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Role of Family Firms to Uplift the Financial Performance and Investment Opportunities of Listed Manufacturing Firms of Pakistan

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Abstract

This study is conducted to analyse the relationship of Ownership Structure with Firm Performance in non-financial companies listed at Pakistan Stock Exchange during the period 2008 to 2013. The basic focus of this study was related to the performance of family firms as compared to non-family firms. The distinction between both types has been explained in literature with the help of definitions given by different authors and scholars. Keeping in view the research aims and objectives the non-financial sector of Pakistan is taken as population. Simple random sampling technique is used in accordance to research requirements and extracted a sample of 120 firms for the purpose of analysis. All these firms are listed at Pakistan Stock Exchange (PSX). Investment Opportunities (Tobin's Q), Return on Assets (ROA) and Return on Equity (ROE) have been used as a proxy variable to explore the firm value and firm's financial performance. Sophisticated data analysis techniques such as descriptive, correlational, panel data regression analysis have been used. Results showed that Family firms are negatively correlated and Non-Family firms give better performance. On the basis of results obtained through data analysis it is concluded that Firm Performance critically depends on Managerial Ownership. Panel data analysis has shown that firm leverage and size has no relationship with proxy variables while remaining independent variables have significant relationship with performance variables. Agency problems arise due to increase in Managerial Shareholdings in Pakistani context, which ultimately affects the performance of the firms.

Keywords: Family Firms, Non-Family Firms, Family Control, Firm Value, ROA, ROE, Tobin's Q

Introduction

In today's highly competitive and dynamic business environments it has become vital to understand the factors which contribute towards the financial performance of the firm and enhance the firm value. In this regard the ownership structure of the firms has gained the interest of the scholars in recent years. Many recent studies such as Massis and Kotlar (2015); Zattoni, Gnan and Huse (2015); Wagner et al. (2015); Hussain and Shah (2015); Tahir, Sabir and Shah (2016) have also focused on ownership structure and many other variables related to company features to evaluate the impact of family firms on financial performance of the company. In this regard researchers have done a remarkable work in countries other than Pakistan while in Pakistan this issue has not been addressed in detail. Firms' efficiency relies on both properly designed and recommended ideal choices taken on the part of the business owner or result of a positive growth that occurs and mostly

both are unavoidable. However, there is a list of important aspects that are continuously noticed allowing a company to outshine their competitors in the most aggressive sectors. For example, one such crucial factor is the possession framework which impacts the firm's possibilities to sustain and enhance its efficiency in the future. Scientists have been enthusiastic about examining the part and effect of possession components on the result of companies with regards to its efficiency and value. In growing financial systems like Pakistan and Indian family ownerships are popular.

Researchers have been enthusiastic about examining the part and effect of possession components on the result of companies with regards to its efficiency and value. In growing financial systems like Pakistan and Indian family ownerships are popular and getting improved attention from the researchers who are analyzing the company efficiency in this perspective. In this regard pioneer research works were conducted by Jensen & Meckling (1976); Fama & Jensen (1983); Fama & Jensen (1985).

Mixed views are found in literature regarding the family control in businesses. According to Barontini and Caprio (2006) many close relatives companies are highly regarded because many of the large corporations have thrived under the same close relatives for decades. Family companies are successful concept and many of the large companies have started as close relatives owned corporations. Famous close relatives' empires in Pakistan include Nishat group, Dewan group, Sitara group, and Ibrahim group and many more. This type of long-term commitment is something that many associate with close relatives control but also the devotion that many families have in the companies that they invest in. But there have been some discussions that families and other shareholders may have different interests that could prevent value accumulation and growth in the company (Barontini & Caprio, 2006).

Past studies have contrary results that could imply that factors beyond close relatives management might be involved, e.g. structural differences between markets and regions. Dyer (2006) verifies the contrary results by comparing nine researches that examine company efficiency and close relatives' management on companies across Europe and the USA. Dyer (2006) argues that one cause of the difference between results in past research is that the research fails to determine close relatives members impact from other variables.

To examine if there is a significant "family-effect" on firm performance on the Pakistani market we will look at the following questions; do firms with family ownership majority have an effect on firm performance? What measure is a good tool for detecting the effect of performance in family firms?

Theoretical Background

There are many concepts about the favor and against viewpoint of efficiency in family firms. Dyer (2006) presents family associates factors impacting great compared to low company efficiency where the principal-agency concept has a central role. If the providers (managers) and the major (owners) have different goals the broker expenses will be serious, although this is not exclusive to see relative associates companies. Jensen and Meckling (1976) discuss that family associates companies are likely to have lower organization cost because the entrepreneurs and the supervisors in family associates companies often are the same. The organization expenses are the expenses of the tracking of the providers by the fundamentals, and they increase when the company develops. Since the need of tracking by the proprietor is not an issue when proprietor and administrator are the same person, the organization expenses will not be a problem in founder-led companies. However, family associates members control of the administrator could be a reason for higher, or equally great, organization expenses as non-family companies due to the variations in the interest of close relatives in managing roles (Schultze et al., 2001).

To continue the part of administrator control, Burkart et al. (2003) present a design of managing sequence in a company possessed and managed by its creator where the creator chooses (1) between hiring an experienced administrator or leaving control to its family associates and (2) on what portion of the company to drift on the inventory industry. The two paradigms of corporate government are combined in the single design of managing succession: the Anglo-Saxon design of the issue between the investors and the administrator and the second design of the issue between little and big investors. The background of the decision of the creator is according to Burkart et al. (2003) shaped by the degree of lawful security of community investors and shows an effects of how the creator should decide maximum sequence and ownership structure. When the lawful security of community investors is strong, the maximum solution for the creator is to seek the services of the best expert administrator and sell off the entire company in the inventory industry due to minimization of the organization issue between the administrator and little community investors. With advanced security of community investors, the creator should still seek the services of an experienced administrator, but due to the advanced security of community investors the creator or its enfant must remain on as huge investors to monitor the administrator. When the security of community investors is weak, the organization issues are too serious to allow for separating of possession and control and in this case the beginning family associates must remain and run the company.

Significance of Study

This study check the performance of family and non-family firms, this is really important point because Family-owned listed companies are the backbone of Pakistan's economy. But in Pakistan scholars have not attained much attention about the performance of family and non-family owned firms. This study helps the existing shareholders and new investors to understand the performance of family and non-family firms and how ownership structure impact on firm performance. They will be able to know the difference between family and non-family firm performance. It will be supportive for management and investors for future decision making. It will be future guidance for finance researchers.

The scholars had given different results in different economies about the performance of the family and non-family firms as discuss above. The contribution of this study investigate the performance and value of family and non-family firms in Pakistan economy, And investigate the result, family firms are better perform or non-family in Pakistan non-financial sector. This study explores the impact of ownership structure on firm performance. This study also explores the performance of family firms when the company is still run by its founder or by the descendants in Pakistan.

The objective of this study to investigate the impact of ownership structure on firm financial performance and investigate which ownership structure gives superior performance, family firms or non-family firms. It is also explored the performance of family firms when the company is still running by its founder or by the descendants and investigate the different determinants of financial performance of family and non-family firms in Pakistan.

Problem Statement

The family controlled businesses are less productive as compared to non-family controlled businesses (Barth et al., 2005). Families may be unhelpful to firm performance, analyses of U.S. public companies indicate that family firms outperform (Miller et al., 2007). Similarly, the study conducted by PWC (2012) was found that family businesses are more productive due to different facts such as in family firms the interest of the owner in decision making increases because his/her own money is invested in the business. The same case is observed in the study conducted by Zattoni et al. (2015). They evaluated the impact of family firms on financial performance and found that family involvement has positive impact on the firm performance. While, Kachaner, Stalk and Bloch

(2012) concluded that family firms are not productive as compared to non-family firms because the focus of the family firms is Resilience instead of Performance. In the light of these contradictory results the researchers wants to evaluate which results are valid in Pakistan's non-financial sector.

Since the family controlled businesses occur everywhere in the globe, and family owned businesses are very much common. Same as in Pakistan family owned businesses are very much common. Family-owned, listed companies are the backbone of Pakistan's economy (Yasser, 2011). Ownership structure has a great importance for any firm. Family business firms' effect on performance of the firm is increasing many folds. The scholars had given different results in different countries about the performance of family and non-family owned firms. According to the literature mostly scholars had concluded the non-family firms gave the superior performance but some scholars had concluded the family firms gave the superior performance. This study explore that what is the actual scenario in the context of Pakistan's listed manufacturing firms. Which type of ownership structure leads to superior financial performance? Either that is family ownership structure or non-family ownership structure.

The rapid rising industry owned by family controlled firms can be confirmed by the study of Faccio and Lang (2002) where in this study shows that 44 percent firms comprised as a sample of their study were family owned. Family controlled firms can lead a firm to outperform non-family firms for primarily two motives. The first is, administration of family controlled firms make healthy decisions for the investment because the managers of family firms have more particular information and knowledge and are therefore more visionary and having most better and long-term investment philosophies. The second is, administration of family firms can reduce the dishonorable principal-agent problem, as it helps in bring into line the incentives of management with the hopes of the shareholders. To meet the main objectives of this study, the effect of ownership structure on firm financial performance investigated.

Literature Review

A fundamental question in the finance literature is what determines firms' capital allocation. In a frictionless setting, a firm's investment should be determined only by its investment opportunities as measured, by (Tobin, 1969) and (Stein, 2003). In terms of the dependent variable, Tobin's q is used as a proxy for investment opportunity (Abor and Bokpin, 2010). Tobin's q perfectly reflects a firm's investment opportunities (Hayashi, 1982, Erickson and Whited, 2011, Peters and Taylor, 2017).

Family Firms

A family firm can be defined as a business having 2 or more than 2 family members holding majority of the ownership of the company. In this study two major categories of firms i.e. family owned firms and non-family owned firms are made. The study has used the following criteria for the qualification of a firm as a family business firm. At least 33% shares are held by a family or major shareholding in a company belongs to single family

According to Barth et al. (2005) when one person in a company or one family in a company having at least 33% shares it is called a family firm. Barontini and Caprio (2005) consider Family firm if the biggest shareholder claims no less than 10% of possession rights and either family or biggest shareholder controls more than 51% of direct voting rights or controls more than the twofold of the immediate voting privileges of the second biggest shareholder. Different definitions utilized: Firm keep running by family COO/Firm keep running by non-family COO yet one relative is ready/Family firm when originator or descendent of organizer runs firm. Cronqvist and Nilsson (2003) Founder families might include only a sole particular person or possibly a strongly knit gang of people that tend not to participate in exactly the same family. Some other descriptions utilized:

Founder family ownership is usually ownership with the president or maybe descendants on the president and families/individuals associated with your president.

Berle and Means (1932) raised the first voice on the relationship of ownership structure and firm performance. They supposed that firm value is systematically different from corporate ownership structure. They showed that no significant relationship between accounting profit rate and ownership structure. Their results also showed that, no evidence available on control separation and ownership. At the same time Demsetz and Lehn (1985) showed opposite association among pattern of shareholdings and firm performance.

In last 30 years, lots of studies have been done on family firm's performance. The literature clearly shows there is big difference between family businesses and non-family businesses in several ways e.g. payments of dividend, succession of control, borrowing and investment strategies. Lyman (1991) studied that the family firms give more and better consumer facilities and participation, have larger concern with the satisfaction of firm employees, and family firms protect for backgrounds and customs also provide bigger chances to women. But at the other side, family firms look several problems e.g. problems when decisions done jointly, succession matters, family employees supervision etc. Although maximum number of small and medium type businesses all over the world are family owned businesses, according to literature these types of businesses are also rapid growing and effective firms. But at the same time some studies shows that family owned businesses face similar problems and matters and have almost similar interest, so these types of results discussed above are almost same in all countries of all over the world.

Within corporate governance research, lot of researcher's analyze and mainly focus on the impact of family owned firms on corporate governance (Anderson & Reeb, 2003). Family firms has been focused on ownership structure and the voting rights, in the vein of Berle & Means (1932) and Jensen & Meckling (1976), may be increased performance. Yet the classic representation of a family firm proposes that these organizations having problem from capital restrictions, favoritism, management entrenchment, inter-generational squabbles and, all of these elements may reduce from their performance (Allen & Panian, 1982). Hence, it is a main observed question that is effect on performance of the family ownership firms. Moreover this is main observed question must be come up to carefully because endogeneity in ownership modeled by (Demsetz & Lehn, 1985).

Ho = Performance of family firms is equal or better than that of non-family firms. (> =)
H1 = Family firms show inferior performance than non-family. (<)

Founder Firms vs Descendant Firms

Family firms can be divided into two categories i.e. founder and descendant. According to Andres (2011) a company is referred as a founder firm if it is organized by a founder CEO. If founder is deceased and the firm is controlled by one of founder's descendent then it is labelled as descendant firm. In data set the study labelled the responses as "0" and "1" where "0" represents the non-family firm while "1" represents the firm being either founder or descendent.

Perrini, Rossi and Rovetta (2008) conducted research on Italian market any covered the year from 2000 to 2003. In this study the researchers found that non-family owned firms give superior performance as compared to family owned firms. They also found that better and superior performance of the firms encourage and lead the outside investors. Barzegar and Babu (2008) the researcher do study on Tehran Stock Exchange, for this purpose using 50 companies data listed in this market and covered the period from 2001 to 2003. They shows that concentrated ownership firms give inferior performance as compared to diffused ownership firms. Families may be unhelpful to

firm performance, analyses of U.S. public companies indicate that family firms outperform (Miller et al., 2007).

Ali, Shah and Jan (2015) have investigate the relationship between ownership structure and firm performance on 355 firms listed in Karachi Stock Exchange Pakistan use. The study uses two dependent variables Tobin's Q for the market based performance and Return on Assets (ROA) for accounting based performance and use leverage as moderating variable, the other control variables are size of the firm and growth of firm. Study investigate that ownership structure has significant with market based firms and also shows that insignificant relation between ownership structure and accounting based performance. Moreover study explore that leverage has not moderating effect on relationship among ownership structure and firm performance.

Al-Najjar and Kilincarslan (2015) explored the impact of ownership structure of on dividend policy and took analysis on listed firms in Turkey. In this study the scholars checked the main effect of dividend and give low attention on effect of family control. Study used the panel data of 264 listed firm in Turkey Stock Exchange in non-financial and non-utility sector. In this study results showed that state ownership and foreign ownership connected with a less possibility of paying dividends and the ownership variables like minority shareholders, family involvement and domestic financial institutions having insignificant relationship with the probability of paying dividends. While all other ownership variables showed negative and significant relationship with dividend yield and dividend payout.

Arosa et al. (2010) analyzed and investigated the relationship between board of directors and performance of the firm. They also used Return on Assets (ROA) and Return on Equity (ROE) for the measurement of profitability. Family firm, generation managing the firm, ownership concentration and family ownership concentration are the independent variables. Size of the firm, sale growth, leverage and firm age are used as a control variables. They select sample 586 Spanish non-listed firms and used data for the year 2006. For this purpose the researcher acquire data from non-listed family firms in Spanish market. They used panel data and explored the relationship among performance of the firm, affiliated proportion and in board's dependent directors. They shows that affiliated director's having favorable effect on performance of the firm.

Ho = Founder firms & Descendant firms have equal performance.
H1 = Founder firms & Descendant firms have unequal performance

Ownership Concentration

Ownership Concentration is defined as how many percentage shares have by one family. Family firms also included CEO, his spouse and children. This variable based on real percentage of having shares by one family. Due to real percentage of ownership result become more authentic and clear.

A positive first-generation effect, if confirmed, would be consistent with recent findings of a value premium in founder-CEO firms relative to other firms (Palia and Ravid, 2002). It would also be consistent with the finding of negative abnormal returns to the appointment of family descendants as managers Smith and Amoako-Adu, 1999).

(Gomez-Mejia et al., 2017) family firms are those firms that are run by the founders of the company. In other definitions if the founder family not run but the founder family hired the professional team. Anderson and Reeb (2003) Family Corporation if there exists fractional collateral property from the founding family and/or the reputation of family members offering for the mother board of owners. Various other explanations utilized: Proportion of snowboard seats held by family members to be able to mother board chairs presented by impartial directors/CEO inventor implies any

founding family corporation if the CEO is the inventor or founder from the firm/CEO descendent implies any founding family corporation if the CEO can be a descendent from the inventor during the past decade.

The study conducted by PWC (2012) found that family businesses are more productive due to different facts such as in family firms the interest of the owner in decision making increases because his/her own money is invested in the business. The same case is observed in the study conducted by Zattoni et al. (2015). They evaluated the impact of family firms on financial performance and found that family involvement has positive impact on the firm performance. While, Kachaner, Stalk, Jr. and Bloch (2012) concluded that family firms are not productive as compared to non-family firms because the focus of the family firms is Resilience instead of Performance.

Bayrakdaroglu (2010) conducted study to investigate the relationship between financial performance and ownership structure of the firms. They select the Turkish firm for analysis. They used Return on assets (ROA), Return on Equity (ROE) and Tobin's Q as a dependent variable. And managerial ownership, free float rate, foreign ownership and ownership concentration are used as independent variables. They found that according to the different models, generally the ownership structure effect the financial performance of the firms. They explained the effect of individual variables like free float rate and ownership concentration having a lot of effect on performance of the firms. Ownership structure has not significant effect on financial performance of the firm as statistically calculation with help of managerial ownership and foreign ownership.

Theoretical Framework

There are many concepts about the good and bad viewpoint of efficiency in family firms. Dyer (2006) presents family associates factors impacting great compared to low company efficiency where the principal-agency concept has a central role. If the providers (managers) and the major (owners) have different goals the broker expenses will be serious, although this is not exclusive to see relatives associates companies. Jensen and Meckling (1976) discuss that family associates companies are likely to have lower organization cost because the entrepreneurs and the supervisors in family associates companies often are the same. The organization expenses are the expenses of the tracking of the providers by the fundamentals, and they increase when the company develops. Since the need of tracking by the proprietor is not an issue when proprietor and administrator are the same person, the organization expenses will not be a problem in founder-led companies. However, family associates members control of the administrator could be a reason for higher, or equally great, organization expenses as non-family companies due to the variations in the interest of close relatives in managing roles (Schultze et al., 2001).

Moreover, through literature review it is quite clear that ownership structure is the major factor in family firms affecting the firm performance (Barontini, 2006; Pindado et al., 2009; Feng-Li and Tsangyao, 2010; Galve-Gorriz and Salas-Fumas, 2014). Moreover, agency theory has been widely used by authors studying the impact of family firms on firm value and performance. This is logical because in family firms the conflict of interest between owners and employee affects the performance of the firm. Furthermore, the rationale for controlling variables have been discussed after the conceptual framework given below.

Methodology

According to Kothari (2009) population can be referred all those things which are under investigation in any field of study. If we want to resolve an issue then the data collection from whole population would generate more accurate and reliable results but practically it is not possible due to time & cost constraints (Zikmund et al., 2012; Saunders et al., 2012; Kothari, 2009). Research will

be conducted by using 400 firms listed in Pakistan stock exchange under non-financial sector as population.

In literature, different types of sampling techniques are found and we can normally divide them into two major categories known as probability & non-probability sampling (Sekaran & Bougie, 2010). Keeping in view the research objective and aim of the study the simple random sampling technique is used to analyze the data. This sampling technique is feasible for our study. Jonker & Pennink (2010) stated that in simple random sampling technique overall population has the probability of being selected as a sample unit.

The data obtained from financial statements of the firms listed at Pakistan Stock Exchange. In PSX almost 400 firms are listed in non-financial sector. A sample of 120 firms is selected which shows 30% of overall population by using the simple random sampling technique. This study consists on panel data of 6 years from 2008 to 2013. Sudman, Bradburn and Schwarz (2010) suggested that the sample size of each division of population should include at least 100 respondents. But, in a situation in which researcher facing some budget constraints size can be reduced to 80 respondents (Aaker, Kumar & Leone, 2001). Furthermore, Hair et al. (2015) stated that sample size should be equivalent to 10 times of the number of variables at least. In this way, this research study should have sample size equal to 80. As there is limit for minimum sample size only therefore the study has used 120 firms because it fulfills the minimum sample size criteria of both scholars Hair et al. (2015) and Sudman et al. (2010).

Results and Discussion

The secondary data was first extracted from financial statements of selected firms. Moreover, the data was organized in excel sheet then statistical analysis was applied on the organized secondary data with the help of statistical software Eviews.

Descriptive Statistics

The results of descriptive analysis are presented below in table 1

Table 1. Descriptive Analysis

	Mean	S.D	Min.	Max.
Family Firm	0.53	0.50	0	1
Ownership Concentration	34.50	28.35	0	88.22
Founder Firm / De	0.67	0.47	0	1
Age	31.03	14.94	1	69
Size	6.42	0.76	4.25	8.34
Growth	0.15	0.44	-1.00	3.44
Leverage	2.14	6.72	18.90	151.64
Interest Coverage Ratio	9.23	53.92	-273.44	648.71
ROA	5.38	14.66	-51.62	67.59
ROE	12.96	71.09	-823.35	601.26
Tobin's Q	5.02	9.68	0.19	97.24

On the basis of descriptive analysis, it is found that the mode value of Family Firms is 1 which represents that majority of the firms in sample fall in the category of family firms. Moreover, it is also found that mean value of Family Firms is 0.53 which is also greater than 0.5 which verifies the above finding i.e. Family Firms in the sample are more than Non-Family Firms. It is also found

that all firms in the sample have standard deviation of 50% with minimum value of 0 and maximum value of 1 because the study has labelled only two responses for "Family Firms" variable i.e. 0=Non-Family Firms; 1=Family Firms. It also means that behavior of family firms would be evaluated more than non-family firms in this study due to larger number of family firms in the sample.

According to Table-1 it is found that the mean value of ownership concentration is 34.50% with a standard deviation of 28.35%. This shows that family owners have 34.5% shares in non-financial firms listed on Pakistan Stock Exchange, Pakistan. As it was discussed in definition section that a firm would be classified as a family firm if 33% or more than 33% shares are owned by family members so, mean value of 34.5% shares show that majority of firms in the sample fall in the category of family firms as found by previous variable findings as well. Moreover, the minimum family ownership concentration was found to be 0% while maximum ownership concentration was found to be 88.22%. Minimum value as 0 shows that sample also contains such firms which have no ownerships by family members.

Based on descriptive analysis it is also found that the mode value of Founder/Descendent firm is 1 which represents that majority of the firms in sample fall in the category of descendent firms as compared to founder firms. Moreover, it is also found that mean value of Founder/Descendent firm is 0.67 which is also greater than 0.5 which verifies the above finding i.e. Descendent Firms in the sample are more than Non-Family Firms. It is also found that all firms in the sample have standard deviation of 47% with minimum value of 0 and maximum value of 1 because the study has labelled only two responses for "Founder/Descendent" variable i.e. 0=Founder Firms; 1=Descendent Firms. It also means that behavior of descendent firms would be evaluated more than founder firms in this study due to larger number of descendent firms in the sample.

Correlation Analysis

The results of Correlation analysis are presented below in Table-2.

Table 2. Correlation Analysis

		(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*
Family Firm	(1)	**1**										
Ownership Conc.	(2)	0.874	**1**									
Founder Firm/De	(3)	0.110	0.106	**1**								
Age	(4)	-0.093	-0.125	0.572	**1**							
Size	(5)	-0.253	-0.225	-0.218	-0.044	**1**						
Growth	(6)	0.043	0.009	-0.146	-0.115	0.110	**1**					
Leverage	(7)	-0.015	-0.017	0.014	-0.011	-0.039	-0.011	**1**				
Interest Coverage Ratio	(8)	-0.159	-0.149	0.028	0.199	0.010	-0.004	-0.004	**1**			
ROA	(9)	-0.114	-0.167	-0.029	0.168	0.152	0.226	-0.064	0.303	**1**		
ROE	(10)	-0.038	-0.021	-0.011	0.076	0.074	0.020	-0.127	0.157	0.369	**1**	
Tobin's Q	(11)	-0.094	-0.112	0.074	0.261	-0.118	-0.008	-0.044	0.391	0.390	0.216	**1**

Based on correlation analysis it is found that Family Firms and ROA are negatively correlated i.e. -0.1143. This shows that when the value of family firms will increase then the value of ROA will decrease and vice versa. This also shows that a unit change in the value of Family Firms will change the profitability of ROA by 0.1143 times. It means the increment in the value of Family Firms will decrease the profitability of the firm. More appropriately it can be said that a unit in-

crease in the value of ROA will be observed if we decrease the value of Family Firms by 0.1143. So, more the value of Family Firms, less will be its profitability. A similar type of relationship is found between Family Firms & ROE, and Family Firms & Tobin's Q. Both relationships are also negatively related i.e. Family Firms & ROE (-0.0381), Family Firms & Tobin's Q (-0.0938). This correlation analysis shows that the impact of family firms is negative on all of the financial performance measures whether it is ROA or ROE or Tobin's Q. The negative correlation value of family firms is higher for ROA and it is lower for ROE.

It is also found that ownership concentration and ROA are also negatively correlated i.e. -0.1627. This shows that when the value of ownership concentration will increase then the value of ROA will decrease and vice versa. This also shows that a unit change in the value of Ownership Concentration will change the profitability of ROA by 0.1627 times. It means the increment in the value of ownership concentration will decrease the profitability of the firm. More appropriately it can be said that a unit increase in the value of ROA will be observed if we decrease the value of ownership concentration by 0.1627. So, more the value of ownership concentration, less will be its profitability. A similar type of relationship is found between ownership concentration & ROE, and ownership concentration & Tobin's Q. Both relationships are also negatively related i.e. Ownership Concentration & ROE (-0.0210), Ownership Concentration & Tobin's Q (-0.1117). This correlation analysis shows that the impact of ownership concentration is negative on all of the financial performance measures whether it is ROA or ROE or Tobin's Q. The negative correlation value of ownership concentration is higher for ROA and it is lower for ROE.

Results also revealed that Firm Type i.e. Founder/Descendent and ROA are negatively correlated i.e. -0.0289. This shows that when the value of Founder/Descendent firm will increase then the value of ROA will decrease and vice versa. This also shows that a unit change in the value of Founder/Descendent firm will change the profitability of ROA by 0.0289 times. It means the increment in the value of Founder/Descendent firm will decrease the profitability of the firm. More appropriately it can be said that a unit increase in the value of ROA will be observed if we decrease the value of Founder/Descendent firm by 0.0289. So, higher the value of Founder/Descendent firm, lower will be its profitability. A similar type of relationship is found between Founder/Descendent firm & ROE while different relationship found between Founder/Descendent firm & Tobin's Q. The relationship between Founder/Descendent firm & ROE is negative (-0.0105) while the relationship between Founder/Descendent firm & Tobin's Q is positive (0.0741). It shows that increase in the value of Founder/Descendent firm will decrease ROA & ROE while it will increase the Tobin's Q of the firm. So, the impact of Founder/Descendent firm is not similar on all performance measure variables.

Regression Analysis

Nine regression models have been developed based on theoretical back ground and literature review:

Model-1

$$TQ_{it} = \beta_0 + \beta_1 (FFIRM)_{it} + \beta_2 (AGE)_{it} + \beta_3 (SIZE)_{it} + \beta_4 (GWT)_{it} + \beta_5 (LEV)_{it} + \beta_6 (ICR)_{it}$$

Table 3 Regression Analysis Model-1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FFIRM	-2.560793	1.431680	-1.788663	0.0742
AGE	0.152904	0.043572	3.509238	0.0005
SIZE	-4.653574	0.755981	-6.155680	0.0000
GWT	0.457016	0.491174	0.930456	0.3525

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEV	-0.012581	0.032043	-0.392631	0.6947
ICR	0.037946	0.004473	8.484161	0.0000
Hausman Test Chi^2	53.777819	Hausman Test P-Value		0.000000
R-squared	0.160535	Mean dependent var		1.381826
Adjusted R-squared	0.152451	S.D. dependent var		5.421472
S.E. of regression	4.991140	Sum squared resid		15519.85
F-statistic	19.85663	Prob. (F-statistic)		0.000000

The results of the first model are presented in Table-3. In this model "Tobin's Q" has been taken as dependent variable. The effect of "Tobin's Q" on firm's financial performance has been measured with the help of multiple regression model. Hausman test is used here to check the feasibility of either random effect model or fixed effect model. The chi-square value for this model is 53.777 with 5 as degree of freedom. Moreover, the p-value (0.0000) confirms the usage of fixed effect model instead random effect model. It is found that the coefficient value of FFIRM is -2.560793 which clearly shows that FFIRM is negatively correlated with Tobin's Q. Furthermore, it is also found that the results are insignificant for this model because the p-value (0.0742) in this model is greater than α (0.05). These findings also suggest that Family Firms will not affect the value of companies in Pakistan.

Model-2

$$TQ_{it} = \beta_0 + \beta_1 (OCON)_{it} + \beta_2 (AGE)_{it} + \beta_3 (SIZE)_{it} + \beta_4 (GWT)_{it} + \beta_5 (LEV)_{it} + \beta_6 (ICR)_{it}$$

Table 4 Regression Analysis Model-2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
OCON	-0.045178	0.025139	-1.797116	0.0728
AGE	0.150560	0.043679	3.446947	0.0006
SIZE	-4.615813	0.751838	-6.139373	0.0000
GWT	0.445535	0.491112	0.907196	0.3647
LEV	-0.012715	0.032043	-0.396816	0.6916
ICR	0.037988	0.004471	8.495854	0.0000
Hausman Test Chi^2	53. 827763	Hausman Test P-Value		0.000000
R-squared	0.160569	Mean dependent var		1.382269
Adjusted R-squared	0.152485	S.D. dependent var		5.421784
S.E. of regression	4.991325	Sum squared resid		15521.00
F-statistic	19.86164	Prob(F-statistic)		0.000000

The results of the second model are presented in Tabel-4. In this model "Tobin's Q" has been taken as dependent variable. The effect of "Tobin's Q" on firm's financial performance has been measure with the help of multiple regression model. Hausman test is used here to check the feasibility of either random effects model or fixed effects model. The chi-square value for this model is 53.827 with 5 as degree of freedom. Moreover, the p-value (0.0000) confirms the usage of fixed effect model instead random effect model. It is found that the coefficient value of OCON is -0.045178 which clearly shows that OCON is negatively correlated with Tobin's Q. Furthermore, it is also found that the results are insignificant for this model because the p-value (0.0728) in this

model is greater than α (0.05). These findings also suggest that Ownership Concentration will not affect the value of companies in Pakistan.

Model-3

$TQ_{it} = \beta_0 + \beta_1 (F\text{-}DFIRM)_{it} + \beta_2 (AGE)_{it} + \beta_3 (SIZE)_{it} + \beta_4 (GWT)_{it} + \beta_5 (LEV)_{it} + \beta_6 (ICR)_{it}$

Table 5 Regression Analysis Model-3

Variable	Coefficient	Std. Error	t-Statistic	Prob.
F_DFIRM	-4.323043	1.781843	-2.426164	0.0155
AGE	0.227419	0.051643	4.403720	0.0000
SIZE	-4.780841	0.758108	-6.306281	0.0000
GWT	0.421204	0.491131	0.857619	0.3914
LEV	-0.010627	0.032047	-0.331603	0.7403
ICR	0.038076	0.004467	8.523443	0.0000
Hausman Test Chi^2	53. 827763	Hausman Test P-Value		0.000000
R-squared	0.163805	Mean dependent var		1.391160
Adjusted R-squared	0.155752	S.D. dependent var		5.428054
S.E. of regression	4.987459	Sum squared resid		15496.97
F-statistic	20.34022	Prob(F-statistic)		0.000000

The results of the third model are presented in Table-5. In this model "Tobin's Q" has been taken as dependent variable. The effect of "Tobin's Q" on firm's financial performance has been measure with the help of multiple regression model. Hausman test is used here to check the feasibility of either random effects model or fixed effects model. The chi-square value for this model is 52.787 with 5 as degree of freedom. Moreover, the p-value (0.0000) confirms the usage of fixed effect model instead random effect model. It is found that the coefficient value of F_DFIRM is -4.323043 which clearly shows that F_DFIRM is negatively correlated with Tobin's Q. Furthermore, it is also found that the results are insignificant for this model because the p-value (0.0155) in this model is less than α (0.05). These findings suggest that Family and Descendent will affect the value of companies in Pakistan.

Model-4

$ROA_{it} = \beta_0 + \beta_1 (FFIRM)_{it} + \beta_2 (AGE)_{it} + \beta_3 (SIZE)_{it} + \beta_4 (GWT)_{it} + \beta_5 (LEV)_{it} + \beta_6 (ICR)_{it}$

Table 6 Regression Analysis Model-4

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FFIRM	-2.362173	1.039178	-2.273116	0.0234
AGE	0.128655	0.034800	3.697018	0.0002
SIZE	0.192017	0.206686	0.929027	0.3532
GWT	7.958371	1.217829	6.534882	0.0000
LEV	-0.137979	0.079001	-1.746559	0.0812
ICR	0.074200	0.010054	7.380106	0.0000
Hausman Test Chi^2	23.602306	Hausman Test P-Value		0.000312
R-squared	0.177944	Mean dependent var		5.383381
Adjusted R-squared	0.171357	S.D. dependent var		14.66366
S.E. of regression	13.34830	Sum squared resid		111182.5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
F-statistic	23.44534	Prob(F-statistic)		0.000000

The results of the fourth model are presented in Table-6. In this model "ROA" has been taken as dependent variable. The effect of "ROA" on firm's financial performance has been measured with the help of multiple regression model. Hausman test is used here to check the feasibility of either random effects model or fixed effects model. The chi-square value for this model is 23.602 with 5 as degree of freedom. Moreover, the p-value (0.0003) confirms the usage of fixed effect model instead random effect model. It is found that the coefficient value of FFIRM is -2.362173 which clearly shows that FFIRM is negatively correlated with ROA. Furthermore, it is also found that the results are significant for this model because the p-value (0.0234) in this model is less than α (0.05). These findings also suggest that ownership structure of firms will affect the financial performance of companies in Pakistan.

Model-5

$$ROA_{it} = \beta_0 + \beta_1 (OCON)_{it} + \beta_2 (AGE)_{it} + \beta_3 (SIZE)_{it} + \beta_4 (GWT)_{it} + \beta_5 (LEV)_{it} + \beta_6 (ICR)_{it}$$

Table 7 Regression Analysis Model-5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
OCON	-0.061084	0.018124	-3.370341	0.0008
AGE	0.125417	0.034621	3.622617	0.0003
SIZE	0.340278	0.213491	1.593874	0.1115
GWT	7.854582	1.210576	6.488304	0.0000
LEV	-0.138299	0.078614	-1.759211	0.0790
ICR	0.073067	0.009984	7.318183	0.0000
Hausman Test Chi^2	23.201913	Hausman Test P-Value		0.000343
R-squared	0.185956	Mean dependent var		5.383381
Adjusted R-squared	0.179433	S.D. dependent var		14.66366
S.E. of regression	13.28309	Sum squared resid		110098.9
F-statistic	32.34423	Prob(F-statistic)		0.000000

The results of the fifth model are presented in Table-7. In this model "ROA" has been taken as dependent variable. The effect of "ROA" on firm's financial performance has been measured with the help of multiple regression model. Hausman test is used here to check the feasibility of either random effects model or fixed effects model. The chi-square value for this model is 23.202 with 5 as degree of freedom. Moreover, the p-value (0.0003) confirms the usage of fixed effect model instead random effect model. It is found that the coefficient value of OCON is -0.061084 which clearly shows that OCON is negatively correlated with ROA. Furthermore, it is also found that the results are significant for this model because the p-value (0.0008) in this model is less than α (0.05). These findings also suggest that ownership concentration of firms will affect the financial performance of companies in Pakistan.

Model-6

$$ROA_{it} = \beta_0 + \beta_1 (F\text{-}DFIRM)_{it} + \beta_2 (AGE)_{it} + \beta_3 (SIZE)_{it} + \beta_4 (GWT)_{it} + \beta_5 (LEV)_{it} + \beta_6 (ICR)_{it}$$

Table 8 Regression Analysis Model-6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
F_DFIRM	-4.393694	1.369929	-3.207242	0.0014
AGE	0.212591	0.043800	4.853698	0.0000
SIZE	0.052599	0.190546	0.276045	0.7826
GWT	7.509264	1.215663	6.177093	0.0000
LEV	-0.130347	0.078724	-1.655745	0.0983
ICR	0.075810	0.009917	7.644328	0.0000
Hausman Test Chi^2	22.746050	Hausman Test P-Value		0.000421
R-squared	0.184579	Mean dependent var		5.383381
Adjusted R-squared	0.178045	S.D. dependent var		14.66366
S.E. of regression	13.29432	Sum squared resid		110285.1
F-statistic	19.12132	Prob(F-statistic)		0.000000

The results of the sixth model are presented in Table-8. In this model "ROA" has been taken as dependent variable. The effect of "ROA" on firm's financial performance has been measured with the help of multiple regression model. Hausman test is used here to check the feasibility of either random effects model or fixed effects model. The chi-square value for this model is 22.746 with 5 as degree of freedom. Moreover, the p-value (0.0004) confirms the usage of fixed effect model instead random effect model. It is found that the coefficient value of F_DFIRM is -4.393694 which clearly shows that F_DFIRM is negatively correlated with ROA. Furthermore, it is also found that the results are significant for this model because the p-value (0.0014) in this model is less than α (0.05). These findings also suggest that firm type i.e. founder/descendent firm will affect the financial performance of companies in Pakistan.

Model-7

$$ROE_{it} = \beta_0 + \beta_1 (FFIRM)_{it} + \beta_2 (AGE)_{it} + \beta_3 (SIZE)_{it} + \beta_4 (GWT)_{it} + \beta_5 (LEV)_{it} + \beta_6 (ICR)_{it}$$

Table 9 Regression Analysis Model-7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FFIRM	-2.137871	1.065366	-2.006700	0.0452
AGE	0.118492	0.035677	3.321290	0.0009
SIZE	0.240478	0.211895	1.134892	0.2569
GWT	8.156636	1.248519	6.533047	0.0000
LEV	-0.145776	0.080991	-1.799888	0.0724
ICR	0.074779	0.010307	7.254869	0.0000
Hausman Test Chi^2	22.373987	Hausman Test P-Value		0.000423
R-squared	0.171300	Mean dependent var		5.508921
Adjusted R-squared	0.164660	S.D. dependent var		14.97281
S.E. of regression	13.68469	Sum squared resid		116856.9
F-statistic	27.23423	Prob(F-statistic)		0.000000

The results of the seventh model are presented in Table-9. In this model "ROE" has been taken as dependent variable. The effect of "ROE" on firm's financial performance has been measured with the help of multiple regression model. Hausman test is used here to check the feasibility of either random effects model or fixed effects model. The chi-square value for this model is 22.374 with 5 as degree of freedom. Moreover, the p-value (0.0004) confirms the usage of fixed effect

model instead random effect model. It is found that the coefficient value of FFIRM is -2.137871 which clearly shows that FFIRM is negatively correlated with ROE. Furthermore, it is also found that the results are significant for this model because the p-value (0.0452) in this model is less than α (0.05). These findings also suggest that family firms will affect the financial performance of companies in Pakistan.

Model-8

$$ROE_{it} = \beta_0 + \beta_1 (OCON)_{it} + \beta_2 (AGE)_{it} + \beta_3 (SIZE)_{it} + \beta_4 (GWT)_{it} + \beta_5 (LEV)_{it} + \beta_6 (ICR)_{it}$$

Table 10 Regression Analysis Model-8

Variable	Coefficient	Std. Error	t-Statistic	Prob.
OCON	-0.059504	0.018580	-3.202570	0.0014
AGE	0.115476	0.035492	3.253623	0.0012
SIZE	0.397346	0.218863	1.815504	0.0699
GWT	8.064487	1.241035	6.498193	0.0000
LEV	-0.146031	0.080592	-1.811976	0.0705
ICR	0.073440	0.010236	7.174983	0.0000
Hausman Test Chi^2	21.991258	Hausman Test P-Value		0.000564
R-squared	0.179440	Mean dependent var		5.508921
Adjusted R-squared	0.172865	S.D. dependent var		14.97281
S.E. of regression	13.61732	Sum squared resid		115709.1
F-statistic	20.34022	Prob(F-statistic)		0.000000

The results of the eighth model are presented in Table-8. In this model "ROE" has been taken as dependent variable. The effect of "ROE" on firm's financial performance has been measured with the help of multiple regression model. Hausman test is used here to check the feasibility of either random effects model or fixed effects model. The chi-square value for this model is 21.991 with 5 as degree of freedom. Moreover, the p-value (0.0005) confirms the usage of fixed effect model instead random effect model. It is found that the coefficient value of OCON is -0.059504 which clearly shows that OCON is negatively correlated with ROE. Furthermore, it is also found that the results are significant for this model because the p-value (0.0014) in this model is less than α (0.05). These findings also suggest that ownership structure will affect the financial performance of companies in Pakistan.

Model-9

$$ROE_{it} = \beta_0 + \beta_1 (F\text{-}DFIRM)_{it} + \beta_2 (AGE)_{it} + \beta_3 (SIZE)_{it} + \beta_4 (GWT)_{it} + \beta_5 (LEV)_{it} + \beta_6 (ICR)_{it}$$

Table 11 Regression Analysis Model-9

Variable	Coefficient	Std. Error	t-Statistic	Prob.
F_DFIRM	-3.764167	1.406649	-2.675981	0.0076
AGE	0.190306	0.044974	4.231471	0.0000
SIZE	0.112332	0.195654	0.574137	0.5661
GWT	7.765614	1.248248	6.221211	0.0000
LEV	-0.139276	0.080834	-1.722983	0.0854
ICR	0.076323	0.010183	7.495162	0.0000

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Hausman Test Chi^2	21.649950	Hausman Test P-Value		0.000645
R-squared	0.175415	Mean dependent var		5.508921
Adjusted R-squared	0.168808	S.D. dependent var		14.97281
S.E. of regression	13.65067	Sum squared resid		116276.6
F-statistic	20.34022	Prob(F-statistic)		0.000000

The results of the ninth model are presented in Table-11. In this model "ROE" has been taken as dependent variable. The effect of "ROE" on firm's financial performance has been measure with the help of multiple regression model. Hausman test is used here to check the feasibility of either random effects model or fixed effects model. The chi-square value for this model is 21.649 with 5 as degree of freedom. Moreover, the p-value (0.0006) confirms the usage of fixed effect model instead random effect model. It is found that the coefficient value of OCON is -3.764167 which clearly shows that F_DFIRM is negatively correlated with ROE. Furthermore, it is also found that the results are significant for this model because the p-value (0.0076) in this model is less than α (0.05). These findings also suggest that firm type i.e. founder/descendent will affect the financial performance of companies in Pakistan.

Conclusion and Recommendations

Conclusion

This study is conducted in non-financial sector of Pakistan. Data of 120 firms from the population of 400 firms listed at PSX have been extracted by using simple random sampling technique. The major conclusion drawn from this study is about the firm performance of family firms as compared to non-family firms. On the basis of results obtained from this study it is concluded that non-family firms are performing better than family firms in Pakistan. The study evaluates the performance of 120 firms (Family = 55, Non-Family = 65) over the period of 6 years (2008-2013). The study has used three proxy variables i.e. Tobin's Q, ROA and ROE to find the above concluding remarks. The study found significant results with the help of Tobin's Q, ROA, and ROE. This research has been successful in finding the answer to all research questions. In response to first research question it is concluded that non-family firms perform better than family firms. The same answer goes true for second research question as well. In response to third question it is also found that founder firms are performing better in Pakistan than descendant firms. In response to last research question it is concluded that firm type, age and size are the important determinants of firm performance which is normally measured with the help of ROA, ROE and Tobin's Q.

Non-family controlled firms are perform better in Pakistan market. One reason behind that professional managers not run the family firms. Professional managers are titled for very tough time for any firm. But in the good time families enjoyed the ownership and having full controlled on the firm's management. Ownership concentration or ownership influence are very much effected on the firm performance. The study shows that firms having low ownership concentration of one family, the firms perform better and if the firms having high ownership concentration of a single family that time firm's performance are low. The rising of ownership concentration of a single family in the firm mean negative impact on firm performance.

The gap in performance of the firms between the family and non-family firms are the difference in skills among the professional managers and family managers. In fact the professional manager are selected from lot of competition and larger pool talent. And the other side family managers are the family members of the existing authority. Owner manager having a position as a top manager

or final authority and then top manager want to retain that position for whole coming family. These manners are less productive and family controlled firm's shows low productivity as compared to non-family businesses.

Anderson and Reeb (2003) shows that family firms give better performance as compared to non-family controlled firms. But this study checked the concave relationship among the family ownership and performance of the firm. The firm's shows negative relationship and negative effect on performance when the ownership concentration about 30%. After about 60% the family firms give performance than to non-family firms. The study shows that in his sample family owned firms mostly consider who's firms having more 50% family ownership concentration. The study also shows that almost 74% family controlled firms have not any other owner. These types of forms having a 100% ownership. So my results are consistent with the findings of Anderson and reed.

Recommendations and Directions for Future Research

Results obtained from this research study strongly recommends that BoDs in Pakistani firms should understand the importance of ownership concentration for enhanced firm performance. BoDs should prefer the establishment of non-family firms. Moreover SECP should encourage the establishment of non-family firms as compared to family firms which will not only boost the firm performance but will also contribute the country's GDP growth effectively. It is also recommended that board of family firms should incorporate such methods which can eradicate the limitations of family firms as compared to non-family firms. It is also recommended that minority shareholder activism must be encouraged by SECP which can also reduce the limitations of family firms.

For future research it is recommended that researchers should incorporate the role of regulating authorities to minimize the negative effects of family firms on financial performance of the firms. Researchers can also choose other sectors e.g. financial sector, banking sector etc. to understand the impact of ownership concentration on firm performance in Pakistan. It is also recommended that researchers should increase the sample size to either strengthen the results of previous studies or negate them. Moreover, researchers can use other proxy variables such as board structure and board size to identify the impact on firm performance.

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