Chapter 82
Do Family Control and Macroeconomic Fluctuations Impact Firm Performance?
Evidence From Portuguese Listed Firms

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ABSTRACT

This chapter aims to analyze performance differences between family and non-family firms. Additionally, it aims to see if economic downturns and upturns cause impact in this relation. For it, a panel data of Portuguese non-financial-listed firms in Euronext Lisbon during the period from 2010 till 2019 is analyzed. Performance is studied in accounting-based and market-based views. Three types of variables are considered: corporate governance characteristics, macroeconomic factors, and firm's characteristics. Results depend on the performance proxy used. While to ROA no difference is found, Tobins' Q family firms outperform non-family ones, but results are the inverse using ROE, MTBV, and MVA. Moreover, macroeconomic fluctuations are relevant to explain firms' performance, specially to family firms. Therefore, firms must analyze specific characteristics to avoid losing value, especially in crisis periods.

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INTRODUCTION

Family firms are present all over the world, with firms from different dimension and sectors (La Porta, Lopez-de-Silanes and Shleifer, 1999; Prencipe, Bar-Yosef and Dekker, 2014). It is estimated that family firms are around 65-80% of worldwide firms, contributing 70-90% to the gross domestic product (GDP), and 70-80% to the employment (Villalonga and Amit 2006, Miller, Le Breton-Miller, Lester and Cannella Jr, 2007; Associação Portuguesa de Empresas Familiares - APEF, 2021). These facts prove its great impact on every economy's wealth.

Family firms present singular characteristics, which impact financial reporting decisions, making this type of firms apart from non-family ones (Basly and Saadi, 2020). Therefore, understanding these singularities and its impact on firms' performance is crucial to sustain the firms' growth.

The debate of family contribution to firm performance has gain significant attention in the last years and is gaining prominence in management and financial research (Basco, 2013; Martínez-Alonso, Martínez-Romero and Rojo-Ramírez, 2020).

This work aims to understand whether family firms outperform non-family ones, which can justify the prevalence of this type of firms in the world. Moreover, it intends to verify if there are significant differences in financial performance in moments of economics adversities and stability periods, since in crisis periods firms have financial constrain, and usually its activity is reduced.

A sample of Portuguese non-financial listed firm on Euronext Lisbon from 2010 till 2019 is analyzed for this purpose. There is no consensus regarding the performance measurement (Vieira, Neves and Dias, 2019). Therefore, this work considers two perspectives by using Return on Assets (ROA) and Return on Equity (ROE) in a historical perspective (accounting-based view), and in a market-based view using Tobins' Q (TQ), Market to Book Value (MTBV) and Market Value Added (MVA) in a forecast perspective.

Moreover, the determinants used to explain performance are also relevant. In this work internal determinants, namely firm' specific characteristics are taken into account as most researchers in this area (e.g. Fama and French, 1992, Miller et al., 2007, Villalonga and Amit, 2006, and Martínez-Alonso et al., 2020).

Additionally, corporate governance characteristics and macroeconomic factors are also considered. Portugal is a civil law country, with few information' transparency (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998). The single-tier system persists, the board of directors has great impact on supervision managerial decisions, the legal protection of investors is weak and there is a high level of ownership concentration (Fama and Jensen, 1983). Although, the impact of corporate governance characteristics on firms' performance is still scarce, even if it is relevant specially in family firms' context (Aldamen, Duncan, Kelly and McNamara, 2020).

Macroeconomic factors, namely downturn and upwards periods are also considered. Usually, during recession periods there are significant external shocks such as low liquidity, failure of customers and markets, decrease in revenues, increase in uncertainty, among others (Aldamen et al., 2020). This work intends to understand whether firm's performance differ due to market conditions.

Previous studies as Vieira (2014), Miralles-Marcelo, Miralles-Quirós and Lisboa (2014) and Vieira (2018) have analyzed the impact of Portuguese family control on firm's performance. This work not only analyzes a large and more recent period (2010 till 2019), allowing to confirm previous findings in this area, but also contributes to the stream of firm performance considering a new independent variable as proxies of firm performance – MVA (market value added), as well as by analyzing in detail the impact of macroeconomic factors on firms' performance. Additionally, a new variable of firm' specific char-