

How "family first" can benefit all shareholders

Do pro-family decisions in family firms run against minority shareholders' interests? Or do they prioritize long-term goals that benefit all?



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Blood is thicker than water — even in corporate governance. For publicly traded family firms, familial control, influence and/or image may be prioritized over near-term profits. This may be why tensions and conflicts between family members and minority shareholders have long been assumed.

But is this assumption true? Research by Geoffrey Martin, Luis R. Gómez-Mejía, [Pascual Berrone](#) and Marianna Makri says no — except under specific circumstances. In sum, they find that the fears of conflict-ridden boards are "much ado about nothing," to borrow from Shakespeare. And their study aligns with a growing body of research that essentially says:

what's good for the family often ends up good for all shareholders as well.

Divergent goals, danger zones?

As Berrone et al.'s previous research has shown, family businesses tend to make decisions that favor "socioemotional wealth" — i.e., the accumulation of noneconomic assets, such as social influence, reputation and binding family ties. That is to say, family firms may prioritize goals that do not directly reflect the priorities of shareholders who are not part of the clan.

So, in publicly traded family firms, do minority shareholders express their discontent through contentious proposals that question the owners' policies?

For the answer, the co-authors studied thousands of shareholder proposals brought to hundreds of family-controlled firms over 10 years. The shareholder proposals in three typically conflict-prone areas were studied:

1. **Contract issues** — including hiring, firing and pay.
2. **Strategic choices** — including decisions about acquisitions, diversification and divestitures.
3. **Corporate social responsibility (CSR)** — including projects that uphold a good family image without economic benefit.

In addition, they looked at conditions that could reasonably be expected to affect shareholder proposals: the firm's financial performance, the presence of a family CEO at the helm, and whether the firm's founder is still directly involved.

Much ado or a myth?

Crunching the numbers, the authors conclude that much of what is assumed about minority shareholders in family firms is myth. In their words: "our study makes it clear that minority shareholders as a whole do not generally feel 'expropriated'" by family owners.

However, investor skepticism and conflicts do arise on occasion — as reflected in the number of board proposals to challenge the status quo. Specifically, the co-authors find that (a) when there is a family CEO at the helm, (b) when the founder is no longer involved and (c) when the firm is performing poorly, there are more shareholder proposals regarding contract issues, strategic choices and CSR projects in family firms. These conditions seem to lead investors to question whether the owners really have their best interests at heart.

Yet these conditions do not appear too often because "in general family firms perform better [than nonfamily firms]." Indeed, since "family first" priorities do not preclude healthy financial returns over the long run, minority shareholders may find very little to complain about.

Methodology, very briefly

Using data from Compustat, Execucomp and the Corporate Library databases, the co-authors studied companies that were publicly traded in the United States between 2001 and 2010 (the years for which the Corporate Library database included details concerning firm ownership and shareholder proposals). Their sample ended up being 543 firm years to analyze the conditions surrounding shareholder proposals, controlling for certain variables — such as firm size and age.

More info

["Risking It All for the Family?"](#)

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