Financial Performance of Family Firms
(Evidence from Selected Manufacturing Sectors of Pakistan)

Shamaila Jabeen, Dr. Ahmad Kaleem[2] and Sadaf Ehsan[3]

Department of Management Sciences, COMSATS Institute of Information Technology, Lahore Pakistan

ABSTRACT

The present study empirically investigates the impact of ownership structure on firm's performance while controlling the effect of other firm specific characteristics (firm age, firm size, risk, leverage, profitability, payout and firm growth). Four years data i.e. 2006 to 2009 of 62 non-financial firms, listed at Karachi Stock Exchange, has been collected and analyzed by using latest panel estimation techniques. Main objectives of this study are to examine the performance of family versus non-family firms and the performers of founder versus descendant firms. Using Random effects Generalized least Square estimation techniques results reveal that in Pakistan family firms are associated with poor performance as compare to non-family firms. But results are only significant for overall sample of family firms and not for the founder and descendant ownership variables, individually.

KEYWORDS: (Family Firms, Ownership Structure, Founder Firms, Descendant Firms, Financial Performance, Pakistan)

1. INTRODUCTION

Among various type of business organizations, family firm is one of the most unique form of business organization. Almost all the business enterprises started out as family business. It's the most common form of business organization in the world having exclusive characteristics especially succession of control i.e. transfer of ownership from founder to descendent and so on. Literature reveals that most of the businesses around the world are controlled by families. Family businesses comprise 65-80% of the world businesses [1]. Family businesses are considered as backbone of the economies and play a vital in the modernization of developed and developing nation's economies. It's the ability of families to provide capital and entrepreneurial spirit that is crucial for prompting the industrialization and development of capitalism of the developed nations. In developed and developing countries family firms corresponds to the majority of businesses ranging from small to large and these family businesses are not free from family influence and have to face unique challenges. Eddy [2] found that about 75% to 90% of all the enterprises in the world are family businesses. Whether or not the newly started family business is going to continue and flourish depends on many factors concerning both market developments and the handling of internal management issues. In this respect, the 'family' factor of a family business is an important characteristic that may enable a company to succeed due to close ties between organization members, or, the other way around, may be the cause of failure due to, for example, problems with succession.

Research studies on family businesses were started in late 1980s, but it gained importance in the last decade. Studies of family ownership structure and management have been conducted by many researchers in order to explore the different aspect of family businesses. These aspects include definition of family businesses, succession patterns, relationship of family business and family members, family management issues, etc. Up till now, no such studies have been conducted in Pakistan due to limited availability of family ownership data. This is the first study of its kind in Pakistan which explores the relationship of family ownership with firm performance and payout policy. It will document the knowledge about the strengths and weaknesses of family businesses and their performance in the economy of Pakistan. Theoretical and empirical literature suggests that extensive research has been done regarding the performance of family firms, their management and capital structure versus non family firm but all this work has been done in developed countries. Literature reveals that family owned firms show superior performance when compared to non-family firms, both in terms of accounting performance and market valuation [3] and only those family firms show superior performance in which the founders are active

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*Corresponding Author: Sadaf Ehsan, Department of Management Sciences, COMSATS Institute of Information Technology, Lahore Pakistan, Email: butsadaf@gmail.com Phone: +92 322-9479669

as CEO and shares of these firms trade on premium [4]. Our research findings are not in line with results of developed economies.

1.1 Research Questions.

(1) Weather family firms show superior performance in Pakistan or non-family firms?
(2) Within family firms, which one is out performers founder firms are or descendant firms?

1.2 Definition of Family firms.

So question arises what is a family business? Rosenblatt, De Mik, Anderson, & Johnson [5, pp.4] define a family business as: "Any business in which majority ownership or control lies within a single family and in which two or more family members are or at some time were directly involved in the business." A number of attempts have been made to find a single conceptual and operational definition but the immense literature shows that there is no single definition on which consensus of researchers has been made. Anderson & Reeb [6a]; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes [7] define family business as an organization which is often managed by more than one generations of a family. Family firm is one which is run by founder or by the members of founding family[8]. Similarly, Faccio & Lang [9], Anderson & Reeb [6a], Cronqvist & Nilsson [10] and others explain family business as family firm if founder or members of founding family own a percentage of shares of the company or serve on the executive or supervisory board. Family business as one where one family or a group of families have controlling stake in the firm [11]. A more comprehensive definition is given by[12, pp.1] "Family-owned companies are characterized as organizations in which the shareholders belong to the same family and participate substantially in the management, direction, and operation of the company".

1.3 Family Firms in Pakistan.

In Pakistan, most of family owned firms are private limited. So shares of these companies are owned by few people and are not easily transferable i.e. limited transferability and in case of conflicts in families, firms also suffer that's why about 85% FOB's completely vanish before fourth generation, survey by Pakistan Institute of corporate Governance [12]. Pakistani stock market is represented by closely held family owned and controlled firms [11]. Main objective of this study is to not only investigate the impact of family ownership and non family ownership structure on firm's performance but also to evaluate the performance of founder versus descendant managed firms. In order to evaluate the performance of family firms we have selected the third largest sector after agriculture and mining i.e. manufacturing sector of Pakistan, contributes 8.8% to economic growth rate and 19.1% to GDP [13]. It's the only sector which is the key to recovery in all states and nation. Within manufacturing sector we have further selected four industries because out of 8.8%, 40.9% growth rate is contributed by these industries (chemicals, pharmaceuticals, cement, automobiles and parts).

The rest of this paper is organized as follows. Second segment provides a review of background literature. Third section discusses the data and research methodology which includes the illustration of data, sample, variables and model specification. Fourth part presented the results and discussion and finally fifth part conclude the overall study.

2. LITERATURE REVIEW

In last few decades, a number of studies have been conducted on family businesses. Literature reveals that family businesses are different from non-family businesses in various ways e.g. succession of control, investment and borrowing strategies, dividend payments etc [14, 15] examines that family firms offer more consumer services and involvement, have greater concern with employee satisfaction, respect for traditions and give greater opportunities to women. But at same time, family firms face various problems. Problems regarding joint decision making, succession issues, supervision of family employees etc. Although most of small and medium sized businesses around the world are family businesses, literature shows that these businesses are also fast growing and successful firms. Some studies report that family businesses face similar problems and issues and have almost same interest, so they are similar in all the countries of the world. Gersick [1] pointed out three factors that jointly affect a family business: business, family and ownership. Law, regulation, culture, tradition and inheritance laws affect these factors in return. This section cover a number of studies conducted on family businesses to elaborate the importance of family businesses, their performance and various issues faced by family businesses.

2.1 Ownership structure and Firm Performance

De Vries [16] explains several advantages related to the family factor such as a long-term orientation, independence, culture, and the knowledge of the business that is based on early training in the family. According to the findings of File & Prince [17], family businesses falter due to either family-related problem, like the family succession of current management, or due to business-related problems like bad financial management. This statement points to the undeniable fact that the family component is not the single orientation in the family business. Regular business related concerns are present as well, irrespective of the role of the family in the business. For individual managers, this means that they can obtain power from their position in the family as well as from their position in the business [18]. Family related power generally comes from family seniority or one's ability to influence senior members of the family. Business related power depends on for example the position in the hierarchy and expertise. They identified a wide range of issues that are related to family dimension such as the involvement of children, succession, family income, and share distribution.

2.1.1 Potential benefits of family ownership

Theoretical and empirical literature report mixed results regarding the effect of ownership structure on firm performance. Barontini & Caprio [19] argue that family firms show superior performance when compare to non family or widely held firms, Both in terms of market valuation and accounting performance. These results are also similar for descendent who are non-executive directors. Concentrated or family ownership leads to better performance due to following reasons: First, concentrated ownership mitigate principle-agent problem [20]. It's so because greater equity ownership increase communication between manager and shareholders better aligns manager monetary incentives with that of shareholders which leads to superior firm's performance. No agency cost if a firm is owned and managed by the same person which is normally the case in family firms. Second, in concentrated ownership, controlling block holders are better capable of monitoring manager's activities and controlling them even when they are not involve in management [21]. Third, families make better Investment decisions because they have more firm specific knowledge, have longer investment plan's and are less myopic[22, 23]. Chami [24] agree with the concept that founding families does not take their businesses as a wealth to devour during their lifetimes but rather treat their businesses as an asset which they pass on to their descendents. Primary concern of founding families is the survival and stability of their business for which they take long term value maximization decisions.

2.1.2 Potential cost of family ownership

Studies reveal that along with benefits of concentrated ownership this structure has some negative effects too on firm performances. Lee [25] argues that these negative impacts are due to the following reasons. First, it's evident from literature that in family firm's shareholder takes such actions that maximize their personal utility and leads to suboptimal firm performance i.e. extract benefits at the expense of others. Families are capable of drawing wealth from the firm through excessive compensation, related-party transactions, or special dividends. Shleifer & Vishny [26] report that agency problem in firms arises not due to the conflict between managers and shareholders but it's because of conflict between minority shareholders and large controlling shareholders. They redistribute wealth to themselves by drawing special dividends. Faccio & Lang [9] Instead of maximizing firm's value families might have an incentive to exchange profits for private benefits. Furthermore, chances of minority shareholders exploitation are high if the large shareholders or investors hold voting rights in excess of cash flow rights. Second, sometime they hire less qualified persons by appointing family members to managerial positions over external candidates. Lee (2006) reveals that in family firms top management positions are reserve for family members rather than hiring more proficient person from outside. Third, Morck [27] argue that family firms often follow risk aversion strategies and forego profitable investment projects, mergers and other expansion strategies because most of family wealth is concentrated in business. Lease, McConnell, & Mikkelson [28] control the enhancing mechanisms use by family firm's increases their incentive to extract personal benefits. Results report that concentrations of voting rights empower to principals and directors to derive personal benefits from the firms on the cost of other shareholders.

On the basis of above literature we anticipate following results (1) Positive relationship between family ownership and firm performance (2) Positive association between founder management and firm's performance (3) And negative relationship between descendant management and firms performance.

3. METHODOLOGY

Data and Sample

In order to investigate the relationship between family firms and financial performance, present study initially selected all non-financial firms from the four manufacturing sectors (chemical, construction and material, automobile, pharma and bio-tech) listed at Karachi Stock Exchange during 2006-2009. Manufacturing sector is one of the leading and third largest sectors in Pakistan which accounts for 18.5 percent of Gross Domestic Product (GDP), and 13 percent of total employment (Economic Survey of Pakistan 2009-10, pp. 39). There are 62 firms finally selected and there are 248 observations. Final sample includes at least 50% firms from each sector. Data for this study has been collected from Annual reports of Karachi Stock Exchange (KSE), Economic survey of Pakistan, Published financial statements of companies, Balance Sheet Analysis of Joint Stock companies and publication of the State Bank of Pakistan. Data regarding share prices have been taken from daily quotations of KSE, Business recorder of Pakistan and from respective company's website. Economic data has been taken from the Economic Survey of Pakistan issued 2006-07 and 2008-09.

Dependent Variables: Tobin's Q & Return on Assets

The present study used Tobin's Q and ROA (Return on Assets) as dependent variables of firm's performance. In most of studies financial researchers have used Tobin's Q and ROA see for example [3, 4, 6, 29, 30]. Tobin's Q is used to measure market performance of the firms. It's also called as a forward-looking measure because it reveals the market valuation of firm assets relative to book value. And sometimes firm's future growth opportunities are proxied by Tobin's Q. While ROA is used as proxy to measure accounting performance, also known as backward looking measure. ROA reflects accounting rules and viewed as profitability measure [29]. Following Anderson & Reeb [6] and Andres [3] we have used Tobin's Q as a proxy to measure firm's market performance. Generally Tobin's Q is defined as ratio of market value of firm to the replacement cost of its assets. But here we use the following formula to calculate Tobin's Q which is equal to market value of equity plus book value of debt divided by total assets of the company because of its ease of computation and availability of data.

1. **Tobin's Q** = V/TA
2. **ROA = EBT/TA**

Independent Variable: Family Firms, Founder Firms & Descendant Firms

We have classified our final sample into two groups. (1) Family firms (2) Non-family firms. Different studies have used different criteria's to define family firms but we follow the criteria of [3] and select only those firms as family firms which have fulfilled one of the following criteria: (1) Family is the largest shareholder (2) Or hold at least 25% of voting right (3) And incase if family owns less than 25% voting rights than they must have to be represented on either supervisory board or executive board. All the other firms not fulfilling any of the above criteria are considered as non-family firms. Following Andres [3] we further subdivide family firms into three subcategories: "founder controlled" if founder act as a CEO of the company, "descendent controlled" if founder expires or no longer act as a CEO of the company but one of his/her descendent act as a CEO. Following Saito [4], we have assigned dummy variables for family firm, founder firms and descendant firm's i.e. Family firm is equal to one if founder or his/her descendent is the president or chairman of the firm, assigned one to those firms in which founders are president or chairman of the firms otherwise zero and one to those firms in which descendant act as CEO of the firms otherwise zero, respectively.

Other Control variables

3. Size is measured as LOTA = Log of Total Assets
4. Leverage is measured as LVRG = Total debts/ Total assets
5. Profitability as EAT = Earnings after Tax per Share
6. Age (AG) = Total Number of Years after Incorporation to date
7. Risk is measured as beta.

4. Model specification

Performance and ownership are often explored by common characteristics and some of which are undetectable to the econometrician [31, 32]. Following Himmelberg et al [32] and King & Santor [29] panel regression techniques has been used. In order to analyze the impact of ownership structure on firm's performance Random-effects Generalized Least Square (GLS) regression has been used. The proxies of Firms Performance (Tobin's Q and ROA) have been regressed over the set of Independent Variables. Basic reasons to use Random effects (RE) over

Fixed effects (FE) and Pooled OLS are: By nature, longitudinal variations in data are required by fixed effects model and over the sample period very few companies change their status i.e. family or industry affiliation, which cannot be identified by the fixed effects[3]. When we used FE model independent variables of ownership structure (family, non-family, founder, descendent etc) are dropped out of FE analysis because none of the sample firm has changed its status, that's why we stick to the random effects regression. Next issue is about using RE analysis over pooled OLS is also elaborated by [33, pp.374-375] i.e. "The pooled OLS standard errors are the usual OLS standard errors, and these underestimates the true standard errors because they ignore the positive serial correlation". "RE is preferred to pooled OLS because RE is generally more efficient". In order to have an insight into the relationship between ownership structure and firm performance I have used the following regression model.

$$y_{it} = \beta_0 + \beta_1(FF) + \beta_2\,(age) + \beta_3\,(age^2) + \beta_4\,(FG) + \beta_5\,(FS) + \beta_6\,(LVRG) + \beta_7\,(DPO) + \beta_8\,(risk) + \beta_9\,(year\ dummies) + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots model\ 1$$

$$y_{it} = \beta_0 + \beta_1(Fou.F) + \beta_2\,(age) + \beta_3\,(age^2) + \beta_4\,(FG) + \beta_5\,(FS) + \beta_6\,(LVRG) + \beta_7\,(DPO) + \beta_8\,(risk) + \beta_9\,(year\ dummies) + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots model\ 2$$

$$y_{it} = \beta_0 + \beta_1(Des.F) + \beta_2\,(age) + \beta_3\,(age^2) + \beta_4\,(FG) + \beta_5\,(FS) + \beta_6\,(LVRG) + \beta_7\,(DPO) + \beta_8\,(risk) + \beta_9\,(year\ dummies) + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots model\ 3$$

Where

β_0 = Intercept point

y_{it} = Firm performance either Tobin's q or return on assets i.e. ROA.

FF = Family firm

Fou.F = Founder firm

Sr. No.	Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	F.F	1													
2	Fou.F	.588	1												
3	Des.F	.422	-.484	1											
4	N.F.F	-1	-.588	-.422	1										
5	ROA		-.282**	-.058	.346**	1									
6	EPS	-.181**	-.106	-.076	.181**	.732**	1								
7	FG	.021	-.038	.066	-.021	.147*	.153*	1							
8	TOB'Q	-.212**	-.139*	-.074	.212**	.291**	.302**	.140*	1						
9	Age	.019	.025	-.007	-.019	.043	.028	-.161*	-.023	1					
10	Age2	.015	.022	-.008	-.015	.045	.028	-.165**	-.007	.980**	1				
11	FS	-.038	.109	-.164**	.038	-.159*	.051	-.021	-.276**	.067	.061	1			
12	LVRG	.316**	.329**	-.026	-.316**	-.497**	-.356**	-.039	-.068	-.02	-.019	.012	1		
13	DPO	-.164**	-.101	-.064	.164**	.071	.043	-.081	.145*	-.001	-.017	-.044	-.222**	1	
14	Risk	.098	.008	.097	-.098	-.023	-.028	-.02	-.028	.003	-.014	-.182**	.09	.028	1

Des. F = Descendant firm

ε_{it} = Error term

Table 1:   **Pearson's Correlation Matrices**

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed)

Table 2 shows the Pearson's Correlation Matrix. The correlation between proxies of firm performance and family firm is negative which is opposite to the expected relationship between family owned firm and firm performance. Family firms show significantly negative correlation with return on assets i.e. proxy of accounting measure. Similarly, strong significant negative correlation is observed between family firm variable and Tobin's Q. Both Tobin's Q and return on assets have negative and significant correlation at 0.01 levels. For founder firms, correlation of both performance measures is also negative but strongly significant with return on assets (-0.282; p<0.01)) and less significant with Tobin's Q (-0.139; p<0.05). Descendant firms also show negative correlation with firms performance but statistically insignificant. This means firms which are controlled by family exhibit poor

performance. Within family firms, correlation coefficient for founder firms is -0.282 and for descendant firms is -0.058 which shows that within family firm's founder firms have less return on assets as compare to descendant firms. The correlation between market performance of firm i.e. Tobin's Q and family firm is also negative while with non-family firms relationship of Tobin's Q is positive. This means non-family firms are efficient performer and show significant positive relationship with return on assets and Tobin's Q. This shows that family might be poor performer due to following reasons: family extracts private benefits on the cost of other shareholders and forgoes profitable investment projects which convey negative signals to market, [23].

5. RESULTS AND DISCUSSIONS

Table 2: Random-effects GLS regression: Tobin's Q and Family firms

	Dependent variables: Tobin's q		
	1	**2**	**3**
FF	-0.348 (-2.47)**		
Fou. F		-0.171 (-1.22)	
Des. F			-0.187 (-1.23)
Control Variables			
Age	-0.019 (-1.71)*	-0.019 (-1.72)*	-0.019 (-1.70)*
Age^2	0 .000 (1.84)*	0.000 (1.84)*	0.000 (1.82)*
FG (% increase in sales)	0.003 (2.83)***	0.002 (2.78)***	0.003 (2.85) ***
FS (Log of total assets)	-0.251 (-3.49)***	-0.238 (-3.22)***	-0.258 (-3.49)***
LVRG (TD/TA)	0 .004 (1.72)*	0.003 (1.48)	0.003 (1.19)
DPO (DPS/EPS)	0.039 (2.63)***	0.041 (2.75)***	0.041 (2.74)***
Risk (Beta)	-0.003 (-.05)	-0.008 (-.15)	-0.007 (-.13)
Year dummy	Yes	Yes	Yes
Intercept	3.731(5.28)***	3.482 (4.85)***	3.695 (5.08)***
R-squared	0.166	0.128	0.131
Wald Chi-squared	41.740	36.520	36.510
P (x^2)	0.000	0.000	0.000

*** Significant at 1% level.   ** Significant at 5% level.   *Significant at 10% level.
Values inside the small parentheses are z-values.
Values outside parentheses are beta coefficients.
P(x²) indicates the significance level of Wald-Chi Square.

Table 2 shows impact of ownership structure on firm's performance i.e. Tobin's Q, where, ownership has been captured using three variables i.e. Family firms (FF), Founder firms (Fou. F) and descendant firms (Des. F). Taking Tobin's Q as a dependent variable, results of random effect Generalized Least Square are shown in table. Model 1 estimates the performance of family controlled firms. In column (1), results show that family firm dummy, which holds 1 if family is the largest shareholder or family holds the senior manager position/ CEO is a family member, is negatively and significantly related to Tobin's Q at 5% level. This means that family controlled firms show poor performance as compare to non-family controlled firms. Founder firms in model 1.2 and descendant firms in model 1.3 shows that within family firms not only the founders firms are poor performers but also the descendant firms as compare to the non-family firms. Coefficient values for founder firms as well as descendant firms are not only negative but also insignificant i.e. -0.171 and -0.187 respectively. Younger firms have poor market performance as compare to the older ones as shown in column 1.1 where age is negative and significant at 10% level while age square is positive and significant at 10 % level, results are less strong.

Same is the case with founder and descendant controlled firms. Firm growth has positive and significant association with firm's performance i.e. 0.003, p < 0.01 level. Firm's growth is positive and significant predictor of firm's performance. For founder and descendant firms coefficient values are almost similar and significant at 1% level. Proxy of firm size is negative and strongly significant at 1 % level. So, here firm size is the negative predictor of firm performance. Same is the case with other two models. Leverage is positive and significant at 10 % level. Leverage is also positive and significant for founder and descendant firms but results are insignificant. Results for dividend payout are positive and strongly significant at 1% level. Positive sign shows that high performance firms pay more dividends. Same results of dividend payout are observed for founder and descendant controlled firms. Inverse relationship is observed between firm performance and firm risk. Coefficient values of risk are negative but results are not significant for all three models. Value of R-squared for Model 1.1 is 0.166 whereas models 1.2 and 1.3 have almost similar values of R-squared i.e. 0.128, & 0.131 respectively. All the three models have significant

Wald Chi-squared values. This means that result values of random effect generalized least square are true in actual and not merely a consequence of chance. Panel regression technique i.e. Random Effects Generalized Least Square, assumes zero correlation between independent variables. Further Hausman test (not reported here) is insignificant so it confirms panel data model type is random.

Table 3:Random-effects GLS regression: Return on Assets and Family firms

Dependent variables: ROA			
	1	**2**	**3**
FF	-6.788(-3.03)***		
Fou. F		-4.325(-1.89)*	
Des. F			-2.493(-1.00)
Control Variables			
Age	-0.001(-.01)	-0.009(-.05)	-0.006(-.03)
Age^2	0.000(.35)	0.001(.38)	0.001(.36)
FG (% increase in sales)	0.042(2.24)**	0.040(2.16)**	0.042(2.24)**
FS (Log of total assets)	-0.929(-.79)	-0.402(.033)	-0.839(-.68)
LVRG (TD/TA)	-0.219(-5.02)***	-0.223(-4.98)***	-0.247(-5.67)***
DPO (DPS/EPS)	0.150(.58)	0.209(.80)	0.210(.80)
Risk (Beta)	0.695(.69)	0.573(.57)	0.572(.56)
Year dummy	Yes	Yes	Yes
Intercept	35.307(3.04)***	28.118(2.35)**	32.240(2.65)***
R-squared	0.358	0.320	0.321
Wald Chi-squared	89.370	80.120	77.070
P (x^2)	0.000	0.000	0.000

*** Significant at 1% level.   ** Significant at 5% level.   *Significant at 10% level.
Values inside the small parentheses are z-values.
Values outside parentheses are beta coefficients.
P(x^2) indicates the significance level of Wald-Chi Square.

In Table 3, performance of firms owned by family is estimated where Tobin's Q is replaced by Return on Assets (ROA) i.e. accounting base measure used as a proxy for performance measure. In this Panel data analysis Return on Assets (ROA) is treated as dependent variable while family firm, founder firm and descendant firm are taken as independent variables, one independent variable in each model. Control variables for age, age square, firm size (FS), firm growth (FG), leverage (LVRG), dividend payout (DPO) and risk are also included in order to explore the relationship of these firm specific factor with firms performance. Results reveal negative but strong significant relationship between family firm dummy and firms performance i.e. ROA in model 1 Coefficient value of family firm dummy is -6.788 and significance level is 1% i.e. (-6.788, $p < 0.01$). Model 2 show that accounting performance of founder firm's is also negative but results are less strong i.e. (-4.325, $p < 0.1$). Negative relationship between firm's performance and founder firm dummy shows that founder firms are poor performer as compare to the non-family firms. Same case is observed in model 3 i.e. descendant firms are also poor performer but result is also insignificant. Descendant firm is negatively and insignificantly related to return on assets (ROA). All the three models reveal that family firms are poor performer as compare to non-family firms.

In all the three models, Control variable age shows negative but insignificant relationship with return on assets (ROA) but age square shows positive and insignificant association. Firm growth (FG, % increase in sales) is positively and significantly related to ROA at 1% level, for all the three models. With increase in firms growth firm's performance also increases. Leverage is positively and significantly related to ROA. Increase in debt to capital ratio results in poor firm performance. Coefficient value of leverage for model 1.4, 1.5 and 1.6 are -0.219, $p < 0.01$, -0.223, $p < 0.01$, and -0.247, $p < 0.01$ respectively. Dividend payout is positively related to ROA but results are not significant for all three models. High performance firm pay more dividend or firms paying more dividends show superior performance. All the three models show risk is positively associated with ROA, means higher the performance higher will be the risk but results are not significant. Value of R-squared for Model 1.4 is 0.358 whereas models 1.5 and 1.6 have slightly different values of R-squared i.e. 0.320, & 0.321 respectively. All the three models have significant Wald Chi-squared values i.e. 89.370, 80.120 and 77.070 respectively, significant at 1% level. Panel regression technique i.e. random effects generalized least square assumes zero autocorrelation in between independent variables. Hausman test (values not reported here) confirms validity of using Random effect generalized least square over fixed effect generalized least square.

DISCUSSION

The results of random effect Generalized Least Square (GLS) regression analysis revealed that financial performance (measured in terms of Tobin's Q and ROA) of family firms is negatively and significantly associated with ownership structure. It further reports that not only family firms but also the founder and descendant firms show poor performance as compare to non-family firms or are less productive. But results are only significant for overall sample of family firms and not for the founder and descendant ownership variables individually. These results are not in line with our expected relationship i.e. positive association between family ownership and firm performance and also direct association between founder management and firm's performance. Results for descendant managed firms confirm our anticipated relationship. Our findings are also confirmed by literature as similar results were obtained by [34]. They reported that family firm's exhibit poor performance as compare to non-family firms in Southeast Asian countries and these findings support our results. Similar results are observed by [35] in Norway, they reported that family firms in which ownership and management is combined are poor performers as compare to non-family firms. Cronqvist & Nilsson [10] examined that family firms value is largely discounted in Sweden. One of the possible reasons behind the family firms' poor performance is might be the governance issue between large and minority shareholders [36]. Studies reveal that families extract private benefits from their family firm's management and nepotism in family firms affect family firms performance in negative way [37]. These private benefits of family control are strongly influenced by the intensity of legal protection given by the government to small or minority shareholders [38]. Bertrand & Schoar [39] reported that when involvement of family members in family firms get wider it will decrease firm's performance. Unfortunately, legal protection given to minority shareholders is weak in Asian countries [40]. In Pakistan, management practices are not strictly monitored by corporate law authorities that's why managers have more tendency to increase funds under their control expropriate minority shareholders, for which it is proposed that minority rights should be given protection by empowering minority investors to access SECP in case of expropriation of their rights by management.

Many studies reveal that family firms in many countries of the world appear to have poor performance or low performance as compared to non-family firms. For example: Morck [27] in Canada, Cronqvist & Nilsson [10] for Sweden and Bloom & Van Reenen [41] in France, US, Germany and UK reported that family businesses in these countries are linked with poor management practices. One of the possible reasons behind the poor performance of founder firms is Entrenchment effect. Shleifer & Vishny [26] entrenchment effect of family executives might cause firm founders to remain present and active on family firm board even though they are no more competent. They suggest that this might be one of possible largest cost that large shareholders can entail on minority holders and this shows that family firms performance get worse with increase in firm's age. Villalonga & Amit [30] observed that descendants owned and managed firms are worse performers as compare to non-family firms. Our findings are also in line with the results of Chen et al [42] who do not find any kind of positive relationship between family ownership and financial & market performance of the firms i.e. return on assets, market-to-book ratio (Tobin's Q) respectively. Chen et al [42] in Hong Kong observe a significant negative relationship between family ownership and dividend policy but only for smaller firms and a little relationship for other firms. Our results are also consistent with both Himmelberg et al [32] and Demsetz & Lehn [31] who reports that higher firm valuation and superior operating performance of a firm is not allied with concentrated ownership structure. La Porta, Lopez-de-Silanes, Shleifer, & Vishny [43] corporate governance standards and investor protection is lower in South East Asian countries as compared to Japan and U.S. which explains that investors in such countries with poor investor protection are exploited by the majority shareholders or controlling shareholders. Family present as a member on firms board of director have negative influence on firms market valuation i.e. Tobin's Q [44]. So our findings are confirmed by literature.

6. Conclusion, limitations and future recomendations

Research on family businesses is among one of emerging fields today. It's based on the fact that family businesses play a vital role in all the economies of the world and at worldwide level 65% - 80% businesses are owned or managed by families [1]. The present study investigated the impact of ownership structure on firm's performance while controlling the effect of other firm specific characteristics (firm age, firm size, risk, leverage, profitability, payout and firm growth). Main objectives of our study are to examine: (1) weather family firms show superior in Pakistan or non-family firms? (2) Within family firms, founder firms are out performers or descendant firms? Using Random effects Generalized least Square estimation techniques results reveal that in Pakistan family firms are associated with poor performance as compare to non-family firms. But results are only significant for

overall sample of family firms and not for the founder and descendant ownership variables individually. These results are not in line with our expected relationship i.e. positive association between family ownership and firm performance and also positive association between founder management and firm's performance. But results for descendant managed firms confirm our expected relationship. Our findings are also confirmed by literature that in many countries family firms are associated with poor performance as compare to non-family firms e.g. Morck [27] in Canada, Cronqvist & Nilsson [10] for Sweden and Bloom & Van Reenen [41] in France, US, Germany and UK reported that family businesses in these countries are linked with poor management practices. Studies reveal that family firms exhibit poor performance due to weak management practices, by extracting private benefits from their family firm's management and family firms in Pakistan have not only access to funds but also control and power to use them for their personal use. Other possible reason of family firms' poor performance is poor investor's protection given by Law and Entrenchment effect etc.

This study has several limitations. First of all only four year's data, from four sectors, of 62 non-financial firms listed at Karachi Stock Exchange (KSE) has been utilized but resuts can be further refined by increasing study period and sample size. Due to the limited availabilty of ownership data we have classify lone founder firms and firms having founders and descendant at same time in one category. Further studiess can be conducted by changing the defination of family firms, by seperating lone founder firms from the firms having more than one family members involved, by seprating first generation firms form second generation firms and by seprating family ownership from family management and control etc.

SPEC should strictly monitor companies' affairs and make such laws which gives maximum protection to investor's in order to increase their confidence and to protect their rights from deterioration by company's management. SECP should make compulsory the presence of outside directors on board in order to dilute ownership and to increase board effectiveness. It should also specify the magnitude of dividends in terms of percentage or rupees. Family management should give equal opportunities to all persons to be elected as director and only competent persons should be hired. To be on safer side investors should invest less in family owned firms.

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