).

As expected, much greater economic value was generated in the boom years. An analysis of the pattern of this creation of value by family firms versus non-family firms over the time horizon for the years 2001-2010 shows that during periods of economic boom the economic value generated

by family firms was superior to that generated by non-family businesses, while during economic downturns family businesses destroyed much less value than non-family firms.

Exhibit 17

Value creation and differences in ROA and WACC of family businesses versus non-family firms



(***) Difference of means test significant at 1%

In addition to these analyses, linear regression analysis was also conducted and its results, which confirm those obtained in this section, are presented in Annex 1.

6.2. Other value creation indicators

Do family businesses generate more value for other stakeholders?

- Did family businesses generate more jobs than non-family firms during the period 2001-2010?
- Were there any differences between family and non-family firms in employment during the business cycle?
- Were employees in family businesses more productive?
- Was the rate of investment in fixed assets higher in family businesses?

6.2.1. Employment indicators

The snapshot of family businesses in 2010 (section 5) indicated the relative importance of family firms in creating jobs. Thus while family firms accounted for 14% of total assets, 20% of sales and 19% of market capitalisation of listed companies in that year, their contribution in terms of employment came to 27%. Furthermore, Exhibit 4 (in the same section) shows that although they are smaller, there were no differences in the average number of employees between both types of firms in 2010.

The longitudinal analysis of data for the period 2001-2010 confirmed this greater contribution of family businesses to creating jobs in Europe. In fact, as shown in Exhibit 18 the compound average growth rate (CAGR) of the average number of employees for the period is much higher in the case of family businesses at 3.42% as opposed to 0.88% for non-family firms. In aggregate terms over the period, employment growth in family businesses amounted to 35.3% versus just 8.2% in non-family firms (Exhibit 19).

Exhibit 18

Trend in the average number of employees: family versus non-family firms

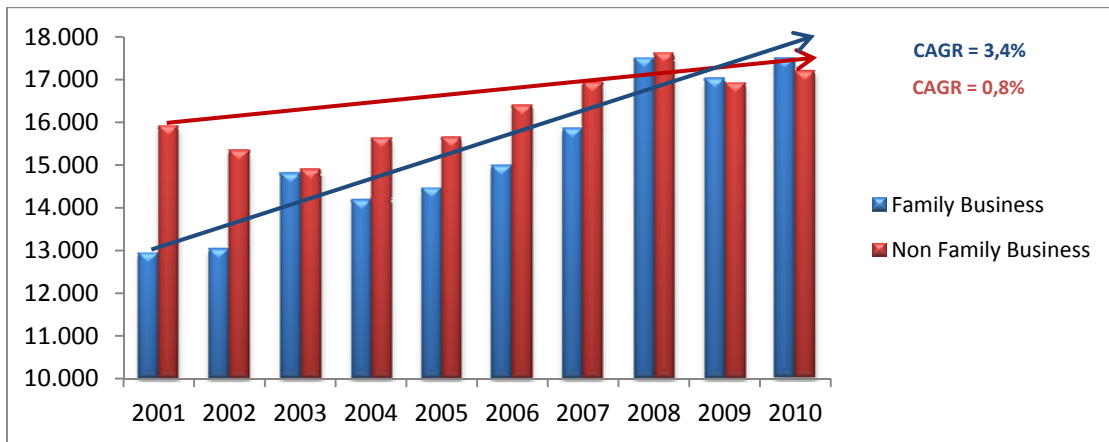
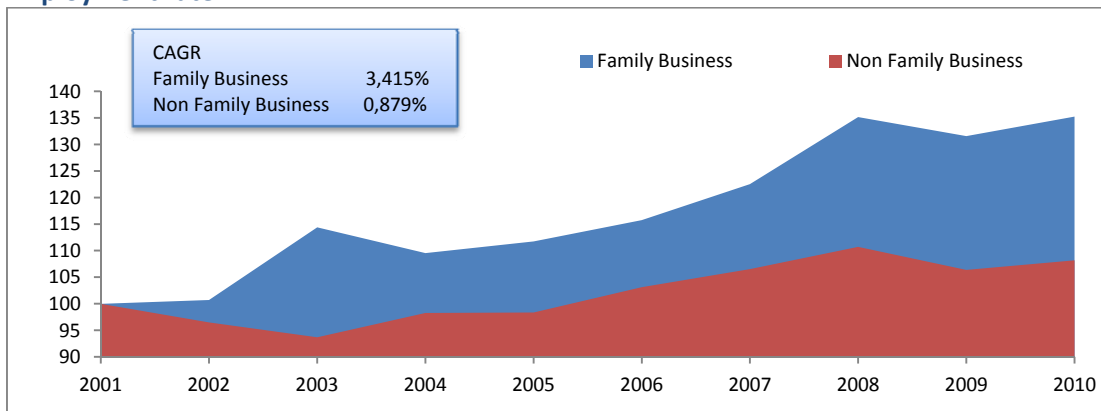


Exhibit 19

Employment rate

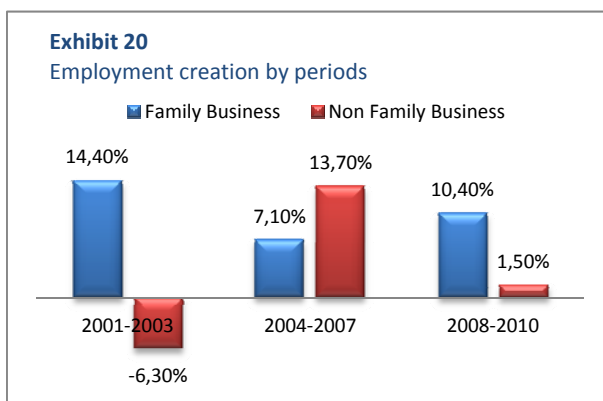


When analysing the pattern of job creation throughout the various stages of the business cycle it is interesting to observe how family businesses created jobs in periods of both economic contraction and expansion, and it is surprising that job creation was higher in downturns than in upswings (14.4% in the period from 2001 to 2003, 7.1% in the upswing from 2004 to 2007, and

10.4% in the downturn from 2008 to 2010).

By contrast, non-family firms only created jobs in the expansion phase (13.7% for the period 2004-2007) while they destroyed them or remained virtually stable in downswings (-6.3% during the period 2001-2003 and 1.5% for the years 2008-2010).

This countercyclical behaviour of family



businesses which ensures greater job stability in downturns might explain their lower labour costs over the entire period (Exhibit 20) because workers are willing to accept lower remuneration in return for greater job security.

It is also interesting to examine labour productivity data for the period under study. This productivity measures a company's net operating profit, without taking into account labour costs, per employee. Table 9 shows that the average labour productivity of family firms over the period was not only higher than non-family firms but moreover its growth rate over the ten years 2001-2010 was impressive and well above the growth rate for non-family firms (54% compound average annual growth versus 13% in non-family firms). It is particularly striking that in the last downturn in 2008-2010, family firms increased their labour productivity substantially, well above the rise achieved by non-family firms (44% as opposed to 11%). Once again, this greater productivity in the case of family businesses and its superior growth during the period under review suggest greater motivation and commitment on the part of the employees of these companies.

Table 9
Labour productivity (mean values in millions of Euros and compound average growth rate)

	Mean (2001-2010)	CAGR (2001-2010)
Family	1.58	54%
Non-family	0.16	13%

6.2.2. Fixed assets investment indicators

Just as in the case of employment, indicators for investment fixed assets show the important role family businesses play in this respect. In spite of being less capital-intensive firms (as shown in Table 10 all ratios are significantly lower in statistical terms than those for non-family firms), the compound average growth rate in fixed assets was significantly higher than for non-family firms over the last decade (Exhibit 21).

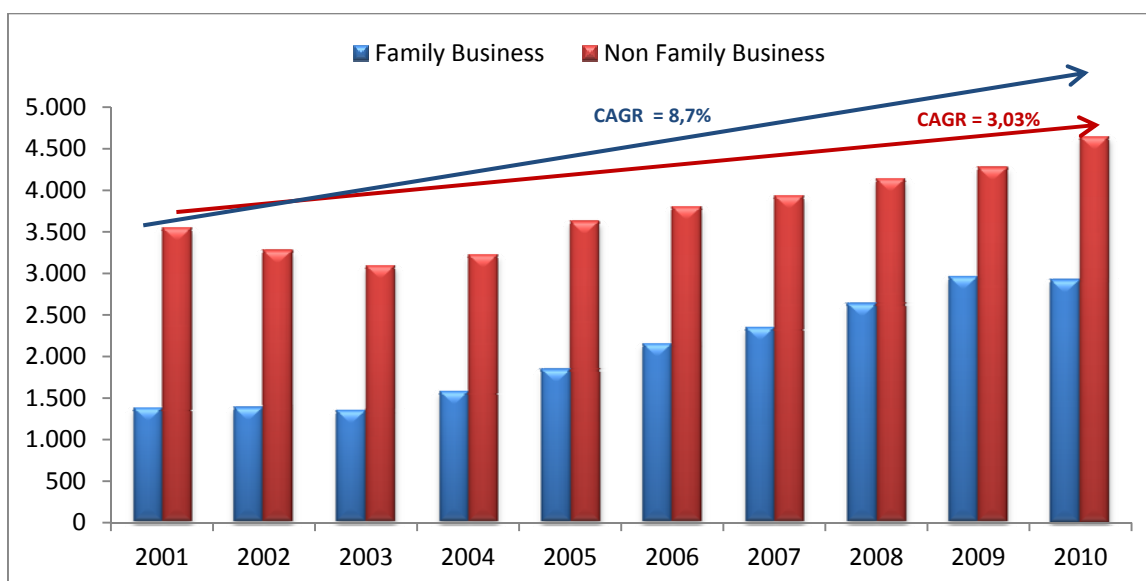
Table 10

Investment indicators for family versus non-family firms. Mean values (2001-2010)

	Family	Non-family	Diff. of means
Capital Intensity	49.3%	55.9%	***
Tangible Assets/TA	28.7%	31.4%	**
Intangible Assets/TA	13.8%	15.2%	*

Exhibit 21

Investment in fixed assets (2001-2010)



As expected, investment in fixed assets slowed during economic downturns while it accelerated again during upswings. The figures are similar for both groups of companies, although growth of investment in fixed assets during the period was higher in family firms.

7. WHICH FAMILY BUSINESSES CREATE MOST VALUE?

Which family businesses generate most value?

- **What impact does family involvement in the management of the company have on creating value?**
- **Is the presence of the founder a determining factor in creating value?**
- **What are the common features of family businesses with the highest stock return?**

7.1. Family involvement in company management and its impact on value creation

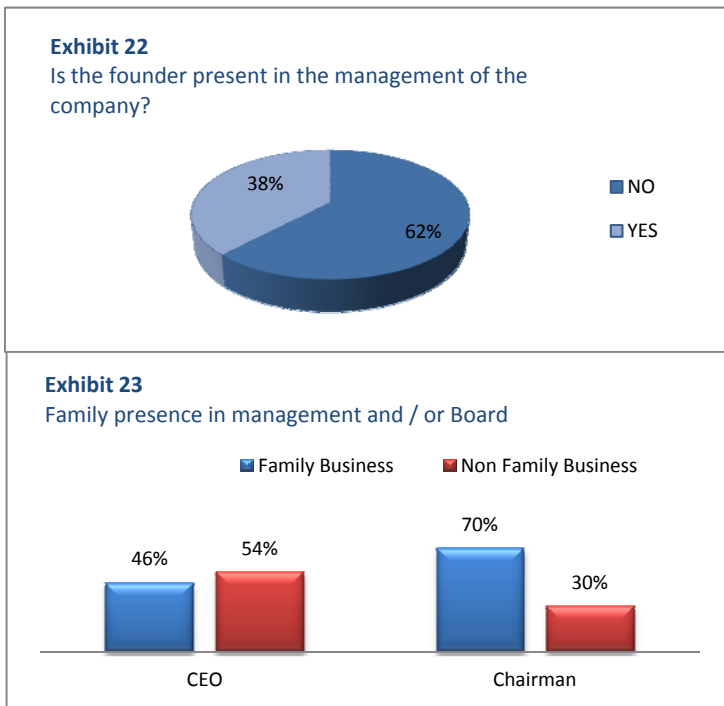
The results shown so far indicate that family firms achieved higher economic and stock market returns for the period analysed. This suggests the existence of a family ownership advantage over other types of organisations in which this effect does not exist.

However, studies indicate that family businesses are a very heterogeneous group and to understand this advantage better it is also necessary to investigate the features which set family businesses apart from one another. In line with the literature on family business and profitability, the following variables that differentiate between family firms may be relevant when determining their impact on value creation:

- **Presence of the founder:** existing research on the relationship between family ownership and profitability indicates that in many cases the advantage of the family business is solely due to the presence of the founder and that once he or she disappears, family businesses do not create but instead destroy value.
- **Family role in management:** it is also thought that family influence on management and/or in governing bodies has a significant effect on the company's results, although whether positive or negative is still up for debate. This report measures this influence through two variables which have traditionally been seen as indicators of the degree of family influence in a

company; whether the Chairman of the Board of Directors is a member of the family or not and whether the CEO is a member of the family.

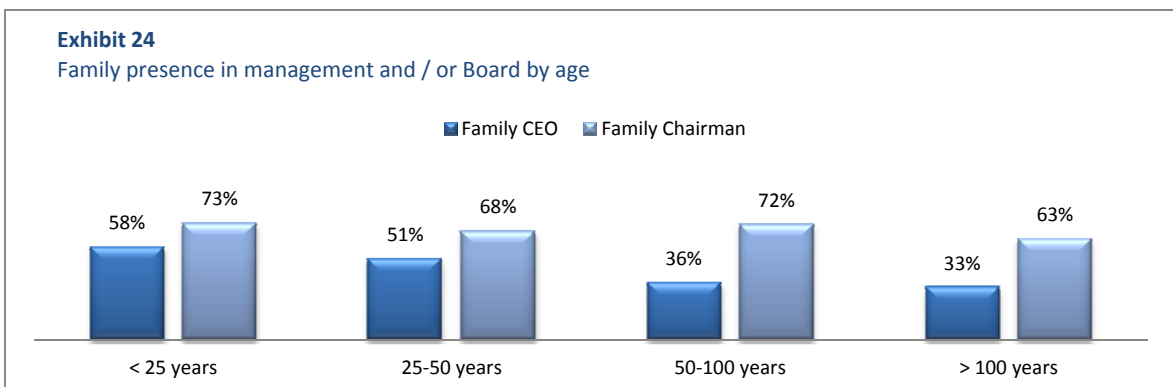
The first step is therefore to examine whether there are differences in these aspects in the sample.



First of all, the data indicate that the founder serves in 38% of companies in the sample (Exhibit 22).

Meanwhile, Exhibit 23 shows that most of the family firms examined (54% of the total) hire someone from outside the family to be their CEO, but they are much more reluctant to do so in the case of the position of Chairman of the Board of Directors.

This reticence is maintained as the generations go by (Exhibit 24). The same does not apply to CEOs since family firms are more likely to hire an outside CEO in later generations.



How do these differences affect value creation?

In order to analyse how the degree of family involvement may affect the performance of these companies, we obtained the values for the value creation indicators discussed in previous sections for family firms classified by these aspects of family involvement in the company.

An important finding is undoubtedly the one presented in Table 11 about the differences in stock return of family businesses based on whether the founder serves in it or not. Interestingly, and contrary to most empirical evidence, the results show that family businesses where the founder is not present achieved a higher stock return for the years 2001-2010 than those in which the founder did serve (13.8% as opposed to 10.9%). Again, however, there is the paradox that the market values companies in which the founder serves more highly (Tobin's Q of 1.47 for firms in which the founder serves versus 1.41 for those in which he or she does not) in spite of their lower stock return.

Another interesting fact is the different way in which family members holding the offices of Chairman and Chief Executive Officer can affect return and market valuation. Companies with a family Chairman obtained a higher return (15.49% versus 10.37%) and the market also valued them at a discount (Tobin's Q of 1.40 compared to 1.52). By contrast, companies with a CEO from outside the family achieved higher returns than firms with family CEOs (Table 11).

Table 11
Value creation by family involvement in management

	FOUNDER PRESENT		FAMILY CHAIRMAN		FAMILY CEO	
	YES	NO	YES	NO	YES	NO
ROA	4.4%	4.5%	4.6%	4.4%	4.5%	4.6%
TOBIN'S Q	1.47	1.41	1.40	1.52	1.42	1.44
EVA/TA	0.0071	0.0090	0.0093	0.0062	0.0084	0.0082
RETURN	10.9%	13.8%	15.4%	10.3%	11.9%	13.8%

7.2. What do the family businesses with the best stock return have in common?

Finally, the report examines the 100 family businesses which achieved the best stock return over the period 2001-2010 (Table 12) in order to see what makes family businesses that create more financial value different and also to determine to what extent the creation of this value is related to the other value creation aspects analysed.

Table 12

Ranking of family firms with greatest stock return (2001-2010). Family top 100.

Ranking	Company	Average annual return	Average annual volatility
1	ALCHEMIA S.A.	48.758%	1.356
2	FUCHS PETROLUB AG	38.533%	0.309
3	FAIVELEY TRANSPORT	37.555%	0.451
4	MULBERRY GROUP PLC	35.302%	0.548
5	PUMA SE	34.613%	0.377
6	KABE HUSVAGNAR-B	33.215%	0.376
7	PINAR SUT MAMULLERI SANAYII A.S.	32.388%	0.653
8	ANGLO-EASTERN PLANTATIONS PLC	31.936%	0.350
9	BIJOU BRIGITTE MODISCHE ACCESSORIES AG	31.633%	0.335
10	KOPEX S.A.	31.598%	0.680
11	ELRINGKLINGER AG	31.086%	0.414
12	COMPUGROUP MEDICAL AG	30.952%	0.506
13	PRIM S.A.	30.916%	0.629
14	G & L BEIJER AB	29.672%	0.301
15	GRINDEKS	28.403%	0.373
16	DURO FELGUERA SA	28.138%	0.329
17	AUDI AG	27.263%	0.411
18	JAMES HALSTEAD PLC	26.829%	0.249
19	OLVI OYJ	26.238%	0.260
20	KUEHNE & NAGEL INTERNATIONAL AG	26.156%	0.286
21	CELEBI HAVA SERVISI A.S.	25.224%	0.701
22	HUGLI HOLDING AG	24.890%	0.244
23	STRATEC BIOMEDICAL AG	24.865%	0.501
24	ARCELORMITTAL S.A.	24.725%	0.596
25	UNITED INTERNET AG	24.591%	0.500
26	CTS EVENTIM AG	24.520%	0.555
27	BOURBON	24.315%	0.297
28	MAISONS FRANCE CONFORT SA	23.718%	0.352
29	VOSSLOH AG	23.260%	0.288
30	DOF ASA	23.121%	0.331
31	BEKAERT SA/NV	22.526%	0.344
32	DRAGERWERK AG & CO. KGAA	22.295%	0.400
33	STRABAG AG	22.282%	0.421
34	GERRY WEBER INTERNATIONAL AG	22.040%	0.312
35	EINHELL GERMANY AG	22.038%	0.418
36	VIRBAC SA	21.811%	0.283
37	OLAV THON EIENDOMSELSKAP ASA	21.678%	0.264
38	FONCIERE DES REGIONS (G.F.R.)	21.614%	0.283
39	JUMBO S.A.	21.504%	0.370
40	H&R AG	21.463%	0.376
41	F.W. THORPE PUBLIC LIMITED COMPANY	21.417%	0.279

Ranking	Company	Average annual return	Average annual volatility
42	SIKA AG	21.339%	0.275
43	ALLGEIER HOLDING AG	21.327%	0.486
44	JERONIMO MARTINS SGPS SA	21.176%	0.296
45	SCHINDLER HO-REG	21.126%	0.246
46	DISKUS WERKE AG	21.000%	0.434
47	AMBU A/S	20.981%	0.315
48	MENNICA POLSKA S.A.	20.829%	0.366
49	LANSON-BCC	20.653%	0.381
50	FARMACOL S.A.	20.364%	0.378
51	GANGER ROLF ASA	19.782%	0.357
52	BAGFAS BANDIRMA GUBRE FABRIKALARI A.S.	19.605%	0.613
53	STO AKTIENGESELLSCHAFT	19.312%	0.385
54	PONSSE OYJ	19.253%	0.335
55	PANOSTAJA OYJ	19.227%	0.446
56	ATRIUM LJUNGBERG AB	18.757%	0.360
57	ROCKWOOL INTL-A	18.742%	0.397
58	HAWESKO HOLDING AG	18.716%	0.279
59	METALL ZUG AG	18.707%	0.234
60	DO & CO RESTAU	18.638%	0.415
61	OBRASCON HUARTE LAIN S.A.	18.247%	0.396
62	DATACOLOR AG	18.094%	0.306
63	BARRY CALLEBAUT AG	17.822%	0.287
64	VIDRALA SA	17.785%	0.239
65	TREVI-FINANZIARIA INDUSTRIALE S.P.A.	17.688%	0.513
66	FIELMANN AG	17.567%	0.216
67	MS INTERNATIONAL PLC	17.556%	0.418
68	KRONES AG	17.298%	0.296
69	ETABLISSEMENTEN FRANZ COLRUYT N.V	16.910%	0.160
70	TOUPARGEL GROUPE	16.709%	0.361
71	FINANCIERE DE L'ODET SA	16.565%	0.273
72	BORUSAN MANNESMANN BS VE TICARET A.S.	16.561%	0.589
73	COLOPLAST A/S	16.509%	0.231
74	GUERBET SA	16.189%	0.257
75	BUCHER INDUSTRIES AG	16.130%	0.349
76	VM MATERIAUX SA	16.013%	0.297
77	PROSEGUR COMPANIA DE SEGURIDAD S.A.	15.994%	0.239
78	ETAM DEVELOPPEMENT SA	15.987%	0.551
79	Personal Group Holdings Plc	15.954%	0.250
80	STAGECOACH GROUP PLC	15.920%	0.478
81	EIS ECZACIBASI ILAC SANAYI VE TICARET A.S.	15.915%	0.609
82	PALFINGER AG	15.834%	0.401
83	FLUGGER A/S	15.576%	0.298
84	ERG S.P.A.	15.482%	0.318
85	NCC AB	15.239%	0.370
86	TELECOM PLUS PLC	15.209%	0.388
87	KAESSBOHRER GELAENDEFahrZEUG AG	14.973%	0.221
88	BOLLORE	14.968%	0.257
89	GROUPE NORBERT DENTRESSANGLE SA	14.738%	0.361
90	HARBOES BRYGGERI A/S	14.683%	0.293
91	A.S.CREATION TAPETEN AG	14.465%	0.315
92	BELIMO HOLDING AG	14.263%	0.292
93	LEMMINKAINEN OYJ	14.157%	0.327
94	CIA ESPAÑOLA VIVIENDAS EN ALQUILER SA	14.056%	0.155
95	WALTER MEIER AG	14.022%	0.346
96	CEMBRE S.P.A.	13.972%	0.252
97	COLAS SA	13.802%	0.235
98	PLASTIC OMNIUM SA	13.738%	0.440
99	SOMFY SA	13.712%	0.229
100	MAN SE	13.586%	0.409

Have the family top 100 by stock return also created more value using other indicators?

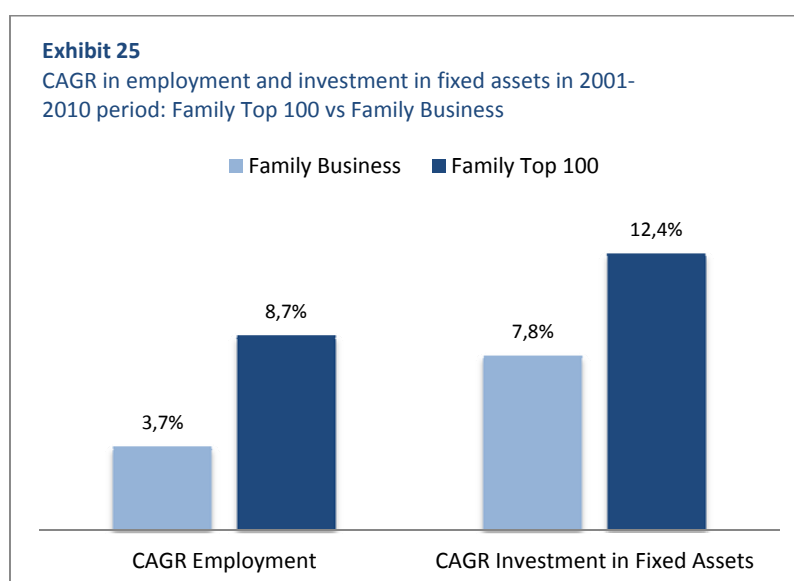
The mean ROA for the 100 most profitable family businesses for investors is 220 basis points above the mean ROA for family businesses. In addition, the ROA of 69% of the family top 100 is higher than the 4.6% obtained by the full sample of family firms. Hence the companies that have a higher stock return also have a higher return on assets. In terms of valuation ratios, the data on Tobin's Q show that in this case the family top 100 traded at a premium compared to other family businesses.

Table 13

Comparison of ROA in the period 2001-2010 between family top 100 and other family firms

	Family top 100	Family firms
ROA	6.8%	4.6%
Tobin's Q	1.569	1.436

When analysing the creation of value in other aspects such as job creation or investment in fixed assets the results shown in Exhibit 25 indicate that the family top 100 by return also excel in these areas. Hence the family top 100 by stock return also perform better than the average for other family businesses on all other value creation indicators.



What sets the top 100 companies apart?

An analysis of the geographical distribution of these top 100 companies indicates a degree of “country bias”. Specifically, 24% of these companies with the best stock return are in Germany, which only had 15.1% of family firms in the sample. The reverse happens in the case of Italy, which had 9.4% of family businesses in the full sample yet only 3% in the family top 100 (Table 14).

Table 14

Comparison of the percentage of family businesses versus top 100 firms by country

Country	Family firms	Family top 100	
France	21.00%	16.00%	↓
Germany	15.10%	24.00%	↑
United Kingdom	9.40%	8.00%	↓
Italy	9.40%	3.00%	↓
Switzerland	7.10%	10.00%	↑
Spain	4.90%	6.00%	↑
Turkey	4.60%	5.00%	↑
Poland	3.90%	4.00%	↑
Sweden	3.20%	4.00%	↑
Finland	2.60%	4.00%	↑
Greece	2.50%	1.00%	↓
Norway	2.30%	3.00%	↑
Russia	2.20%	0.00%	↓
Belgium	2.20%	2.00%	↓
Denmark	2.00%	5.00%	↑
Portugal	1.70%	1.00%	↓
Netherlands	1.50%	0.00%	↓
Austria	1.50%	2.00%	↑

The sectoral distribution of these firms also yields interesting differences (Exhibit 26). The companies with the best return are mainly in oil refining and chemical industries, manufacture of electrical equipment, machinery and vehicles, transport, construction and engineering. In other words, they are the most cyclical industries in the traditional sectors in which family businesses typically operate.

Exhibit 26

Sectoral distribution: family firms versus family top 100

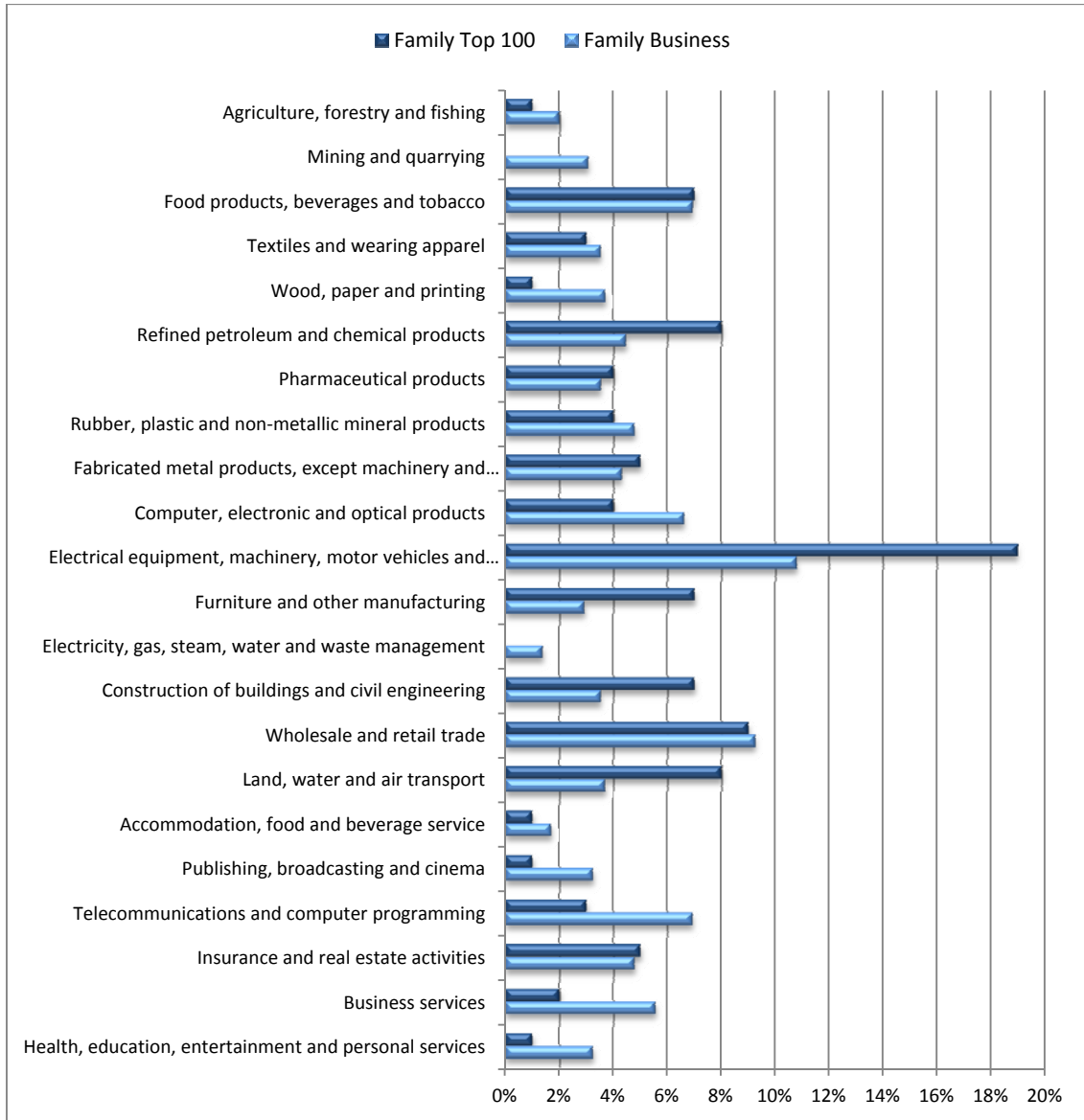
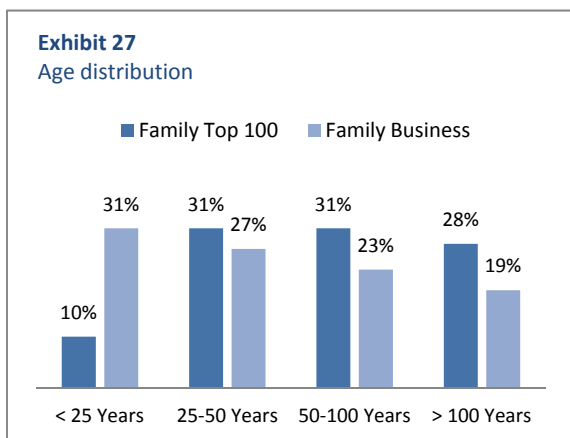
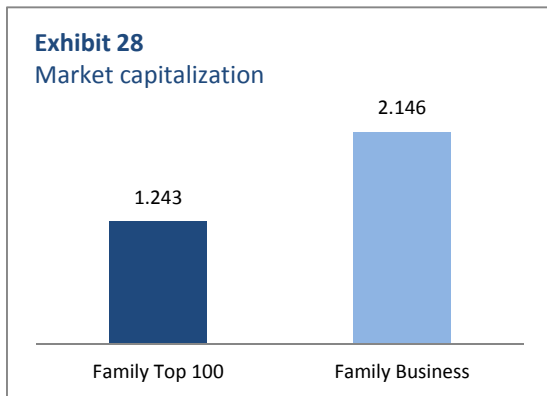


Exhibit 27
Age distribution

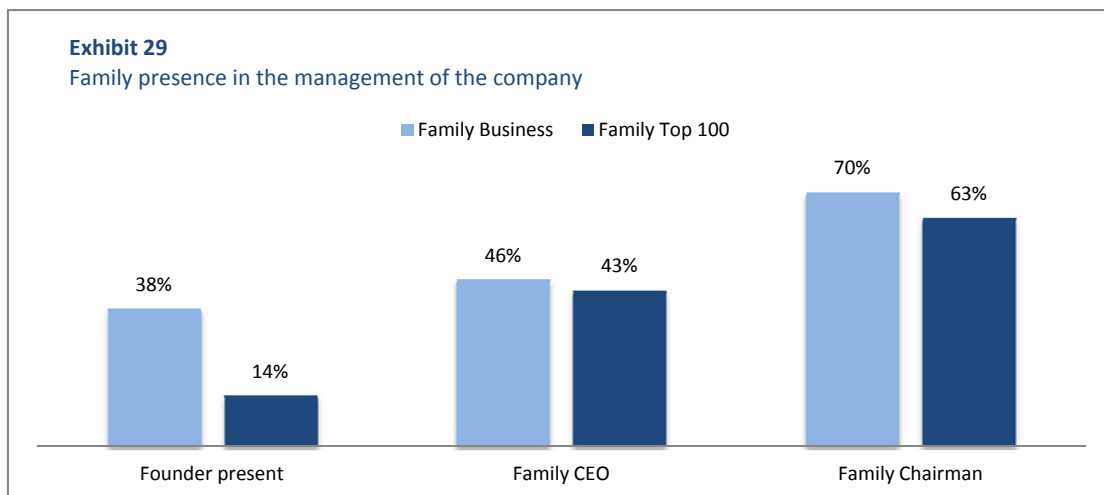


One factor that stands out in the family top 100 is their age. The average age of the sample of family businesses was 60 years, while for companies in the family top 100 it was 81. Exhibit 27 shows the differences in age distribution between the two groups.



Another common feature of family firms giving the best return on the stock market is that they are smaller. Exhibit 28 shows these differences by the average market capitalisation of both groups. In fact, 61% of the family top 100 companies have a market capitalisation below €500 million.

In terms of data concerning family involvement in the management of the company, the most important difference is in the presence of the founder of the company. While the founder serves in 38% of all the family firms examined, he or she is only present in 14% of family top 100.



8. CONCLUSIONS

This first BANCA MARCH-IE report examines value creation by European family businesses compared to non-family firms during the period 2001-2010 using a sample of 2,423 listed companies. As noted above, this report is unique not only in terms of its theoretical approach to the creation of value and the metrics used to capture it but also in the length of its review period and the large number of countries (38 in Europe) it covers.

It is thus no surprise that it comes up with fresh findings which help to bring some of the previous debates about the relationship between family businesses and value creation to an end while opening up new ones that suggest areas for future research. Following the research questions posed at the beginning of the study, this evidence and these future research avenues can be classified into four main groups.

1. WHAT IS THE PROFILE OF LISTED EUROPEAN FAMILY BUSINESSES?

The data confirm the major importance of listed European family businesses. Companies that meet the criteria to be considered as family firms account for 27% of total listed companies in Europe, although this percentage varies by country. Italy has the highest proportion of family businesses compared with non-family firms at 52%, followed by France, Portugal and Spain. At the opposite extreme are the UK and Ireland where these companies make up barely 10% of total listed companies. In view of these findings and in line with previous studies (La Porta et al., 1999), it might be wondered whether this country bias is the result of anything in particular. For example, **could it be the case that family firms predominate in countries where there is less investor protection and where financial markets are less developed?** And if so, **what are the implications of this for value creation?**

Listed European family businesses are smaller than non-family firms in terms of sales, market capitalisation and assets. However, their contribution is highly significant as they account for 20% of total sales by companies and hold 14% of assets. In spite of these differences in size, the average number of employees is similar in both types of firms, which suggests that family firms are much more labour intensive (accounting for 27% of total employment). This may in part be because there are more family firms in traditionally labour-intensive sectors (especially

manufacturing), but in any case future research could shed light on the following issue: **are family businesses more labour intensive due to a sectoral effect or are there other explanatory factors?**

Finally, age is also a distinguishing feature of family firms as on average they are older than their non-family counterparts (60 years versus 43 for non-family firms). Indeed, 20% of family businesses are over 100 years old while only 13% of non-family firms have reached the century mark. These figures might seem contradictory because numerous studies stress the high mortality rate of family businesses as well as the difficulties these enterprises have in surviving to the third generation. Hence the question arises: **have the obstacles to the survival of family businesses been overestimated or does the fact that the sample is made up of listed companies entail the existence of a stronger survivorship bias in the case of family businesses?**

2. DO FAMILY BUSINESSES GENERATE MORE VALUE FOR THEIR SHAREHOLDERS?

The results presented leave no doubt in this regard; listed European family businesses created more value for their shareholders during the period 2001-2010. This creation of value is demonstrated not only by indicators such as ROA and ROE which were higher but also in a new way through studies of the profitability of family businesses through achieving a higher stock return for a similar or even lower level of risk and assets with higher EVA. When controlled for other factors that might be affecting value creation in all its dimensions, such as size, debt level, risk and sectoral distribution, these results clearly point to the existence of a “family effect” which has a positive impact on creating long-term value for shareholders.

This “family effect” would indicate that, at least for all the firms examined in the period, the positive effects of the family owners’ goal of preserving socioemotional wealth (reflected for example in the existence of lower agency costs, a greater commitment by family shareholders and employees to the business project and a longer term vision) easily outweigh the negative effects of a possible conflict of interest between achieving non-monetary objectives and purely economic ones, a conflict which is traditionally thought to entail the expropriation of minority shareholders’ rights by the family (Morck and Yeung, 2005).

The conclusiveness of these results even calls into question this “expropriation cost” because in the period studied minority shareholders obtained much more value as shareholders in a family business. It is true that in most cases families want to control the companies they have founded and also want to maintain this family control over the generations, designing governance mechanisms that limit the influence of other shareholders to that end. What is not true in view of the findings of this report is that in doing so they are destroying value. On the contrary, everything would suggest that the goal of preserving socioemotional wealth does not diminish but rather augments the effect of family ownership on the creation of economic and financial value for shareholders in the case of European listed companies. **Might it be that by not taking into account this socioemotional wealth, previous studies have overestimated the expropriation effect in listed family businesses?**

Furthermore, and even though comparing these results with those for unlisted companies is beyond the scope of this study, the fact that a company is publicly traded undoubtedly helps explain the scale of the effect. Listed companies are subject to strict reporting, monitoring and control requirements. To this can be added the external checks provided by the corporate control market and the possibility afforded by the capital markets to provide liquidity to minority shareholders, which lessens the chance that the company might expropriate their income (Braun and Sharma, 2007). This means that a family brings additional value when it is involved in listed companies as it protects not only its own interests but also those of minority shareholders. So once again there is a question for future research: **can these findings be generalised to other family businesses or is this effect unique to listed companies?**

The fact that this BANCA MARCH-IE study is the first to measure the creation of shareholder value using indicators such as EVA and stock return which are directly related to this concept, whereas previous studies approached value creation using market valuation metrics (especially Tobin's Q), may explain some of the contradictions in the family effect on value creation. Specifically, this report demonstrates the importance of making a distinction between the two concepts in order to avoid misinterpretation. This is because it shows that, in spite of achieving a better ROA and ROE, offering higher returns to shareholders and generating more economic value, family businesses were undervalued in 2010 and in fact had been throughout virtually the entire period (as evidenced by lower PER, PBV and Tobin's Q ratios). In view of everything discussed above, the following question can also be asked: **is this a market failure?**

3. DO FAMILY FIRMS GENERATE MORE VALUE FOR OTHER STAKEHOLDERS?

The empirical evidence of the BANCA MARCH-IE report is also conclusive as to value creation by family businesses for other stakeholders in addition to that directly created for their shareholders. The findings show that, although they are smaller, listed European family businesses created more jobs during the period 2001-2010 than their non-family counterparts. Furthermore, they were a kind of insurance policy in times of economic slowdown as they maintained these jobs in spite of falling sales while non-family firms were downsizing their workforces. This insurance policy might explain the lower wage costs in the case of family businesses. The theory says that if companies are credible in providing this insurance, they will be able to establish “implicit contracts” with their workers whereby the worker is willing to work for less pay in exchange for greater protection. The problem is that in most cases the company's offer is not credible. Our findings would seem to suggest that the long-term vision of family owners and their greater degree of commitment increase the company's credibility when it offers such contracts. This is also reflected in data for higher labour productivity.

These findings, even though they are preliminary, raise interesting questions for future research. **Are lower wage costs related to the smaller size of family businesses or are they really a result of motivation? Are these differences in productivity related to the predominance of family businesses in certain countries and sectors? Is this higher labour productivity offset by lower capital productivity?**

In any case, the data suggest that the goal of preserving socioemotional wealth creates value not only for shareholders but also for other stakeholders. Aspects such as the desire for continuity, to hand the company down to future generations, give these firms a long-term vision and enable them to undertake investments which have long maturity periods, isolating them to some extent from employment and investment adjustments over the business cycle. This is because the study also shows that they maintained a much higher asset investment rate than non-family firms throughout the period and in all stages of the business cycle.

Taken together, these results seem to indicate the existence of spillover effects of family ownership in the sense that in trying to pursue non-economic objectives the family is voluntarily

or involuntarily improving the welfare of other stakeholders in particular and society in general. In the light of this evidence it might be asked: **is this a positive externality?** And if it is, **how can the real value generated by family businesses as a whole be captured?** Similarly, given that existing research shows that the relationship between, for instance, corporate social responsibility actions and firm performance is at least uncertain, future research could also investigate: **how are these spillover effects of family businesses reflected in the creation of economic and financial value?**

Again, one would expect these effects to be even greater in the case of listed companies as they are much more exposed to public opinion and therefore much more concerned about the reputational costs of certain actions, while on the other hand they are also much more aware of the benefits of these spillover effects. Hence another question would be: **what is the importance of these spillover effects in unlisted family firms?**

4. WHICH FAMILY FIRMS CREATE MOST VALUE?

Examination of the differences in value creation among family businesses, with particular emphasis on identifying what differentiates the family top 100 that achieved a better stock return over the period, also brings some interesting findings which stress the need to recognise the heterogeneity of family businesses. In addition to the expected effects, such as their smaller size or the existence of a country bias with a high proportion of the most profitable family businesses located in countries like Germany or the United Kingdom, the results show an overrepresentation of the family top 100 in sectors traditionally regarded as more mature (car manufacture, furniture, etc.) which would be in line with previous research suggesting that it is in those more traditional sectors that family businesses can maximise their competitive advantage. Future research should therefore address the following question: **are there certain sectors that reinforce the family effect on value creation?**

In addition, the findings clearly point to the existence of survivorship bias, with the family top 100 being significantly older than the rest of family firms. Even more interesting over and above the age effect is that our analysis clearly showed that companies that have already weathered the generational handover offer higher returns than those in which the founder still serves. This advantage is reflected not only in higher stock returns but also in the other economic value indicators (higher ROA, EVA, etc.) as well as higher rates of job creation.

These findings may seem to contradict empirical evidence from previous studies which consistently indicates that the presence of the founder has a positive effect on family firm performance and that a CEO who is a descendant of the founder has a negative effect (McConnaughey et al., 1998; Anderson and Reeb, 2003; Villalonga and Amit, 2006). However, further examination shows that these findings come from samples taken in the USA. Barontino and Caprio (1998) analysed European companies and found a positive founder effect, although they were unable to prove the negative effect in the case of firms led by later generations. This is the reverse of Nieto et al. (2009), who showed the destruction of value by the descendants of the founding family, but found no empirical evidence for the founder effect. **Is the European situation, with older family businesses which remain in family hands for longer, substantially different from the American position to the point of eliminating the founder effect?**

Perhaps the fact that this first BANCA MARCH-IE report has the longest analysis period, which entails a longer term approach to value creation, may explain this effect in favour of European firms which have already completed at least one generational handover. Equally it is also the first time that value creation has been measured with real stock return data, which means that previous studies may have been coming to the wrong conclusions. Indeed, and in keeping with these findings, it shows that those companies where the founder is no longer present, in spite of achieving better returns and generating more value for their stakeholders (higher ROA, ROE, EVA and stock returns), are worse valued by the market (lower PER, Tobin's Q and PBV) which awards a premium to those where the founder is still involved. Perhaps too much importance is attached to succession conflicts in well-known family businesses that are often aired in the media or the oft-repeated statistic that only about 4% of family businesses survive beyond the third generation (Ward, 1987). At any event, this is not the case of listed European family businesses, 20% of which are over one hundred years old and are also often the most profitable.

Finally, the findings also show that family involvement in the management of a company influences value creation, although this involvement should be qualified. If the Chairman of the Board of Directors is a family member this enhances the positive impact of the "family effect" on value creation by strengthening the company's image and the family's commitment to the business project. However, these benefits are not as obvious when it comes to the Chief Executive Officer since family firms that hired a CEO created more value for their shareholders.

9. REFERENCES

- Allouche, J., Amann, B., Jaussaud, J., & Kurashina, T. (2008). The Impact of Family Control on the Performance and Financial Characteristics of Family Versus Non-family Businesses in Japan: A Matched-Pair Investigation. *Family Business Review*, 21(4), 315-329.
- Anderson, R. C., & Reeb, D. V. (2003). Founding family ownership and firm performance: Evidence from the S&P 500. *Journal of Finance*, 58(3), 1308-1328.
- Andres, C. (2008). Large shareholders and firm performance—An empirical examination of founding-family ownership. *Journal of Corporate Finance*, 14, 431-445.
- Barontini, R., & Caprio, L. (2006). The Effect of Family Control on Firm Value and Performance: Evidence from Continental Europe. *European Financial Management*, 12(5), 689-723.
- Berrone, P., Cruz, C., Gomez-Mejia, L., & Larraza-Kintana, M. (2010). Socioemotional wealth and corporate responses to institutional pressures: Do family-controlled firms pollute less? *Administrative Science Quarterly*, 55, 82–113.
- Berrone, P., Gomez Mejia, L. R., Cruz, C., & Cennamo, C. (in press). Socioemotional wealth and proactive stakeholder engagement: Why family controlled firms care more about their stakeholders. *Entrepreneurship Theory & Practice*, 1-40.
- Burkart, M., Panunzi, F., & Shleifer, A. (2003). Family firms. *The Journal of Finance*, 58(5), 2167–2202.
- Cronqvist, H., & Nilsson, M. (2003). Agency Costs of Controlling Minority Shareholders. *The Journal of Financial and Quantitative Analysis*, 38(4), 695-719.
- Credit Suisse (2011). Asian Family Business Report 2011. *Emerging Markets Research Institute*.
- Cruz, C., Gomez-Mejia, L. R., & Becerra, M. (2010). Perceptions of benevolence and the design of agency contracts: CEO-TMT relationships in family firms. *Academy of Management Journal*, 53(1), 69–89.
- Dyer, G. W., & Whetten, D. A. (2006). Family firms and social responsibility. Preliminary evidence from the S&P500. *Entrepreneurship Theory and Practice*, 30(4), 785-802.
- Faccio, M., & Lang, L., H.P. (2002). The ultimate ownership of Western European corporations. *Journal of Financial Economics*, 65(3), 365-395.
- Favero, C. A., Giglio, S., Honorati, M., & Panunzi, F. (2006). The performance of Italian family firms (ECGI Working Paper Series in Finance, No. 127/2006). Brussels, Belgium: European Corporate Governance Institute.
- Gomez-Mejia, L. R., Haynes, K., Nuñez-Nickel, M., Jacobson, K. J. L., & Moyano-Fuentes, J. (2007). Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly*, 52(1), 106-137.
- Gomez-Mejia, L. R., Larraza-Kintana, M., & Makri, M. (2003). The determinants of executive compensation in family-controlled public corporations. *Academy of Management Journal*, 46(2), 226-237.
- Gomez-Mejia, L. R., Makri, M., & Larraza Kintana, M. (2010). Diversification decisions in family-controlled firms. *Journal of Management Studies*, 47(2), 223-252.

- Gomez Mejia, L. R., Cruz, C., Berrone, P., & De Castro, J. (2011). The bind that ties: Socioemotional wealth Preservation in family firms. *Academy of Management Annals*, 5(1), 653-707.
- LaPorta, R., López-de-Silanes, F., & Shleifer, A. (1999). Corporate ownership around the world. *Journal of Finance*, 54 (2), 471-517.
- Lauterbach, B., & Vaninsky, A. (1999). Ownership structure and firm performance: Evidence from Israel. *Journal of Management and Governance*, 3, 189–201.
- Lee, J. (2006). Family Firm Performance: Further Evidence. *Family Business Review*, 19(2) 103-114.
- Maury, B. (2006). Family ownership and firm performance: Empirical evidence from Western European corporations. *Journal of Corporate Finance*, 12(2), 321-341.
- Miller, D., Le Breton-Miller, I., Lester, R. H., & Cannella Jr, A. A. (2007). Are family firms really superior performers? *Journal of Corporate Finance*, 13(5), 829-858.
- Mishra, C. S., & McConaughy, D. C. (1999). Founding family control and capital structure: The risk of loss of control and the aversion to debt. *Entrepreneurship Theory and Practice*, 23, 53-65.
- Morck, R., Shleifer, A., & Vishny, R. (1988). Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics*, 20(1/2), 293-315.
- Morck, R., & Yeung, B. (2003). Agency problems in large family business groups. *Entrepreneurship Theory & Practice*, Summer, 367-382.
- Nieto Sánchez, Fernández Rodríguez, Casasola Martínez, Usero Sánchez (2009). Impacto de la implicación familiar y de otros accionistas de referencia en la creación de valor. *Revista de Estudios Empresariales. Segunda época*, 2, 5-20.
- Pindado, J., Requejo, I., & De la Torre Olvera, Ch. (2008). Does family ownership impact positively on firm value? Empirical evidence from Western Europe, *Nuevas Tendencias en Dirección de Empresas (Working Paper No. 2)*. Burgos y Salamanca, Spain: Universidades de Valladolid
- Sacristán-Navarro, M., Gomez-Anson, S., & Cabeza-Garcia, L. (2011). Family Ownership and Control, the Presence of Other Large Shareholders, and Firm Performance: Further Evidence. *Family Business Review* 24(1), 74-79.
- Sirmon, D. G., & Hitt, M. (2003). Managing resources: Linking unique resources, management, and wealth creation in family firms. *Entrepreneurship: Theory and Practice*, 27(4), 339-358.
- Sraer, D., & Thesmar, D. (2007). PERFORMANCE AND BEHAVIOR OF FAMILY FIRMS: EVIDENCE FROM THE FRENCH STOCK MARKET. *Journal of the European Economic Association*, 5(4), 709- 751.
- Stavrou, E., Kassinis, G., & Filotheou, A. (2007). Downsizing and stakeholder orientation among the Fortune 500: Does family ownership matter? *Journal of Business Ethics*, 72(2), 149-162.
- Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value? *Journal of Financial Economics*, 80(2), 385-417.
- Ward, J. L. 1987. Keeping the family business healthy: How to plan for continuing growth, profitability, and family leadership. San Francisco: Jossey-Bass.

10. ANNEX 1: REGRESSION ANALYSIS

In addition to the analyses conducted we also estimated the relationship between value creation and family businesses through a range of linear regression analyses. In line with the study three value creation metrics were used, namely return on assets (ROA), mean stock return for the period 2001-2010 and value creation using the Economic Value Added (EVA) indicator, along with a market valuation metric in the shape of Tobin's Q. These are the dependent variables, one for each of the four models.

As an independent variable we used a dichotomous variable that takes the value 1 if the firm is family and 0 if it is non-family.

In addition, we introduced the following control variables into the model:

- Size: measured by the logarithm of mean sales for the period 2001-2010.
- Risk: measured by the beta in the period 2001-2010.
- Geographical location: measured by the dichotomous variable that assigns one if the registered office of the company is in the European Union and zero in all other cases.
- Age: measured by the logarithm of the difference between 2010 and the year the company was founded.
- Debt: measured by the company's mean bank debt to shareholders' equity ratio for the period 2001-2010.
- Activity sector: measured by twenty-two sectors included in the NACE Rev. 2 codes.

The result of the estimation by ordinary least squares (OLS) is shown in the table below, which presents the coefficients of the regressors (β_i) and their standard deviation in brackets. The asterisks show the p-value resulting from the test of individual significance for exogenous variables and the test of global significance for each of the models. The table also shows the model fit, measured by adjusted R-square and the number of observations (firms) available for each model.

Estimation by ordinary least squares (OLS) for the mean ROA, stock return, EVA and Tobin's Q variables for the period 2001-2010.

	ROA	Stock return	EVA	TOBIN'S Q
Size	0.0031 ^{***} (0.0006)	0.0007 (0.0019)	0.0596 ^{***} (0.0071)	-0.0092 (0.0083)
Risk	-0.1705 ^{***} (0.0020)	-0.0622 ^{***} (0.0061)	-0.0069 ^{**} (0.0022)	-0.0302 (0.0244)
Country	-0.0049 (0.0031)	-0.0199 [*] (0.0095)	-0.0019 (0.0034)	0.0583 (0.0392)
Age	-0.0006 (0.0014)	-0.0005 (0.0042)	-0.0006 (0.0015)	-0.0881 ^{***} (0.0172)
Debt	-0.0227 ^{***} (0.0019)	-0.0194 ^{***} (0.0058)	-0.0036 ⁺ (0.0021)	-0.2022 ^{***} (0.0231)
Control by Sector	Included	Included	Included	Included
Constant	0.0823 ^{***} (0.0134)	0.1957 ^{***} (0.0412)	-0.0060 (0.0155)	1.9282 ^{***} (0.0870)
Family firm	0.0066[*] (0.0027)	0.0154[*] (0.0081)	0.0111^{***} (0.0029)	-0.0163 (0.0312)
N	1202	1202	1187	1202
Adjusted R ²	0.2115	0.2254	0.0798	0.0932
Snedecor's F	12.93 ^{***}	13.94 ^{***}	4.81 ^{***}	20.49

* p<0.05; ** p<0.01; ***p<0.001

The result of the OLS estimate shows that, even when controlling for factors that might affect the creation of value such as size, risk, sector, age or country, **family firms have a positive effect on the ROA, stock return and EVA indicators and this effect is also statistically significant. However, they have no statistically significant effect on Tobin's Q.**

Specifically, family businesses have on average a 0.0066 higher ROA (0.66% if the ROA is expressed as a percentage), a mean annual stock return that is 0.0154 higher (1.54% if the stock return is expressed as a percentage) and 0.0111 more for the firm's creation of value measured by EVA.