Does Family Ownership Benefit Non-Listed Firms? Evidence from Family-Owned Non-Listed Insurance Companies in Thailand

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Abstract:

The relation between family ownership and firm performance has received significant attention from financial economists for decades. At the beginning, it was generally believed that family ownership is detrimental to firm value. Controlling owners-managers can expropriate corporate wealth through various means, such as excessive compensation or investing in value-destroying projects (Jensen and Meckling, 1976; Fama and Jensen, 1983). Early empirical studies in the US provide supporting evidence to the detrimental effects of family ownership on firm value (e.g., Holderness and Sheehan, 1988; Stulz, 1988).

In a landmark study, Anderson and Reeb (2003) show that, contrary to general beliefs, family firms perform better than nonfamily firms in the US. Empirical results confirm that the classic owner-manager conflict is often less pronounced due to the incentives to monitor the manager by family shareholders. In the end, it is concluded that family ownership is an effective organizational structure and that the notion that large shareholders (e.g., families) may use its controlling position to extract private benefits at the expense of small shareholders is not supported by empirical evidence.

Subsequently, a vast body of empirical studies on the relation between family ownership and firm performance in both developed and emerging markets confirm the findings in the US. However, those empirical results are based on samples of listed companies. It is not entirely clear whether the benefits come from the ownership structure or stock market listing.

The purpose of this study is to isolate the potential confounding effect of stock market listing by comparing both listed and non-listed family-owned companies with non-family companies. The main research question is whether family-owned public firms that are not listed in the stock market exhibit the same superior performance as the family-owned firms that are listed on the stock markets documented in previous studies. In the end, we want to confirm that the reduction in agency conflicts between shareholders and managers along with the long-term perspectives from family shareholders are also applicable to family-owned public firms that are not listed in the stock market.

In this study, we examine the non-life insurance industry in Thailand, where listed and non-listed insurers are public companies comparable in size and age. The results show that non-listed family companies exhibit lower operating performance compared to non-family firms, suggesting that family ownership alone is not sufficient to explain the superior performance previously documented in the literature. The results also show that non-listed family-owned insurers take excessive risk consistent with wealth expropriation behavior.