Paradigms: A Research Journal of Commerce, Economics, and Social Sciences
Print ISSN 1996-2800, Online ISSN 2410-0854
2017, Vol. 11, No. 2 Page 141-150
Doi: 10.24312/paradigms110203

Family Ownership, Excess Control and Firm Performance: A Focus on the Family Firms in Pakistan

Waseemullah
Waseem.ullah@uog.edu.pk
Lecturer in Management and Administrative Sciences Department,
University of Gujrat, Gujrat
Dr. Arsahd hasan
arshad@cust.edu.pk
Associate Professor & Dean, Faculty of Management and Social Sciences
Capital University of Science and Technology, Islamabad

ABSTRACT

This paper attempts to explore the effect of ownership structure and excess control on firm performance in Pakistan. The pragmatic examination is accomplished through employing a data set comprising 289 non-financial firms listed on KSE covering a period of 2004-2012. The results indicate that both family owned and family controlled firms show significantly lower financial performance than non-family owned and non-family controlled firms in Pakistan. Further, family ownership tends to show a quadratic relationship with firm performance. Family ownership is negatively related whereas family ownership squared is positively related to firm performance. The findings portray that family ownership is negatively related at initial levels and beyond a certain threshold level, it started to affect positively the firm performance. Moreover, ownership disparity (excess control) shows strongly negatively relationship with family firms' performance. These findings clearly suggest that family firms suffer from agency conflicts among controlling family shareholders and external shareholders that seems the root cause of lower family firms' performance in Pakistan. The ultimate controllers in family firms use complex pyramidal ownership structures to achieve an ultimate control over many firms simultaneously with least capital invested. The findings are consistent with the expropriation hypotheses proposed (La Porta, 2000). Most importantly, the findings shed light on an important corporate governance aspect of family ownership at higher levels (family ownership squared) that it resolves agency conflict between family shareholders-external shareholders and affects positively the firm performance.

Key words: Family Ownership, Family Ownership Squared, Excess Control, Corporate Governance, Agency Costs, Firm Performance.

INTRODUCTION

The financial performance and diverse operations of family firms relative to their counterpart non-family firms are the most extensive areas in the fields of corporate finance and organizational strategy in last couple of decades (Yasser, 2011; Benavides-Velasco, 2013; Garcia-Castro & Aguilera, 2014; Xi, 2015). The researchers are indecisive regarding the financial performance of family firms whether these perform better or worse than non-family firms. There are certain researchers who find superior performance of family firms (Anderson and Reeb, 2003a; Villalonga and Amit, 2006; Maury, 2005; Cheng, 2014; Andersson et al., 2016) though some others discovered lower performance (Holderness & Sheehan, 1988; Perez-Gonzalez, 2006; Bennedson, 2006; Jabeen, 2012) and a few of them observed mixed results (Villalonga & Amit, 2006). Villalonga and Amit (2006) focus three components of the definition of the family firms categorically: family ownership, ultimate control (achieved through control enhancing mechanism in excess of ownership) and management. Their findings suggest that family shareholding enhances firm value whereas family ultimate control in excess of ownership harms firm value and however, it does not sufficient to offset positive impact of family ownership. Researchers finding the superior performance of family firms to non-family firms, they link it with social structure, political economy and incentive effect (Estrin, Poukliakova, & Shapiro 2009; White, 1974b). Contrarily, those scholars who find lower family firms' performance, they relate it agency theory or entrenchment effect (Villalonga and Amit, 2006).

Ownership structure is the basis of principal-agent relationship and it is the root cause of agency conflicts (Jensen & Meckling, 1976; Haris., & Javid 2014). The family shareholdings and their ultimate performance impacts are concerned with two contradictory agency conflicts (Ali, 2007). The first type of agency problem is associated with conflicts between manager and shareholders whereas the second is the conflict among dominant family shareholders and external shareholders (Claessens, 2000; Khan and Nouman, 2017). The first agency problem between managers and shareholders is not more common in family firms because of the presence of family members at executive position or representing the board. Anderson and Reeb (2003a) suggest that if any family member holds the position in the management of the firm or in board then family is in a better position to monitor and control the activities of managers. However, the conflict among controlling family shareholder and external shareholders is troublesome and it may affect firm performance adversely (Claessens, 2000).

Family ownership is extensively researched in both developing and developed economies during last couple of decades. In Pakistani context, a number of scholars examine the financial performance of family firms relative to non-family firms but none of them focus the issue of family ownership, family control and family ownership-control disparity. The objectives of the study are three folds. First, the study explores the comparative performance of family and non-family firms in Pakistan. The comparison of firm performance is done categorically between i) family owned and non-family owned firms and ii) family controlled and non-controlled firms. Second, it explores the potential impacts of family ownership on firm performance. The study focuses examining whether family ownership-performance relationship is linear or non-linear in nature? Third, it investigates the performance impacts of an important issue of ownership-control disparity being the most common corporate governance problem in family firms.

The principal contribution of the study lies in defining the family firms. Villalonga & Amit (2006) answers to a question of family firms are better or worse performer than non-family firms, they suggest it is contingent on how family firms are defined (Villalonga & Amit. 2006). The study categorizes two types of family firms. First, 'family owned firms' and second, 'family controlled firms'. Family owned firms represent those firms having 50% or more family ownership. Family controlled firms represent those firms whose ultimate control is with a family. The ultimate control is determined observing at least three criteria e.g., social ties, cross shareholdings and management of the firm.

Family ownership may have differential performance impacts at higher levels than lower level due to incentives effect and therefore a quadratic relationship is expected. Family ownership-performance relationship seems negative at initial level due to divergence of interest effect and it may be positive at higher levels due to convergence of interest effect (incentives effect). Further, family firms use control enhancing mechanism like cross directorate-ship and cross shareholdings and pyramidal structures. These complex ownership structures enable ultimate controller controlling many firms simultaneously with least cash flow invested. These cause divergence between ownership and control and it is immensely needed to put forth efforts examining the potential effects of such excess control (ownership-control disparity). To the best of the knowledge of the researchers, this is the pioneering study in this direction shedding light on such family firms' related issues by employing a dynamic data of 289 KSE listed family and non-family firms across 19 sectors covering a period of 2004-12. The present study contributes to existing finance literature and will provide empirical evidence to researchers and policy makers in the field of corporate governance and firm strategy.

The study proceeds in the following way: The next section provides the literature review followed by research methodology and results discussion. Finally, conclusions and recommendations are given in the final section.

LITERATURE REVIEW

Corporate Governance, Family Firms and Firm Performance

Agency theorists propose that family firms suffer from severe corporate governance problems. These firms face the problem of serious agency conflicts among the dominant family shareholders and minority shareholders (Young, 2008; Khan and Nouman, 2017). They treat family firms a value destroying mechanism tunneling firm resources away from minority shareholders (La Porta et., 1999; Morck et al., 2005). The unique ownership structure of family firms dominated by the family members shift the Centre of corporate governance from the traditional manager-shareholder conflicts (Jensen and Meckling, 1976) to conflicts within shareholders e.g., dominant family shareholder and external shareholders (Claessens, 2000). The ultimate controllers in family firms may use complex ownership and pyramidal structures to extend their control. The ultimate controllers engage in expropriation of firm resources particularly from firms with least cash flow rights to other firms with greater cash flow rights (Bertrand, Mehta, & Mullainathan, 2002; Djankov, 2008). Further, instead of recruiting qualified and capable managers, family members occupy key executive positions and therefore, family firms often suffer from the concentration of incompetent management. Moreover, these family managers are rewarded with excessive remuneration that ultimately costs to external shareholders and reduces firm value.

There are some factors those may cause family firms outperforming the counterpart non-family firms. First, family members in most of cases hold key positions in the management of firm with them and are involved direct monitoring the activities of the managers rather rewarding them based on accounting performance (Ali, Chen, & Radhakrishnan 2007). Further, concentrated ownership is more common in family firms particularly in underdeveloped countries. Ownership concentration substitute for investors' protection and legal system in the country (Burkart, 2003; Javid & Iqbal, 2007). The large equity shareholding stakes owning the dominant family members align their interests with the external shareholders motivating them towards the monitoring and efficient decision making of the firm due to incentives effect. The shareholder-owner structure mitigates the traditional manager-shareholders conflicts (Boone & Rodionov, 2002).

Second, family members are foresighted and could make efficient investment and many other business decisions having greater information regarding the technical operations of the business, firm characteristics and long term investment ideas. They make investments over a longer horizon and concerned with long term firm value. They aim building the reputation of the firm and passing the family business to their future generations (Cheng, 2014). Third, resource sharing like finance, skills, information and markets among the family controlled firms is a norm particularly in those emerging economies lacking efficient law enforcement,

facing severe contracting problems and informational asymmetries (Khanna and Palepu, 2000; Essen, 2011). Forth, family headquarters perform insurance function for the member firms and cause reduction in risk and uncertainty. These transfer funds from one firm with surplus cash flows to the other firms in shortage of funds (Khanna & Yafeh, 2005; Estrin et al., 2009). Such value enhancing internal networks of firms based on sharing resources and risks are certainly unavailable to non-family firms.

Comparative Performance of Family and Non-Family Firms

Anderson and Reeb (2003a) found comparatively higher accounting as well as market performance for family firms than their counterpart non-family firms in United States. However, they conclude that family control doesn't seem negatively affecting the interests of minority shareholders. Pindado, Requejo and Torre (2008) documented that family owned firms perform better than non-family owned firms and further they observe that young family firms outperform older family firms in Western Europe. Miller and Breton-Miller (2006) documented better performance of family firms because the firm controller desires perpetual succession of their family business to the next generation. Villalonga and Amit (2006) discovered a significantly higher performance of family firms than non-family firms in United States. Maury (2005) observed higher profitability of family controlled firms than their corresponding non-family controlled firms in 13 Western European countries with different legal regimes. Barontini and Caprio (2006) found evidence of positive performance impacts of family control. On the other hand, Lauterbach and Vaninsky (1999) observe the opposite results. Similarly, Holderness and Sheehan (1988) found evidence of lower performance of family firms relative to other firms in the industry in Israel. However, Amran and Ahmad (2009) found no significant differences in performance of family and non-family controlled firms.

While studying the performance impacts of family ownership and family management, Charbel (2013) found that family firms with large stake in ownership and participation in management by the family members tend to show superior performance. They suggest that family manager with large ownership stakes will be better performer than outside manager acting as an agent of the firm. Westhead and Howorth (2006) aimed at investigating whether management and ownership structure are really associated with the family firms' performance in UK. The results indicate that firm performance is significantly related to management whereas it is not associated with ownership structure of family firms.

Sciascia and Mazzola (2008) observed that family ownership does not show a significant impact on firms' performance whereas family management is negatively associated with firms' performance. They argue that lower performance of family controlled firms is due to the reason that family managers are incompetent and uneducated. Burkart, Panunzi, and Shleifer (2003) proposed that family management may be potentially in-efficient and thus may hamper firm performance whereas non-family firms are run by professional managers. In the same way, the study of Smith and Amoako-Adu (1999) indicated negative market reaction when family firms hired managers belonged to family. Faccio, (2001) documented that family control may hampers the interests of minority shareholders in East Asia.

In Pakistani context, the earlier studies of Jabeen, Kaleem and Ehsan (2012) and Khan and Khan (2011) observed lower performance of family firms than non-family firms whereas Yasser (2011) found mixed results. He finds that family firms show superior market performance as shown by higher Tobin's Q and however, they perform poor if performance measures are ROA and operating cash flows. Abdullah, (2011) observed ROA whereas higher Tobin's Q for family firms than non-family firms. However, the results are insignificant.

Corporate Ownership and Firm Performance

In recent years, relationship between family ownership and firm performance has gained increased interest in the fields of corporate finance and business strategy (Bjuggren, 2013; Miller & Le Breton-Miller, 2015; Evert, 2016). Many researchers argue that family ownership aligns the interests of dominant family shareholders with the external shareholders and it positively affects firm performance due to incentives effect (Villalonga & Amit, 2006). On the other hand, a number of studies on family businesses focus on investigating the setbacks of family ownership and these suggest that family ownership harms firms' performance due to entrenchment effect (Claessens, 2002; Thomsen & Pedersen, 2000; Lauterbach & Vaninsky, 1999). A few studies observe a positive-negative relationship between family ownership and firm performance whereas some others document negative-positive family ownership-performance relationship.

Villalonga and Amit (2006) found positive relationship between family ownership and firm performance. Similarly, Morck et al. (1988); Fahlenbrach (2004) observe that family ownership is positively related to firm performance. Contrarily, there are numerous researchers who observe negative relationship between family ownership and firm performance for instance Faccio and Lang (2002) and Holderness and Sheehan (1988) documented that family ownership harms firm performance.

Anderson and Reeb (2003a) examined the impact of founding family ownership on firms' performance measured by ROA and Tobin's Q employing a data set of Standard & Poor's 500 large public firms for 1992 to 1999 periods. They find an inverted U shaped relationship between family ownership and firm performance. The results suggest that family ownership enhances firm performance consistent with incentives effect. However, the positive effects of family ownership started decreasing when it exceeds 30 percent. Further, they suggest family ownership contributes to firm performance because of better monitoring incentives and potential with the family members helping in controlling

agency conflicts. Pindado, (2008) examined the issue of family ownership and its impact on firm performance. They observe that family ownership affects positively the performance of firm until it reaches a certain threshold level and beyond that level; the positive performance impacts started decreasing. Although higher ownership concentration led towards declined firm performance but still family owned firms are better performer than non-family owned firms.

Villalonga and Amit (2006) found a positive effect of family ownership on firms' financial performance and however, the positive performance impacts decrease as the family ultimate control exceeds family ownership. The empirical evidence confirms that family ownership aligns the interest of dominant family members with the external shareholders and brings positive impact on firm financial performance due to incentives effect. Whereas, the control enhancing mechanism used by the family firms enable them controlling many firms with least cash flow rights and motivate them engage in expropriation of firm resources at the cost of minority shareholders and thus causes lower firm performance. Although, the negative performance impacts of excess control are not sufficient to offset the positive effect of family ownership. In the same lines, Hanan and Naughton (2004) categorized family ownership into family ownership, pure family ownership and wedge. They find significantly positive coefficient of family ownership and insignificantly negative coefficient of family ownership squared suggesting an inverse U shaped relationship of family shareholding and financial performance in South Korea. However, coefficients are significantly positive for both pure family ownership and pure family ownership squared consistent with the incentives effect.

Abdullah et al. (2011) examined the performance impacts of family ownership in Pakistan. They take 'associated companies' ownership' as a measure of family ownership for a sample of 54 non-financial KSE listed firms covering a periods of 2003 to 2008. The findings demonstrate that impact of family ownership (associated companies' ownership) is insignificant and however, family ownership squared is significantly negative. The statistics reveal that family ownership beyond a certain threshold level destroys firm value. The findings are consistent with the expropriation hypothesis that suggests that dominant family controllers engage in expropriation of minority shareholders in Pakistan. However, Khan and Nouman (2017) documented that family ownership negatively affects firm performance in Pakistan.

Divergence between ownership and control and firm performance

The finance literature cited wedge between ownership and control as the most common corporate governance problem in family firms around the world. The dominant family members extend their control than cash flow rights through different complex pyramidal ownership structure. They use cross shareholdings, cross directorate-ship interlocking, stock pyramids and dual class share structures to achieve their ultimate control over many firms with least capital investments. Such divergence between ownership and control motivates family members tunneling firm resources from firms with least cash flow rights to other firms with higher cash flow rights. In this way, expropriation of firm resources will cost to the external shareholders more and it will cause severe agency conflicts among the family shareholders and external shareholder (Djankov et al., 2008; Bertrand, Johnson, & Samphantharak 2008).

Villalonga and Amit (2006) find a positive effect of family ownership on firms' financial performance and however, the positive performance impacts decrease as the family ultimate control exceeds family ownership. The empirical evidence confirms that family ownership aligns the interest of dominant family members with the external shareholders and brings positive impact on firm financial performance due to incentives effect. Whereas, the control enhancing mechanism used by the family firms enable them controlling many firms with least cash flow rights and motivate them engage in expropriation of firm resources at the cost of minority shareholders and thus causes lower firm performance. Many scholars find evidence of that disparity between ownership and control adversely affects firm performance including (Lins, 2003; Joh, 2003; Lemmon and Lins 2003; Claessens, Djankov, and Lang 2002; Ali, Chen, and Radhakrishnan 2007; Attig 2007).

From the above discussion, it is unclear whether family firms underperform than non-family firms in Pakistan and vice versa. Also, it is important how to define family firms? This study focuses on the issue of comparative performance of family and non-family firms in Pakistan. Family firms are defined in two ways. First, based on direct family ownership and second based on ultimate control over the firms. A family may achieve an ultimate control over the firm through direct shareholdings, cross shareholdings, cross directorate-ships and occupying key executive positions (based on family relations). Direct family ownership brings alignment effect with external shareholders whereas ultimate control may bring entrenchment effect (Faccio, Lang, & Young 2001; Villalonga & Amit, 2006; Haris & Javid, 2014). The study focuses if family ownership may resolve the agency conflicts among the controlling family shareholders and minority shareholders? It also examines if family ownership-performance relationship is linear or non-linear in nature? And finally the study examines the performance impacts of divergence between ownership and control. These issues have not been researched in earlier studies in Pakistani context.

RESEARCH METHODOLOGY

Data and Sample

This study takes an initial sample of all non-financial Karachi Stock Exchange listed firms and then firms with missing and incomplete information are deleted. Finally a sample of 289 firms representing 19 sectors covering a period of 2004-12. Family firms are classified as i) family owned and ii) family controlled firm. Family owned firms are chosen on the basis of direct family ownership in the firm. Family

ownership represents percentage of shareholdings of the family members in the firm. Family controlled firms are selected on the basis of control of family members over the firm. In order to determine the ultimate control, the researchers examine the family connections, cross ownership, cross directorate-ship interlocking and firm management. The study excludes financial service firms, foreign and Government subsidiaries from the sample. In order to compare the results with earlier studies in Pakistani context, the study drops firm years with negative book value of shareholders' equity

Research Method

The dependent variables include Return on Assets and Tobin's Q. The independent variables include family control dummy and/or family own dummy and some other control variables like firm size, leverage, growth, risk and liquidity. The regression models are

$$Firm\ performance = \propto_0 + \propto_1 Family\ own\ dummy_{it} + \propto_2 Size_{it} + \propto_3 Leverage_{it} + \propto_4 Growth_{it} + \propto_5 Risk_{it} + \propto_6 Liquidity_{it} + error\ term_{it} \quad \textbf{(Model 1)}$$

$$Firm\ performance = \propto_0 + \propto_1 Family\ control\ dummy_{it} + \propto_2 Size_{it} + \propto_3 Leverage_{it} + \propto_4 Growth_{it} + \propto_5 Risk_{it} + \propto_6 Liquidity_{it} + error\ term_{it} \quad \textbf{(Model 2)}$$

$$Firm\ performance = \propto_0 + \propto_1 Family\ control\ dummy_{it} + \propto_2 Family\ ownership_{it} + \propto_3 Size_{it} + \propto_4 Leverage_{it} + \propto_5 Growth_{it} + \propto_6 Risk_{it} + \propto_7 Liquidity_{it} + error\ term_{it} \quad \textbf{(Model 3)}$$

$$Firm\ performance = \propto_0 + \propto_1 Family\ control\ dummy_{it} + \propto_2 Family\ ownership_{it} + \propto_3 Family\ ownership\ squared_{it} + \propto_4 Size_{it} + \propto_5 Leverage_{it} + \propto_6 Growth_{it} + \propto_7 Risk_{it} + \propto_8 Liquidity_{it} + error\ term_{it} \quad \textbf{(Model 4)}$$

$$Firm\ performance = \propto_0 + \propto_1 Family\ control\ dummy_{it} + \propto_2 Family\ ownership_{it} + \propto_3 Family\ ownership\ squared_{it} + \propto_4 Ownership\ disparity_{it} + \propto_4 Size_{it} + \propto_5 Leverage_{it} + \propto_6 Growth_{it} + \propto_7 Risk_{it} + \propto_8 Liquidity_{it} + error\ term_{it} \quad \textbf{(Model 5)}$$

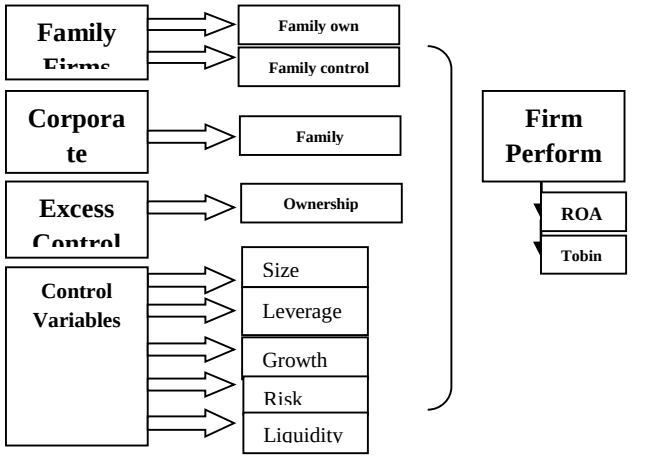

Figure 1: *Conceptual Model*

Return on Assets (ROA); earnings before income taxes/total assets (Anderson and Reeb, 2003a). Tobin's Q; market value of equity plus book value of debts/book value of total assets (Wiwattanakantang, 2001). Family own dummy; family own dummy of 1 represents the firms owned by families at least 50 percent and 0 otherwise. Family control dummy; family control dummy represents those firms being controlled by families; 1 for family and 0 otherwise. Family control may be through ownership, management and directorate-ships. Family ownership; family ownership represents percentage of shares held by family members including head of family, spouse, children and other family members with common surname. Ownership disparity; A dummy variable 1 is given for firms where wedge between ownership and control is very high and otherwise 0. It represents those firms where an ultimate controller achieves an ultimate control of 40% or more through indirect shareholdings (associated ownership) instead of having least direct shareholdings (less than 10%). Size; Firm size is defined as natural logarithm of firm total assets. Leverage; Total debts/total assets Growth; Sales growth is defined as current year's sales minus preceding year's sales and dividing by preceding year's sales. Risk; Standard deviation of return on capital employed. Liquidity; Cash in hand and cash at bank/total assets

RESULTS AND DISCUSSIONS

Univariate Analysis

Table 1 demonstrates the descriptive statistics of the whole sample firms. The figure of family owned dummy show that 29.5% of the sample firms are family owned whereas the corresponding figures are 68% for family controlled firms in Pakistan. The average direct family shareholding is 32% which is relatively higher compared to other countries in the region with similar pattern of ownership structure like South Korea where the reported figure was 20.6% (Han An and Naughton, 2001). Mean values of ROA and Tobin's Q are 3.55% and 1.0428 respectively. The statistics suggest that Pakistani firms are reasonable profitable and market valued. Similarly, the respective values are 5234 millions of Pakistani rupees, 0.72, 0.16, 0.32 and 0.053 for total assets, leverage, growth, risk and firm liquidity in terms of cash holdings.

Table 1

Descriptive Statistics-Whole Sample

	Mean	Median	Std. Dev.
ROA	0.035	0.0289	0.1208
Tobin's Q	1.042	0.9026	0.5977
Family own dummy	0.294	0.0000	0.4560
Family control dummy	0.679	1.0000	0.4669
Family ownership	0.321	0.2802	0.2707
Ownership disparity	0.144	0.0000	0.3519
Total assets	5234	1860	11088
Leverage	0.719	0.6483	0.4994
Growth	0.158	0.1282	0.3599
Risk	0.322	0.0730	2.7065
Liquidity	0.052	0.0090	0.2905
No. of observations	1341		

The correlations among explanatory variables and VIF values confirm that problem of multicollinearity is not present. These are not shown for brevity.

Multivariate Analysis

Table 2 demonstrates the OLS regression results. The statistics show that family own dummy is consistently negatively related to ROA and Tobin's Q in all of the regression models and 2 out of 4 models are statistically significant as well. The results suggest lower family owned firms' performance is due to 'entrenchment effect'. In the

same lines, family control dummy shows negative coefficient values in all of the 4 regression models and these are highly significant in 3 models. The findings suggest that family controlled firms underperform than non-family firms in Pakistan. The results again support to Hypotheses 1 & 2 and are consistent with tunneling outcomes and divergence of interest effect (Perez-Gonzalez, 2006; Sciascia & Mazzola, 2008; Amit & Villalonga, 2006).

The control variable show significant impact on firm performance. Firm size positively affects ROA whereas the relationship is insignificant when dependent variable is Tobin's Q. Firm growth is significantly positively related to ROA and Tobin's Q. Risk measured by standard deviation of return on assets significantly negatively affects both ROA and Tobin's Q whereas the impact of cash holding is positive on firm performance. The performance impacts of leverage are mixed. It affect significantly negatively ROA whereas significantly positively Tobin's Q. The positive effect of leverage is consistent with the agency theory because debt financing brings the firm under monitoring of banks and other financial institutions those concerned with the safeguard of their investment and require higher level of financial reporting and internal governance standards; therefore leverage helps in reducing agency conflicts between the controlling family shareholders and external shareholders.

Table 2

Performance Impacts of Family and Non-Family Firms in Pakistan

Variable	ROA				Tobin's Q			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Family own dummy	-0.0**	-0.00			-0.11***	-0.00		
	0.01	0.45			0.00	0.83		
Family control dummy			-0.02***	-0.01***			-0.04*	-0.00
			0.00	0.00			0.06	0.98
Size	0.00***	0.01***	0.00***	0.01***	-0.00	-0.00	0.00	-0.00
	0.00	0.00	0.00	0.00	0.60	0.50	0.75	0.52
Leverage	-0.06***	-0.05***	-0.06***	-0.05***	0.86***	0.92***	0.86***	0.92***
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Growth	0.0796***	0.0767***	0.0797***	0.0768***	0.0799***	0.0831***	0.0763*	0.0822***
	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.00
Risk	-0.00***	-0.00***	-0.005***	-0.00***	-0.00	-0.00	-0.00	-0.00
	0.00	0.00	0.00	0.00	0.13	0.12	0.13	0.12
Liquidity	0.02**	0.00	0.02**	0.00	0.16***	0.06*	0.16***	0.06*
	0.02	0.36	0.02	0.37	0.00	0.09	0.00	0.09
Constant	0.02	-0.06**	0.01	-0.06**	0.46***	0.45***	0.41***	0.45***
	0.22	0.01	0.33	0.0141	0.0000	0.0000	0.0000	0.0000
Observations	1341	1341	1341	1341	1341	1341	1341	1341
Adj.R-squared	0.16	0.22	0.17	0.22	0.53	0.62	0.52	0.62
Sector dummies	No	Yes	No	Yes	No	Yes	No	Yes
F-statistics	46.4***	17.5***	47.5***	17.8***	255.***	99.2***	249***	99.2***
No. of firms	289	289	289	289	289	289	289	289

***, ** and * denote significance at 1, 5 and 10 percent levels, respectively. Table reports OLS results.

Table 3 & 4 report the OLS regression results when family ownership and family ownership squared and ownership disparity (excess control) variables are included in the regression models. The findings suggest a quadratic relationship of family ownership and firm performance. The results suggest that family ownership is shows negative impact on both ROA and Tobin's Q. The coefficient of family ownership is still significantly negative whereas family ownership squared variable is significantly positive. The findings propose that family ownership is inversely related to both performance measures and however, after a certain threshold level it started to affect positively both firm performance measures. The positive performance impacts of higher levels of family ownership are consistent with incentives effect and supporting Hypothesis 3. However, these results are in contrast to the earlier studies in Pakistani context like Abdullah et al. (2011) which show insignificantly positive impact of family ownership and significantly negative impact of family ownership squared. The corporate sector of Pakistan is dominated by families' based business groups and a family control through direct shareholdings aligns the interest of family members with minority shareholders that ultimately helps in controlling agency problems between family shareholders and external shareholders (Villalonga & Amit, 2006).

Ownership disparity is negatively related to both ROA and Tobin's Q. The findings suggest that higher the divergence between ownership and control, the greater the potential of the ultimate controller in tunneling firm resources away at the cost of the minority shareholders; thus affecting the firm performance adversely (Burkat et al., 2003; Villalonga & Amit, 2006; Gompers, 2004). The results are consistent with the Hypothesis 4.

Family control dummy is consistently negative in all of the regression models confirming lower performance of family firms than non-family firm in Pakistan and again supporting the Hypothesis 2.

Table 3

Family Ownership, Excess Control and Firm Performance-Dep. Variable: ROA

Variable	ROA					
	(1)	(2)	(3)	(4)	(5)	(6)
Family control dummy	-0.0255***	-0.0205***	-0.0254***	-0.0195***	-0.0233***	-0.0179***
	0.0001	0.0026	0.0001	0.004	0.0000	0.0079
Family ownership	-0.0483***	-0.0357***	-0.1322***	-0.1412***	-0.2120	-0.2212***
	0.0000	0.0035	0.0002	0.0002	0.0000	0.0000

Family ownership squared			0.1090**	0.1346**	0.1808**	0.2067**
			0.0139	0.003	0.0002	0.0000
Ownership disparity					-0.0402**	-0.0418**
					0.0001	0.0000
Size	0.0076**	0.0113**	0.0074**	0.0110**	0.0073**	0.0111**
	0.0006	0.0000	0.0008	0.0000	0.0009	0.0000
Leverage	-0.0626**	-0.0573**	-0.0626**	-0.0576**	-0.0633**	-0.0583**
	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Growth	0.0809**	0.0779**	0.0806**	0.0776**	0.0808**	0.0780**
	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Risk	-0.0060**	-0.0053**	-0.0061**	-0.0053**	-0.0063**	-0.0055**
	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Liquidity	0.0219*	0.0101	0.0212*	0.0101	0.0205*	0.0094
	0.0336	0.3369	0.0394	0.3334	0.0454	0.3680
Constant	-0.0433*	-0.0462**	-0.0527**	-0.0368	-0.0715**	-0.0176
	0.0207	0.0671	0.0057	0.1464	0.0003	0.4934
No. of observations	1341	1341	1341	1341	1341	1341
Industry dummies	No	Yes	No	Yes	No	Yes
Adjusted R-squared	0.1833	0.2291	0.1864	0.2336	0.195	0.2428
F-statistic	43.974**	17.590**	39.381**	17.341**	37.0744	17.5229
No. of firms	289	289	289	289	289	289

Table 4

Family Ownership, Excess Control and Firm Performance-Dep. Variable: Tobin's Q

Variable	Tobin's Q					
	(1)	(2)	(3)	(4)	(5)	(6)
Family control dummy	-0.0610**	-0.0056	-0.0607**	-0.0023	-0.058**	0.0000
	0.0136	0.8109	0.0139	0.9216	0.0191	0.9995
Family ownership	-0.2567**	-0.0647	-0.5954**	-0.4393**	-0.0697**	-0.5543**
	0.0000	0.1237	0.0000	0.0007	0.0000	0.0001
Family ownership squared			0.4402**	0.4780**	0.5330**	0.5816**
			0.0076	0.0022	0.0028	0.0005
Ownership disparity					-0.0520	-0.0601*
					0.1765	0.0876
Size	-0.0032	-0.0061	-0.0041	-0.0072	-0.0043	-0.0071
	0.6936	0.4585	0.6160	0.3770	0.5987	0.3839
Leverage	0.8635**	0.9219***	0.8633**	0.9209**	0.8624**	0.92***
	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Growth	0.0826**	0.0847***	0.0815**	0.0840**	0.0818**	0.0845**
	0.0079	0.0027	0.0086	0.0029	0.0084	0.0027
Risk	-0.0076*	-0.006	-0.0080*	-0.0061*	-0.0083**	-0.0064*
	0.0645	0.1148	0.0535	0.1071	0.0446	0.0908
Liquidity	0.1599**	0.0620*	0.1571**	0.0621*	0.1561**	0.0610*
	0.0000	0.0864	0.0000	0.0847	0.0000	0.0901
Constant	0.5511**	0.4838***	0.5892**	0.5172**	0.6135**	0.545**
	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
No. of observations	1341	1341	1341	1341	1341	1341
Industry dummies	No	Yes	No	Yes	No	Yes
Adjusted R-squared	0.5394	0.6282	0.5415	0.6306	0.5418	0.6311
F-statistic	225.190***	95.339***	198.845***	92.490**	177.0645***	89.1747***
No. of firms	289	289	289	289	289	289

Panel Data Analysis Results

Table 5 & 6 present the results of random effect Generalized Least Square regression. The statistics show that family own dummy is significantly negatively related to both ROA and Tobin's Q and however, family control dummy show insignificant relationship with both performance measures. Family ownership shows negative relationship with firm performance and however when family ownership squared variable is included in the regression model, coefficient of family ownership is still negative whereas family ownership squared is significantly positive. The findings are consistent with pooled regression results. Further, consistent the above findings, ownership disparity is negatively related with firm performance and however, the strength of relationship is stronger when dependent variable is ROA.

Table 5

Family Ownership, Excess Control and Firm Performance-Dependent Variable: ROA

Variable	ROA				
	(1)	(2)	(3)	(4)	(5)
Family own dummy	-0.0151*				
	0.0793				
Family control dummy		-0.0120	-0.0148	-0.0148	-0.0067
		0.2629	0.1639	0.1616	0.5325
Family ownership			-0.0474***	-0.1438***	-0.2231***
			0.0026	0.0029	0.0000
Family ownership squared				0.1219**	0.2045***
				0.0346	0.0008
Ownership disparity					-0.0433***
					0.0008
Size	0.0016	0.0027	0.0022	0.0020	0.0044
	0.6185	0.4074	0.5004	0.5336	0.1972
Leverage	-0.0668***	-0.0672***	-0.0673***	-0.0673***	-0.0647***
	0.0000	0.0000	0.0000	0.0000	0.0000
Growth	0.0678***	0.0679***	0.0680***	0.0681***	0.0676***
	0.0000	0.0000	0.0000	0.0000	0.0000
Risk	-0.0045***	-0.0045***	-0.0045***	-0.0045***	-0.0045***
	0.0000	0.0000	0.0000	0.0000	0.0000
Liquidity	0.0118	0.0120	0.0117	0.0117	0.0081
	0.1606	0.1526	0.1618	0.1635	0.3391
Constant	0.0635**	0.0585**	0.0802***	0.0910***	0.0317
	0.0131	0.0206	0.0022	0.0006	0.4021
No. of observations	1341	1341	1341	1341	1341
Industry dummies	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.1469	0.1458	0.151	0.1532	0.1710
F-statistic	39.4487***	39.1190***	35.0519***	31.2958***	11.6346***
No. of firms	289	289	289	289	289
Chi-square	19.4751***	21.6465***	21.4705***	21.062***	18.4486**

Table 6

Family Ownership, Excess control and Firm Performance-Dependent Variable: Tobin's Q

Variable	Tobin's Q				
	(1)	(2)	(3)	(4)	(5)
Family own dummy	-0.0564*				
	0.0536				
Family control dummy		0.0366	0.0258	0.0255	0.0541
		0.3776	0.5274	0.5326	0.1536
Family ownership			-0.153***	-0.3980**	-0.3429**
			0.0059	0.0173	0.0504
Family ownership squared				0.3074	0.3727*
				0.1213	0.0635
Ownership disparity					-0.0004
					0.9915
Size	-0.075***	-0.078***	-0.077***	-0.077***	-0.0796***
	0.0000	0.0000	0.0000	0.0000	0.0000
Leverage	0.9305***	0.9298***	0.9293***	0.9293***	0.9426***
	0.0000	0.0000	0.0000	0.0000	0.0000
Growth	0.0480**	0.0473**	0.0469**	0.0473**	0.0492**
	0.0223	0.0245	0.0255	0.02450	0.019
Risk	-0.0010	-0.0008	-0.0009	-0.0009	-0.0011
	0.7494	0.7845	0.7539	0.7522	0.7062
Liquidity	0.0205	0.0206	0.0208	0.0209	0.0080
	0.4221	0.4215	0.4160	0.4142	0.7546
Constant	0.9157***	0.8965***	0.9494***	0.9758***	1.0711***
	0.0000	0.0000	0.0000	0.0000	0.0000
No. of observations	1341	1341	1341	1341	1341
Industry dummies	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.5427	0.542	0.5435	0.5439	0.5738
F-statistic	265.99***	265.24***	228.92***	200.74***	70.3962***
No. of firms	289	289	289	289	289
Chi-square	158.71***	151.32***	158.13***	156.66***	126.91***

CONCLUSIONS

The study is done in an emerging market where regulatory institutions are weak. The corporate sector is dominated by family businesses. Family firms are prone to concentrated ownership and pyramidal structures those are the basis of agency conflicts between controlling family shareholders and external shareholders. Further, control enhancing devices like directorate-ship interlocking, cross shareholdings and pyramidal ownership structures lead to divergence of interest of dominant family controllers. Family control entrench ultimate family controllers and motivate them engage in tunneling firm resources in a manner that cost the minority shareholders.

In the same way, family ownership harms firm performance at initial levels consistent with divergence of interest effect. Further, the positive impact of family ownership on firm performance confirms the convergence of incentives effect. The negative relationship of family ownership (at lower levels) and family control strongly support the expropriation hypothesis that dominant family members achieve an ultimate control over the firms with lesser direct family ownership that motivates them engage in tunneling firm resources from public listed firms with least cash flows interests to the firms with higher cash flows interests or wholly owned privately held family firms. The findings of negative impact of ownership disparity on firm performance again confirm the expropriation hypothesis. Further, the findings further depict the significance of family ownership at higher levels. These suggest that large ownership stakes of the family members align their interests with external shareholders that restrict them from expropriation of firm resources.

Policy Implications

The study suggests that regulatory bodies should further strengthen the corporate governance system and make its implementation effective so that internal controls and governance of the firms may be able to safeguard the interests of the minority shareholders from the entrenched ultimate family controllers. There should be disclosure of ownership and control rights of the large shareholders in the firm.

REFERENCES

Abdullah, F., Shah, A., Iqbal, A. M., and Gohar, R. (2011). The effect of group and family ownership on firm performance. Empirical evidence from Pakistan. *International Review of Business Research Papers*, 7(4), 177-194.

Andersson, F., Johansson, D., Karlsson, J., Lodefalk, M., & Poldahl, A. (2016). The annual Swedish Graduate Program in Economics workshop, Orebro University, Sweden.

Ali, A., Chen, T. Y. & Radhakrishnan, S. (2007). Corporate disclosures by family firms. *Journal of Accounting and Economics*, 44(1-2), 238-286.

Anderson, R. C. and Reeb, D. M. (2003a). Founding-family ownership and firm performance: Evidence from S&P 500. *The Journal of Finance*, 58(3), 1301-1328.

Arshad, H., & Javid, A. Y. (2014). Does inside ownership matters in financial decisions and firm performance: Evidence from manufacturing sector of Pakistan (No. 2014: 107). Pakistan Institute of Development Economics.

Attig, N. (2007). Excess control and the risk of corporate expropriation: Canadian evidence. *Canadian Journal of Administrative Sciences*, 24(1), 94–106.

Bebchuk, L., Kraakman, R., Triantis, G. (2000). Stock pyramids, cross-ownership, and dual class equity: The creation and agency costs of separating control from cash flow rights, in Morck, Randall, K., (ed.), concentrated corporate ownership, The University of Chicago Press.

Benavides-Velasco, C. A., Quintana-Garcia, & Guzman-Parra (2013). Trends in family business research. *Small Business Economics*, 40(1), 41-57.

Bennedsen, M., Neilsen, K. M., Perez-Gonzalez, F. (2006). Inside the family firm: The role of families in succession decisions and performance. ECGI-Finance working paper No. 132/2006.

Bertrand, M., Mehta, P., & Mullainathan, S. (2002). Ferreting out tunneling: An application to Indian business groups. *Quarterly Journal of Economics*, 117(1), 121–148.

Bertrand, M., Johnson, S., Samphantharak, K. & Schoar, A. (2008). Mixing family with business: A study of Thai business groups and the families behind them. *Journal of Financial Economics*, 88(1), 466–498.

Bjuggren, C. M. (2013). Family matters essays on family firms and employment protection. Ph.D thesis in

Economics, Linkoping Studies in Arts and Science No. 592, Linkoping University.

Boone, P. & Rodionov, D. (2002). Rent seeking in Russia and the CIS. Brunswick UBS, Warburg, Moscow.

Burkart, M., Panunzi, F., and Shleifer, A. (2003). Family firms. *Journal of Finance* 58(5), 2167-2201.

Charbel, S., Elie, B. and Georges, S. (2013). Impact of family involvement in ownership management and direction on financial performance of the Lebanese firms. *International Strategic Management Review* 1(2), 30-41.

Cheng, Q. (2014). Family firm research-A review. *China Journal of Accounting Research*, 7(3), 149-163.

Claessens, S., Djankov, S., and Lang, L. (2000). The separation of ownership and control in East Asian corporations. *Journal of Financial Economics*, 58(1), 81–112.

Djankov, S., LaPorta, R., Lopez-de-Silanes, F. & Shleifer, A. (2008). The law and economics of self-dealing. *Journal of Financial Economics*, 88(1), 430–465.

Essen, M. V. (2011). An Institution-Based View of Ownership (Doctoral dissertation). Erasmus University, Rotterdam, Netherlands.

Estrin, S., Poukliakova, S. & Shapiro, D. (2009). The Performance Effects of Business Groups in Russia. *Journal of Management Studies*, 46(3), 393-420.

Evert, R. E., Martin, J. A., McLeod, M. S., & Payne, G. T. (2016). Empirics in family business research: Progress, challenges, and the path ahead. *Family Business Review*, *29*(1), 17-43.

Faccio, M., Lang, L. H. P., & Young, L. (2001). Dividends and expropriation. *American Economic Review*, 91(1), 54–78.

Faccio, M. & Lang L. H. P. (2002). The ultimate ownership in Western European corporations. *Journal of Financial Economics* 65(3), 365-395.

Fahlenbrach, R. (2004). Founder-CEOs and stock market performance. Unpublished working paper. Wharton School, University of Pennsylvania.

Garcia-Castro, R., & Aguilera, R. V. (2014). Family involvement in business and financial performance: A set-theoretic cross-national inquiry. *Journal of Family Business Strategy*, *5*(1), 85-96.

Ghani, W., Ashraf, J. (2005). Corporate Governance, Business Group Affiliation and Firm Performance: Descriptive Evidence from Pakistan. Paper presented in LUMS-SEC Conference on "Corporate Governance in Pakistan: Regulation, Supervision and Performance". Lahore: Lahore University of Management Sciences, May 29-30.

Han A, Y. & Naughton, T. (2004). The impact of family ownership on firm value and earnings quality: Evidence from Korea. Working Paper, RMIT University, Melbourne.

Holderness, C., Sheehan, D. (1988). The role of majority shareholders in publicly-held Corporations. *Journal of Financial Economics*, 20, 317-346.

Ikram, A., & Naqvi, S. A. A. (2005). Family business groups and tunneling framework: application and evidence from Pakistan. Lahore University of Management Sciences.

Jabeen, S., Kaleem, A. and Ehsan, S. (2012). Financial performance of family firms. *Journal of basic and applied scientific research*, 2(10), 10303-10313.

Javid, A. Y., and Iqbal, R. (2007). Relationship between CG indicators and firm performance in case of Karachi Stock Exchange. Woking Paper. Munich Personal RePEc Archive

Jensen M., & Meckling, W. (1976). Theory of the firm: managerial behavior, agency costs and capital structure. *Journal of Financial Economics* 3(1), 305-360.

Khan, M. N. & Khan, F. (2011). Does ownership matters? A study of family and non-family firms in Pakistan. *Problems of Management in the 21st Century* 2(1), 95-109.

Khan, F. U., & Nouman, M. (2017). Does ownership structure affect firm's performance? Empirical evidence from Pakistan. *Pakistan Business Review*, 1(2), 1-23.

Khanna, T., & Palepu, K. (2000). The future of business groups in emerging markets: Long-run evidence from Chile. *Academy of Management journal*, 43(3), 268-285.

Khanna, T., & Yafeh, Y. (2005). Business groups and risk sharing around the world. *Journal of Business*, 78(1), 301-340.

La Porta, R. F., Lopez-de-Silanes & Shleifer, A. (1999). Corporate ownership around the world. *The Journal of Finance*, 54(1), 471-517.

La Porta, R. F., Lopez-de-Silanes, Shleifer, A. & Vishny, R. (2000) Investor protection and CG. *Journal of Financial Economics* 58(1), 3–27.

Maury, B. (2005). Family ownership and firm performance: Empirical evidence from Western Europe. *Journal of Corporate Finance*, 12(1), 321-341.

Miller, D., Le Breton-Miller, I. (2015). The arts and family business: Linking family firms really superior performers? *Journal of Corporate Finance*, 13(1), 829-858.

Morck, R., Shleifer, A. & Vishny, R. (1988). Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics*, 20(1), 293-315.

Morck, R., Stangeland, D. A., Yeung, B. (2000). Inherited wealth, corporate control, and economic growth: The Canadian disease. In R. Morck (Ed.). Concentrated Corporate Ownership, National Bureau of Economic Research Conference, University of Chicago Press: Chicago, IL.

Morck, R. & Yeung, B. (2003). Corporate governance and family control. Available at: http://www.gcgf.org

Edwards, B., Wolfenzon, D., & Yeung, B. (2005). Corporate governance, economic entrenchment, and growth. *Journal of economic Literature*, *43*(3), 655-720.

Miller, D., & Breton-Miller, I. (2006). Family governance and firm performance: Agency, stewardship and agency capabilities. *Family Business Review*, 19(1), 73-87.

Pérez-González, F. (2006). Inherited control and firm performance. *American Economic Review*, 96(5), 1559-1588.

Pindado, J. Requejo, I., & de la Torre, C. (2008). Ownership concentration and firm value: Evidence from Western European family firms. 8th Annual IFERA Conference, Breukelen, the Netherlands.

Sciascia, S., Mazzola, P. (2008). Family Involvement in Ownership and Management: Exploring Nonlinear Effects on Performance. *Family Business Review*, 21(4), 331-345.

Shahid-ur-Rehman (1998). Who owns Pakistan? Mr. Books (Pvt.) Ltd. Islamabad, Pakistan.

Shleifer, A. and Vishny R. W. (1986). Large shareholders and corporate control. *Journal of Political Economy* 94(3), 461-88.

Smith, B. F. & Amoako-Adu, B. (1999). Management succession and financial performance of family controlled firms," *Journal of Corporate Finance*, 5(1), 341-68.

Villalonga, B. and Amit, R. (2006). How do family ownership, control and management affect firm value? *Journal of Financial Economics*, 80(2), 385-417.

Westhead, P., & Howorth, C. (2006). Ownership and management issues associated with family firm performance and company objectives. *Family Business Review*, 19(1), 301-316.

White, L. J. (1974b). Industrial concentration and economic power in Pakistan, Princeton University Press.

Wiwattanakantang, Y. (2001). Controlling Shareholders and corporate Value: Evidence from Thailand. *Pacific-Basin Finance Journal*, 9(1), 323-362.

Xi, J., Kraus, S., Filser, M., & Kellermanns, F. (2015). Mapping the field of family business research: past trends and future directions. *International Entrepreneurship and management Journal*, 11(1), 113-132.

Yasser, Q. R. (2011). Corporate governance and firm performance: An analysis of family and non-family controlled firms. *The Pakistan Development Review*, 50(1), 47-62.

Young, M. N., Peng, M. W., Ahlstrom, D., Bruton, G. D., and Jiang, Y. (2008). Corporate governance in emerging economies: A review of the principal–principal perspective," *Journal of Management Studies*, 45(1), 196–220.