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2026-04-10

Deposited version:

Publisher Version

Peer-review status of attached file:

Peer-reviewed

Citation for published item:

Paiva, I. (2020). Corporate governance and financial features of Portuguese family firms. *International Journal of Sustainable Entrepreneurship and Corporate Social Responsibility*. 5 (1), 1-19

Further information on publisher's website:

10.4018/IJSECSR.2020010101

Publisher's copyright statement:

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Corporate Governance and Financial Features of Portuguese Family Firms

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ABSTRACT

This study analyses whether corporate governance and financial features of private family firms are different from private non-family firms and discusses the role of private family firms in regional economic development. The evidence is drawn from a database of Portuguese private family owner-managed firms in order to determine the differences in the management and experiences of venture capital and other financing options. The main results demonstrated that family firms have significantly lower ratios of leverage, are less interested in venture capital, have much more experience in management and are less likely to be female than those in non-family firms. Our results indicate that the financial development of Portuguese private family firms is also consistent with the moderate tenet of family firms which could hamper their business growth and demonstrate that corporate governance features assist the family identity and the ability to exert family influence.

KEYWORDS

Agency Theory, Corporate Governance, Corporate Social Responsibility, Family Business, Family Firms, Financial Features, Non-Family Firms, Portugal, Socioemotional Wealth Theory, Stewardship Theory

INTRODUCTION

Many businesses in the global economy are family firms. In the European Union, family enterprises represent 60–90% of economic activities depending on the country and are responsible for two thirds of gross domestic product and workplaces. Family firms in Germany represent approximately 80% of all businesses and employ 80% of the working population (Block, 2009), while in Portugal they represent about 80% of all firms and more than 60% of the gross domestic product (Coimbra, 2008).

Although the private family firm is the predominant form of business organisation, the private family business sector has received sporadic attention from academics and policymakers (De Massis, Kotlar, Chua, & Chrisman, 2014; Salvato & Moores, 2010). In recent years, more empirical studies have investigated the structure, conduct and performance of listed family owner-managed businesses compared to non-family firms in the economy (Ali, Chen, & Radhakrishnan, 2007; Paiva Lourenço, & Curto, 2019; Borralho, Gallardo-Vázquez, & Hernández-Linares, 2019). This study focuses on the issue of the corporate governance and financial development of Portuguese private family businesses. It analyses whether the corporate board and financial features of private family firms are likely to

DOI: 10.4018/IJSECSR.2020010101

be different from private non-family firms and discusses the role of private family firms in regional economic development.

Current literature on the issue of corporate governance and financial development provides evidence that family firms adopt different financial practices from their non-family counterparts. Private family firms are at an advantage in terms of management experience and governance and a disadvantage when it comes to obtaining long-term debt and external equity. This may be the result of the unique characteristics of the private family business, namely overlapping owner-managerial and financial market imperfections (Chittenden, Hall, & Hutchinson, 1996; Lopez-Gracia & Aybar-Arias, 2000). Not surprisingly, private business owners often harm their growth potential because they do not address evolving growth barriers on the financial, managerial, technological and marketing side or other family objectives may even take priority over refrain growth (Poutziouris & Chittenden, 1996; Perry, Rahim & Davis, 2018). This study expands on prior research in that it focuses on analyses of corporate governance and financial development of Portuguese private family firms and comparisons to non-family firms.

With our research question, we address critical omission in the family business literature. The aim is to address the following two questions: What differences are there in the features of corporate governance in family firms compared to non-family firms? What are the differences in the financial features of family firms compared to non-family firms? The empirical analysis is based on a sample of Portuguese private family firms between 2013 and 2016. Portugal is classified as a country of civil-law origin with the highest level of ownership concentration (La Porta, Lopes-de-Silanes, Shleifer & Vishny, 1998). There is a large predominance of small and micro-sized firms in the Portuguese economy that are characterised by family firm governance.

We find that private family firms are less interested in venture capital and have significantly lower leverage ratios than non-family firms. Additionally, we find that family firm managers have much greater age, much more firm age and experience, are less likely to be female and live nearer the business than those of non-family firms. Our results indicate that the financial development of Portuguese private family firms is also consistent with the moderate tenet of family firms which could hamper their business growth. This demonstrated that family firms are skeptical about growth due to their control and their dependence on external funds. Additionally, results indicate that Portuguese private family firms have corporate governance features which assist the family identity and the ability to exert family influence (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). Our findings add value to the scarce research on private family businesses by looking at corporate governance and financial development for non-family businesses. The results suggest that not all family businesses adopt the same practices and research should treat them as a heterogeneous group.

The results contribute to the literature on family business, strategic leadership and financial development in various ways. First, as Howorth and Ali (2001) note, the Portuguese family firm has not been adequately explored in research. This study adds to the corporate governance literature, providing financial evidence on Portuguese family firms. We show that private family firms are systematically dependent on internally generated funds for their development which can be the cause of problems. Second, we provide evidence that furthers the explanation for the difference in the financial development of private family and non-family firms (Poutziouris, 2006). Specifically, most family firms have a relatively short-term approach to financing which may lead to capital deficiencies and lower growth than in non-family firms. We contribute by examining the importance of both financial development and family aspect to the financial orientation of firms and discuss the impact for regional and economic development. Our results demonstrate that private family firms have a lower level of leverage than non-family firms, and this reflects the overall economic situation of these firms in Portugal. Hence, our findings have implications for users of the information in financial statements, such as pension funds, banks, insurance companies and other financial investors.

Following this brief introduction, the next section explores the theoretical diversity in family firms. The third section reviews the definition and the fourth section reviews the corporate governance and

financial features of private family firms. In the fifth section, we describe the methodology and in the next section we demonstrate empirical results. Finally, the paper concludes with a brief discussion on certain initiatives that can stimulate the flow of long-term finance and corporate social responsibility to family owner-managed firms.

FAMILY FIRMS: THEORETICAL DIVERSITY

According to previous literature, agency theory (Jensen & Meckling, 1976), stewardship theory (Davis, Schoorman & Donaldson, 1997) and socio-emotional wealth theory (Gomez-Mejia, et al., 2007) are the theoretical frameworks that have dominated the family firm field (Chrisman, Kellermanns, Chan, & Liano, 2010).

The primary feature of agency theory which has made it attractive to accounting researchers is that it allows us to explicitly incorporate conflicts of interest, incentive problems and mechanisms for controlling incentive problems. Agency theory is rooted in the economic theory set out by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). This theory focuses on the potential conflict between the principal, usually the firm's owner, and the agent, generally, a non-owner manager. This leads to the problem of devising a contract which provides incentives for the agent to work in ways which benefit the principal. In agency theory, shareholders expect the agents to act and make decisions in the principal's interest. On the other hand, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000).

The adoption of agency theory alone may significantly limit the interpretation of management practice in family firms (Salvato & Moores, 2010). Agency researchers are careful to ensure that conflicts of interests are explicitly built into the analysis. That is, agency theory models are important to examine incentive problems and their resolution in an economic setting in which the potential incentive problem exists. It is generally taken for granted that family firms pursue both financial and non-financial goals (Gomez-Mejia et al., 2007; Kotlar & De Massis, 2013). The stewardship theory has been proposed as a complementary theory to corporate governance (Davis et al., 1997; Donaldson & Davis, 1991).

The stewardship perspective offers an original view of the motivations and behaviour of the controlling families (Davis et al., 1997). Stewardship theory has its roots in psychology and sociology and is defined by Davis et al. (1997) as a steward protecting and maximising shareholders' wealth through firm performance because, by so doing, the steward's utility functions are maximised. From this perspective, stewards are firms' executives and managers working for the shareholders, and they protect and make profits for the shareholders. Unlike agency theory, stewardship theory does not emphasise individualism (Donaldson & Davis, 1991), but rather the top management's role as stewards, integrating their goals as part of the organisation.

Agency problems may arise if the objectives of family, ownership, and management overlap (Morck & Yeung, 2004). Owners may try to enhance firm performance by introducing agency-control mechanisms such as performance-related pay (Schulze, Lubatin, & Dino, 2001) and non-executive directors (Westhead & Cowling, 1998). Agency theory, however, may not apply to closely held and managed family firms associated with little outside influence or representation, where the firm's and family's objectives are entwined. These family owners and managers may protect the family by focusing on non-financial objectives (Zahra, Hayton, & Salvato, 2004). Such behaviour may hamper the firm's financial performance. Stewardship theory may provide clearer insights into the ownership and management of these firms, and notably in relation to their focus on the firms' non-financial objectives.

Previous literature in agency theory argues that an employee or person is seen as an economic being, which suppresses an individual's own aspirations. However, stewardship theory recognises the importance of structures that empower the steward and offer maximum autonomy built on trust (Donaldson & Davis, 1991). It stresses that employees or executives should act more autonomously

so that the shareholders' returns are maximised. From the stewardship perspective, the dominant family is not driven by private economic interests, but also by altruism and care for the entire organisation and its stakeholders. The controlling shareholders and affiliated managers are stewards motivated by higher-level needs; they feel that they are part of the organisation and act for the good of its stakeholders. The stewardship perspective is particularly suitable to family firms because families often have an emotional involvement in their firms based on their reputation and personal satisfaction (Bubolz, 2001).

Daily, Dalton, and Canella (2003) argue that in order to protect their reputations as decision makers in firms, executives and directors are inclined to operate the firm to maximise financial performance as well as shareholders' profits. Accordingly, it is believed that the firm's performance can directly impact perceptions of their individual performance. Indeed, Fama (1980) contends that executives and directors also manage their careers in order to be seen as effective stewards of their organisation, whilst Shleifer and Vishny (1997) insist that managers return finance to investors to establish a good reputation so that they can re-enter the market for future finance.

Recently, stewardship theory has been presented as a useful framework to examine the ownership and management of family firms. Lee and O'Neill (2003) highlight the complementarity of agency and stewardship theories. Together, these two theoretical perspectives provide a broader framework to explore family firm ownership and management issues. Agency theory is appropriate when exploring firms in a context associated with a lack of goal congruence and where ownership and management are not in the same hands. On the other hand, stewardship theory is more applicable in contexts where the motives of the owners, managers and employees are aligned with those of the organisation (Davis et al., 1997; Schulze et al., 2001). If individuals are assumed to be self-serving within a performance-based system, agency theory suggests that owners may focus on financial objectives. Owners may introduce "outsiders" to monitor and control management behaviour (Le Breton-Miller, Miller, & Lester, 2011).

Non-financial goals are the key differentiator of family firms (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). This expresses itself in the role of emotions in family firms. Socioemotional wealth theory was introduced by Gomez-Mejia et al. (2007). Gomez-Mejia et al. (2007) identify the utilities which owners derive from the non-economic parts of the firm as socioemotional wealth. Schulze et al. (2001) argue that the exercise of control and authority represents an important source of satisfaction for the family. Many emotional concepts have been proposed in the past, including emotional capital (Sharma, 2004), emotional ownership (Bjornberg & Nicholson, 2007), emotional returns and costs (Astrachan & Jaskiewicz, 2008), or emotional value (Zellweger & Astrachan, 2008).

Gomez-Mejia, Makri and Kintana (2010) use the socioemotional wealth model to explain the specific behaviour of family firms. Family firms are expected to diversify less in order to protect their socioemotional wealth. Even though diversifying would mean bearing less risk, owners fear the loss of control over operations and thus avoid diversification. Sciascia, Mazzola and Kellermanns (2014) look at family management and the profitability of private firms and combine this with the socioemotional wealth perspective. They argue that socio-emotional wealth theory is positively related to financial performance at later generational stages.

In most studies, socioemotional wealth theory is used to complete and explain better the results of financial goals of family firms, based on agency theory (González & García-Meca, 2014; Paiva et al., 2019). In the family identity dimension, image and reputation are essential for family businesses because family members identify with the company and as such procedures of misconduct in the accountability process can reduce the family's social and emotional wealth (González & García-Meca, 2014). Paiva et al. (2019) use two agency and socioemotional wealth theories to investigate the relationship between the level of earnings management in family and non-family firms and analyse whether this relationship depends on the level of the monitoring effect from analysts. For UK listed firms, this study finds that family firms have higher levels of earnings management as compared to non-family firms unless they are followed by a significant number of analysts.

FAMILY FIRMS: THE DEFINITION

Westhead and Cowling (1998) compared the structure and performance of independent private firms and revealed, among other issues, that the adoption of certain family business definitions has a profound impact on the scale and performance of a family business activity. There is no widely accepted definition of a family business (Chua, Chrisman & Sharma, 1999; Handler, 1989; Littunen & Hyrsky, 2000; Massis, Frattini, & Lichtenthaler, 2012). Miller et al. (2007) give an overview of various definitions used in the literature. According to Hernández-Linares and López-Fernández (2018), in general, family firm literature does not provide an explicit definition of the family business concept. For instance, some studies define the family firm based on only one criterion, namely, “ownership” or “management”, while other investigations use more than one criterion (Zachary, Payne, Moore, & Sexton, 2017). The following definitions are reported in the literature:

A family firm “...is one in which multiple members of the same family are involved as major owners or managers, either contemporaneously or over time.” (Miller et al., 2007: 836)

“Family firms are those in which the family controls the business through involvement in ownership and management positions. Family involvement in ownership and family involvement in management is measured as the percentage of equity held by family members and the percentage of a firm’s managers who are also family members...” (Sciascia & Mazzola, 2008)

“A family firm is an organisation in which a family controls ownership and management and intends to pass these elements to the next generation.” (Astrachan & Shanker, 2003)

While the first two of the above definitions are classic academic definitions articulated by preeminent scholars in the field, the third is more determinant and places greater emphasis on continuity. An analysis of the literature suggests that researchers have frequently used four key issues when defining family firms. First, whether a single dominant family group owns more than 50 per cent of the shares in a business (Cromie, Stephenson, & Monteith, 1995; Donckels & Fröhlich, 1991). Second, whether members of an “emotional kinship group” perceive their firm as being a family business (Gasson et al., 1988). Third, whether a firm is managed by members drawn from a single dominant family group (Daily & Dollinger, 1992). Fourth, whether the company had experienced an intergenerational ownership transition to a second or later generation of family members drawn from a single dominant family group owning the business (Gasson et al., 1988). In addition, some researchers have taken multiple conditions into consideration when defining family firms (Hernández-Linares & López-Fernández, 2018).

In 2009, the European Commission published a report outlining the key issues for the development of the family business economy. They used the following definition of a family business: (a) the majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children’s direct heirs; (b) the majority of decision-making rights are indirect or direct; (c) at least one representative of the family or kin is formally involved in the governance of the firm; (d) listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital (European Commission, 2009). This provides a broad and clear definition of the family business for both private and publicly listed firms.

In Portugal, there is no official definition of family businesses and no legislative or regulatory disposition specifically addressing any type of “family business” or “family firms”.

The closest substitute for that official definition it is the one adopted by the Portuguese Family Business Association:

“A company is a family business if its ownership is wholly or substantially in the hand of one or more families, and the family has control over the management of the company.” (Coimbra, 2008)

This broad definition of the family business encompasses most of the companies currently in the country, including all companies owned and operated by a single person (one-person enterprises) and companies owned by a single person but employing and/or managed by other persons (sole proprietorship), practically all medium-sized enterprises and a substantial proportion of larger firms. There are some estimates that this definition covers about 70-80% of Portuguese firms, over 60% of the gross domestic product and 50% of the workforce (Coimbra, 2008).

The large variety of definitions for family firms raises some problems. Research analyses become difficult to compare. For example, many studies have analysed whether family firms perform better financially than non-family firms. The empirical study by Anderson and Reeb (2003) concluded that family firms perform better, or at least not worse than non-family firms, a conclusion that conflicts with the findings from other studies (e.g., Bennedsen, Nielsen, Perez-Gonzalez, & Wolfenzon, 2007; Holderness & Sheehan, 1988). Later, Villalonga and Amit (2006) show that the results of Anderson and Reeb (2003) are not robust to alternative definitions of family firms. In a similar study, Miller, Le-Breton Miller, Lester, & Canella (2007) show that only family firms with a lone founder outperform non-family firms. This illustrates that the lack of a widely accepted, transparent, and easy-to-use definition of the term “family firm” leads to the risk of making statements that do not apply to all family firms but only to a small subsample. Somewhat problematically, however, several researchers avoid the use of clear-cut definitions and maintain that the family business should be classified on a case-by-case basis.

Multiple definitions also hinder the testing of theories. Distinctions in definitions not only hamper comparisons between research but also the integration of theory (Poutziouris, 2006). Several theories predict differences between family and non-family firms but can only be tested if there is a clear definition of the family firm or general agreement on a set of distinguishing characteristics. Again, this problem can only be avoided by comparing the results of an empirical analysis using several definitions of the family firm and accepting only those results that do not change when an alternative definition is used.

The definitions of family firms have become more operational and specific in recent times. However, the absence of a definition of the family firm remains a frequent problem. It is broadly defined as a firm in which family members are predominant in operations, management and ownership regime, and thus can determine its destiny. In the case of the limited company, it is characterised by family members exercising control due to majority ownership. We also suggest measures can be used by research to estimate different characteristics of businesses, namely power, experience, culture and country dimensions. These measures make it possible to differentiate between the levels of family involvement.

CORPORATE GOVERNANCE AND FINANCE FEATURES OF FAMILY FIRMS

According to previous studies, family firms normally have the following characteristics: they are owner-managed, with the concentration of ownership control in the founder, and they have successive generations of family owner-managers (Poutziouris & Chittenden, 1996). Previous empirical studies aimed to understand family owners' preferences on how to control or manage firms and how to relate to the remaining stakeholders. By analysing the unique characteristics of family businesses, numerous studies found that the development problems of these firms are related to complex issues.

This stems in no small part from the fact that family ownership leads to conflicts of interest due to the existence of private benefits of control (Aguilera & Crespi-Cladera, 2012). In particular, the literature underlines the unique strengths and weaknesses of family firms which allow families to maintain their control. The family firm literature attributes the following strengths to family firms: knowledge of the business, family culture and strong identification with the firm, independence from the stock market, long-term viability, orientation towards self-financing, flexibility and rapid decision-making. On the other hand, weaknesses are defined as follows: less access to the capital market that can limit growth opportunities, difficulties in and resistance to attracting professional management, internal family conflicts that can transfer to the firm, tension in generational successions and continuities.

Conflicting family and business politics can derail the development of family firms as the growth of the business may be incompatible with the objective of perpetuating family control. Family members often play a relevant role in the provision of entrepreneurial, human and financial capital, and as a result, the future business growth and continuity plan are influenced by social and family-driven behavioural motives which are not always aligned with economic rationale. The appropriation of private benefits and control becomes salient in the succession of family firms as this is an important moment for decision-making in which families seek to maintain their control of their firm. The literature on family business demonstrates that succession decisions are relevant for firm performance and survival (Anderson, Duru, & Reeb, 2009); they are influenced by the preferences of controlling family managers and, in some cases, by the founder. Succession leads to weakness when controlling family managers put incompetent successors in place or when the family do not plan the succession. Morck and Yeung (2004) warn that when family control is transferred from a highly able entrepreneur to a family manager of the next generation, this heir is likely to be a less competent successor. Burkart, Pununzi, and Shleifer (2003) note that if the strategic goal of succession is to keep the firm within the family's control by handing management to a family member, it is less effective than transferring control to professional management.

Previous literature highlights the passive and distant role of women in family businesses, but also suggests that women start to intervene in management when corporate performance begins to deteriorate. Some earlier studies draw attention to women's role and influence in succession issues and the development of firms. Women sometimes assume the leadership of businesses, particularly family businesses, even in gender atypical businesses (Fernandes & Carvalho, 2017), where female leadership is still rare. When multiple family members are involved in a family business in managerial, ownership, or governance roles, the livelihoods and identities of many family members are directly linked to the firm (Salvato, Chirico and Sharma, 2010; García, Hernández & Hernández, 2018).

Maintaining family control may mean that governance structures assist the family identity and the ability to exert family influence (Gómez-Mejía et al., 2007), which may be reflected in financial performance. In the family identity dimension, image and reputation are essential for family businesses because family members identify with the company (González et al., 2014; Kelleci, Lambrechts, Voordeckers, & Huybrechts, 2019). This dimension may encourage family firms to adopt certain rules that are more efficient with governance practices than companies with dispersed capital.

Empirical literature on this has argued that corporate governance characteristics of family firms, such as ownership stake, firm management, board composition and other governance features can lead to policies to fulfil self-interest, e.g. maximizing personal bonuses, affecting the share value of the firm, etc. (Anderson & Reeb, 2004; Healy, 1985; Villalonga & Amit, 2006; Yang, 2010). Particularly, Villalonga and Amit (2006) provide evidence suggesting that family firms with a founder CEO have less severe agency problems than those with a descendent CEO. They also provide evidence suggesting that conflicts between family and non-family shareholders in descendent CEO firms are more costly than the owner versus manager conflicts in non-family firms.

Stakeholders with an interest in the survival, long-term growth and sustainable corporate prosperity of prolific small and medium-sized family enterprises have been concerned about the financial matters of smaller owner-managed companies. Strong financial health and a wide capital

base are paramount not only for survival across the fluctuating macro-economic business cycle but also to finance investment in research and development for technological innovations, as they are central to the market and/or product diversification and other growth strategies.

Several important empirical studies established that the financial growth of family firms is influenced by the development of the economy, conditions of capital markets, features of family firms, and owner attitudes towards financial independence and family firm control. It is fruitful to have a clear understanding of the attitude of family owner-managers towards externally generated equity capital as they confront the question of growth versus control. In a study on management succession and the performance of family firms vis-à-vis that of their mainstream counterparts, Cromie et al. (1995) found that owner-managers play a more dominant role in family businesses; they are reluctant to delegate managerial responsibilities and are less likely to take external advice, use formal recruitment methods or invest in employee training. These factors reduce efficiency levels and lead to lower growth rates in family businesses. Empirical work generally shows that private family firms are smaller than non-family firms (Poutziouris, Chittenden, & Michaelas, 1999; Westhead & Cowling, 1998). Moreover, given their greater need for control, family firms are less growth-oriented and this influences their short-term attitude to finance. In addition, the literature reports that family firms and private companies with a degree of internalization and entrepreneurial marketing are able to innovate more, and consequently, to grow and improve performance (Kasemsap, 2016; Lyakhov, Gliedt & Jackson, 2016; Jean-Snarr, Snarr & Friesner, 2017). It is noteworthy that recent studies have focused on corporate social responsibility as a stimulus to corporate growth and regional development (Lee-Davies, 2017, Chandna, 2017, Goswami & Chaudhury, 2017; Chu, 2016).

Previous studies into the financial structure of private firms demonstrated that manager-owners of private firms have a hierarchical preference for how to obtain capital for business development and growth, in line with pecking order theory (Poutziouris, et al., 1999). Perry et al. (2018) concluded that over 60% of small and family businesses fail within the first six years of doing business due to financial and growth factors. Financing comes from three main sources: internal funds, debt and new equity. This theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when available; debt is preferred over equity if external financing is required (equity would imply issuing shares which means bringing external owners into the company). Thus, the form of debt a firm chooses can act as a signal of its need for external finance.

Current literature on the financial issue provides evidence that family firms adopt different financial practices from their non-family counterparts. Private family firms are at a disadvantage when it comes to obtaining long-term debt and external equity. This may be the result of the unique characteristics of a private family business, namely overlapping owner-managerial and financial market imperfections (Cosh & Hughes, 1994; Chittenden, Hall, & Hutchinson, 1996; Lopez-Gracia & Aybar-Arias, 2000). Private business owners often harm their growth potential because they do not address evolving growth barriers on the financial, managerial, technological and marketing side (Poutziouris & Chittenden, 1996) or other family objectives may even take priority over growth. Based on previous empirical research, this study aims to address the following questions:

1. What are the differences in the features of corporate governance in family firms compared to non-family firms?
2. What are the differences in the financial features of family firms compared to non-family firms?

RESEARCH DESIGN

Sample and Data

The main objective of this study is to compare the corporate and financial features of family firms with non-family firms in Portugal. For this purpose, this study extracts the corporate governance

and financial information in the period from 2013 to 2016 from Amadeus Database for Portuguese firms whose total assets exceed 500,000 euros. This study identified family-controlled companies in which the dominant family is currently controlling power. To compare companies with identical rules, listed companies were excluded from the sample. Resulting from the classification between family and non-family businesses and excluding observations without valid variables, the final sample is composed by 890 Portuguese private family-owned firms and 635 Portuguese private non-family-owned firms in the period from 2013 to 2016. In order to answer the questions of the present study, we analysed the means and standard deviation, as well as the test of the differences of the means in the family companies, compared with non-family.

Variables

In order to answer the first question, the following characteristics of corporate governance were analysed: age of directors (*DIR_AGE*), incidence of female directors (*FEMALE*), director proximity to firm's region (*PROXIMITY*), and firm age (*FIRM_AGE*). In order to answer the second question, the following financial characteristics were analysed, divided into two groups: the first group corresponds to leverage characteristics, namely, short-term debt (*SHORT DEBT*), long-term debt (*LONG DEBT*) and total debt (*TOTAL DEBT*); the second group corresponds to the source of development finance, namely, bank overdraft and loans (*OVERDRAFT*), owner's equity (*OWNER'S EQUITY*) and venture capital (*VENTURE CAPITAL*). Table 1 describes the main variables of our study.

RESULTS

In the first step, this study presents the industrial characteristics and localization of Portuguese family firms. Table 2 describes the industrial profile of the database of family firms. The present analysis employs all subsections that are denoted by the first two digits of the very detailed 5-digit classifications. Although family firms are present in all sectors of the economy, they are not uniformly distributed within and across industries. Most private family firms are engaged in real estate activities (12.9%), wholesale and commission trade (8.6%), other business activities (8.5%) and retail (7.1%).

Table 1. Variables used in the study

Variable Label	Variable Name	Variable Measurement
Firm age Average age of directors	<i>FIRM_AGE</i> <i>DIR_AGE</i>	Years between the start of the year under analysis and the incorporation date of a firm Total age of directors in years divided by the number of directors
Incidence of female directors	<i>FEMALE</i>	The number of female directors divided by the number of directors
Director proximity	<i>PROXIMITY</i>	The number of directors living in the same region divided by the number of directors
Long-term debt	<i>LONG DEBT</i>	Total debt item divided by total assets minus total liabilities
Total debt	<i>TOTAL DEBT</i>	Total debt item divided by total assets
Short-term debt Bank overdraft and loans Owner's equity Venture capital	<i>SHORT DEBT</i> <i>OVERDRAFT</i> <i>OWNER'S EQUITY</i> <i>VENTURE CAPITAL</i>	Bank overdraft and short-term loans divided by current assets Bank overdraft and short-term loans Percentage of shares held by owners Percentage of shares held by venture capital funds

Table 2. Industrial distribution of family firms

Industry	No. of Firms	%
70 - Real estate activities	114	12.9
51 - Wholesale trade and commission trade	76	8.6
74 - Other business activities	75	8.5
52 - Retail trade	63	7.1
45 - Construction	51	5.7
55 - Hotels and restaurants	51	5.7
65 - Financial intermediation	51	5.7
72 - Computer and related activities	51	5.7
15 - Manufacture of food products, beverages	38	4.3
64 - Post and telecommunications	38	4.3
13 - Mining of metal ores	28	3.1
24 - Manufacture of chemicals and chemical products	26	3.0
26 - Manufacture of other non-metallic mineral products	25	2.9
28 - Manufacture of fabricated metal products	25	2.9
29 - Manufacture of machinery and equipment	25	2.9
67 - Activities auxiliary to financial intermediation	25	2.9
92 - Recreational, cultural and sporting activities	25	2.9
01 - Agriculture, hunting and related service activities	14	1.4
22 - Publishing, printing and reproduction of recorded media	14	1.4
25 - Manufacture of rubber and plastic products	14	1.4
31 - Manufacture of electrical machinery and apparatus	14	1.4
33 - Manufacture of medical, precision and optical instruments, etc.	14	1.4
36 - Manufacture of furniture, etc.	11	1.3
62 - Air transport	11	1.3
71 - Renting of machinery and equipment without operator	11	1.3
Number of firms	890	100.0

Firm location is identified through the registered addresses of the firms. These registered addresses are then matched to the administrative regions of the Portuguese government. Table 3 displays the regional distributions for the family firms. Overall, Table 3 shows the homogeneous regional distribution of family firms in Portugal. The results reveal that the highest percentage of family firms are headquartered in Lisbon (12.10%), followed by Braga, Coimbra and Porto (9%); the lowest percentages are for Beja (4.70%), Évora (5%) and Faro (7%). There are few private family firms in Guarda (2%), Portalegre (2.20%) and Viana de Castelo (2%). To summarise, most private family firms are engaged in real estate activities, wholesale and commission trade and retail. Lisbon is the city with the most headquarters of family firms, followed by Braga, Coimbra and Porto, while the fewest headquarters are found in Beja.

In the second step, the results for the first question of the study are presented, namely, what are the differences in the features of corporate governance in family firms compared to non-family firms? Table 4 presents the mean values of the corporate governance features and results of

Table 3. Regional distribution of family firms

Region	No. of Firms	%
Lisbon	109	12.1
Porto	80	9.0
Braga	83	9.0
Coimbra	81	9.0
Bragança	71	8.0
Faro	62	7.0
Leiria	62	7.0
Aveiro	54	6.0
Castelo Branco	45	5.0
Évora	45	5.0
Viseu	45	5.0
Beja	43	4.7
Santarem	37	4.0
Vila Real	27	3.0
Portalegre	20	2.2
Guarda	18	2.0
Viana de Castelo	18	2.0
Number of firms	890	100.0

Table 4. Corporate governance features

Variables	Family Firms (Mean)	Non-Family Firms (Mean)	Differ. (t-Stat)
<i>DIR_AGE</i>	55.4	52.2	3.2**
<i>FEMALE</i>	5.9	8.1	-3.0**
<i>PROXIMITY</i>	80.2	32.0	48.2***
<i>FIRM_AGE</i>	66.0	41.0	25.0***
Number of firms	890	635	

parametric independent sample t-tests for the differences in means between the two subsamples of firms: family firms and non-family firms. Board characteristics regarding the age and experience of directors, gender composition, the proximity of directors to firms' registered addresses and firm age are analysed. Information is gathered on the board of directors of each firm from the start of the year under analysis. Firm experience is calculated in years from the start date of an analysis year to the firm's incorporation date. All the variables are significantly different across private family firms and non-family firms.

The results demonstrate that family firms and non-family firms have statistically different means for the directors' proximity and firm age variables at the 1% level, and for the average age of directors and the incidence of female directors at the 5% level. Our results evidenced that the age of family firms (*FIRM_AGE*) is 66 years compared to 41 years for non-family firms. The directors' proximity

(PROXIMITY) is greater in family firms than non-family firms (80.2 versus 32.0, respectively) and the average age of directors (DIR AGE) is higher in family firms than non-family firms (55.4 versus 52.2, respectively). Finally, we also found only a small proportion of female directors (6%). Our results demonstrated that the incidence of female directors (FEMALE) is lower in private family firms than in non-family firms.

Regarding the first question of the study, our results demonstrated that the directors of private family owned firms have much more experience, are less likely to be female and live closer to the business as compared to non-family firms; the age of private family firms is much greater than that of non-family firms, in line with previous related studies by Villalonga and Amit (2006), Yang (2010), Gómez-Mejía et al. (2007), González et al. (2014). Previous studies into the financial structure of private firms demonstrated that manager-owners of private firms have a hierarchical preference to source capital for business development and growth, in accordance with pecking order theory (Poutziouris et al., 1999). This theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when available; debt is preferred over equity if external financing is required. Thus, the form of debt a firm chooses can act as a signal of its need for external finance.

In our study, the financial features of firms are analysed in two main sub-groups. The first sub-group, leverage, examines the level of loan capital among firms. The second sub-group includes sources of development finance. The results for the second question of the study are presented, namely, what are the differences in the financial features in family firms compared to non-family firms? Table 5 presents the mean values of the financial features and results of parametric independent sample t-tests for the differences in means between the two subsamples of firms: family firms as compared to non-family firms.

Regarding the second question of our study, it appears that family firms have significantly lower ratios than non-family firms for all three measures (Panel A, Table 5). We find that private family firms and non-family firms have statistically different means for short and long debt at the 1% level and for the total debt at the 10% level. Operating long-term leverage (LONG DEBT) and short-term leverage (SHORT DEBT) indicates that family firms have considerably less debt. The total debt leverage variable (TOTAL DEBT) indicates that family firms have less leverage than non-family firms.

In terms of the three leverage measures within family firms, the results reveal that family firms tend to use more long-term loans, perhaps because they can secure better deals and, more importantly, they can avoid issuing more external equity at the cost of family control. Measuring the perceptions of different stakeholders, monitoring executive performance, and implementing a set of prescribed managerial and governance practices all contribute to controlling costs and turning the unique

Table 5. Financial features

Variables	Family Firms (Mean)	Non-Family Firms (Mean)	Differ. (t-Stat)
Panel A: Leverage			
SHORT DEBT	26.3	34.7	-8.4***
LONG DEBT	60.1	64.3	-28.9***
TOTAL DEBT	86.4	99.0	-12.6*
Panel B: Sources of development finance			
BANK OVERDRAFT	72.4	70.3	2.1*
OWNER'S EQUITY	47.8	37.0	10.8**
VENTURE CAPITAL	2.9	20.6	-17.7***
Number of firms	890	635	

features of family firms into resources that produce a competitive advantage. Optimising ownership, management and family, controlling agency costs and improving performance all help enable family businesses to achieve a competitive advantage.

Panel B of Table 5 summarises the responses of owner-managers on the perceived sources of finance uses and demonstrates that private family and non-family firms take different approaches to funding. We find that private family firms and non-family firms have statistically different means for venture capital at the 1% level, for owners' equity at the 5% level and for bank overdraft and loans at the 10% level. Venture capital (VENTURE CAPITAL) is lower in family firms than in non-family firms (2.9 versus 20.6, respectively). Bank overdraft and loans (OVERDRAFT) and owners' equity (OWNER'S EQUITY) are higher in family firms than in non-family firms. The results indicate that private family firms tend to draw more social capital from the family and are less interested in venture capital than non-family firms. These results are in accordance with previous literature by Cosh and Hughes (1994), Lopez-Gracia and Aybar-Arias (2000), Poutziouris and Chittenden (1996) and Perry et al. (2018).

In short, the analysis of the financial structure of private family firms demonstrates that most family firms have a relatively short-term attitude to financing, which may lead to capital deficiencies and lower growth. It is plausible that the sustainable development of private family firms requires the steady flow of long-term capital, particularly when there is a need to finance certain strategic transitions, such as accelerated growth, internationalisation, and the transfer of ownership to successive generations.

CONCLUSION

This study aims to contribute to the debate on the corporate governance and financial aspects of private family firms as compared to non-family firms. Our main results demonstrate that family firms have lower growth and significantly lower ratios of leverage than non-family firms and that, although directors of family firms are of similar age to those in non-family firms, they have much more experience, are less likely to be female, and live nearer the business. We concluded that the financial development of Portuguese private family firms is guided by financing conservatism that could hamper their business growth.

The analysis of the financial structure of private family firms demonstrates that most family business managers take a relatively short-term attitude to finance, which may lead to capital deficiencies and lower growth. It is plausible that the sustainable development of private family firms requires the steady flow of long-term capital, notably when there is a need to finance certain strategic transitions, such as accelerated growth, internationalisation, and transfer of ownership to the next generations. Consequently, our results demonstrate that family firms are more skeptical about fast growth as this entails relinquishing control and dependence on external investors (long-term debt or private equity providers). As a result, family firms tend to depend more on internally generated equity.

This study aims to contribute to the discussion on the role of private family firms in regional economic development and identify the corporate governance and financial characteristics of private family firms. There are several promising avenues for further empirical research. Studies on accounting and corporate governance in family firms have mostly adopted an agency theory perspective; this is probably because it is the dominant and traditional framework to explain the behaviours of family firms. Only a limited number of studies used alternative and complementary theories, such as stewardship theory and socioemotional wealth theory, which encompass the psychological and non-financial factors that shape family firms. Although our literature review revealed an increasing interest in stewardship theory and socioemotional wealth theory, the number of studies in this area is still quite limited. Building theories that capture the uniqueness of family firms is both a challenge and an opportunity. Stewardship and socioemotional wealth theories may provide greater insights into the ownership and management of these firms, notably in relation to their focus on the firms'

non-financial objectives. Guided by agency, stewardship and socioemotional wealth theories, future studies can explore the specific aspects of the ownership and management of private family firms that are expected to be associated with the firms' financial structure and performance and the citing of firms' non-financial objectives. We hope that the combination of these complementary theories will lead to new and original contributions in the future.

The next area for future research is the definition of family firms. The definition of family firms is one of the main problems facing studies as there is no clear-cut definition of what constitutes a family firm. The two main dimensions used to define family firms are family management and family ownership. Scholars have proposed various definitions of family firms, depending on the country's system of corporate governance, the availability of data, and the field to which the study aims to contribute. Additionally, some studies adopt simplistic classifications with the aim of distinguishing family from non-family firms (Prencipe, Bar-Yosef, & Dekker, 2014). Carrying out the work of compiling various definitions of family firms and arriving at a consensus on private companies would be the next adventure for future work.

Private firms must be able to survive and grow in order to contribute to economic development and they must create employment. It is also necessary to address the extent to which they can contribute to the development of competitive regional economies. It is necessary to take the characteristics of private family firms into account and recognise the changing needs, problems and economic impacts of private family firms, as those that survive the critical early years evolve into more established businesses. This approach is taken here by examining the financial development of a panel of family firms over a 3-year period. Future research could extend this to a panel of family firms over a 10-year period. Additionally, further studies could build on the evidence provided in previous studies that private family firms are important to job creation by examining how a firm's experience and age influence job creation and impacts regional development.

We investigated the corporate governance and financial aspects underlying the features of private family firms as compared to non-family firms in Portugal. We find that these firms tend to have greater age and more experienced managers on the board of directors; managers are less likely to be female and they live closer to the business as compared to non-family firms; family firms are also less interested in venture capital as compared to non-family firms. Future research should analyse the financial weaknesses facing young firms in Portugal, as well as the consequences of the differences found, regarding non-family firms. It is important to understand what the implications are of the differences in corporate governance and the financial aspects of family versus non-family firms in regional development. Additionally, it is important to determine whether a country's financial system encourages the growth of younger family firms (i.e., those in operation for less than 10 years). Future research should also examine the financial weaknesses facing young firms in Portugal. The results of our study offer important new insights into the unique personalities of both non-family and family corporate governance characteristics in private family firms. Future studies can direct research to examine differences in the personalities of both types of corporate governance and the implications of those differences for firm performance. We hope our study will inspire future research on corporate governance personality in family firms.

In addition, the literature emphasizes the importance of corporate social responsibility in companies and creating shared value in sustainability (Di San Martinho, 2017; Sinthupundaja & Kohda, 2017; Gauthier, Meyer & Cohen, 2016; Athi, Vidović, & Omazić, 2018; Tullani, Saha & Dahiya, 2018; Borralho et al., 2019). It would be very important to develop future research in the field of family businesses and make comparisons with non-family businesses against the various factors of corporate social responsibility. We believe that there is still a lack of empirical research on family firms and that scholars should strive to give this area attention in order to further the currently limited knowledge. We hope that this paper serves to inspire future and useful studies in this research field.

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