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An Investigation of Family Entrepreneurship in Ownership and Firm Performance: Empirical Evidence from Pakistan*

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Abstract

In today's financial economics literature, the impact of innovative family ownership and management on firm performance is a prominent concern. In this study, the existence of family firms in the listed sector of Pakistan's economy is investigated. The objective of this study is to examine the performance-oriented relationship of family ownership and active involvement of family member at the CEO position. The theoretical perspectives that underpin this research are agency and stewardship. This analysis used a sample of 315 publicly traded companies from 2009 to 2019. The study's primary independent variables include family influence on ownership and family CEO. Financial performance is the dependent variable that is divided into accounting and market measures. The proxy for accounting measure is return on asset and proxy for market measure is Tobin's Q. This study employs univariate and balanced panel data analysis. For robustness of the analysis random-effects GLS regression is carried out. The empirical results show that that Family Firms outperform Non-Family Firms both in terms of accounting and market measures. In the later part family CEOs firms outperform the firms that have either insider or outsider non-family CEOs. This superior performance is subjected to the positive and statistically significant association between family ownership, management, and financial performance.

Keywords: Family Firms, Family Ownership, Chief Executive Officer, Listed Firms, Financial Performance

JEL Classification Code: C33, G30, G32, M10

1. Introduction

The enterprising family concept refers to a business-owning family that shares a common focus on preserving and growing the family's wealth resulting in the formation of a Family Firm (FF) (Berent-Braun & Uhlaner, 2012). Most firms around the globe are types of firms run by their enterprising families that function as a team. This association of a business-owning family is considered responsible for the success and failure of its organization, thus giving familial identity to a business entity (Sraer & Thesmar, 2007). FFs are the overlapping structures of two completely different institutions, family and business, and this mixed structure becomes the strength that provides FFs with a completive edge over non-family firms (NFFs) (Dyer, 2006). Schulze et al. (2003) described it as the ideal organizational structure that aligns the goals of owner and firm because the majority of shareholders and management belong to the enterprising family, thus ideally no conflict between shareholders and managers. In the simplest form, FFs are those firms where ownership and management belong to the enterprising family with the same goal and unity in actions.

FFs play a crucial role in both the developed and developing economies and are also the most common type of concentrated ownership structure. In the US, about 80%–90% of firms are the FF. In Europe, it is about 80%, Middle East 70–90% and Australia 60–70 %. In Asia, Hong Kong, Japan, and Taiwan have 70%, 33%, and 54% of firms

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as FFs, respectively (Steiger et al., 2015; Xi et al., 2015). FFs also have political implications other than economic influences (Wiwattanakantang, 2001). In Pakistan business community is also dominated by enterprising families and their firms (Ghani & Ashraf, 2005). In the scenario of Pakistan's economy, FFs are key factors not only in the economy but also in society, as in Pakistan, organizational structures are influenced by marriages within the family, tribe, religion, and race. FFs are empirically proved to be a major element in national economic development (Chua et al., 2009). These firms are promoting economic growth by creating employment and enhancing manpower because the majority of the new and small business startups are FFs (Zahra, 2005).

The dominant view of family business available in the literature is massively influenced by studies from developed economies, whereas developing economies are not covered sufficiently. Among other drivers of the performance difference, the better or worse performance outcomes of FFs also depend on the context of each country (San Martin-Reyna & Duran-Encalada, 2012). The geography of the study sample also affects the result of the study referring to family influence and firm performance. This means that by reporting robust empirical findings, the researcher can contribute to the discipline of the family business. Any research discipline suffers when findings cannot be generalized across other geographical or economic regions. The present study tries to answer two main questions regarding the presence of FFs in the South Asian economy of Pakistan. First, whether FFs perform superior to NFFs in terms of financial performance. Second, how family CEOs (FCEOs) affect the performance of FFs. The objective of this study is to examine the performance-oriented relationship of family ownership and the active involvement of family members in the CEO position.

1.1. Family Firms

Defining a FF and differentiating it from NFF has always been central to the academic discussion of family business research (Daspit et al., 2021). According to Anderson and Reeb, (2003b), FFs are those profit-oriented organizations that have long-term investors, implying multiple generations in work and senior management positions are occupied by the members from enterprising families. Cheng (2014) described the firms where founders or descendants of the family hold top management positions. Villalonga and Amit (2010) and Wang (2006) declared the base of common stock shareholdings for a firm to be identified as FF along with the involvement of family members in management or Board of Directors (BODs). The comprehensive definition of Astrachan and Shanker (2003) illustrates FFs based on three criteria. First, firms where the family with ownership controls manipulates and reforms the strategic direction of the firm. Second, the founder or its decedent runs the firm, and the family owns it. Third, the firm with more than one person from the family has management responsibility, and the family has the controlling rights.

Nonetheless, this is the qualitative approach to defining the FFs. In the family business empirical research, the most common approach is the quantitative approach that suggests cut-off points and the presence of family members (both numerically) declare a firm as FF. The commonly used quantitative measures are a firm is FF either if there is a person from the family on BODs, on the position of CEO, chairman of BODs, and/or there is a considerable proportion of shares held by the members of the family. However, there is little uniformity regarding the percentage (1%, 5%, 10%, 25%, e.t.c) of shares held to declare a firm as a FF. The same is true for the number of family members on the BODs. Bartholomeusz and Tanewski (2006), for the recognition of FFs, proposed that if a firm has at least one family member on the BODs or top management is a FF. Daily and Dollinger (1993) suggested that firms have at least two family members at the top executive positions to be labeled as FF. Other researchers proposed the identification of FFs based on equity percentage held by the family. Anderson and Reeb (2003a) recommended that if a founding family owns 5% of the total equity, the firm is a FF. Klein et al. (2005) used voting rights (10% or more) as the identification criteria for FFs. Chu (2009) proposed the FF definition based on two parameters; the percentage of equity owned by the family and representatives from the family on the BODs.

1.2. Theoretical Perspective

Stewardship and agency perspectives are the prominent approaches for discussing management and ownership features of the FFs (Madison et al., 2016). Stewardship theory provides a lens for evidencing the positive relationship between FF and financial performance. In contrast, the agency perspective provides a theoretical base for findings associated with the negative relationship between FFs and financial performance.

1.3. Stewardship Perspective

Stewardship theory is an optimistic approach that assumes agents and principals both work in favor of each other, and there is harmony in the organization (agents are the managers and principals are the owner/shareholders of the firm). FF dynamics is closely related to the stewardship theory. Because most of the organizational management and shareholdings belong to the enterprising family, there are fewer agency costs, and a stewardship perspective is expected to be found (Fama & Jensen, 1983). Several studies found that FF is a

better management and ownership structure that not only safeguards the interests of family shareholders but also of minority shareholders. FFs have relatively higher Tobin's Q, which is the proxy for market performance and represents shareholders' trust in the management and ownership of FFs (Chu, 2009). The presence of FCEOs enhances the performance of FFs because they are better performers than the professional CEOs (López-Delgado & Diéguez-Soto, 2015). Anderson and Reeb (2003a) elaborated in their findings that it is wrong to think that FCEOs are less efficient and are associated with negative performance. Nonetheless, FCEOs foster financial performance and help corporations sustain economic stability. This active involvement of family associated with positive performance of firm enlightens the stewardship perspective prevailing in FFs.

1.4. Agency Perspective

Agency theory is founded on the concept of an ongoing war of interest between principals and agents. Principals want to increase their return from the investment, whereas agents try to exploit this by enjoying private benefits on behalf of principals' investment (Bendickson et al., 2016). FFs structure exhibits unique characteristics, but sometimes these characteristics get associated with the entrenchment effect (Moores, 2009). Family managers and owners work for their benefit and exploit the right of outsiders and minority shareholders, thus associating FFs with agency costs sometimes even greater than NFFs. These Agency conflicts and entrenchment effects become more serious when family members are in the executive positions, serving as CEO, Chairman of BODs, and other administrative positions (Chen et al., 2005). However, this does not mean FCEOs are less efficient, but it shows the tradeoff between the interest of enterprising families and other outsider and minority shareholders (Morck et al., 1988).

2. Literature Review

There exists a brief pool of literature regarding enterprising family influence and its impact on firm performance. However, a mainline can be drawn between two pools of studies. The first pool supports and claims a positive impact of family ownership and management on firm performance. FFs exhibit unique characteristics that give them a competitive edge over NFFs. This viewpoint also enlists trust among the stakeholders because FFs are more reliable, and their investment strategies are more effective than their rivals. In addition to this, FFs, where the family is actively involved in management, are at a competitive advantage and have higher financial performance measures. The other pool argues for the negative impact of family influence on firm performance. This body of literature reports that the FF is another concentrated ownership structure of wealth expropriation. Family members keep profit to themselves and incur private benefits at the cost of other shareholders. Diversified ownership protects the interests of minority shareholders, and firms with this type of ownership structure perform better than the FFs. This favors the diversified ownership structure, with the professional individuals on the BODs and CEO position. In this study, we reviewed and synthesized influential pieces of literature relating to both pools of study; first, literature with negative findings and then, literature with positive findings, respectively.

Morck et al. (1988) investigated the relationship between ownership and market valuation of the firm. His findings were negative for family ownership that Tobin's Q was low for the firms where CEO was a family member. Tobin's Q raised as the ownership by the members of BODs increased and was also higher for the outsider CEO. Burkart et al. (1997) proposed that ownership dispersion and managerial discretion come with a cost and benefits. It is right that a concentrated shareholding structure is efficient, but it can also cause wealth expropriation of minority shareholders. Claessens et al. (2002) used the data of corporations from eight different East Asian economies. They found that as control rights exceed cash flow ownership of majority shareholders, the value of the firm declines. This negative entrenchment effect is severe in the cases of those firms where control and ownership rights both are most shifted towards majority shareholders that are from the owner's family. Chen et al. (2005) findings revealed that there is no positive relationship between family ownership and the measured variable return on asset, return on equity, and market to book ratio, which means family ownership does not have a significant effect on the performance of the corporation in Hong Kong. The relationship was also negative with the performance in the case of FFs, where CEO duality existed.

Sciascia and Mazzola (2008) found that FFs hesitate in employing non-family skilled management, which decreases the efficiency of the firm. They suggested no positive impact of family management, and there was also no evidence that supports the fact that family managers are associated with solving conflicts arising in FFs. Fauzi and Locke (2012) investigated the board structure, ownership structure, and their impact on firm performance. Research revealed that BODs, board committees, and managerial ownership (i.e., diversified ownership) positively affect the firm performance; hence firms perform better under diversified ownership structure. O'Boyle et al. (2012) summarized the early theory and empirical findings for determining the relationship between family ownership and firm performance. Based on evolutionary psychology and agency theory findings of the meta-analysis were family ownership does not significantly impact firm performance, which depicts that involvement of the enterprising family does not improve a firm's financial

performance. Bambang and Hermawan (2013) examined that family ownership is associated with the expropriation of wealth and private benefits at the cost of minority shareholders. The situation gets worse when the family members are actively involved and are in top management positions. Sitthipongpanich and Polsiri (2015) analyzed the family influence in the weak institutional setting of Thailand combined with a deficiency of market-based management skills. In the analysis of FCEO and board characteristics relationship with the firm performance, they reported that the presence of FCEOs reduces firm value. The FCEOs are implied with the higher potential of wealth expropriation and lower competency that destroys firm value and adversely affects minority shareholders' rights.

Bopaiah (1998) provided evidence that FF is a better structure of ownership in the sense that the availability of credit to FFs is higher than the NFFs. The reason is that lenders see FFs as a more reliable debtor since FFs have fewer moral hazard problems than rivals. Mcconaughy et al. (1998) suggested that family-controlled firms performed better as being more efficient and valuable. Habbershon and Williams (1999) established the framework to find reasons behind contradiction in the results of FFs and to elaborate and highlight the competitive advantages of the FFs. They used Resource-Based View (RBV) to support findings from the field of strategic management. The RBV states that when the family is actively involved in its business, there is a bundle of resources that are inherited like working style, management, and family background that determines firm-specific behavior. The social and business phenomena of FFs make them perform better than the NFFs. This unique tempo that can be felt due to the involvement of the family in business is named "familiness." Mishra et al. (2001) examined the family influence on firm value and corporate governance. They found a positive relationship between family control and firm value. The relationship between FCEO and family value was positive in the cases of both young and older firms. They suggested that FFs have different government structures than the NFFs, and FCEO enhances the firm's performance.

Anderson and Reeb (2003a) documented family ownership is prevalent and substantial, and one-third of the S&P 500 are FFs. The results showed that family ownership tends to perform better than NFFs. Their findings rejected the common concept that in FFs, minority shareholders are adversely affected. In the case of active management of the family and firm performance, the relationship was positive and significant. The findings showed firms perform better when CEO is from the family and rejects the theory of FCEO being less efficient, unqualified, and having less expertise than the professional/hired NFCEO. Carney (2005) documented the relationship between corporate governance and the competitive advantage of FFs based on the resource-based view theory of the firm. The findings of the study advanced the argument that because of their idiosyncratic system of corporate governance, FFs have a competitive advantage. The family ownership advantages are to be analyzed in scarce environments that are in creating and utilizing social capital and endangered opportunistic investment processes. Villalonga and Amit (2006) proposed three fundamental elements that distinguish between FFs and NFFs and are ownership, control, and management. Their findings were that when the founder of the firm serves as the CEO, the FFs tend to create values, or if there is a hired NFCEO, the founder acting as the chairman is also beneficial. The value of the firm decreases if the descendants are in the CEO position. Chu (2009) investigated the performance of SMEs and findings were family ownership is the dominant ownership structure in Taiwan. The findings of the study revealed that FFs outperform NFFs in almost all aspects. FFs have longer age though are relatively smaller in size than the NFFs and the performance of FFs is higher both in terms of accounting and market measures.

Isakov and Weisskopf's (2014) results explained family-owned firms perform better and are more profitable than the NFFs. Family shareholders have a positive role in reducing agency costs. The active role of family was also encouraged that it helps the FFs in exercising better management that in turn increases performance and provides a competitive advantage to FFs over NFFs. López-Delgado and Diéguez-Soto (2015); targeted private FFs to examine the family involvement and firm performance relationship. Although there was a positive association between family ownership and company performance, FFs did not outperform NFFs appreciably. Non-family management was present in FFs where ownership was concentrated in the family, but non-family management was present. FFs with non-family management performed much worse than other enterprises. Because professional managers cannot function optimally due to the domination of family owners, the disadvantages of family ownership are likely to be mitigated by family engagement in management. Maseda et al. (2019) discovered a U-shaped and S-shaped relationship between the familial association and company performance, demonstrating the relationship's non-linear character.

Summing up the literature of FF/family ownership, FCEO and its impact on the firm performance yields contradictory results. Some findings support the claim others oppose it. This contradiction of results is a serious issue because there is no clear evidence that whether family ownership is beneficial or harmful for firm performance and when there is active management and control involved especially in the scenario of a south Asian developing economy like Pakistan. Dyer (2006) in his theoretical examination of the inconsistent results involving family and non-family enterprises, Dyer (2006) looked at a wide range of family ownership literature and claimed that most of them failed to describe the idea

of "family effect," leading to results that were misleading. Declaring a Firm as FF is crucial to the academic discipline of family business research (Daspit et al., 2021). Furthermore, the arguments supporting a negative association between family ownership and performance either made the wrong comparison between the different types of FFs or failed to compensate for the various variables that influenced the outcomes. Due to ambiguous definitional themes, Amit and Villalonga (2014) and Steiger et al. (2015) claim that a wide variety of FF performance research reports inconsistent and weak forecasts. Due to these foremost reasons behind the negative performance-oriented relationship reported in the literature, this study draws on a stewardship perspective. It aligns with the pool of literature that supports the positive relationship between family ownership and management with respect to firm performance.

3. Research Methods

3.1. Sample and Data

The sample comprises all the publicly listed non-financial firms on Pakistan Stock Exchange (PSX) for the period of 11 years, i.e. from 2009 to 2019. Non-financial firms are included in the sample only because for the financial companies and banking institutions, government taxation policies are different. Furthermore, there are many other legal problems in addition to the fact that their profit and performance measures are also considered differently. The initial sample yielded 421 firms. This research uses balance panel analysis. The conditions include all the firms with missing data are to be excluded, those firms are also excluded that got delisted during this period, and firms that are premature to this period (11 years). The final sample consists of 315 firms. Data is collected from annual reports of the companies and government archival sources like financial statement analysis reports of the State Bank of Pakistan and PSX.

Based on literature manifesting positive familial association with the firm financial performance, we hypothesize (Figure 1).

H1: *Family influence of ownership positively affects the firm performance or FF is positively associated with firm financial performance.*

H2: *FCEO in family firms positively affects the firm performance or performs superior to professional/hired NFCEO.*

3.2. Research Models

To examine the relationship between family ownership and management with firms' financial performance. Along with univariate analysis (descriptive statistics & correlation), the multivariate panel data analysis (Random-effects GLS regression) technique is used. To control for random effects, random effect models are used in the balanced panel analysis.

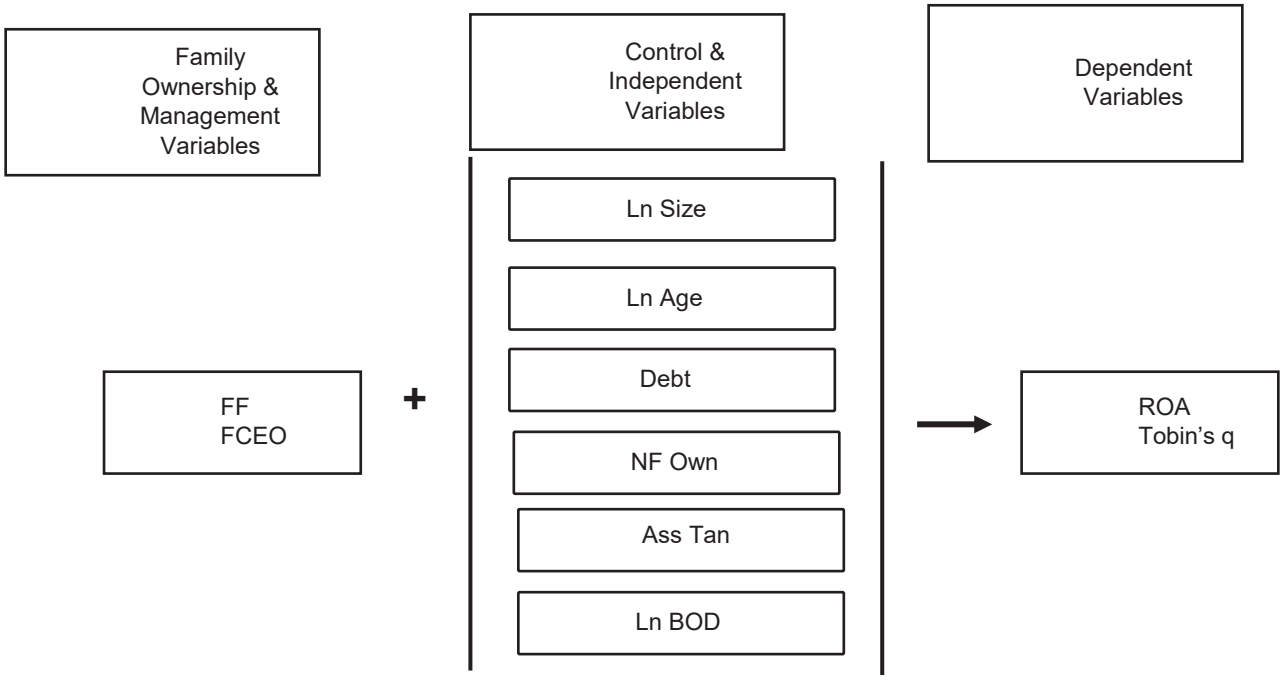

Figure 1: Conceptual Framework

To test H1 that is related to the FF relationship with the firm performance, two econometric models, i.e. equation (i) and (ii), are executed. Secondly, to test H2 that proposes within FFs FCEO has a relationship with the firm performance, two econometric models, i.e. equation (iii) and (iv), are executed. For later analysis, only FFs were analyzed.

$$\text{ROA}_{it} = \beta_0 + \beta_1(\text{FF})_{it} + \beta_2(\text{Ln Size})_{it} + \beta_3(\text{Ln Age})_{it} + \beta_4(\text{Debt})_{it} + \beta_5(\text{NF Own})_{it} + \beta_6(\text{Ass Tan})_{it} + \beta_7(\text{Ln BOD})_{it} + \varepsilon_{it} \quad \text{(i)}$$

$$\text{Tobin's Q}_{it} = \beta_0 + \beta_1(\text{FF})_{it} + \beta_2(\text{Ln Size})_{it} + \beta_3(\text{Ln Age})_{it} + \beta_4(\text{DEBT})_{it} + \beta_5(\text{NF Own})_{it} + \beta_6(\text{Ass Tan})_{it} + \beta_7(\text{Ln BOD})_{it} + \varepsilon_{it} \quad \text{(ii)}$$

$$\text{ROA}_{it} = \beta_0 + \beta_1(\text{FCEO})_{it} + \beta_2(\text{Ln Size})_{it} + \beta_3(\text{Ln Age})_{it} + \beta_4(\text{Debt})_{it} + \beta_5(\text{NF Own})_{it} + \beta_6(\text{Ass Tan})_{it} + \beta_7(\text{Ln BOD})_{it} + \varepsilon_{it} \quad \text{(iii)}$$

$$\text{Tobin's Q}_{it} = \beta_0 + \beta_1(\text{FCEO})_{it} + \beta_2(\text{Ln Size})_{it} + \beta_3(\text{Ln Age})_{it} + \beta_4(\text{DEBT})_{it} + \beta_5(\text{NF Own})_{it} + \beta_6(\text{Ass Tan})_{it} + \beta_7(\text{Ln BOD})_{it} + \varepsilon_{it} \quad \text{(iv)}$$

3.3. Variables and Measurements

***Dependent Variables**:*

Firm performance is the dependent variable of this study (Table 1). It is based on two financial measures, i.e., accounting and market measure. Accounting measure is based on historical data that explain how a firm did in the past, whereas market measure describes how investors in the financial markets perceive the firm.

Return on Asset (ROA) = EBITDA (Earnings Before Interest Taxes Depreciation & Amortization)/ BV of Assets

Tobin's Q = (MV of Equity + BV of Pref Stock + BV of Debt)/ BV of Assets

Family Ownership and Management Variables:

The core independent variables of this study are family ownership and family management. Family ownership refers to a firm's identification as FF or NFF, whereas family management refers to the CEO position held by a family member or non-family member.

Family Firm Identification/ Family Ownership:

FF is the primary variable of this research and overall central to this debate of family ownership and management concerning firm performance. FFs are those that have a family association. We used two criteria to identify FFs.

1st Criteria: Percentage of equity owned by enterprising family: To classify a firm as FF, first, this research uses the percentage of shares cut-off point that is; a firm is said to be FF if the family owns at least 25% shares of the respective firm (family means any member or all the members as a whole; cumulatively). This research uses the cut-off point of 25% for the FF identification because FFs in Pakistan are expected to be highly concentrated.

2nd Criteria: Presence of family members in BODs: The second criteria for a firm to be declared as a FF is the presence of family members on BODs. Family members are identified from the firm archival sources based on individuals that share the same bloodline or have family ties with the enterprising family in the form of marriage or any other legal relationship. For this research, the presence of at least two family members is a must for a firm to be identified as a FF. A dummy variable is used to identify the presence of a family member on the BODs.

When both the criteria are satisfied, i.e. in a given firm, the family has at least 25% shares, and at least two persons from the family are on the BODs, such a firm is declared as a FF. A dummy variable is used, which is equal to 1 if the firm is FF and equal to 0 if the firm is NFF.

Family CEO:

To find out whether FCEO performs better increases the efficiency of the firm, helps sustain its stability and foster profitability, or the NFCEO/ hired professional CEO performs better, the research applies a dummy variable that takes the value of 0 if the CEO in the FF is not from the family but equals to 1 if the member from the family occupies the CEO. For this purpose, surname, family name, titles of the family, and other family-related associations are used to recognize family CEOs. This variable is considered in the comparison of FFs only, i.e. FFs with FCEO and FFs with NFCEO.

Table 1 explains the dynamics of the sample, based on family ownership and management. Variables.

3.4. Independent & Control Variables

Non-Family Officers and Directors Ownership in BODs (NF Own BODs): In FFs, sometimes friends of the family

Table 1: Sample Description

Sample Description	
Total Firms	315
Non-Family Firms (NFFs)	113
Family Firms (FFs)	202
FFs with Family CEO (FCEO)	107
Family Firms with Non-Family CEO (NFCEO)	95

or members of institutions in BODs also hold a fragment of ownership. This non-family ownership is a significant consideration in this model of family association and firm performance. Its proxy is the percentage of family ownership less the percentage of insider ownership.

Asset Tangibility (Ass Tan): Asset Tangibility is the ratio of net fixed assets by the book value of total assets. Total assets include all the current and non-current assets, whereas net fixed assets include operating fixed assets after deducting accumulated depreciation.

Firm size (Ln Size): Firm size represents the worth or total value of all the assets possessed by a firm (current or non-current). Some studies show that as the size of the firm increases, so does its performance, but others suggest that an increase in size sometimes leads to poor performance. The firm size is measured by the natural logarithm of the firm's total assets.

Firm age (Ln Age): The firm's age is the number of years since the establishment of the firm or its predecessor company. Sometimes the age of the firm is positively related to the performance; other times, there exists a negative relationship. Firm age is measured by the natural log of years since establishment.

Debt in Capital Structure (Debt): Debt in capital structure is closely related to the ownership structure. It is a general concept that the FFs favor debt financing since it is not only good for keeping safe their pool of shares but also helps block any possibility of hostile takeovers. Diversified ownership structures prefer raising equity, an increase in debt financing results in the increase of amount to be paid as tax. On the other hand, equity increases dividend payout. However, this effect is controlled by dividing long-term debts by total assets.

BODs Size (Ln BODs): The size of the board is an important variable in consideration of firm performance. At times studies described a positive relationship between bigger board sizes. Other times performance is favorable for firms with smaller board sizes. However, this effect is controlled by taking a natural log of the size of BODs.

4. Results

4.1. Descriptive Statistics

Table 2 shows the summary of data statistics. Considering the proxy for accounting measure; the average ROA for all the 315 sample firms is 0.698 covering time period of 2009–2019. Whereas the mean value for the proxy of market measure i.e Tobin's Q is 6.616. This shows that on average sample firms of the study have higher investors trust. An alternate possible explanation can be that to match the requirement of panel analysis only those firms were included that never got delisted during the 11 years of analysis, so these firms are genuine high performers. Asset mean value 0.475 shows that the proportion of net fixed asset to book value of the total asset is above 47% for the sample firms. The value of two variables NF Own and FCEO are included in Table 2 because these two variables are included in the sample of FFs only, whereas sample statistics include measurements for all the samples (both FF & NFFs).

Table 3 indicates a positive and statistically significant correlation between the FF variable and financial performance measures. The values of both ROA (0.215) and Tobin's Q (0.149) are significant at less than 1%. The value of NF Own is also positively correlated with FF the reason that the presence of this variable can only be considered in the FFs and not in NFFs.

4.2. Multivariate Analysis

Table 4 provides the results of four models of Random-effects GLS regression. Model 1 results show a positive and statistically significant relationship between ROA and FF or family influence of ownership, and the relation is highly significant at *** <1%. The result of the accounting measure clearly shows a positive association of family ownership with firm performance. The results of Model 2 show a positive association between dependent variable Tobin's Q (market performance) and independent variable FF. This relation is

Table 2: Descriptive Statistics

Variables	Mean	Maximum	Minimum	Std. Dev	Observations
ROA	0.698	1.990	−1.210	0.147	3.465
Tobin's q	6.616	94.200	0.010	9.737	3.465
FF	0.641	1.000	0.000	0.479	3.465
Ln Size	14.879	19.220	8.250	1.700	3.465
Ln Age	3.523	5.070	0.690	0.501	3.465
Debt	0.193	4.400	0.000	0.254	3.465
Ass Tan	0.475	1.000	0.000	0.271	3.465
Ln BOD	2.059	2.890	1.950	0.160	3.465

Table 3: Correlation Matrix

Variables	ROA	Tobin's *q*	FF	Ln Size	Ln Age	Debt	NF Own	Ass Tan	Ln BOD
ROA	1.000								
Tobin's q	0.353***	1.000							
FF	0.215***	0.149***	1.000						
Ln Size	0.184***	0.024	−0.011	1.000					
Ln Age	0.027	0.059***	0.082***	0.073***	1.000				
Debt	−0.177***	−0.106***	−0.030*	−0.138***	−0.085***	1.000			
NF Own	−0.011	−0.069***	0.142***	−0.077***	−0.000	−0.024	1.000		
Ass Tan	−0.253***	−0.199***	−0.136***	−0.091***	−0.036**	0.261***	0.034**	1.000	
Ln BOD	0.193***	0.116***	0.025	0.230***	0.043**	−0.075***	0.022	−0.110***	1.000

In this table *, **, *** denotes significant at < than 10%, 5%, and 1% levels.

Table 4: Multivariate Analysis

Summary of Random-Effects GLS Regression		Model 1	Model 2	Model 3	Model 4
Variables		**Dependent**			
Family Ownership & Management		ROA	Tobin's q	ROA	Tobin's q
	FF	0.0622*** (0.0092)	2.5577*** (0.9023)		
	FCEO			0.0830*** 0.0109	4.4011*** 1.1309
C		–0.2235*** (0.0665)	–20.7343*** (6.0637)	–0.0556 (0.0798)	–16.1492** (7.7843)
Independent & controlled	Ln Size	0.0030 (0.0023)	–0.7107 *** (0.1805)	–0.0017 (0.0028)	–1.0757*** (0.2419)
	Ln Age	–0.0177** (0.0079)	6.2222*** (0.6190)	–0.0326*** (0.0102)	7.6183*** (0.8982)
	Debt	–0.0307*** (0.0105)	–0.7579 (0.5773)	–0.0192 (0.0136)	–1.2277 (0.8184)
	NF Own	–0.0018 (0.0014)	–0.3141** (0.1410)	0.0001 (0.0014)	–0.1961 (0.1501)
	Ass Tan	–0.0718*** (0.0101)	–1.6249*** (0.5587)	–0.0648*** (0.0156)	–3.7007*** (0.9707)
	Ln BOD	–0.1517*** (0.0279)	–7.5442*** (2.7045)	0.1353*** (0.0323)	6.0832* (3.3916)
	Prob > chi^2	0.0000	0.0000	0.0000	0.0000
	Adjusted *R*-squared:				
	Within (i)	0.0074	0.0621	0.0084	0.0822
	Between (ii)	0.3132	0.0309	0.3455	0.1000
	Overall (iii)	0.1371	0.0285	0.1358	0.0770
	Wald chi^2	168.20	140.28	126.28	140.36

In this table *, **, *** denotes significant at < than 10%, 5%, and 1% levels.

positive and highly significant at *** <1%. From the results of models 1 and 2 both the dependent variables that are the accounting measure ROA and market measure, Tobin's Q (both proxies for firm performance) are positively and significantly associated with the independent variable FF. Hypothesis H1a is accepted, and results are family ownership is positively associated with the firm performance, or in other words, FFs perform better than the NFFs.

Results of model 3 in Table 4, show a positive relationship between the dependent variable ROA and the independent variable FCEO, this relation is highly significant at ***<1%, that projects. FCEOs are positively associated with accounting performance. Model 4's results of dependent variable Tobin's Q and independent variable FCEO show a positive pattern that is also statistically significant at ***<1%. This means FCEOs are associated with the positive performance of family firms. Hypothesis 2 is accepted because both the performance measures ROA and Tobin's Q are positively and significantly related to the independent variable. This proves the statement that FCEOs perform better than the non-family CEOs or the firms where CEO positions are acquired by the enterprising FCEOs perform better than those FFs where insider our outsider NFCEOs are present.

5. Conclusion and Suggestions

Enterprising family influence is beneficial for the organization as it promotes financial performance. The traditional performance measure ROA and advanced performance measure Tobin's Q both favors the family ownership structure. This positive relationship has high statistical significance levels. This indicates that the firms where an enterprising family has large shareholdings result in outperforming the firms where there is diversified ownership or any other concentrated, group association, or block holder ownership. FFs perform better than the NFFs is empirically proved in the context of Pakistan. This relationship is proved by many prior researchers in the context of different countries (Yeh et al., 2001; Carney, 2005; Anderson & Reeb, 2003a; Chu, 2009; Kao et al., 2019).

Active involvement in family Management is also encouraged by the findings of this research study. The aspect of active family management discussed in this research is the CEO position occupied by the member of the family i.e. FCEO. The analysis of FFs showed that FCEOs is positively related to the market and accounting performance measures in the economic scenario of Pakistan. In other words, FCEOs firms outperformed the firms that have either insider or outsider NFCEOs. The superior performance of family active involvement maybe because the FCEOs have the power to make long-term investment decisions because of the trust of the enterprising family.

In contrast, the outsider NFCEO hesitates because of his job as he has no other affiliation with the firm than that. There is also greater stress on NFCEOs to show progress in the short term, and that is why NFCEOs are not interested in long-term investments. FCEOs outperform NFCEOs due to their superior efficiency and long-term investment (Amit & Villalonga, 2014; Isakov & Weisskopf, 2014; Poutziouris et al., 2015).

The findings of this study support the stewardship perspective regarding FFs, because superior long-term performance is impossible to attain without lesser agency conflicts or the complete alignment of management and owners' motives. In FFs there is overwhelming familial control, so there are fewer chances of agency issues that can be commonly observed in diversified shareholding firms.

In the context of developing countries, especially south Asian economies family business research dynamics are not yet taken under full consideration. Some important future suggestions that can be linked to this present research study can be.

The impact of family ownership can be observed with the percentage or proportion of family shareholdings and how this impact increases and decreases with the variation in shareholdings. This refers to estimating ownership and performance relationships in non-linear space.

Age of the FCEO can be used as a performance-oriented measure that is whether young FCEOs are better performers or the older and experienced ones.

Educational qualifications of family members that are actively involved in management with respect to firm performance could be an interesting avenue.

Generational aspects of enterprising families, i.e. whether founder FFs are superior performers or the descendant FFs, is a potential research direction.

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