MIND MY BUSINESS : EVIDENCE OF PERFORMANCE AND VALUATION OF FINNISH FAMILY-OWNED LISTED COMPANIES

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Abstract

In this paper we provide empirical evidence on performance and valuation of listed family firms. The topic has great relevance as family ownership plays important role globally and especially in Europe. We compare the performance of family firms with firms with non-family blockholders and firms with dispersed ownership. We also analyse the effect of the level of family ownership concentration, the generational stage of family (founder, heir or investor/non-founding family) and the level of family involvement (board membership and CEO) on accounting performance and market valuation. Our data covers all Finnish listed firms over the period 2007 to 2018.
Our results show that family blockholding in general has a positive impact on performance and valuation of firms. However, the impact varies depending on the ownership concentration and the generational stage of family firms as well as on the level of family involvement.

1 Introduction

The important role of family ownership in listed firms is a global phenomenon and especially important in Europe (Shleifer & Vishny, 1997; La Porta et al, 1999; Claessens et al, 2000; Faccio and Lang, 2002; Anderson and Reeb, 2003; Barontini & Caprio, 2006; Maury, 2006; Adams et al, 2009, Villalonga and Amit, 2020). As families have an important role in the society, are they good owners? There are conflicting views on family control. On one hand, families are long-term investors, entrusted with preserving and enhancing the family legacy and committed to the success of their firms in the long run as well as interested in maintaining the control of family firms. This can result in minimization of principal-agency problems and value maximization in the long run. On the other hand, the differences of interests and priorities that the family members have may be differ from those of other shareholders. This may lead to principal-principal problems and hinder value creation and growth of firms (Morck & Yeung, 2003).

Prior studies suggest that family firms are more profitable and create more value than non-family firms - family-owned firms are performing better than other firms both in profitability (Barontini & Caprio, 2006; Maury, 2006; Sraer & Thesmar, 2007), dividend yield (Isakov & Weisskopf, 2015) and have higher valuation than other firms (Maury, 2006; Ikäheimo & Lumijärvi, 2018).

As family firms seem to perform better, how do they do it? One potential explanation would be that families as blockholders reduce agency cost between managers and shareholders as they have an incentive to "mind their business" in the long run and they have power to do so through controlling management. This reduction in agency costs benefits both family as a controlling blockholder and other shareholders (Maury, 2006).

But it is not self-evident, that family firms perform better, as concentrated ownership may lead to principal-principal problems between family as a majority owner and minority shareholders. Principal-principal problem may arise as a result of family blockholders using their voting power or as a result of and insider knowledge to extract private benefits from the company at the cost of minority shareholders. This abuse is most prominent when a company has different classes of shares. The magnitude of this private benefit may reach 14 % of equity value (Grossman and Hart, 1980, Dyck and Zingales, 2004). Having a majority stake of voting-power shares and holding a management position, may lead to aggravated principal-principal problems as takeover threats and monitoring from minority institutional investors are not effective.

Is a family firm a coherent unit of analysis? In order to answer this question, we need to take a closer look, what does family firm mean and how much variation exists within family firms. Family firms are typically characterized by three elements, namely: ownership, control and management, which may have implications on their financial performance (Villalonga and Amit, 2020). Families are always blockholders, and family ownership varies from 10 % proportion to more than 50% proportion.[1] Families may have different life cycle phases from founder to her descendants and family as an investor (non-founding family). Family may exercise control and maintain power through having a family member in an executive position or in the board of directors. Many founding families are involved in managing the family firms. In Western Europe, family firms with family member in CEO position or leading position on board results to higher

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[1] In the USA, a 5% minimum ownership stake is used in defining family ownership because as it is the legal threshold over which shareholders have to report their stake to Securities and Exchange Commission.

firm performance and valuation (Maury, 2006). Also in the US, about 16 % of the S&P500 firms are managed by founding families (Anderson & Reeb, 2003) and in French listed firms more than 60 % of CEOs are members of families. Thus, within the concept of family firm there are variety of features, which may result to different outcomes – firm performance and valuation.

In our study, we first analyze, whether public family firms differ in performance and valuation from other public firms. We compare them with other public firms with blockholders and public firms with dispersed ownership. Then we get deeper into the family firms asking following questions: Do the level of family stake, the life cycle of family ownership and the degree of family involvement relate to firm performance and valuation?

We use data from 132 Finnish public firms in Nasdaq Helsinki covering the time period from 2007 to 2018. Family ownership has a very strong position in Finland. In 2016, families owned 58 % of public firms in Nasdaq Helsinki has remained stable over time (Ikäheimo & Lumijärvi, 2018). Finland as EU country follow EU legislation and minority shareholder interests and has one of the best protection in the world (World Economic Forum, 2018). In addition, Finnish legislation allows two classes of shares. These features make Finland an interesting country for studying families as blockholders.

What are our results? We find that family firms have higher accounting performance and market valuation than non-family blockholding firms. We also find that moderate family ownership stake increase firm performance and drives higher firm valuation. Our results suggests that the market value the benefit of family ownership at the level which the family does not have the total control of the firm. Our results show that the market value is reduced with the active family involvement as a CEO probably because of the possibility of expropriation of private benefit or scarcity of competencies among family members. We also find that family representation on the board is positively related to firm performance.

Our results show that outside CEO yield additional premium in a family firm probably because family firms managed by a professional outside CEO perform better than non-family firms and family firms managed by its family members. This implies family firms at the founder stage benefits positively from the vision and entrepreneurship of the founder more than the possibility of expropriating private benefits. The resilience and active involvement of the founder in the firm results in positive accounting performance at the founder stage. Our findings supports the view that market valuation of firms are high at both the founder stage and the heir stage than those of non-family blockholders. Higher market valuation persists over life cycle of family firms. However, the market valuation is highest at the founder stage outperforming the heir or descendant and investor stages.

Policy makers should consider and respect the needs of family firms both at the EU and national level as they amend new norms, as they perform better than other firms and are higher valued. Limiting corporate governance alternatives only to those targeted for firms with dispersed ownership do not fulfil the need of family firms. Therefore, we should contextualize best corporate governance practices instead of having only one best form of corporate governance – "one size fits all". For family firms, it should be an attractive alternative for having listing status both for having access for external funding and for reputational reasons. In addition, intergenerational changes should be possible without excessive transaction costs.

The rest of the paper is structured as follows. Section 2 presents the theoretical bases of our study, a review of empirical literature on family ownership and performance and hypotheses. Section 3 presents the institutional settings, while section 4 provides the methodology and the data description. The penultimate section presents the empirical analysis and results of the relationship between family blockholders and firm performance and valuation, and how the level of family involvement and the generational stage of family ownership related to firm performance and valuation, and finally section 6 presents the summary and conclusion.

2 Family ownership, performance and valuation

2.1 Prior empirical results on family ownership, performance and valuation

Early empirical literature on family ownership and performance in the United States and Canada come to the consensus that family firms run by founders and family firms managed by a professional outside CEO perform better than non-family firms and family firms managed by descendants (Anderson and Reeb, 2004; Villalonga and Amit, 2006, Morck et al, 2000; Perez-Gonzalez, 2006). Anderson and Reeb, 2003 in a study of S&P 500 concluded that family firms outperform non-family firms especially when managed by founder, while family dynasty do not seem to impact performance positively or negatively. In the same US market, Villalonga and Amit, 2006 find that family firms with founder active in management as CEO or Chairman perform much better than those managed by descendants. Miller et al, 2007 find that family firm valuation is accounted for by lone founders and that family firms with multiple family members do not outperform. Perez-Gonzalez, 2006 find that dynastic control has a negative impact on firm profitability and valuation.

Maury (2006) studied Western European family firms, and he found that they higher profitability than other firms, but this is mainly due to active control activities of the family members either as CEO or as a leading position in the board of directors. He also found that family firms in general have higher valuation irrespective whether the family has active or passive role on controlling the firm, but family firms have higher valuation only in countries with higher minority shareholder interest protection. He concludes that "family control lowers the agency problem between owners and managers, but gives rise to conflicts between the family and minority shareholders when shareholder protection is low and control is high."

Sraer and Thesmar, 2007 find that in France, listed family firms largely outperform widely held firms and founder managed firm and family dynastic management as well as firms run by professional outside CEO impact positively on profit. Isakov and Weisskopf, 2014, find that family firms outperform non-family blockholder firms and widely held firms in profitability but not in their firm valuation. Family firms with moderate ownership stake shows higher profitability and higher valuation, while family firms with larger stake (80%) are profitable but have significant lower valuation.

In general, previous empirical studies find that family firms have an impact on firm performance when compared with non-family firms. However, non-family firms also include non-family blockholding firms and their behavior may be heterogeneous. Furthermore, firms may be governed and managed differently depending on whether they are family firms, non-family blockholders or widely held.

2.2 Theoretical perspectives and hypotheses
Blockholding family and principal agency problem
Blockholding majority owners have strong incentives (La Porta et al., 1999) and possess tools for better monitoring management resulting in better firm performance and valuation. From a theoretical perspective, an increase in monitoring of management should result in better alignment of interest between the owners and manager with positive effect on firm performance.

Family may exercise control over professional executives directly or via board work or a family member may act as an executive or have other position within the company. In a typical case, at least some family members have a deep understanding of the business, as family members or their predecessors have founded the company.

Other blockholders, such as states, pension fund and investment companies, are not likely to have such a strong incentive for controlling management, as they have diversified portfolio and are not as dependent on investments in one specific company. They may take an active role through monitoring and advisory roles by representation on the board. Non-family blockholders may also use executive compensation to align the interest of professional managers with that of their own interests, thereby mitigating agency costs.

Blockholding and principal principal problem
Blockholding may result to negative effect of firm performance and valuation, as the extraction of private benefits by blockholders is harmful to minority shareholders. This harmful effect may be aggravated by the existence of dual class shares or by extremely concentrated ownership.

Family members often possess insider information and voting power through different classes of shares which enable them to extract private benefits to the detriments of minority shareholders. Compared to other blockholders, who normally do not have such an insider information nor voting power shares, family firms may have more severe principal principal problems.

On the other hand, family blockholders typically follow long term strategy as family business constitute a large proportion or even all of their wealth and the emotional commitment to the company is strong as it bears their family identity (Ward, 2004, Miller Le Breton-Miller, 2005, Corbette and Salvato, 2004). These features of family firms may promote long-term success of family firms and reduce principal principal problems.

As a result, family owned firms will behave differently from public firms with non-family blockholders and widely held firms and this will in turn have different impacts on their performance and valuation.

From the perspective of principal agency theory, listed family firms may have higher incentive and possess better tools for controlling management than other firms but on the other hand from the perspective of principal principal theory, they have better opportunities to extract private benefits than any other blockholder. Prior empirical studies suggest, that listed family firms perform better than other firms. In addition, in the Finnish context, minority shareholders' interests are well protected, resulting to minor principal principal problems. Therefore, we expect that listed family firms perform better than other firms.

H1: Listed family firms have higher firm performance and valuation than other listed firms.

Level of ownership concentration
The ownership concentration refers to the power structure and cash flow rights of the firm. The benefit of blockholding has a diminishing marginal benefit for solving principal agency problem by controlling management. The benefit of having 10 % ownership instead of 5 % ownership may be very large for mitigating agency problems, and the benefits may still exist while moving from 15 % to 20 %. But as the ownership changes from 50 % to 55 %, there are hardly any benefits for controlling purposes. On the other hand, the principal principal problems may become more severe as the ownership becomes highly concentrated.

We expect that very high ownership concentration has a negative effect for firm performance and valuation even in a legal environment with strong minority interest protection. As family members have more insider information than representatives of other blockholders, the effect of highly concentrated ownership is more severe in listed family firms.

H2: Highly concentrated ownership in listed family firms lower performance and valuation.

Life cycle of family ownership
Family firms may have at different stages of family ownership, namely founder, heir and non-founding (investor) stage. Founding family refers to one or more individual who have founded the firm and the heirs are the descendants of the founders. Investors refer to a family that has acquired an existing firm.

Prior studies indicate that the generation of families seems to have relevance - the founder of family firm has a positive effect on family performance and valuation, whereas descenders do not have similar effect. In addition, there are listed family firms, where family is not a founder but has entered in the business later as a majority owner. In those cases, it is unclear, whether family ownership have any effect on firm performance and valuation different from other blockholders, as they do not have similar in-depth knowledge on business. Therefore, we argue, that family firms in an early life cycle phase as founder has a positive effect on firm performance and valuation.

H3: The generation of founder increases performance and valuation.

Owner involvement
Owner involvement may vary from passive ownership to responsibility of operative leadership in executive team. Better control over management would lead to better results from the agency theory perspective. This would take place through board work. Better owner control over management may improve firm performance and valuation. But the board work will be more efficient, if board members have business specific competence, and this would be the case, as the founder of firm has the board position.

H4: The family involvement of founder in a board member role has a positive effect on firm performance and valuation.

There is a tendency in family firms to hire family members into leadership positions – "minding my business". From the family perspective, this may make sense but from the perspective of other owners this would not result to good outcomes, as the competence pool would be limited to family members thus restricting opportunities to find highly capable individuals for running business. This is especially problematic in the cases of listed firms, where requirements for competences to

run business are very high. Therefore, the family involvement in leadership position may lower performance and valuation. The only exception would be the founder, as she has already shown her competencies in founding a firm which has become listed, but the descendants may not possess similar capabilities.

H4: The family involvement of founder in a leadership role has a positive effect on firm performance and valuation.

Family firms may be run either by family member CEO or externally recruited professional CEO. As indicated above, family member may not be the best alternative for running the business except the founder. In addition, family member CEO may also extract private benefits in the form of self-dealing or entrenched management (Mork & Yeung, 2003). Therefore, we expect that professional CEO in family firms may result to better performance and higher valuation.

H5: Professional CEO in the family firms has a positive effect on firm performance and valuation.

3 Institutional Setting

Finland is a small open economy with favorable business environment and low level of corruption. Finnish financial markets are highly developed and the value of stock market capitalization to GDP is one of the highest in EU (Guiso et al., 2004).

Finland belongs to Scandinavian legal tradition, where minority shareholder interest protection is at a very high level in Scandinavia (Djankov et al., 2008; Mohammad, 2020) and Finland is ranked number one in this respect (World Economic Forum, 2018).

Finnish listed firms have high ownership concentration, with blockholders ranging from families, state, pension funds and investment firms. Listed family firms represent 58 % of listed firms in Nasdaq Helsinki, and their ownership is very stable over time (Ikäheimo and Lumijärvi, 2018). This is comparable to the average family ownership of 63% in the Western Europe (Maury, 2006).

Finnish limited liability companies act allows different classes of shares with different voting power rights. In the literature, concentrated ownership is usually accompanied with weak minority shareholder interest protection (La Porta et al. 1998) and this negative effect is aggravated by the existence of dual class shares.

4 Empirical analysis

4.1 Data sources and variable definition

Our dataset is an unbalanced panel of all Finnish listed firms over the period 2007 to 2018. We excluded bank and investment firms. Financial data was received from Thomson Reuters Datastream, ownership data was collected from Orbis and corporate home pages, and data on board characteristics from the time period of 2012-2018 was hand collected from the annual reports of listed firms. Our data covers 1,415 firm-years of 132 firms.

We define blockholding if one owner (or owner group) has at least 10 % of shares (dummy D(Block)). In Finland, it is required minimum of 10 % for having minority dividend rights, favorable tax treatment of ownership in listed firms and other minority rights according to Finnish company law. If the majority blockholder is a family (including all family members) with a total of at least 10 % share ownership, it is a family firm (dummy D(Family)). Controlling family blockholding is categorized into three groups, one between 10 % and 25 % (dummy D(FamilyLow)), second between 25 % and 50 % (dummy D(FamilyMedium)) and third over 50 % (dummy D(FamilyHigh)) to analyze whether the ownership concentration has any relevance in firm performance and valuation. We categorize non-family blockholding, which are institutional investors such as state, government, pension fund, insurance firms and investment firms, in a similar way as family firms.

Family firms may represent different stage of ownership life cycle, namely founder (dummy D(Founder)), heir (dummy D(Heir)) and non-founding investor stage (dummy D(Investor)). Founding family refers to those who found the firm and the heirs are the descendants of the founders, while investors are families that acquire an existing firm either before listing or with listing status.

Finally, we categorize family firms depending on the degree of involvement. Active family involvement includes board membership of family member (dummy D(FamilyBoard)), proportion of family members on board (FamilyBoard) or a role as a CEO of family member (dummy D(FamilyCEO)). In addition, family firms may have a professional CEO outside the family. For this purpose we have dummy D(FamilyOutsideCEO).

We use three measures of accounting profitability; return of assets (ROA), return of equity (ROE) and net profit margin. We also used two measures of market valuation; Tobin's Q (natural logarithm) and dividend yield. ROA is calculated as earnings before interest and taxes divided by total assets, ROE is defined as earnings divided by book value of equity and Net profit margin is operating profit as a percentage of sales. Tobin's Q is a measure of market valuation of a firm's assets defined as market value of common equity plus book value of total assets minus book value of common equity divided by book value of total assets; dividend yield is annual dividend by the current share price and stock is the appreciation in stock price plus dividends paid, divided by the original price of the stock.

Standard variables are used to control for firm specific characteristics namely; firm size, age, leverage, sales growth and investment intensity are included in the regression analysis. Firm size is measured as the logarithm of total assets, age is defined as the logarithm of years since establishment, leverage is defined as total book value of debt divided by book value of common shareholders equity; sales growth is increase in one year sales and investment intensity is capital expenditure divided by total assets. In addition, industry (ICB classification at one digit level) and year dummies are all included our empirical analysis.

4.2 Model Specifications

The variables specified in the regression model are grouped into five categories as firm performance variable group (FP), family ownership variable group (FO), blockholding variable

group (BH), family generation variable group (FG), family involvement variable group (FI) and control variables including firm specific (F), industry (I) and year (Y) controls. These variables are described above.

The general form for the regression is:

$$FP_{it} = a + b(FO_{it}) + c(BH_{it}) + d(FG_{it}) + e(FI_{it}) + f(F_{it}) + g(I_{it}) + h(Y_{it}) + \varepsilon_{it} \quad (1)$$

where: Dependent variables on Firm Performance (FP) includes ROA, ROE, net profit margin, Tobin's Q and dividend yield, Family Firm (FF) covers D(Family), D(FamilyLow), D(FamilyMedium) and D(FamilyHigh), Blockholding (BH) includes only one variable, D(Block), Family Generation (FG) comprises of D(Founder), D(Heir) and D(Investor). Further, Family Involvement (FI) covers D(FamilyBoard), FamilyBoard, D(FamilyCEO) and D(FamilyOutsideCEO). Firm specific control group (F) includes Firm Size (natural logarithm of total assets), Firm Age (logarithm of years since establishment), Leverage (total book value of debt divided by common shareholders equity), Growth (lag of sales growth or previous year sales growth) and Investment Intensity (capital expenditure divided by total assets). Industry controls (I) includes industry dummies and Year controls (Y) are the dummy variables that capture year fixed effects. We winzorised values of each variable to adjust for outliers without losing any observation by carefully analyzing the extreme values to avoid their influence on our key results.

4.3 Descriptive Statistics

Table 1 shows that family firms are represented on average in about 55% of the industries. Family firms are more represented in industrial sector (about 78%) Technology (59%), health care (about 45%) and consumer goods (about 40%). There is no family firm represented in Oil and Gas, Telecommunication and Utilities.

Table 1. Number of observations of firm-years for each industry 2007-2018 classified into family and other firms.

	All firms	Family Firms	Other Firms	Family firms (%)
Basic materials	111	44	67	39,64
Consumer Goods	179	79	100	44,13
Consumer services	181	62	119	34,25
Health care	73	33	40	45,21
Industrials	534	415	119	77,72
Oil & Gas	12	0	12	0,00
Technology	242	143	99	59,09
Telecommunication	13	0	13	0,00
Utilities	12	0	12	0,00
Total	1414	776	581	54,88

Table 2 presents the proportion of firms that can be classified as having family ownership non-family blockholders and widely held firms for each of the sample year. Table 2 Panel A shows that

proportions remain fairly stable varying between 55 % (years 2017 and 2018) and 65 % (year 2014) over the study period. This confirm the findings in Isakov and Weiskopf (2014) and Faccio and Lang (2002) that ownership structure varies only slightly overtime.

Table 2 Evolution of Ownership and Stakes Structure

Proportion of Firms by type and year												
Percentage	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Family firms	56	59	61	63	63	63	64	65	57	58	55	55
Other Blockholders firms	21	21	18	18	22	22	24	23	28	28	28	30
Widely held firms	23	20	21	19	15	15	12	12	15	14	17	15
Total	100	100	100	100	100	100	100	100	100	100	100	100

Table 3 Panel A presents overall descriptive statistics for the variables used in the regression analysis. Average ROA is 4,17% and average ROE is 4,48%, while average Tobin's Q is 2,03%. The firms in the sample have an average size and age of about 1,13 billion euro and 59,75 years, respectively. Annual sales growth is about 4,32% and leverage 62,29%. Panel B presents variable, which describes family involvement. On average only 14 % of family firms have CEO that are family members. This is lower than the 33% average family CEO in Western Europe (Maury, 2006). Furthermore, an average of 12 % of board members are family members, and in 27 % of family firms, the chairman has a family tie.

Table 4 presents the correlation coefficients of the ownership, performance and control variables. Interestingly, family firms seem to have negative correlation with performance variables, but they are slightly positively correlated with valuation. As we compare the life cycle of the family ownership, this negative correlation seems to be strongest among those family firms with non-founding investor status, where as the founder stage mainly seems to have positive correlation with performance.

Table 3. Descriptive statistics

Panel A	Mean	Median	Std dev	Maximum	Minimum
ROA (in %)	4,17	4,02	7,71	18,03	-13,82
ROE (in %)	4,58	7,47	19,96	48,34	-48,34
Net profit margin (in %)	4,13	4,41	7,64	14,41	-14,41
Tobin's Q	2,03	1,6	1,42	5,52	0
Dividend yield (in %)	3,19	2,88	2,67	9,15	0
Firm Size (Total assets in euro)	1 134 729	259 095	1 799 458	8 220 000	15 316
Firm Age	60	50	52	369	1
Leverage (in %)	62,3	56,5	55,3	207,8	-56,9
Growth (in %)	4,3	0,1	22,3	119,7	-52,8
Investment Intensity (in %)	4,4	2,8	3,9	20,3	0,1
D(Block)	0,83	1	0,37	1	0
D(Family	0,60	1	0,49	1	0
D(Founder)	0,09	0	0,29	1	0
D(Heir)	0,14	0	0,35	1	0
D(Investor)	0,22	0	0,41	1	0
Other blockholder	0,23	0	0,43	1	0
D(FamilyCEO)	0,14	0	0,27	1	0
FamilyBoard	0,12	0	0,17	0,8	0
Panel B					
Family member CEO	14 %				
Family member Board Chair	27 %				
Family members on Board	12 %				
Professional CEO of FF	86 %				

Table 5 and 6 presents the results of the univariate analysis for different types of ownership in the sample by testing for difference in means and medians. These results indicate that family firms have lower performance than other firms, both widely held as well as firms with other blockholders. Interestingly, the valuation seems to be higher in family firms than in other firms. If family member holds a CEO position, the performance seems to be lower. In general, family firms seem to be smaller and have lower investment intensity than other firms.

Table 4 Correlation Coefficients of Firms and Board Characteristics 2007-2018

	ROA	ROE	Profit margin	TobinsQ	Dividend yield	Stock returns	LnFirm size	Ln(Firm age)	Leverage	Sales growth	Investment intensity	Family firm	Founder	Heir	Investor	Non family blockholder	Ownership concentration
ROA	1																
ROE	0,9	1															
Profit margin	0,71	0,66	1														
Tobin's Q	0,3	0,3	0,36	1													
Dividend yield	0,29	0,29	0,37	-0,03	1												
Stock returns	0,35	0,34	0,29	0,33	-0,06	1											
LnFirm size	0,13	0,16	0,2	-0,01	0,21	0,08	1										
LnFirm age	0,13	0,1	0,15	-0,03	0,18	-0,07	0,12	1									
Leverage	-0,23	-0,32	-0,1	-0,15	-0,17	-0,17	0,04	0,07	1								
Sales growth	0,2	0,2	0,18	0,18	-0,03	0,24	-0,04	0,01	-0,1	1							
Investment intensity	0,22	0,19	0,16	0,23	0,06	0,09	-0,04	0,03	-0,12	0,001	1						
Family firm	-0,11	-0,09	-0,18	0,03	-0,13	-0,06	-0,37	0,01	0,08	0,03	-0,09	1					
Founder	0,02	0,02	-0,1	0,13	-0,07	0,09	-0,2	-0,24	-0,2	0,13	-0,05	0,1	1				
Heir	0,04	0	-0,02	-0,12	0,03	-0,02	-0,06	0,26	0,15	-0,02	-0,04	0	-0,18	1			
Investor	-0,17	-0,12	-0,09	0,05	-0,12	-0,11	0,19	-0,04	0,09	-0,05	-0,04	0	-0,23	-0,3	1		
Non family blockholder	0,09	0,09	0,14	-0,02	0,13	0,07	0,33	-0,03	0,003	-0,07	0,12	0,01	-0,2	-0,3	-0,36	1	
Ownership	-0,04	-0,02	-0,08	0,02	-0,02	-0,004	-0,11	-0,02	0,11	-0,04	0,02	0,01	0,15	0,2	0,27	0,23	1

Table 5 Univariate Tests
(OBH=Other BlockHolder)

	All firms	Family firm	Other firms	Blockholders	OBH	Family CEO	Family on board	Outsider CEO
ROA (%)	4,17	3,39	5,2	3,91	5,18	1,47	3,97	3,65
ROE (%)	4,57	3	6,95	4	6,69	-2,33	4,26	3,97
Net profit margin(%)	4,14	3,02	5,49	3,8	5,65	0,61	3,61	3,24
Tobins Q	2,02	2,11	1,95	2,06	1,95	1,51	1,96	2,21
Dividend yield	3,19	2,94	3,52	3,11	3,55	2,54	3,21	2,94
Stock returns	0,07	0,06	0,09	0,06	0,08	-0,01	0,06	0,08
Ln(Firm size)	12,58	11,99	13,39	12,51	13,77	10,99	12,32	12,09
Ln(Firm age)	3,72	3,72	3,73	3,72	3,72	3,58	3,69	3,72
Leverage (%)	62,27	66,12	56,28	65,23	63,07	74,71	66,26	65,24
Sales growth (%)	4,4	4,92	3,97	4,33	2,87	5,56	5,52	5,22
Investment intensity (%)	4,38	3,98	4,8	4,35	5,26	4,18	4,21	4
Observations	1,414	719	509	1015	297			

Panel B Test of Mean (WH
= WidelyHeld)

t-Stat	Family vs. WH	Family CEO vs. Outsider	Family CEO vs. family on board	Family vs. OBH
ROA (in %)	4,12***	3,62***	0,38	3,46***
ROE (in %)	3,31***	3,56***	1,01	2,50**
Net profit margin (in %)	5,52***	4,67***	2,73***	5,27***
Tobins Q	-2,01**	3,75***	-0,36	-1,68*
Dividend yield	3,81***	2,27**	1,01	3,32***
Stock returns	1,22	1,74*	-1,11	0,66
Ln(Firm size)	11,35***	18,13***	4,61	14,57***
Ln(Firm age	0,16	1,67***	-2,53**	-0,23
Leverage (%)	-3,19	-2,09**	-1,45	-0,78
Sales growth (%)	-0,73	-0,43	0,14	-1,38
Investment intensity(%)	3,69	0,46	2,82***	5,03***

Table 6 Univariate Tests of Median

Panel A Median	All firms	Family firm	Other firms	Blockholders	OBH	Family CEO	Family on board	Outsider CEO
ROA (in %)	4,82	4,15	5,66	4,45	5,13	2,12	4,65	4,52
ROE (in %)	7,87	7,16	8,68	7,35	8,05	1,92	7,91	8,07
Net profit margin (%)	4,47	4,03	5,38	4,18	4,39	4,7	4,23	4,23
Tobins Q	1,6	1,62	1,6	1,62	1,63	1,69	1,54	1,75
Dividend yield	2,97	2,77	3,33	2,91	2,86	3,04	2,92	2,8
Stock returns	0,03	0,01	0,05	0,02	0,02	0,03	,-0,01	0,04
Firm size	257350	124773	963086	248800	156632,5	304000	175563	155763,5
Firm age	44	42,5	51,5	44	44	47	43	44
Leverage (in %)	53,26	55,09	49,88	56,79	50,17	51,9	56,81	53,39
Sales growth (%)	0,71	0,96	0,7	0,7	1,04	0,71	2,43	1,39
Investment intensity (%)	3,12	2,88	3,52	3,18	2,86	3,1	3,04	2,88
Observations	1,414	719	509	1015	297			

Panel B Test of Median

Z-Stat	family vs. WH	Family CEO vs. Outsider	Family CEO vs. board	Family vs. OBH	Blockholders vs. WH
ROA (in %)	4,05***	4,07***	0,74	2,98***	2,96***
ROE (in %)	2,70***	4,43***	0,9	1,63*	2,53**
Net profit margin (in %)	4,91***	4,84***	3,08***	3,60***	3,39***
Tobins Q	-1,72*	5,63***	-0,58	-1,72*	-0,48
Dividend yield	4,14***	3,13***	0,64	3,58***	-2,07**
Stock returns	1,75*	2,15**	-1,32	1,28	1,25
Firm size(Total assets in euro)	13,26***	9,26***	4,19***	14,01***	2,49**
Firm age(year)	0,62	2,19**	-1,79	0,09	0,83
Leverage (%)	-1,83*	-1,84*	-0,95	0,59	-4,62***
Sales growth%	-0,78	0,14	1,14	-1,53	0,97

Investment intensity (%)	4,40***	0,04	2,50**	6,16***	,-1,54

5. Multivariate Evidence

In this section, we test our hypotheses by controlling variables, which may capture differences in performance, which are not directly explained by family ownership. We examine accounting and market performance of family firms, non-family blockholders and widely held firms. We focus on five different measures of corporate performance. We use three profitability measures; ROA (defined as earnings before interest and taxes divided by total assets), ROE (defined as earnings divided by book value of equity) and Net profit margin (defined as operating profit as a percentage of sales). We also examine two measures of market valuation; Tobin's Q (defined as market value of common equity plus book value of total assets minus book value of common equity divided by book value of total assets) and dividend yield (defined as annual dividend by the current share price and stock is the appreciation in stock price plus dividends paid, divided by the original price of the stock).

Our baseline regression is presented in Table 7. It reports the regressions of accounting performance and market valuation on the explanatory variables that are industry and firm specific characteristics; firm size, firm age, leverage, one-year sales growth and investment intensity. The regression results of key determinants of performance of family firms in table 7 shows that size, age, growth and investment intensity have positive impacts on both performance and valuation of family firms, while leverage coefficient is negative and statistically significant.

5.1 Performance and Family Ownership

Our first hypothesis states that listed family firms have higher firm performance and valuation than other listed firms. In our regression analysis, family firms were compared to all other firms. Table 8 presents ownership type and performance of firms. Column 1 to 6 use ROA, ROE and profit margin as measures of accounting performance respectively, while columns 7 to 10 take Tobin's Q and dividend yield as measures of market valuation. Family firm (D(Family)) and key determinants of firm performance are regressed on ROA (column 1), ROE (column 3) and Net profit margin (column 5), Tobin's Q (column 7) and Dividend yield (column 9). In columns 3 and 7, the coefficients of family firm blockholder for ROE and Tobin's Q are positive and statistically significant and in other regressions, the coefficient are positive but not significant. These suggest that family firms have a higher accounting performance and market valuation than other firms supporting our first hypothesis.

Our second hypothesis argues that highly concentrated ownership in listed family firms lower performance and valuation. For this purpose we provide evidence in Table 8 on the relationship between performance and ownership of firms are complemented by introducing the different levels of family ownership concentration; Family ownership stake of at least 10%, 25% and 50% into the regression equation. The regression results are presented for ROA (column 2), ROE (column 4), Net profit margin (column 6), Tobin's Q (column 8) and dividend yield (10) respectively. The coefficients for family ownership stake at 10% (D(FamilyLow)) is positive and statistically significant for ROE in column 4, Tobin's Q in column 8 and dividend yield in column 10. On the

other hand, medium level of family ownership (D(FamilyMedium) does not have any positive relationship with performance or valuation variables, whereas high family ownership (D(FamilyHigh)) has positive (ROA and ROE), negative (ProfitMargin) and insignificant relationhsips. This implies that at least moderate family ownership stake increases firm performance and drives high firm valuation. The results suggest that the markets value the benefit of family ownership to a level at which the family does not have the total control of the firm. This is consistent with findings in Ward (2004), Miller Le Breton-Miller (2005), Corbette and Salvato (2004) and Isakov and Weisskopf (2014) that support the assertion that family blockholders are likely to follow long term value creation strategy and not behave in a self-centered way because the family business constitute a large proportion of their wealth, and family members are motivated to mitigate agency costs. The overall results are consistent with the findings in Isakov and Weisskopf (2014) that family firms with moderate ownership stake shows higher profitability and higher valuation, while family firms with larger stake are profitable but have significant lower valuation.

Table 7 Determinants of Firm Performance

	1	2	3	4	5
	ROA	ROE	Profit margin	Tobin's Q	Dividend yield
Ln (firm size)	1.095^{***}	3.479^{***}	1.312^{***}	0.043^{*}	0.356^{***}
	(9.02)	(10.80)	(10.84)	(1.77)	(8.62)
Ln (firm age)	0.738^{***}	1.599^{***}	0.988^{***}	0.012	0.370^{***}
	(3.30)	(2.63)	(4.43)	(0.28)	(4.87)
Leverage	-0.048^{***}	-0.146^{***}	-0.032^{***}	-0.004^{***}	-0.009^{***}
	(-13.12)	(-15.22)	(-8.72)	(-5.84)	(-7.62)
Sales Growth	0.054^{***}	0.158^{***}	0.054^{***}	0.003	-0.005^{*}
	(5.75)	(6.62)	(5.74)	(1.51)	(-1.65)
Investment Intensity	0.297^{***}	0.612^{***}	0.231^{***}	0.037^{***}	0.012
	(5.69)	(4.00)	(4.45)	(3.59)	(0.70)
Constant	-10.445^{***}	-29.628^{***}	-20.814^{***}	1.403^{**}	-2.799^{***}
	(-3.56)	(-3.99)	(-7.11)	(2.41)	(-2.80)
Industry dummies	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes
Observations	1223	1076	1223	1218	1212
Adjusted R^2	0.284	0.314	0.267	0.164	0.308

Table 8. Family Ownership and Performance

	1	2	3	4	5	6	7	8	9	10
	ROA	ROA	ROE	ROE	Profit margin	Profit margin	Tobin's Q	Tobin's Q	Dividend yield	Dividend yield
D(Family)	0.606		2.489**		0.069		0.242***		0.167	
	(1.35)		(2.06)		(0.15)		(2.76)		(1.10)	
D(FamilyLow		0.787		3.933***		0.656		0.460***		0.349*
		(1.45)		(2.70)		(1.22)		(4.36)		(1.90)
D(FamilyMedium)		0.267		0.881		0.005		0.149		-0.181
		(0.45)		(0.56)		(0.01)		(1.30)		(-0.91)
D(FamilyHigh)		1.020*		3.341**		-1.060*		0.053		0.147
		(1.70)		(2.09)		(-1.78)		(0.46)		(0.73)
Ln(firm size)	1.159***	1.170***	3.733***	3.752***	1.320***	1.288***	0.067***	0.063**	0.373***	0.365***
	(8.91)	(8.93)	(10.83)	(10.81)	(10.20)	(9.91)	(2.64)	(2.46)	(8.46)	(8.23)
Ln(firm age)	0.723***	0.727***	1.470**	1.482**	1.013***	1.000***	-0.005	-0.008	0.360***	0.364***
	(3.20)	(3.22)	(2.41)	(2.44)	(4.52)	(4.47)	(-0.10)	(-0.17)	(4.72)	(4.78)
Leverage	-0.048***	-0.048***	-0.148***	-0.148***	-0.031***	-0.031***	-0.004***	-0.004***	-0.010***	-0.010***
	(-12.95)	(-12.97)	(-15.37)	(-15.39)	(-8.56)	(-8.47)	(-5.94)	(-5.85)	(-7.69)	(-7.66)
Sales growth	0.054***	0.053***	0.156***	0.154***	0.054***	0.054***	0.003	0.002	-0.005*	-0.006*
	(5.70)	(5.65)	(6.52)	(6.44)	(5.76)	(5.73)	(1.38)	(1.27)	(-1.70)	(-1.80)
Investment Intensity	0.298***	0.296***	0.616***	0.608***	0.226***	0.229***	0.043***	0.043***	0.013	0.013
	(5.64)	(5.62)	(4.04)	(3.99)	(4.31)	(4.37)	(4.14)	(4.19)	(0.75)	(0.73)
Constant	-9.822***	-10.001***	-33.027***	-33.214***	-6.269**	-5.834**	0.858	0.912	-3.032***	-2.938***
	(-3.32)	(-3.37)	(-4.34)	(-4.36)	(-2.13)	(-1.98)	(1.48)	(1.58)	(-2.97)	(-2.87)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1214	1214	1076	1076	1214	1214	1213	1213	1212	1212
Adjusted R^2	0.282	0.282	0.316	0.318	0.267	0.271	0.175	0.184	0.308	0.311

Computed from Panel of Finnish listed firms, over 2007-2018 period. The variables for the analysed sample of 132 firms and 1414 firm-year observations include ROA, ROE, Tobin´s Q, dividend yield, stock returns, firm size, firm age, leverage, one-year sale's growth and investment intensity. Family firm is defined as families with blockholding of at least 10%. The t-stats are in parentheses and are calculated with clustered robust errors. ***,** and * represent significance at the 1%, 5% and 10% levels respectively.

Table 9 presents the regression results of different types of ownership concentration on accounting performance and firm valuation. In this regression we control for blockholding in general. In Table 8, we analyzed family firms without controlling for blockhoding of other firms. Thus, the results could have been driven by general tendency of blockhoding firms to have higher performance. The results of Table 9 confirm that moderate level of family ownership has a positive and statistically significant relationship with ROE in column 2 and Tobin's Q in column 4.

Table 9 Blockholding Type and Performance

	1	2	3	4	5
	ROA	ROE	Profit Margin	Tobin's Q	Tobin's Q
D(FamilyLow)	0.487	3.769**	0.307	0.550***	0.219
	(0.77)	(2.22)	(0.49)	(4.49)	(1.03)
D(FamilyMedium)	-0.027	0.721	-0.337	0.238*	-0.308
	(-0.04)	(0.40)	(-0.51)	(1.83)	(-1.37)
D(FamilyHigh)	0.727	3.181*	-1.402**	0.142	0.020
	(1.07)	(1.76)	(-2.09)	(1.08)	(0.09)
D(Block)	-0.600	-0.329	-0.698	0.181	-0.259
	(-0.94)	(-0.19)	(-1.10)	(1.45)	(-1.20)
Ln(firm size)	1.178***	3.755***	1.297***	0.061**	0.368***
	(8.97)	(10.80)	(9.96)	(2.37)	(8.29)
Ln(firm age)	0.698***	1.467**	0.966***	0.001	0.352***
	(3.07)	(2.39)	(4.28)	(0.03)	(4.57)
Leverage	-0.047***	-0.148***	-0.031***	-0.004***	-0.009***
	(-12.88)	(-15.31)	(-8.38)	(-5.94)	(-7.56)
Sales growth	0.053***	0.154***	0.054***	0.002	-0.006*
	(5.65)	(6.44)	(5.73)	(1.27)	(-1.80)
Investment intensity	0.300***	0.611***	0.233***	0.042***	0.015
	(5.68)	(3.99)	(4.44)	(4.07)	(0.82)
Constant	-9.462***	-32.937***	-5.208*	0.984	-2.689**
	(-3.13)	(-4.24)	(-1.74)	(1.64)	(-2.58)
Industry dummies	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes
Observations	1214	1076	1214	1213	1212
Adjusted R^2	0.282	0.317	0.271	0.184	0.311

Source: Computed from Panel of Finnish listed firms, over 2007-2018 period. The variables for the analysed sample of 132 firms and 1414 firm-year observations include ROA, ROE, Tobin´s Q, dividend yield, stock returns, firm size, firm age, leverage, one-year sale's growth and investment intensity. Family firm is defined as families with blockholding of at least 10%. The t-stats are in parentheses and are calculated with clustered robust errors. ***,** and * represent significance at the 1%, 5% and 10% levels respectively.

This implies a positive coefficient for firms in which a family member has moderate stake. This supports Maury (2006) findings that family control improves valuation at lower stake levels, and the benefits of family control starts to taper off at high stake levels also supporting our second hypothesis.

On the other hand, the coefficients of other blockholders that are non-family blockholdings stake ranging are negative and statistically insignificant for ROA (column 1), ROE (column 2), Net profit margin (column 3) and dividend yield (column 5). This tend to support the view that non-family blockholders behave differently from family blockholders. We may argue, that as family blockholders stake in the firm is a substantially proportion of their wealth, they have both incentive and opportunities to mitigate agency cost, while other bondholders, though substantial in the firm, do not have such an effect, probably due to their relatively smaller stake of the overall investment in one firm. We may argue that the board representative of the other blockholders such as the state or investment firm lack the incentive that family owner has to actively get involved in monitoring.

5.2 Family Ownership and Generations

Our third hypothesis argues that the generation of founder increases performance and valuation. Also prior empirical results support the assertion that generational stage of family play an important role in market valuation of family firms. We examined the impact of generational stage of ownership on accounting performance and firm valuation. Table 10 presents the regression results of generation of family ownership on ROA (columns 1 to 4) and ROE (columns 5 to 8). The coefficients of ownership at the founder stage is positive in all the regression equation results, in particular the coefficient is positive and statistically significant for ROE in column 8. This implies family firms at the founder stage benefits positively from the vision and entrepreneurship of the founder more than the possibility of expropriating private benefits. The resilience and active involvement of the founder in the firm will have positive impact on firm performance. This is consistent with empirical results of positive accounting performance at the founder stage by Anderson and Reeb (2003) and Isakov and Weisskopf (2014).

Table 10 Performance, Family Ownership and Family Generations

	1	2	3	4	5	6	7	8
	ROA	ROA	ROA	ROA	ROE	ROE	ROE	ROE
D(Founder)	1.317			1.315	3.630			4.401*
	(1.50)			(1.40)	(1.58)			(1.77)
D(Heir)		1.429**		1.294*		1.786		2.635
		(2.19)		(1.76)		(0.98)		(1.27)
D(Investor)			-1.249**	-0.578			-0.931	0.824
			(-2.18)	(-0.87)			(-0.59)	(0.44)
Ln(firm size)	1.075***	1.057***	0.990***	1.067***	3.154***	3.070***	3.016***	3.235***
	(7.46)	(7.43)	(6.88)	(7.15)	(8.26)	(8.14)	(7.91)	(8.14)
Ln(firm age)	0.581**	0.493*	0.588**	0.552**	1.069	0.922	1.009	0.970
	(2.31)	(1.96)	(2.34)	(2.18)	(1.56)	(1.34)	(1.47)	(1.41)
Leverage	-0.040***	-0.041***	-0.040***	-0.040***	-0.127***	-0.129***	-0.127***	-0.128***
	(-9.05)	(-9.27)	(-8.97)	(-9.03)	(-10.80)	(-10.99)	(-10.85)	(-10.83)
Sales Growth	0.065***	0.067***	0.066***	0.065***	0.180***	0.184***	0.183***	0.179***
	(5.71)	(5.85)	(5.80)	(5.67)	(6.25)	(6.42)	(6.39)	(6.23)
Investment Intensity	0.288***	0.294***	0.282***	0.289***	0.602***	0.612***	0.605***	0.611***
	(4.89)	(4.99)	(4.78)	(4.91)	(3.39)	(3.44)	(3.40)	(3.44)
Constant	-11.830***	-11.087***	-10.737***	-11.558***	-35.599***	-33.733***	-33.520***	-36.077***
	(-3.75)	(-3.55)	(-3.43)	(-3.65)	(-4.25)	(-4.06)	(-4.02)	(-4.27)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	877	877	877	877	739	739	739	739
Adjusted R^2	0.263	0.265	0.265	0.267	0.281	0.279	0.279	0.281

Computed from Panel of Finnish listed firms, over 2007-2018 period. The variables for the analysed sample of 132 firms and 1414 firm-year observations include ROA, ROE, Tobin´s Q, dividend yield, stock returns, firm size, firm age, leverage, one-year sale's growth and investment intensity. Family firm is defined as families with blockholding of at least 10%. The t-stats are in parentheses and are calculated with clustered robust errors. ***,** and * represent significance at the 1%, 5% and 10% levels respectively.

Table 11 presents the regression of the generational stage of family ownership on market valuation of firms. The coefficients of firm ownership generation at the founder stage has positive and statistically significant coefficient for Tobin's Q in columns 1 and 4. This implies that market valuation of the firm at the founder stage is high supporting the perception that the founder brings the vision, entrepreneurial spirit and special skill to the firm. The regression coefficient of ownership generation is negative at the heir or descendant stage for Tobin's Q in column 2 and negative in column 4. This implies that at the descendant stage, the market changes its perception and the negative side of expropriation of private benefits outweighs the positive impact of family ownership. This is consistent with findings in Isakov and Weisskopf (2014). The coefficients of investor is positive and significant in the regression results of Tobin's Q in column 3 and positive in column 4 of table 14. This implies that the market perception of founder stage is positive even though it has a negative relationship with accounting performance.

The findings support the view that market valuation of firms are high at both the founder stage and to some degree at investor stage compared with those of non-family blockholders. However, market valuation is higher at the founder stage and their accounting performance is higher than that of family firms at the descendant and investor stage. This is consistent with previous studies that founders are the drivers of value for the positive perception by market participants and a high value is placed on their vision and entrepreneurial spirits by market participants than the possibility of expropriation of private benefits. This valuation is reversed by the market participants at the descendant stage probably because of the fear of nepotism and expropriation of private benefit by the family at the expense of other shareholders. These results support our third hypothesis.

5.3 Family Ownership and Family Involvement

Our last two hypotheses states that the family involvement of founder in a leadership role has a positive effect on firm performance and valuation and that professional CEO in the family firms has a positive effect on firm performance and valuation.

Table 12 presents the regression results of the degree of family involvement on accounting performance and firm valuation. Previous literature on family firm find that the behavior of family firms depends on the degree of involvement of family members in the firm. Family can exercise control through active involvement in management with a family member CEO or by monitoring through representation on the board.

Table 11. Valuation, Family Ownership and Generation

	1 Tobin's Q	2 Tobin's Q	3 Tobin's Q	4 Tobin's Q
D(Founder)	0.284*			0.332*
	(1.66)			(1.81)
D(Heir)		-0.266**		-0.149
		(-2.08)		(-1.03)
D(Investor)			0.185*	0.189
			(1.65)	(1.46)
Ln(firm size)	0.085***	0.074***	0.085***	0.092***
	(3.01)	(2.67)	(3.01)	(3.15)
Ln(firm age)	0.026	0.029		0.027
	(0.54)	(0.59)	(0.26)	(0.54)
Leverage	-0.003***	-0.003***	-0.003***	-0.003***
	(-3.73)	(-3.77)	(-3.98)	(-3.79)
Sales Growth	0.004	0.004*	0.004*	0.004
	(1.57)	(1.75)	(1.78)	(1.62)
Investment Intensity	0.042***	0.041***	0.043***	0.042***
	(3.62)	(3.55)	(3.72)	(3.66)
Constant	0.349	0.477	0.429	0.252
	(0.57)	(0.78)	(0.70)	(0.41)
Industry dummies	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes
Observations	877	877	877	877
Adjusted R^2	0.209	0.210	0.209	0.212

Source: Computed from Panel of Finnish listed firms, over 2007-2018 period. The variables for the analysed sample of 132 firms and 1414 firm-year observations excluding widely held firms and include ROA, ROE, Tobin´s Q, dividend yield, stock returns, firm size, firm age, leverage, one-year sale's growth and investment intensity. Family firm is defined as families with blockholding of at least 10%. The t-stats are in parentheses and are calculated with clustered robust errors. ***,** and * represent significance at the 1%, 5% and 10% levels respectively.

The coefficient of family active involvement with CEO is neutral in column 1 for ROA but negative and statistically significant in column 4 for Tobin's Q. This implies the markets value active family involvement in CEO position as a high possibility to expropriate private benefit and market then price this risk through reduction in firm value but the accounting performance is not negatively affected.

The coefficient of family member on the board is estimated for ROA and Tobin's Q. The coefficients of family member proportion on the board in column 2 and 3 is positive and statistically significant. This implies that when family members are only involved in control through representation on the board, this have positive impact on accounting performance. Even though the relationship with accounting performance is positive with family representation on board, this relationship does not exist with market valuation. The markets do not find any value added in having family members on board.

The interactions of family member CEO and proportion of family members on the board is also insignificant. This indicates that active family involvement negatively only the valuation of family firms. This contradicts findings in Maury (2006) who found that active ownership does not change the value premium of family firms. Our finding is consistent with the theoretical perspective that while an increase in monitoring of management by representation on the board will result in better alignment of interest between the owners and manager with positive effect, the active involvement of the family member as CEO may harm minority shareholders.

Table 12 Family Ownership and Active Involvement in Management

	1	2	3	4	5	6
	ROA	ROA	ROA	Tobin's Q	Tobin's Q	Tobin's Q
D(FamilyCEO)	-0.184		-0.120	-0.549***		0.065
	(-0.26)		(-0.07)	(-3.89)		(0.19)
FamilyBoard		4.804***	5.970***		-0.365	0.026
		(2.97)	(3.33)		(-1.13)	(0.07)
D(FamilyCEO)*FamilyBoard			-4.269			-1.613*
			(-0.87)			(-1.65)
Ln(firm size)	1.091***	1.330***	1.295***	0.021	0.097***	0.087***
	(8.70)	(8.19)	(7.86)	(0.87)	(2.97)	(2.65)
Ln(firm age)	0.752***	0.360	0.334	0.005	0.009	-0.001
	(3.35)	(1.28)	(1.18)	(0.12)	(0.16)	(-0.02)
Leverage	-0.047***	-0.038***	-0.038***	-0.004***	-0.003***	-0.003***
	(-12.81)	(-7.66)	(-7.60)	(-5.46)	(-3.38)	(-3.33)
Sales Growth	0.054***	0.068***	0.065***	0.003	0.009***	0.008***
	(5.75)	(4.85)	(4.61)	(1.54)	(3.08)	(2.71)
Investment Intensity	0.297***	0.316***	0.329***	0.043***	0.049***	0.055***
	(5.60)	(4.88)	(5.00)	(4.15)	(3.80)	(4.19)
Constant	-8.852***	-12.417***	-12.702***	1.498***	-0.649	-0.539
	(-3.03)	(-3.38)	(-3.34)	(2.63)	(-0.88)	(-0.73)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1214	658	656	1213	658	657
Adjusted R^2	0.281	0.280	0.281	0.179	0.244	0.252

Source: Computed from Panel of Finnish listed firms, over 2007-2018 period. The variables for the analysed sample of 132 firms and 1414 firm-year observations include ROA, ROE, Tobin´s Q, dividend yield, stock returns, firm size, firm age, leverage, one-year sale's growth and investment intensity. Family firm is defined as families with blockholding of at least 10%. The t-stats are in parentheses and are calculated with clustered robust errors. ***,** and * represent significance at the 1%, 5% and 10% levels respectively.

Table 13 columns 1 and 3 presents the regression results of outsider CEO of family firms and other firm characteristics as control variables on ROA and Tobin's Q. The coefficient of passive family involvement in management with the appointment of outsider professional CEO is positive in

regression results of ROA columns 1 and regression results of Tobin's Q in column 3. The coefficient of outsider professional CEO of family firms is statistically significant for market valuation in column 3. Table 13 columns 2 and 4 also presents the regression results of the interactions and combined effect of outsider Professional CEO and family board representation on ROA and Tobin's Q respectively. The coefficient of the interactions and combined effect of outsider Professional CEO and family board representation is very positive and significant for ROA in column 2. This implies that outside CEO yield additional premium in a family firm. The coefficient of outside Professional CEO in family firm is positive and statistically significant for market valuation in column 4, while board member concentration is negatively related to firm valuation. This family representation on board does not improve firm performance unless family firm has on outside CEO, but the markets seem to value only the professional CEO without seeing any value benefit of having family members on board – in fact, markets dislike family members on board. This is consistent with findings by Anderson and Reeb (2004), Amit and Villalonga (2006), Morck et al. (2000) and Perez-Gonzalez (2006) who found that family firms managed by a professional outside CEO perform better than non-family firms and family firms managed by descendants.

Table 13. Family Ownership and Passive Involvement in Management

	1 ROA	2 ROA	3 Tobin's Q	4 Tobin's Q
D(ProfCEO)	0.669	-0.407	0.422***	0.393***
	(1.64)	(-0.58)	(5.32)	(2.83)
FamilyBoard		-0.351		-1.103**
		(-0.13)		(-2.02)
D(ProfCEO)*FamilyBoard		7.561**		0.390
		(2.13)		(0.55)
Ln(firm size)	1.143***	1.275***	0.072***	0.112***
	(9.14)	(7.60)	(2.96)	(3.36)
Ln(firm age)	0.714***	0.336	-0.015	-0.016
	(3.17)	(1.19)	(-0.35)	(-0.29)
Leverage	-0.047***	-0.037***	-0.004***	-0.003***
	(-12.94)	(-7.59)	(-6.04)	(-3.46)
Sales Growth	0.053***	0.063***	0.002	0.007***
	(5.65)	(4.44)	(1.19)	(2.59)
Investment Intensity	0.303***	0.332***	0.045***	0.059***
	(5.70)	(5.03)	(4.33)	(4.49)
Constant	-9.652***	-11.809***	0.769	-0.913
	(-3.31)	(-3.18)	(1.36)	(-1.24)
Industry dummies	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes
Observations	1212	655	1211	655
Adjusted R^2	0.282	0.283	0.188	0.263

Source: Computed from Panel of Finnish listed firms, over 2007-2018 period. The variables for the analysed sample of 132 firms and 1414 firm-year observations include ROA, ROE, Tobin´s Q, dividend yield, stock returns, firm size, firm age, leverage, one-year sale's growth and investment intensity. Family firm is defined as families with blockholding of at least 10%. The t-stats are in parentheses and are calculated with clustered robust errors. ***,** and * represent significance at the 1%, 5% and 10% levels respectively.

6. Summary and Conclusions

The classical agency theory revolves around the conflicts of interest between managers and shareholders. This conflict can be reduced for firms with blockholding shareholders such as family firms because they have an incentive to control management because the investment in the firm constitute a significant portion of their wealth. As a result, they are able to mitigate agency costs, which is also beneficial to minority shareholders. However, their involvement in the control of management may lead to pursuance of suboptimal decisions and rent seeking behavior and expropriation of private benefit at the expense of minority interests with value destroying effect on the firm. This can then result in principal principal problems. Family firms are blockholders and empirical literature has provided evidence that family firms outperform other firms in terms of profitability and valuation. However, previous studies on family firms

provided mixed conclusions on the signs and magnitude of the impact of generational stage and extent of involvement on performance and valuation. Non-family blockholders firms such as state and institutional investors do not have the incentive to control management but will rather diversify their portfolio or monitor through the board, as a result, they will also not use insider information to extract private benefits to the detriments of minority shareholders. As a result, family owned firms will behave differently from public firms with non-family blockholders and widely held firms and this will in turn have different impacts on their market value and accounting performance.

Despite the empirical literature on family firms, the empirical evidence on the distinction between the family blockholders and non-family blockholders and the impact of their behavior on the market and accounting performance of firms are scanty. Most studies of family business also focused exclusively on family firms without a control group of non-family firms. Generation of family ownership and dynastic management and control may also have implications on the market valuation and performance of firms.

This paper provides some empirical evidence on performance of family firms. The paper examines the impact of different ownership type on accounting performance and market valuation. The paper analyze the behavior of family firms and non-family blockholders to investigate whether all blockholders can mitigate agency costs or if family firms have special characteristics that distinguish them from non-family blockholders and widely held firms. We also analyse the effect of different levels of family ownership concentration, level of involvement in controlling management and generational stage of family on accounting performance and market valuation using panel data of 132 Finnish listed firms over the period 2007 to 2018.

In general, we find that family firms have a higher accounting performance and market valuation than non-family blockholding firms. We also find that moderate family ownership stake increase firm performance and drives high firm valuation. Our results suggests that the markets value the benefit of family ownership to a level at which the family does not have the total control of the firm. The markets perceive that the likelihood of expropriation of private benefit by family firm is greater with higher shareholding stake, which may result in lower valuation.

As we analyzed the generation effect of families on firm performance, we found that the founder and to some degree descendent stage improve firm performance. In addition, the resilience and active involvement of the founder in the firm results in positive accounting performance at the founder stage. Our findings support the view that market valuation of firms are high at both the founder stage and the heir or descendants stage than those of non-family blockholders. Market perception of positive accounting performance persist at the investor stage However, market valuation is higher at the founder stage and they outperform family firms at the heir or descendant and investor stage.

Our results also show that the market value is reduced with the active family involvement as CEO because of the possibility of expropriation of private benefit and market then price this risk through reduction in firm value. We find that an increase in monitoring of management by representation on the board will result in better alignment of interest between the owners and manager with

positive effect on accounting performance, and on the other hand, the active involvement of the family member as CEO with the possibility of extraction of private benefits by family blockholders is harmful to minority shareholders. This implies that when family members are only involved in control through representation on the board, this have positive impact on performance. Our results show that outside CEO yield additional premium in a family firm because family firms managed by a professional outside CEO perform better.

Our results should be related to the corporate governance environment in Finland. Finnish listed firms have high ownership concentration, with blockholders ranging from founding families, investors, state, pension funds and investment firms. Family owned firms constitute 58 % of the firms listed on OMX Helsinki in Finland, with family ownership ranging from 10 % to more than 50 % and their ownership is very stable over time. In the literature, concentrated ownership is usually accompanied by weak investor protection with minority shareholders exposed to private benefits extraction by controlling shareholders. However, in our empirical findings we did not find any strong support for extracting private benefits, suggesting that strong minority investor interest protection seems to work very well in Finnish context.

In conclusion, our results shows that family blockholding have positive impact on performance and valuation of firms. However, the impact varies depending on the generational stage of family firms and the level of involvement of family in controlling management. Family firms managed by outsider CEO outperform firms managed by descendant CEO and family involvement through board representation and diversity enhance firm value and performance.

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