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Founding family leadership and industry profitability

Trond Randøy · Clay Dibrell · Justin B. Craig

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Abstract In this article, we argue that firms in high-margin industries can benefit from founding family influence. Specifically, in more profitable markets, the influence of the founding family provides an additional corporate governance-monitoring function. The sample consists of 294 firm-year observations from 98 publicly traded companies headquartered in Sweden, representing approximately half of all non-financial traded firms. Our support that the effect of family leadership in publicly held firms should be assessed in relation to the intensity of industry competition.

Keywords Founding family firms · Corporate governance · Industry profit margins · Industry competition · Sweden

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T. Randøy (✉)
Agder University College, School of Management, Serviceboks 422, Bygg H, Kristiansand N-4604, Norway
e-mail: trond.randoy@uia.no

C. Dibrell
Oregon State University, Corvallis, Oregon, USA
e-mail: dibrellc@bus.orst.edu

J. B. Craig
School of Business, Bond University, Brisbane, QLD, Australia
e-mail: jcraig@bond.edu.au

1 Introduction

When thinking of family businesses, many think of "mom and pop" operations in low-profit margin industries. This is a misnomer. Many family businesses are of considerable size and many are publicly traded in high-profit margin industries such as branded foods (e.g., Cadbury from the U.K.), fashion (e.g., Ermenegildo Zegna from Italy), and publishing (e.g., Washington Post from the U.S.). As such, these publicly traded founding family firms are major contributors to global economies (La Porta et al. 1999). Although founding family governance is the norm, rather than the exception, in publicly traded firms in Continental Europe and Asia (Becht and Mayer 2001; La Porta et al. 1999; Morck and Nakamura 1999), family leadership and ownership influence has been under-studied in the management and finance literatures (Steier et al. 2004).[1] In this research, we investigate how the relationship between founding family leadership and firm performance is contingent on the competitive nature of the industry.

Research on founding family leadership has mostly focused on the realm of privately held entrepreneurial and small- and medium-sized businesses (Fletcher 2002; Schulze et al. 2003). Those studies that have

[1] This dimension often only becomes of interest during crisis or conflict (e.g., the Hewlett and Packard families involvement in the HP-Compaq merger [see, Carlock and Florent-Treacy 2003]).

focused on founding family leadership in publicly traded firms find evidence of a positive performance effect (e.g., Anderson and Reeb 2003a; Barontini and Capri 2006; McConaughy et al. 2001; Mishra et al. 2001). In other studies, family leadership has been linked to lower performance (e.g., Claessens et al. 2002; Morck et al. 2000; Perez-Gonzales 2001; Smith and Amoako-Adu 1999) or unchanged performance (Jayaraman et al. 2000). Generally, researchers have focused on firm-specific corporate governance drivers and not on how industry profitability impacts, or is impacted by, founding family leadership. We are interested in exploring the competitive effectiveness of publicly held family-led firms under the different levels of industry competition and the resulting industry profit margins. Specifically, are assumptions of family-led performance superiority evident across varying levels of industry profitability?

The study contributes to the literature in three major respects. First, the study contributes to theory development by explicitly suggesting that the performance effect of founding family leadership in publicly held firms should be assessed in relation to industry profit margins. Our overarching theoretical argument is that founding family leadership has a positive influence in less competitive industries, whereas the opposite is true for industries with high competition. We assert that the monitoring effects of founding family leadership can become a liability when the firm is already "monitored" by a highly competitive industry. Second, we make an empirical contribution, in that, although past research has conceptually acknowledged the importance of industry profit margins associated with the extent of competition within an industry (e.g., Allen and Gale 2000; Mayer 1997), few studies have conducted empirical research on this issue. Third, as an increasing number of firms are turning to stock markets in order to broaden their strategic options and support entrepreneurial growth (Ravasi and Marchisio 2003), focusing our lens on family-led firms that are publicly traded provides valuable insights for family leaders interested in pursuing growth through public offering.

The article proceeds as follows. We begin with a review of the literature on the influence of family leadership in publicly held firms. We proceed to formulate the propositions investigating the relationship between the founding family leadership in publicly held firms, industry competition (i.e., levels of industry profit margins), and firm performance. We next describe the methodology and the research setting, Swedish publicly held firms. The empirical results and interpretation are presented, followed by a summary of the key findings and suggested theoretical and managerial implications.

2 Literature review

The goal structure within all family businesses, whether private or public, can be inherently conflicted. The need to balance between a family's goals (e.g., the accumulation of personal and family wealth) and the well-being of family participants means that family businesses operate in a unique corporate governance environment (Anderson and Reeb 2004; Cowling 2003; McMahon 2004; Steier et al. 2004; Randøy and Goel 2003).

The introduction of shareholder groups beyond the family gives rise to disparate demands. Leaderships' focus of attention is divided as they are forced to attend to diverse sets of goals simultaneously (Connolly et al. 1980). However, founding-family ownership benefits in publicly traded firms have been found to outweigh the cost (Anderson and Reeb 2003a 2003b). Ideally, the board is structured to ensure that the family directors' interests are balanced by the independent directors' objectivity (Anderson and Reeb 2004). Founding family leadership often transcends generations as family shareholders tend to have their wealth invested, and serve as executives, in the firm (Mackie 2001). Conflicts arise when the power wielded by the influencing family enables them to pursue the family's interest to the detriment of the firm or other shareholders (Allen and Panian 1982; Demsetz and Lehn 1985). In these situations, founding families are in an exceptional position to pursue their interests through, for example, control of cash within the firm (Dittmar et al. 2003), distribution of profits (Anderson and Reeb 2003b), workplace inefficiencies due to family nepotism (Burkhart et al. 1997; Burkhart et al. 2003), and decisions regarding resource allocation (Densetz and Lehn 1985).

In the extant literature, management and organization researchers have focused on firm-specific corporate governance mechanisms (such as the number of board members, reporting and performance policy,

board structure and skill sets, and timing of the appointment of outside directors and chairs) when investigating the influence of founding families in publicly traded family firms (Anderson and Reeb 2004). The economic literature, however, suggests that competition is also a very powerful force for ensuring good corporate governance (e.g., Alchian 1950; Stigler 1958). Previous corporate governance research indicates that industry competition may reduce the potential for managerial expropriation (Shleifer and Vishny 1997; Hart 1983). Variations in industry structures (i.e., monopolistic versus more competitive industry structures) may provide different needs and rewards for founding family leaders in closely held firms, linking the relationship between family leadership and performance (Schulze et al. 2003).

In publicly held family led-firms, founding families represent a special class of large shareholders that contributes to a distinctive governance environment, as a consequence of their unique incentive structures, a strong voice in the firm, and powerful motives (Anderson et al. 2003). Therefore, as the family is likely to be more vested in the firm's long-term survival and more associated with the firm's reputation (Anderson et al. 2003; Demsetz and Lehn 1985), family can be a potential provider of more useful resources and a possible enhancement of the firm (Filatochev and Bishop 2002). A family-influenced governance environment can lead to better monitoring of management discretion and reduce principal-agent costs associated with diffused share ownership structures (Filatochev et al. 2005). In firms where monitoring requires knowledge and information about firm technology and processes, families potentially provide superior oversight because of their lengthy involvement with the firm (Anderson and Reeb 2003).

We argue, therefore, that firms in industries with monopolistic/oligopolistic industry structures (i.e., less competitive with higher industry profit margins) can benefit from founding family leadership. In such highly profitable markets, the founding family leadership provides an important corporate governance-monitoring function. As a consequence, in these highly profitable industries, founding family leadership positively affects firm value and profitability.

Proposition 1 Founding family leadership positively affects firm value and profitability in firms operating in high-margin industries.

Firms operating in highly competitive industries (i.e., low industry profit margins) may not be as able to benefit from founding family leadership. In these firms, founding family leadership can even become a liability, as closely held firms controlled by families can be less growth-oriented, less risk-taking, and potentially more vulnerable to decision-making inertia (e.g., Chandler 1990). We argue that the governance structures of a family-influenced firm (e.g., incentive structures) enhance firm performance and reinforce competitiveness in high-margin industries, but act as a constraint in more competitive, low-margin industries. Specifically, we posit that firms which are unhindered by founder and family influence are more capable of reacting to the dynamic needs associated with highly competitive industries.

Proposition 2 Founding family leadership negatively affects firm value and profitability among firms operating in low-margin industries.

3 Data and methodology

The sample consists of 294 firm-year observations from 98 publicly traded companies headquartered in Sweden. Sweden represents a particularly attractive environment to test the main propositions of this article. First, relatively large shares of public firms in Sweden have founding family influence (22.5% in our sample). Second, Sweden has one of Europe's largest stock market capitalizations—relative to the size of the economy, which is also true for market turnover, an indication of a liquid and active stock market. Third, the relatively high degree of transparency of Swedish publicly traded firms, unlike in other European capital markets as highlighted by authors such as La Porta et al. 1999, makes it possible to access reliable firm-specific information (such as the nature of family influence, their direct and indirect ownership positions, board independence etc.).

The sample represents approximately one-third of all traded firms in Sweden during the sample period (1996–1998). The advantage of using data from 1996 to 1998 is that the performance variables are less affected by the 1999–2001 stock-market bubble—which was significant in Sweden. Since Sweden imposes legal limitations on founding family leadership in finance, banking, and insurance, we chose to

exclude financial industries. This implies that almost half of all non-financial publicly traded firms are included in our sample. We collected data from an initial random sample of 120 traded Swedish firms, from which we were able to collect complete information from 98 companies. The missing data were due to companies using unusual reporting periods (seven firms), companies being listed for less than 2 years (five firms), infrequent trading of stock (two firms), and eight missing cases due to incomplete information. The actual sample that satisfied our sample criteria was 108 firms, whereas the non-response (incomplete information and infrequent trading) was 10 firms, or approximately 9%. The sample characteristics, in terms of size and industry, do suggest that our sample is representative for all Swedish publicly traded non-financial firms during the study period.

For all firms we collected secondary data from annual reports and other sources of corporate governance information (such as Sundqvist 1999). Since information on several of the corporate governance variables—such as board independence, firm age, and founding family leadership—was not available (or only partly so) through secondary sources, we applied phone interviews with fax follow-ups to identify these variables. Supplementing secondary data with information from primary sources added to the richness of our data collection, however, with the slight drawback that we had to exclude 9% of our sample firms due to non-response.

3.1 Control variables

Past research has identified a variety of variables as potentially affecting the performance of founding family leadership (cf. Jayaraman et al. 2000 for a comprehensive review). Previous results may be irrelevant, as they may deteriorate or even disappear when other relevant determinants of performance (for example, blockholder ownership) are considered simultaneously in the analysis. In particular, support has been indicated for the importance of ownership structure (Thomsen and Pedersen 2000), debt pressure (Jensen 1989; Bathala and Rao 1995), firm age (Smith et al. 1985), firm size (Dalton et al. 1999), and industry (Baysinger and Butler 1985). Consequently, the effects these variables might have on the relationships of interest were diminished by including them as control variables in the model.

3.2 Measures

We used two measures for *firm performance* (the dependent variable): firm value and lagged profitability. *Firm value* is measured by a firm's market-to-book value of equity at December 31, in 1996, 1997, and 1998. For firm *profitability*, we chose to apply a 1-year delayed return on assets (ROA), as accounting numbers do not reflect performance changes as rapidly as changes in stock market capitalization. ROA is calculated by using the last year's net profits (before interest, tax, and exceptional items) divided by the average book value of assets for 1996, 1997, and 1998.

Industry profit margin is measured by using a 2-year moving average profit margin for 19 industry groups (the industry groups were assigned by Stockholm Stock Exchange). We calculated profit margins by using yearly operating income before interest, taxes and exceptional items, divided by yearly sales (i.e., Industry average ROS). Most studies of industry competition use structural indicators, such as the N-firm concentration or the Herfindahl index. However, we argue that a long-term *outcome*-based variable (i.e., industry profit margins) has more relevance to corporate governance than a market structure indicator. Under the condition of Cournot oligopolic competition, the industrial organization theory predicts a positive association between profit margins and market structure (Conyon and Machin 1991). Furthermore, a number of empirical studies, such as Collins and Preston (1969) and Karier (1994), verify a significant relationship between market power and industry profit margins.

Founding family leadership, defined to include the founder and his/her descendants, was recorded as a binary variable that equals 1 if the firm has a founding family CEO or Chair, 0 otherwise. While both CEO and Chairperson are important leadership positions, unlike the U.S., CEO-Chair duality is not allowed in Sweden, so a single person (e.g., a founder) cannot occupy both positions. Of course, second generation founding family firms, or firms with multiple founders, can choose to fill both positions with members of the founding family. We therefore find it appropriate to combine the two forms of founding family leadership (CEO or Chair), as we see both positions as indicative of a founding family's influence in corporate leadership.

Founding family ownership is the percentage of all classes of shares owned by the founder, or his or her

descendents. *Blockholder ownership* is the percentage of all shares that are owned by the three largest shareholders.[2] Debt *ratio* is the ratio of total liabilities to total assets. *Firm age* is not normally distributed and so is measured by the natural logarithm of the number of years between the observation year and the firm's founding year. *Firm size* was measured using total revenues for each year translated into Swedish currency (SEK). As the revenue variable was not normally distributed, we again used the natural logarithm.

Likewise, *Board independence* is the percentage of independent outside directors on the board. An outside director is defined as someone who is not, and has not been, directly or indirectly employed by the firm, either as an employee or as a manager. We have not been able to separate out independent directors with other commercial ties with the firm, commonly referred to as "gray" directors. Given the fact that Sweden is generally considered to be low on measures of corruption, and the fact that we are only using board independence as a control variable, suggests that this should only be a minor problem. Swedish law requires that firms with more than 500 employees reserve two board seats for employee representatives. The measure of board independence excludes these board members (from both the denominator and the numerator), such that the 500 employees cut-off does not affect the measure of board independence.

[2] A potential weakness of family business research is the lack of distinction between family ownership and blockholder ownership. There is naturally a level of overlap between the two—as any block of family ownership also is a blockholder. However, most blockholders are not family owners in this study—as shown by the fact that the correlation between the two concepts is 0.417. This also implies that the two concepts of ownership are sufficiently independent that they can be put in the same regression model.

4 Data analysis

We use a two-way fixed effects pooled cross-sectional ordinary least-square (OLS) regression model to test the propositions presented in the preceding section. The fixed effect is a dummy variable for each sample year. Drawing on previous research on corporate governance, the model includes critical control variables, including corporate governance variables and general firm characteristics and industry (represented by the average ROA of industry groups) identifiers to minimize specification bias in the proposition testing. The model used to test the relation between founding family firm leadership and firm value (market-to-book), as well as delayed profitability (ROA) is shown below.

$$\begin{aligned}\text{Firm Performance} = {} & \alpha + \beta_1\text{*Founding Family Leadership (at various levels of industry profit margin)} \\ & + \beta_2\text{*Industry ROS} + \beta_3\text{*Founding Family Ownership} + \beta_4\text{*Blockholder Ownership} \\ & + \beta_5\text{*Debt Ratio} + \beta_6\text{*Firm Age} + \beta_7\text{*Firm Size} + \beta_8\text{*Board Independence}\end{aligned}$$

We used two analytical approaches; one using the regression model with the moderated effects (Table 2) and one with a split sample model (Table 1). Due to the predicted non-linear relationship between founding family leadership, industry profit margins, and firm performance, it was unproductive to test the effect of founding family leadership with a simple interaction variable (i.e., a linear effect). Therefore, we performed piece-wise OLS regression that measured the effect of founding family leadership at two different levels of industry profit margins. In the test shown in Table 2, we produced an interaction dummy for the existence of high/low level of industry profit margins and the presence of founding family leadership. We differentiated the effects of founding family leadership among firms at the bottom 25 percentile in terms of average industry profit margin (highly competitive industries), and top 25 percentile (least competitive industries). Even though the 25 percentile is arbitrary, the results do not change significantly if the cut-off is set at the 33 percentile. In Table 1, we apply an alternative approach to address the non-linearity issue, by using a split-sample method. Of course, this approach also provides some limitations, as we are only comparing firms within

Table 1 Founding family leadership, and the moderating effect of industry profit margins: split sample regressions

Sub-samples based on industry competitiveness	Low margin/highly competitive industries		Moderately competitive industries		High margin/less competitive industries	
	Dependent variable: market-to-book	Dependent variable: ROA delayed 1 year	Dependent variable: market-to-book	Dependent variable: ROA delayed one year	Dependent variable: market-to-book	Dependent variable: ROA delayed one year
Predicted effect of founding family CEO or Chair	+	+			−	−
Founding family CEO or Chair	−.241	−.037	.416	−.037	.280	.226
	(−1.766)†	(−.39)	(2.54)*	(−.35)	(2.17)*	(2.22)*
Control variables						
Industry ROS	.152	−.299	.024	−.205	−.610	−.316
	(1.77)†	(−3.35)**	(.24)	(−1.95)†	(−5.14)***	(−2.48)*
Founding family ownership	−.054	−.024	−.081	−.101	−.097	−.123
	(−.81)	(−.38)	(−1.16)	(−1.55)	(−1.43)	(−1.97)*
Blockholder ownership	.160	.397	−.359	.130	.276	.126
	(1.83)†	(4.32)***	(−2.98)**	(1.98)	(3.10)**	(1.31)
Debt ratio	−.216	−.016	−.198	−.414	−.010	−.228
	(−2.56)*	(−.18)	(−1.62)	(−3.35)**	(−.08)	(−1.72)†
Firm age (ln)	−.521	.015	−.027	.037	−.022	.082
	(−5.70)***	(.16)	(−.218)	(.30)	(−.21)	(.71)
Firm size (ln)	.007	.443	.046	.215	.049	.071
	(.07)	(4.63)***	(.35)	(1.61)	(.44)	(.60)
Board independence	−.195	−.038	−.250	.216	.230	−.112
	(−2.03)*	(−.380)	(−2.15)*	(1.95)†	(2.19)*	(−1.34)
Number of observations (firm-years)	117	117	90	90	87	87
Adjusted *R*-square	0.305	0.240	0.148	0.125	0.407	0.315
F-Statistics (Significance)	8.268***	6.237***	3.212**	2.809*	9.420***	6.652***

Standardized beta values reported and *t*-values in parentheses

† $P < .10$ (two-tailed)

* $P < .05$ (two-tailed)

** $P < .01$ (two-tailed)

*** $P < .001$ (two-tailed)

one bracket of industry profitability (high-, moderate-, and low-profit margin industries).

5 Results

Table 3 shows the correlations between the variables in this study, as well as descriptive statistics. None of the correlation coefficients rise to a level suggestive of collinearity. Founding family leadership shows a significant positive correlation ($r = 0.12$; $P < .05$) with firm value, but not with delayed profitability ($r = 0.02$; $P > .05$). Four of the five control variables are significantly correlated with firm value and two with delayed profitability, which suggests that a multivariate model is highly appropriate.

The analysis of residuals did not indicate any problems with either heteroscedasticity or non-normal distributions. To give the strongest possible test of the effects of founding family leadership, separate

Table 2 Founder leadership, firm performance, and the moderating effect of industry profit margins

	Predicted effects	Control variables only		Control variables and main effects		Full model	
		Dependent variable: market-to-book	Dependent variable: ROA delayed one year	Dependent variable: market-to-book	Dependent variable: ROA delayed one year	Dependent variable: market-to-book	Dependent variable: ROA delayed one year
Founding family CEO or Chair in:							
Highly competitive industries	–					−.076	.105
						(−.76)	(.99)
Moderately competitive industries						.092	.166
						(1.04)	(1.76)†
Least competitive industries	+					.188	.265
						(2.19)*	(2.90)**
Main effects							
Founding family CEO or Chair				.123	.163	.015	−.120
				(1.56)	(1.95)†	(.10)	(−.78)
Industry ROS				.044	−.173	−.050	−.253
				(.65)	(−2.42)*	(−.70)	(−3.34)**
Control variables							
Founding family ownership		−.058	−.049	−.138	−.150	−.149	−.154
		(−.95)	(−.75)	(−1.75)†	(−1.79)†	(−1.90)†	(−1.85)†
Blockholder ownership		−.043	.208	−.051	.238	−.032	.260
		(−.72)	(3.22)**	(−.83)	(3.66)***	(−.53)	(4.03)***
Debt ratio		−.084	−.225	−.091	−.191	−.063	−.149
		(−1.48)	(−3.70)***	(−1.57)	(−3.11)**	(−1.08)	(−2.38)*
Firm age		−.178	.004	−.161	.049	−.221	.027
		(−2.99)**	(.21)	(−2.68)**	(.76)	(−3.37)**	(.41)
Firm size		.093	.236	.085	.215	.103	.232
		(1.47)	(3.50)**	(1.35)	(3.21)**	(1.65)†	(3.49)**
Board independence		−.141	.012	−.127	.080	−.178	.023
		(−2.60)*	(.21)	(−2.19)*	(1.30)	(−2.99)**	(.37)
Number of observations (firm-years)		294	294	294	294	294	294
R-square		.264	.151	.271	.179	.305	.208
Change *R*-square over model to the left				.007	.029	.034	.028
F-Statistics (Significance)		9.189***	4.551***	8.019***	4.706***	7.597***	4.541***
F-Statistics (Significance) over model to the left				1.427	4.871**	4.474**	3.319*

Standardized beta values reported and t-values are in parentheses

† $P < .10$ (two-tailed)

* $P < .05$ (two-tailed)

** $P < .01$ (two-tailed)

*** $P < .001$ (two-tailed)

Table 3 Pearson correlation matrix and descriptive statistics

Variables	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Firm value (market-to-book)	2.250	2.029									
2. Profitability (ROA delayed one year)	.061	.074	.291**								
3. Founding family leadership	.225	.418	.124*	.023							
4. Founding family ownership (%)	9.580	17.483	−.042	−.038	.694**						
5. Blockholder ownership (%)	42.429	20.00	−.174**	.110	.205**	.417**					
6. Debt ratio	.578	.149	−.153**	−.140*	−.032	−.015	.126*				
7. Firm age (ln)	3.856	.837	−.123*	.110	−.269**	−.139*	.004	.021			
8. Firm size (ln)	7.657	1.768	.082	.228**	−.217**	−.295**	−.159**	.183**	.415**		
9. Industry ROS	.0725	.0535	−.184**	−.129*	−.046	.029	.239**	.331**	−.040	−.118*	
10. Board independence	.083	.129	−.089	.068	−.306**	−.178**	.068	.030	.041	.166**	.120*

* $P < .05$ (two-tailed)

** $P < .01$ (two-tailed)

regressions are performed with (Model 1) and without (Model 2) the founding family firm ownership variable. The results indicate that leaving out the founding family ownership variable does not significantly change the results. Furthermore, the Variance Inflation Factor (VIF) statistics (<10) does not indicate any other multicollinearity concerns (Hair et al. 1995).

The correlations matrix reveals that there is a negative correlation between industry profit margins and firm performance. Based on Industrial Economics (e.g., McGahan and Porter 1997), one would expect to see a positive effect. We argue that much of this effect is due to the other variables, which is shown through the multivariate test in Table 2. This effect is insignificant for the market-to-book measure. However, the negative effect of industry profitability could be explained by mean reversion, as highly profitable industries (based on our two year moving average measure) subsequently are moving toward "normal" profitability the following year (as our research design incorporated a one year lag measure of profitability).

The regression estimates of our model appear in Table 2. The results indicate that industry profit margin has a significant moderating effect on firm value and profitability. The effects of founding family leadership are contingent on the level of industry profit margins.

As predicted, founding family leadership affects firm value positively among firms that face a high margin industry. Thus, Proposition 1 is supported. This relationship proves robust for both our measures of firm performance. Our findings suggest that founding family leadership can be an efficient corporate governance role, as proposed by Fama and Jensen (1983), and Anderson and Reeb (2003b). We failed to identify a significant negative effect of founding family leadership among firms in low-margin industries, as shown in Table 2. Thus, Proposition 2 is not supported.

6 Discussion and conclusion

Whereas previous investigations into founding firm leadership have concentrated on firm corporate governance mechanisms, such as financial incentives and CEO hiring/dismissal policy, in this research, we focused our attention on the industry profit margins where the firm resides. This line of inquiry is important, as, contrary to many assumptions, publicly traded predominantly family-owned firms have a major impact on all economies. The stated purpose of our study was to investigate whether the relationship between founding family leadership and firm performance is contingent on the competitive nature of the industry. Our results lead to several observations.

Founding family leadership enhances firm value and profitability in higher-profit margin industries due to the ongoing family influence. Our findings are consistent with Anderson and Reeb (2003). Family leadership of firms in these high-margin industries is more capable of achieving greater financial performance than non-family-managed public firms, as family leaders exercise a greater tacit understanding and knowledge of the core business practices and processes in these industries. In low-profit margin industries, our findings illustrate that family-led publicly traded firms do not demonstrate a significant advantage over their competitors in either firm valuation or profitability, as illustrated in Table 2.

We suggest that the lack of a negative effect from founding family leadership among firms in low-profit margin industries, introduced in Proposition 2, can be linked to the nature of the industry structure. We can infer that non-family member managers are as equipped as their family-member counterparts at being agents for shareholders in highly competitive markets that are rapidly changing.

Our findings have implications for decision makers in publicly traded family firms. To thrive in more competitive settings, publicly traded family firms may need to adapt their ownership and governance structures. Publicly traded family firms, when entering new, more competitive markets, should consider adapting their governance mechanisms through the introduction of external non-family directors, pursue the inclusion of non-family capital, and broadening managerial skill bases through hiring external non-family professional managers to overcome the challenges associated with these lower-profit margin industries.

These findings have wide implications for shareholders. For example, shareholders need to consider family firm motivations for entry to the public capital market. Including in these motivations are the need to raise additional capital for further growth in present markets, to enter new markets, or to provide a liquidity mechanism for family members (to trade shares or to exit the family firm) (e.g., Anderson and Reeb 2003b). Shareholders and institutional investors should consider the founding family leadership, as well as the industry profit margins when making investment decisions. Our results indicate that publicly traded firms in less competitive industries are more attractive to investors than their non-family competitors. This article affirms that shareholders should consider the role of the industry profit margins and founding family leadership as contributors to firm financial valuation and profitability.

7 Limitations and future research

A primary concern of our results is linked to the representativeness of our sample and the potentially confounding effects of sample endogeneity. Specifically, the overall representativeness of our findings may fall short as family firms are more attracted to high-profit margin industries and potentially avoid entry in more competitive industries. Hence, the sample may be over represented by family-led firms in high-margin industries and under represented in low-margin industries. We did attempt to mitigate these effects through a random selection of respondents, but we do acknowledge this point as a potential limitation of our findings. Furthermore, by focusing on publicly traded firms, which until recently did require a history before being listed on the Stockholm Stock Exchange, we see less of a problem with such self-selection. In fact the median founding year of the sample firm is 1951, the youngest established in 1996 and the oldest in 1759.

We also acknowledge the potential for limited generalizability of our findings based on our Swedish sample. In particular, we cautiously suggest that in countries, where founders often hire professional managers and where the vast majority of publicly traded firms are not family-controlled (e.g., US), the influence of family may not be as strong compared to countries where family-led publicly traded firms are more dominant (e.g., Western European and Asian countries) (Burkart et al. 2003; La Porta et al. 1999).

Since the monitoring function of industry competition is based on general micro-economic mechanisms, the impact of different levels of industry profit margins on founding family leadership is suggested to be similar in different countries. The policies of national competition authorities can, however, alter this effect. Our focus is on the *moderating* impact of industry profit margins on founding family leadership. Past research advocates that corporate governance effectiveness is moderated by specific institutional and cultural environments (Gedajlovic and Shapiro 1998), such that our

findings cannot automatically be extended to other countries.

This article focuses on only one influence that affects the effectiveness of founding family leadership, namely, industry profit margins. Other studies have addressed related issues—such as the moderating effect of board independence (Anderson and Reeb 2004) on the effectiveness of founding family leadership. Future research needs to address other demographic variables that interact with the effectiveness of founding family leadership such as ownership structure, incentive structure of top management, and board structure.

The focus of this article has been on the differences "between" family-led and non-family-led firms in different competitive environments. Scholars should consider, in the future, the factors or prevailing conditions under which family-led firms compete in both high and low competitive industries. In essence, the "within" study of family-led firms would provide a greater understanding of how these firms compete and govern themselves in varying environmental contexts.

Furthermore, we did not attempt to capture the managerial motivations (e.g., why family-controlled firms might actually explicitly "choose" or choose to stay in) less competitive industries, which enable them to keep a tighter control in terms of ownership and governance (given the lower external pressures to do otherwise) for competitive industry selection. Future research should attempt to identify the specific ways that industry profit margins affect firm behavior—both among founding family firms and non-founding family firms and the managerial motivations for competitive industry selection.

Similarly, issues related to country-specific environments might also influence industry entry options (i.e., highly or less competitive). In advanced countries, for example, firms are faced with a more competitive landscape: hence, family-led firms, without choosing, may find themselves in a more fiercely competitive setting. In less-developed countries, the industry profit margins maybe higher and therefore more conducive to family-led firms' success than those firms with non-family professional managers.

In conclusion, these findings support our basic premise that founding family members do add value to a firm's competitive effectiveness and are capable of successfully monitoring a firm's activities in higher-margin industries. When an industry is characterized as being highly competitive with the resulting low industry profit margins, the effectiveness of founding family leadership is comparable to non-family professional leadership.

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