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Do tenure-based voting rights help mitigate the family firm control-growth dilemma?

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Abstract

Research Summary: Investment growth in family firms is constrained by family preferences to retain corporate control, which limits outside equity issuance and increases the expropriation risk perceived by external minority shareholders. Tenure-based voting rights (TVRs) weaken the link between voting rights and cash flow rights, facilitating new equity capital issuance without loss of control. We find that publicly listed family firms in Italy adopt TVRs to facilitate the continuation of investment growth while retaining family control. We also find that in family firms with fragile control, investment increases after TVR adoption. Our results indicate that control-enhancing mechanisms such as TVRs can help resolve the control–growth dilemma in family firms.

Managerial Summary: Family firms tend to invest less than other firms because funding new investment can lead to loss of family control. Tenure-based voting rights (TVRs) reinforce the control of qualifying family shareholders, giving them extra shareholder voting power. Deviation from the one-share-one-vote principle is generally regarded as detrimental to outside shareholders' interests. However, we find that TVR-adopting

Italian family firms invest more, pay higher dividends, are more profitable and have more outside shareholders on the board of directors. In other words, violation of the one-share-one-vote rule using TVRs can benefit both family owners and outside shareholders. Policymakers could consider whether TVRs can help in promoting economic growth, especially in countries where family firms are important.

KEYWORDS

control-enhancing mechanisms, disproportional ownership, family firms, tenure-voting rights, underinvestment

1 | INTRODUCTION

Family firms are common and economically important in the global economy (Faccio & Lang, 2002; La Porta et al., 1998). Prior studies report extensive evidence that family firms invest less than nonfamily firms (Chrisman & Patel, 2012; Kuo & Hung, 2012; Patel & Chrisman, 2014; Pindado et al., 2011), make fewer acquisitions (Gómez-Mejia et al., 2010), and divest less (Feldman et al., 2016). Both the socioemotional wealth (SEW) model (Gómez-Mejia et al., 2007) and agency theory contend that family firms' underinvestment is the outcome of family owners' preferences for control and desire to maintain influence over the business. According to the SEW model, family owners, to preserve SEW (i.e., the noneconomic utility a family derives from its ownership position in a firm), avoid decisions that will diminish their control (Berrone et al., 2012; Gómez-Mejia et al., 2011). Corporate investment threatens family control because it requires access to financial, human, and social capital (Sapienza et al., 2003), which might dilute a family's ownership and influence over decision-making (Fattoum-Guedri et al., 2018; Wasserman, 2017). From an agency perspective, family preferences for control exacerbate conflicts of interest between family owners and outside minority owners, creating a principal–principal agency problem (Chen et al., 2021; Villalonga et al., 2015). Greater agency problems limit firms' access to both external (Croci et al., 2011; Fernando et al., 2014; Michiels & Molly, 2017) and internal financial resources (Miller et al., 2021), leading to underinvestment.

Although there is ample evidence that families' preference for control constrains investment, it is less clear whether mechanisms exist that would allow family firms to pursue and continue investment growth while maintaining control. We investigate whether the adoption of tenure-based voting rights (TVRs) by Italian firms achieves this objective and helps mitigate the control–growth dilemma. TVRs increase owners' voting rights if the owners hold their shares for a minimum vesting period, leaving cash flow rights unaffected. In our setting, TVRs double the voting rights associated with shares held for 2 years or more. They are available to all shareholders, but shareholders must first indicate their interest by signing up in a public register and hold the shares for 2 years before the enhanced voting rights become effective. This ensures that outsiders know whether TVRs are in place and which shareholders are entitled to enhanced voting rights. By increasing voting rights after a given period, TVRs reduce the dilution of

control associated with outside equity issuance and thus increase family owners' willingness to raise outside equity for investment growth. However, TVRs deviate from the "one share–one vote" principle that has long been held as fundamental to good corporate governance (Adams & Ferreira, 2008; Burkart & Lee, 2008). As a result, when TVRs are in place, outsiders may perceive a higher expropriation risk (i.e., higher agency costs), and family owners may find it more difficult to attract and retain outside investors.

In our setting, minority shareholders do not lose voting rights when TVRs are approved. In addition to keeping their existing voting rights, they can receive TVRs themselves—and additional voting rights—if they sign up in the register and continuously hold shares for at least 2 years. Furthermore, a TVR adoption needs to be approved by a qualified majority during the annual general meeting. To obtain the minority owners' support, family owners can take steps to reassure them that they will not be expropriated; for example, the owners can adjust dividend payout policy or board representation. Hence, external shareholders do not necessarily expect TVR adoption to increase their expropriation risk. We predict that family firms will adopt TVRs and invest more than other family firms when the benefits from avoiding control dilution exceed any incremental agency costs. Specifically, TVR adoption can increase investment in family firms by either (i) facilitating the continuation of past investment growth without the family's relinquishing control (a *selection* effect), or (ii) facilitating new investment by relaxing constraints that have limited past investment (a *treatment* effect).

To test our predictions, we use a sample of 241 Italian-listed firms in the period 2015–2019 and examine the consequences, for investment growth, of the 2014 legal change that allowed Italian firms to award TVRs to shareholders who have owned their shares for more than 2 years. As TVR adoption is voluntary in our setting, we adopt an instrumental variable approach using the presence of a male firstborn child as an instrument—prior research suggests the incentive to retain control is stronger when the firstborn child is a male (Bennedsen et al., 2007). As TVRs consolidate the control of dominant owners, we find that TVR adoption is positively associated with the presence of a male firstborn child. We then confirm the findings, in prior research, that family firms invest less than nonfamily firms, but we also find that family firms that adopt TVRs invest more than nonfamily firms with TVRs. This positive investment effect holds for family firms irrespective of how fragile the family control is. When we dig into the mechanism driving our findings, we show that the selection effect is important—the family firms that adopt TVRs have higher pre-adoption investment growth than other family firms, and their investment growth continues post adoption. However, there is also a treatment effect when family control is fragile: investment increases after TVR adoption in firms with fragile family control but not in firms where family control is dominant. Thus, a TVR treatment effect exists when the control constraints on new investment are more important.

In supplementary analyses, we find that TVR-adopting family firms issue more equity and have higher stock market valuations, lending additional support to our theoretical predictions. They also have higher dividend payout and minority shareholders board representation, indicating a commitment to avoid expropriation and to promote the influence and support of minority shareholders.

We contribute to the literature by showing that owners of family firms consider TVRs an effective tool to facilitate continued investment growth while retaining control—a way of mitigating the control–growth dilemma. By suggesting that TVRs offer benefits to outside shareholders despite violating the one share–one vote principle, we also provide a more nuanced view of control-enhancing mechanisms (CEMs).

2 | THEORY AND HYPOTHESIS

2.1 | The effect of family control on corporate investment

There is broad agreement defining a family firm as one where the family owner exercises influence over the firm's affairs (Gómez-Mejia et al., 2011). Families use multiple tools to maintain control and influence. They may hold controlling ownership stakes (either directly or indirectly through voting agreements) or dual-class shares, or establish pyramid structures (Villalonga & Amit, 2009). They may also appoint family members to the board of directors and in top management positions (Chua et al., 2009), or pay family CEOs more than professional CEOs to tunnel corporate resources (Chen et al., 2021).

As control concerns are distinctive features of family firms, research has frequently focused on the implications of family influence on corporate decisions by building on both the SEW model and agency theory (Berrone et al., 2012; Gómez-Mejia et al., 2011). According to the SEW model (Gómez-Mejia et al., 2007), family control is an important dimension of SEW endowment, and control retention is a key objective for family owners since it is instrumental to SEW preservation (Berrone et al., 2012; Gómez-Mejia et al., 2011). Thus, family owners are reluctant to make decisions that reduce family control and influence over the business, even if such decisions are optimal from an economic standpoint. Consistent with this view, several studies find that family firms invest less than nonfamily firms because investment requires resources from external providers, which can reduce family influence over the firm (Chrisman & Patel, 2012; Gómez-Mejia et al., 2010; Gómez-Mejia et al., 2011; Patel & Chrisman, 2014). Raising external equity finance is especially unattractive to family owners due to the dilution of ownership and potential loss of decision-making control (Wasserman, 2017). Consequently, family-owned firms raise less equity (Wu et al., 2007), and their investment growth is constrained (Jain & Shao, 2015).

Studies grounded in agency theory also conclude that family firms invest less, as principal–principal agency problems reduce the supply of capital from outside minority shareholders (Kuo & Hung, 2012; Pindado et al., 2011). To satisfy socioemotional motives (Gómez-Mejia et al., 2007) or to facilitate the transfer of the firm to future generations, family owners may pursue unprofitable investments that run counter to outside shareholders' interests (Bennedsen et al., 2007; Bertrand & Schoar, 2006; Villalonga & Amit, 2009). Families can also exploit their controlling positions to pursue policies that outside shareholders perceive as expropriation (Fernando et al., 2014; Michiels & Molly, 2017). In response, minority shareholders may demand higher dividend payouts to restrict investment in unprofitable projects and opportunities for expropriation (Faccio et al., 2001; Miller et al., 2021). Consistent with this, empirical evidence confirms that family-owned firms do have higher dividend payout (Huang et al., 2012; Pindado et al., 2012). Higher dividend payout, in turn, limits the internal funds available for profitable investment (Miller et al., 2021). Thus, the misalignment of interests between family owners and outside minority shareholders can constrain both the external and internal resources available to family firms for investment in profitable projects.

Both the SEW and agency perspectives suggest that in family firms, control considerations crowd out profitable new investments. Family owners, therefore, face a dilemma between pursuing profitable investment opportunities and retaining control over the firm (Durand & Vargas, 2003; Wasserman, 2017). We examine whether TVR adoption can resolve the control–growth dilemma and facilitate investment growth in family-owned public firms.

2.2 | TVRs in Italy: Hypothesis

TVRs are a mechanism designed to discourage short-termism in investor and corporate decision-making. Italy introduced voluntary TVRs in the *Competitiveness Decree* (D.L. June 24, 2014, n. 91) with four main policy objectives in mind: (i) to facilitate the sale of equity stakes in state-owned companies while preserving family control; (ii) to incentivize family-controlled public companies to raise external capital for investment without the fear of losing control; (iii) to discourage short-termism; and (iv) to reduce the risk of hostile takeovers (Bajo et al., 2020). Hence, TVRs are intended to help mitigate control risk for family owners raising equity capital. The adoption of TVRs by Italian public firms is voluntary and requires a modification of the corporate charter by shareholder agreement. Italian TVRs grant double voting rights to any shares held by the same shareholder for at least 2 years after registration.[1] Minority shareholders who satisfy the share ownership vesting period requirement also receive TVRs and are, therefore, not disadvantaged as they are with other CEMs, such as dual-class structures and pyramids.

The association between TVRs and investment in family firms is unclear ex ante. On the one hand, TVRs can strengthen the control rights of family owners who are relaxing the constraints on investment growth. In his conceptualization of the control–growth dilemma in entrepreneurial firms, Wasserman (2017) argues that outside investors are concerned about hold-ups by entrepreneurs; therefore, in exchange for their investment, they require control rights as the main form of protection. However, control rights are necessary for insider entrepreneurs to pursue their vision, and reduce the risk of losing control over the firm. Similarly, in family firms, owners avoid control dilution to ensure that the firm can be passed on to future generations. By reinforcing control rights, TVRs can increase the willingness of entrepreneurial and family firms to raise outside equity finance. Thus, consistent with the SEW model (Gómez-Mejia et al., 2007), the adoption of TVRs by family firms could be positively associated with investment.

On the other hand, TVRs can enhance the power of family owners. If the increase in voting rights from TVRs disproportionately favors family shareholders, outsiders may perceive a higher expropriation risk (i.e., higher agency costs) and be less willing to invest in family-owned firms. In line with the view that departure from the one share–one vote principle exacerbates principal–principal agency conflicts, Kuo and Hung (2012) show, in a Taiwanese setting, that investment-cash flow sensitivity is higher in family firms with excess control rights. Likewise, using US data, Jain and Shao (2015) document that when a dual-class structure is in place, family firms raise less external equity. Thus, from an agency theory perspective, TVRs could increase principal–principal agency problems, making it more difficult for family firms to attract and retain outside investors. Under this perspective, TVRs, instead of facilitating investment growth in family-owned firms, might simply be a mechanism that strengthens family control.

We predict that TVR adoption will increase the resources for new investment in family firms if the expected benefits from new investment exceed the expected incremental agency costs due to expropriation risk. The design of the regulation introducing TVRs in Italy suggests that the expected expropriation risk is unlikely to increase following TVR introduction. External minority shareholders can still exercise their voting rights, which are doubled if they hold shares for

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[1]Unlike dual-class shares, which also create a wedge between voting rights and cash flow rights, TVRs are not a distinct class of shares, and the enhanced voting rights are lost if the underlying shares are sold or transferred. Italy was one of the first countries in the world to introduce TVRs, but TVRs are also allowed in the Netherlands, Belgium, and Spain and are mandatory in France. The introduction of TVRs is also being considered in the United States.

at least 2 years. Moreover, TVRs are more transparent than some other CEMs such as dual-class shares, and pyramids, and their introduction must be approved by two-thirds of the voting capital at a shareholders' meeting. These features, combined with mandated minority shareholders' representation on the board, should reassure outside minority shareholders and make their financing of investment growth more likely. Thus, we test the following hypothesis:

> **Hypothesis.** The adoption of tenure-based voting rights is associated with more investment by family firms.

A positive association between TVR adoption and investment could arise from two non-mutually exclusive effects. First, TVR adoption might enable family firms to continue a past growth trajectory without having to relinquish control—a *selection* effect. Second, TVR adoption might relax previously binding constraints and allow family firms to increase investment—a *treatment* effect. We aim to discriminate between these effects in our research design.

3 | METHODS

3.1 | Sample and data collection

Our main sample comprises all nonfinancial firms listed in Italy over the period 2015–2019. The sample period begins in 2015 because TVR legislation was introduced in 2014. We collect financial and market data from the Refinitiv Eikon database. Family ownership data are from Bureau van Dijk's Orbis database, the Commissione Nazionale per le Società e la Borsa (CONSOB), and individual firms' annual reports.[2] Our final sample comprises 241 unique firms (964 firm years) for which complete data are available.

3.2 | Measures

3.2.1 | Tenure-based voting rights

We hand-collect data on the adoption of TVRs from the CONSOB website and define an indicator variable equal to 1 if the firm includes TVRs in the corporate charter in year t and 0 otherwise.[3]

3.2.2 | Family firm

In line with Leitterstorf and Rau (2014), we use a family control indicator equal to 1 if one or more family members hold 25% or more of issued equity and 0 otherwise. We start from the

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[2]CONSOB is the Italian equivalent of the US Securities and Exchange Commission (SEC).

[3]In additional analyses reported in Table OA1 in the Online Appendix, we analyze whether our findings depend on whether TVRs are effective (i.e., 2 years have elapsed since their introduction). Specifically, we substitute *TVR* with two indicator variables (*TVR unvested* and *TVR vested*) to capture possible differences in the vesting period. In our sample, 31 unique firms out of 49 have vested TVRs. We find a positive effect for both TVR indicators, supporting our choice to treat the introduction of TVRs in corporate charters as the main variable of interest.

definition of family enterprise developed by the European Central Bank,[4] and we exclude cases of lone-founded firms because control may be less important to lone founders than to family owners (Miller et al., 2011).[5] The use of an indicator variable facilitates economic interpretation. In additional analyses, we also use the proportion of shares directly or indirectly held by family members and find qualitatively similar inferences.

3.2.3 | Investment

We consider an aggregate measure of investment (*Investment*) equal to the sum of capital expenditure, R&D expenditure, and acquisitions, scaled by lagged total assets.

3.2.4 | Control variables

In each model, we control for family board influence, including (i) an indicator variable equal to 1 if the CEO belongs to the family and 0 otherwise (*Family CEO*), (ii) an indicator variable equal to 1 if the chairperson belongs to the family and 0 otherwise (*Family Chairperson*), and (iii) the percentage of board members (excluding the CEO and chairperson) who belong to the family (*Family board presence*). Guided by prior literature, we also include the following firm-level determinants of corporate investment: *Leverage*, computed as the total book value of debt divided by the book value of total assets; *Log*(*Market value of equity*), to control for firm size at the end of the fiscal year; *Market-to-book ratio*, calculated as the sum of the book value of debt plus the market value of equity divided by the firm's book value of total assets, to capture growth opportunities; *Sales growth*, defined as the percentage change in revenues between years t and $t - 1$, to capture recent growth; *ROE*, equal to net income divided by the book value of equity, to capture profitability; *Cash flow from operations*, defined as operating cash flow divided by total assets, to capture cash-generating ability; *Log*(*Age*), defined as the logarithm of one plus firm age, to capture the maturity of the business; and *Capacity overhang*, computed as total assets divided by sales, to capture underutilization of capacity.[6] We winsorize all continuous variables without natural bounds at the 1% level, and all variables are dated at time $(t - 1)$ to address reverse causality concerns.

3.3 | Model specification

TVR adoption is not mandatory in Italy and therefore should reflect corporate choices.[7] To account for the voluntary nature of TVR adoption, we adopt a two-stage least squares with

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[4]We operationalize family firms on the basis of family ownership to be consistent with our theoretical arguments and because potential loss of influence and control due to dilution of ownership is central to the control–growth dilemma.

[5]The percentage of lone-founded firms in our sample is 7.16%. In our main tests, we include lone-founded firms in the group of non-family firms. Our results continue to hold if we treat them as a distinct category.

[6]Capacity overhang captures the extent to which installed capacity exceeds optimal capacity (Aretz & Pope, 2018). It is potentially relevant because family firms that have more conservative investment strategies could have lower capacity overhang.

[7]In unreported tests, we find that TVR family firms invested more and had higher growth opportunities than other firms before TVR adoption. These results suggest that TVR family firms have different growth characteristics.

endogenous treatment effects model using the existence of a male firstborn child as an instrument for TVR adoption. Bennedsen et al. (2007) suggest that family owners whose firstborn child is male have stronger incentives to retain control to pass the business to their heir. Hence, family owners with firstborn sons may adopt TVRs to consolidate their controlling positions. At the same time, the existence of a male firstborn child is unlikely to directly influence investment, so both the relevance and exclusion restriction requirements for a valid instrument are satisfied.[8] In the first step of the instrumental variable estimation, we regress TVR adoption on an indicator of a firstborn male, the level of family ownership, the presence of a family CEO, the percentage of family board members, the existence of other CEMs (i.e., preferred shares and shareholder agreements), and year dummies.[9] In the second step, the fitted value of TVR adoption from the first step is included.

4 | ANALYSES AND RESULTS

4.1 | Main results

Table 1 reports the descriptive statistics and the correlations of all variables used in the empirical tests. *Investment*, the dependent variable in our tests, averages 4.74% of lagged total assets, and the mean value of *Family ownership* is 37.8% with a standard deviation of 30.12%. *Family ownership* exceeds 25% in 64.8% of observations, indicating that family businesses are extremely common in Italy. Other variables indicate that family control and influence are also substantial: the average percentage of family board members (excluding the CEO and chairperson) is 10.17%; the CEO is a family member in 38.49% of cases; and the chairperson is a family member in 50.62% of cases. TVRs are adopted in 15.46% of observations, corresponding to 49 unique firms. In line with Bajo et al. (2020), we observe an increasing number of companies adopting TVRs over time: 8% had adopted TVRs in 2015, but 23.27% had adopted them by 2019. The percentage of firms introducing TVRs is higher in family firms (18.72%, vs. 9.44% in nonfamily firms; $p < .01$). Although TVRs are mainly obtained by controlling shareholders, we find that minority shareholders also receive them in 12 of the 49 TVR-adopting companies (25.53%). Importantly, in an unreported analysis, we find a positive association between the existence of a male firstborn child (i.e., our instrument) and TVR adoption ($p < .01$), confirming that firms with stronger control concerns are more likely to implement TVRs to consolidate their influence over the firm.

Table 2 presents the results of the regression analyses used to test our hypothesis. We include regional area-by-year fixed effects in all regressions and industry fixed effects in the full sample tests using nonfamily and family firms (Columns 1 and 2). Robust standard errors are reported in parentheses.

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[8]We manually collect information on the presence of a male firstborn child through web searches using the name of the controlling owner. Specifically, after identifying the number of children, we searched for information on their first names and age. *Firstborn* is equal to 1 in 22.42% of observations.

[9]Results for the first-step estimation are reported in Table OA2 in the Online Appendix. In additional analyses, we estimate two-stage linear regressions with endogenous treatment effects, including a broad set of firm-level characteristics that prior research suggests influence firms' decisions to adopt TVRs (Bajo et al., 2020). In results reported in Table OA3 in the Online Appendix, we observe an inverted U-shaped relation between family ownership and TVR adoption—the inflection point is around 30.9%. This result suggests that TVRs are more likely to be adopted by companies with intermediate levels of family ownership, where family control is relatively fragile.

TABLE 1 Descriptive statistics.

	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1. Family firm	0.65	0.48														
2. Family ownership	0.38	0.30	**0.92**													
3. Family CEO	0.38	0.49	**0.58**	**0.56**												
4. Family Chairperson	0.51	0.50	**0.69**	**0.66**	**0.58**											
5. Family board presence	0.10	0.12	**0.57**	**0.58**	**0.50**	**0.84**										
6. TVR	0.15	0.36	**0.12**	0.05	**0.08**	**0.11**	**0.10**									
7. Investment	0.05	0.05	0.02	0.03	**0.06**	**0.11**	**0.11**	0.02								
8. Leverage	0.30	0.17	0.04	0.01	−0.03	0.02	−0.01	0.05	−0.01							
9. Log(Market value of equity)	12.24	2.10	**−0.08**	**−0.14**	**−0.16**	**−0.16**	**−0.16**	**0.12**	**0.13**	**−0.08**						
10. Market-to-book ratio	2.29	3.43	0.00	0.01	0.01	**−0.07**	**−0.08**	0.05	**0.18**	−0.03	**0.19**					
11. Sales growth	0.09	0.36	−0.05	−0.05	−0.02	−0.05	−0.06	−0.00	**0.19**	−0.05	−0.05	**0.18**				
12. ROE	0.04	0.54	0.03	0.02	−0.02	0.02	0.04	0.02	0.02	−0.02	**0.14**	**−0.30**	**−0.08**			
13. Cash flow from operations	0.06	0.09	0.06	0.05	0.05	**0.08**	0.06	0.01	**0.15**	**−0.17**	**0.36**	**0.14**	**0.07**	**0.18**		
14. Log(Age)	3.63	0.85	**0.21**	**0.20**	**0.13**	**0.14**	**0.15**	0.05	−0.00	0.06	**0.22**	−0.01	**−0.18**	0.06	**0.07**	
15. Capacity overhang	2.46	4.06	**−0.15**	**−0.11**	**−0.14**	**−0.18**	**−0.21**	0.01	0.01	**0.12**	**−0.08**	−0.04	**−0.08**	−0.02	**−0.21**	−0.06

Note: The table shows the descriptive statistics and pairwise correlations for all variables included in the model. Pairwise correlations with *p*-values less than .05 are reported in bold.

TABLE 2 Impact of TVR on family firms' investment.

| | (1) | (2) | (3) | (4) Fragile | (5) Dominant |
| Sample | All firms | All firms | Family firms | family firms | family firms |
Dependent variable	Investment	Investment	Investment	Investment	Investment
Leverage	−0.007 (0.010)	−0.006 (0.010)	−0.037 (0.018)	−0.124 (0.050)	−0.041 (0.023)
Log(Market value of equity)	0.002 (0.001)	0.002 (0.001)	−0.012 (0.003)	−0.005 (0.009)	−0.009 (0.004)
Market-to-book ratio	0.002 (0.001)	0.002 (0.001)	0.002 (0.001)	0.005 (0.002)	0.001 (0.001)
Sales growth	0.011 (0.004)	0.011 (0.004)	0.006 (0.004)	0.005 (0.009)	0.003 (0.005)
ROE	0.004 (0.003)	0.003 (0.003)	0.008 (0.003)	0.012 (0.010)	0.008 (0.003)
Cash flow from operations	0.083 (0.021)	0.082 (0.021)	0.064 (0.029)	0.041 (0.062)	0.064 (0.035)
Log(Age)	−0.002 (0.002)	−0.002 (0.002)	0.009 (0.020)	−0.141 (0.063)	0.037 (0.024)
Capacity overhang	0.002 (0.000)	0.002 (0.000)	−0.002 (0.001)	−0.004 (0.008)	−0.002 (0.001)
Family board presence	0.061 (0.018)	0.060 (0.018)	−0.035 (0.025)	−0.137 (0.123)	0.008 (0.029)
Family CEO	0.001 (0.004)	0.001 (0.004)	0.014 (0.008)	0.084 (0.025)	0.007 (0.009)
Family Chairperson	0.004 (0.005)	0.004 (0.005)	−0.011 (0.007)	0.030 (0.023)	−0.014 (0.008)
TVR	−0.046 (0.028)	−0.047 (0.028)	−0.010 (0.019)	0.056 (0.026)	−0.004 (0.020)
Family firm	−0.014 (0.005)				
Family firm × TVR	0.042 (0.012)				
Fragile family firm		−0.015 (0.007)			
Dominant family firm		−0.014 (0.006)			
Fragile family firm × TVR		0.045 (0.015)			
Dominant family firm × TVR		0.040 (0.013)			
Observations	964	964	639	133	506
Fixed effects	Industry; region × Year	Industry; region × Year	Firm; region × Year	Firm; region × Year	Firm; region × Year
Wald Chi^2	178.56	178.74	2241.48	423.57	2171.49

Note: The table shows the results from the second step of a two-stage least squares with endogenous treatment effects model. Columns 1 and 2 report the findings for all firms using industry fixed effects, while Columns 3, 4, and 5 report the results in subsamples of family firms, fragile family firms and dominant family firms, respectively, including firm fixed effects.
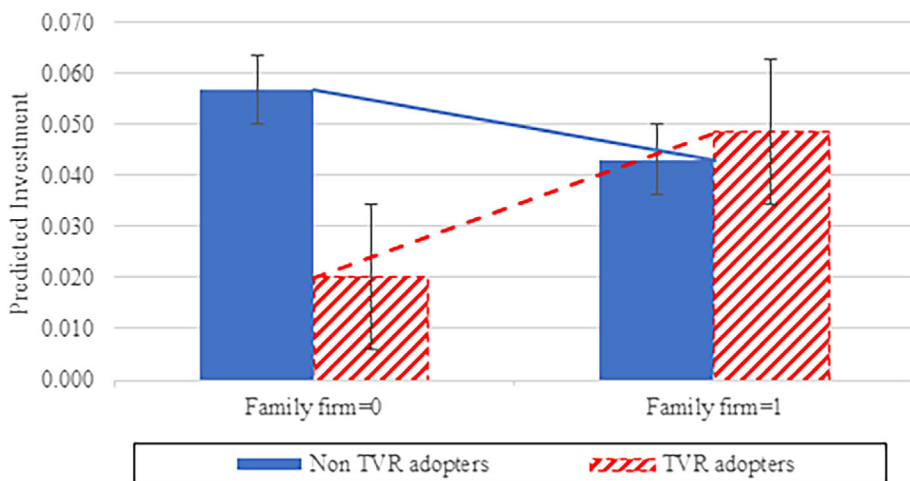
FIGURE 1 Interaction plot. The figure represents the marginal effects of family firms on investment in the absence and presence of TVR. Based on the regression in Table 2, Column 1, the dashed bars show the average predicted value of investment in firms adopting TVRs, while the solid bars represent the average predicted value of investment in firms that do not adopt TVRs. The solid line shows the difference in investment between nonfamily firms and family firms without TVRs, while the dashed line shows the difference between nonfamily firms and family firms with TVRs.

Column 1 reports the findings for our hypothesis, according to which TVRs are associated with more investment in family-owned companies. The coefficient on TVR is negative ($p < .10$), indicating that nonfamily firms adopting TVRs invest less than other firms. This result could suggest that insiders in nonfamily firms use TVRs as CEMs to strengthen their control at the expense of other shareholders. Also, in line with prior studies, the coefficient on *Family firm* is negative ($p < .05$), indicating that family firms that do not adopt TVRs underinvest relative to nonfamily firms. Importantly, the coefficient on *Family firm* × *TVR* is positive ($p < .01$), indicating higher investment by the family firms that do adopt TVRs, which is in line with our hypothesis. In economic terms, investment by family firms without TVRs is 1.4% lower than nonfamily firms without TVRs, while investment by family firms with TVRs is 2.8% higher than investment by nonfamily firms with TVRs.[10] To better understand the two-way interaction term, we present Figure 1. The downward-sloping blue line shows that, in the absence of TVRs, family firms invest less than nonfamily firms. The red line indicates that family firms that adopt TVRs invest more than nonfamily firms that adopt TVRs and family firms that do not adopt TVRs in our sample period. The positive effect of TVR adoption on investment might be due to a selection effect, a treatment effect, or both.

We next look for heterogeneity in the association between family firms' adoption of TVRs and investment. We focus on the fragility of family control since the constraints on new investment are likely more binding when family control is fragile. To this end, we replace *Family firm* with two indicator variables: (i) *Fragile family firm*, equal to 1 when family ownership is lower than 50%, (i.e., family control is fragile); and (ii) *Dominant family firm*, equal to 1 when family ownership is greater than or equal to 50% (i.e., family control is dominant). The results in

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[10]In additional analyses, we find that the coefficient for the two-way interaction term is positive with *p*-values <.05 for all components of investments, including R&D and acquisitions (which are usually considered riskier).
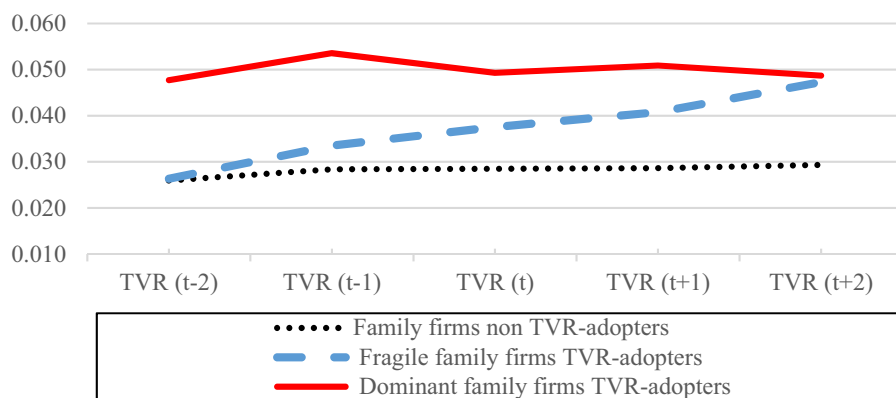
FIGURE 2 Investment trends for family firms around TVR adoption. The figure represents the median level of *Investment* in the 5 years surrounding TVR adoption in the subgroups of family firms that did not adopt TVRs (dotted line), fragile family firms that adopt TVRs (dashed line), and dominant family firms that adopt TVRs (solid line).

Column 2 show that investment is higher in both types of TVR-adopting family firms than in non-TVR family firms.

Then, we dig into the channels through which the positive association between TVR adoption and family firm investment arises. Since family firm status and control rarely change, we focus on the subsample of all family firms. We check for a TVR treatment effect by introducing firm fixed effects to identify whether family firms change their investment after TVR adoption. Firm fixed effects account for unmodeled time-invariant heterogeneity affecting the level of investment, for example, membership of a family business group (FBG) (Kinger-Hans et al., 2024).[11] TVR adoption leads to an increase in family firm investment if the coefficient on TVR is positive after firm fixed effects are added. We find that firm fixed effects absorb the positive effect of TVR adoption on investment (Column 3) ($p > .10$). This finding confirms the importance of a selection effect—family firms with higher investment growth trajectories adopt TVRs to facilitate the continuation of investment growth. Then, we look for treatment effects on investment in the subsamples of fragile family firms and dominant family firms. We find a positive effect in fragile family firms ($p < .05$) (Column 4)—these firms increase investment by 5.6% after TVR adoption—but not in dominant family firms ($p > .10$) (Column 5). To corroborate these findings, we visually inspect the investment trends in the 5 years surrounding the TVR adoption in subgroups of family firms that do not adopt TVRs (*Family firms non-TVR-adopters*), fragile family firms that adopt TVRs (*Fragile family firms TVR-adopters*), and dominant family firms that adopt TVRs (*Dominant family firms TVR-adopters*). Figure 2 shows that TVR-adopting family firms invest more than family firms that do not adopt TVRs. Above all, we find that investment increases after TVR adoption only when family control is fragile. The lack of an increase in investment following TVR adoption when family control is dominant suggests that such firms use TVRs to maintain their investment levels.

Taken together, the evidence suggests that *selection* and *treatment* effects are not mutually exclusive in our setting: while family firms with dominant control, on average, use TVRs to

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[11]In our sample, 15% of Italian family firms belong to FBGs, but only three adopt TVRs. This precludes investigation of potential differential effects of TVRs in FBGs.

facilitate continued investment growth without threatening family control, family firms with fragile control use TVRs to mitigate underinvestment. In the fragile-control firms, control-related constraints are most acute, and family owners underinvest to avoid the dilution or loss of control. By relaxing these constraints, TVR allows these firms to increase investment without losing control.[12]

In further tests, we examine whether differences in the characteristics of TVR adopters and non-adopters explain our main findings.[13] First, we use entropy balancing to match non-TVR firms (the control group) with TVR firms on investment in 2013 or in the 2 years before each firm's TVR adoption.[14] We also use propensity score matching or entropy balancing within our main sample. In each of these tests, we continue to find that family firms adopting TVRs invest more than other family firms, suggesting that, although the selection effect has a key role, the treatment effect channel is still important.

4.2 | Additional tests

Finally, we perform additional tests to corroborate our theoretical predictions.[15] First, to test whether TVR-adopting family firms issue more equity than other family firms, we replace investment with new equity financing as the dependent variable. We find that family firms issue less equity overall than nonfamily firms. After issuing TVRs, however, family firms issue 3.7% more equity on average, consistent with a relaxation of binding constraints.

We also test whether TVRs exacerbate principal–principal agency conflicts by allowing family owners to opportunistically extract more private control benefits at the expense of minority owners. If this is happening, then TVRs should have a negative effect on firm value. On the other hand, if TVRs facilitate profitable growth in family firms, they should positively affect firm value. In line with Miller et al. (2007), we proxy firm value using Tobin's Q. We find that family ownership is negatively associated with firm value, but the negative relation is weaker when TVRs are adopted, confirming that TVRs enhance family firm value by facilitating profitable investment growth.

In addition, we investigate whether TVR-adopting family firms use dividend payout and minority board representation as bonding mechanisms to reassure minority shareholders that TVRs will be used for profitable investment and will not increase expropriation risk.[16] We verify our conjectures by rerunning our main model after replacing investment with dividend payout and the presence of minority directors on the board.[17] In line with prior studies

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[12]We also inspect the effect of TVRs' adoption on family firms' investment when families do not hold and hold powerful board positions (CEO or Chairperson), and when fewer or more family members sit on the board. In Table OA4 in the Online Appendix, we find that TVRs mitigate underinvestment more when families do not hold powerful board positions, confirming that TVRs are adopted to continue investment growth when family control is more fragile.

[13]These results are included in Tables OA5 and OA6 in the Online Appendix.

[14]In these tests, we also balance other control variables in the model measured over the same period as investment.

[15]Results from the tests reported in this section are available in Online Appendix (Tables OA7–OA10).

[16]The *Consolidated Law on Financial Markets* in Italy makes provisions for institutional investors and qualified minority owners to appoint board members who represent their interests.

[17]We proxy dividend payout by scaling cash dividends paid by total sales (Pindado et al., 2012). On average, dividend payout is around 35.63% of net income. When growth opportunities are low, the average dividend payout of nonfamily firms and family firms is not statistically different (36.54 vs. 36.17%), but when growth opportunities are high, the dividend payout in family firms is higher than in nonfamily firms (38.45 vs. 25.19%). Thus, dividends drain relevant financial resources from family firms with high growth opportunities.

(Pindado et al., 2011, 2012), we find that family firms have higher dividend payouts than nonfamily firms. The positive association is stronger for TVR-adopting family firms. In such firms, we document an increase in dividends equivalent to 3% of sales, an economically important magnitude.[18] We also find that, in these firms, the percentage of minority directors increases by 4.7% after TVR adoption, reflecting the larger equity stakes of nonfamily shareholders after new equity issuance. Taken together, these findings suggest that family firms that introduce TVRs do not use their enhanced control to exploit minority shareholders. On the contrary, they credibly signal their commitment to outside shareholders' interests and avoid the negative potential consequences, on firm value, of deviation from the one share–one vote principle.

5 | DISCUSSION

There is considerable accumulated evidence that family firms face a control–growth dilemma (Chrisman & Patel, 2012; Gómez-Mejia et al., 2011; Leitterstorf & Rau, 2014; Patel & Chrisman, 2014), with investment growth sacrificed for family control. Although the control–growth dilemma is not new in the family firms' literature, little is known about mechanisms that could mitigate the problem. We contribute to this debate by investigating the economic implications of family firms' voluntary adoption of TVRs—a CEM that does not affect cash flow rights. Examining publicly listed firms in Italy—one of the few countries that have introduced TVRs on a voluntary basis—we find that the TVR adoption enables family firms to sustain and increase profitable investment growth without relinquishing control.

Traditional agency theory predicts that CEMs will have negative economic consequences for minority owners (Adams & Ferreira, 2008; Gompers et al., 2010; Masulis et al., 2009). Consistent with this view, Bourveau et al. (2022) document that the mandatory introduction of TVRs in France had undesirable consequences, including reductions in foreign institutional ownership and weaker financial, social, and environmental performance. In contrast, we find evidence that violation of the one share–one vote principle through the voluntary adoption of TVRs in Italian family firms enhances the power of insiders but does not appear to harm minority owners. TVRs thus appear to mitigate the control–growth dilemma. The conflicting evidence to date raises the question of how governments can foster investment in insider-led firms. Above all, it confirms that insider-led firms have different incentives for adopting CEMs (such as TVRs), and that CEM introduction has a range of potential benefits and costs. Gurrea-Martínez (2021) argues that the desirability of departures from the one share–one vote principle differs across jurisdictions depending on the level of protection granted to minority shareholders. Our results lend credence to this claim. Our supplementary analyses reveal that minority shareholders can realize benefits in the form of higher dividend payout and greater board representation as part of the price of TVR introduction. Thus, control enhancement through TVRs, while facilitating more profitable investment that benefits both family owners and outside minorities, also imposes costs on family owners. This raises the prospect that insider-led firms, in attempting to resolve the control–growth dilemma, might optimally combine TVRs with other CEMs.

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[18]Results hold if we use dividend per share to analyze potential dividend dilution. We control for past dividend payout (as it tends to be persistent), and we remove firms that cut dividends at time $t - 1$ (18.98% of observations).

In light of our results, future research could apply our more nuanced perspective to examine the economic consequences of CEMs with different institutional features and in settings with different shareholder protection provisions. Moreover, as more countries and stock exchanges allow firms to deviate from the one share–one vote principle, future studies could take advantage of such regulatory changes to better understand how governments can promote investment growth in family firms.

Our evidence confirms that, for family owners, control retention is a crucial part of the preservation of SEW. However, some family members might not be interested in preserving SEW. For instance, members of later generations may be less attached to the family firm. In addition, when multiple generations are involved in the business, intra-family conflicts can arise, leading to a different type of agency problem (Villalonga et al., 2015). It might be interesting to analyze the choice to adopt a CEM and the mechanism's effectiveness in promoting investment growth when more generations are present and family conflicts exist. Moreover, family owners could potentially use CEMs to create and sustain FBGs with consequences for performance and financing through internal capital markets (see Kinger-Hans et al., 2024 for a recent literature review). Further studies could address this issue by focusing on contexts, such as emerging economies, where FBGs are more commonplace.

Finally, prior literature drawing on SEW (Chrisman & Patel, 2012; Gómez-Mejia et al., 2007; Gómez-Mejia et al., 2011) finds that family-owned firms underinvest more when their financial performance is stronger and SEW concerns prevail. In contrast, family firms under financial duress bear the risk of potential transient SEW losses in order to save themselves, as the survival threat would hit both financial wealth and the SEW endowment. However, when financial performance is weaker, minority shareholders raise more concerns about families' choices, and bonding tools designed to decrease expropriation risk (e.g., dividend payout) become less viable. As a result, CEMs may no longer relax constraints on investment growth in family-owned firms. Future research could investigate whether CEMs can produce desirable effects even when family owners face more difficulty in reducing the expropriation risk perceived by minority shareholders, and, if not, which mechanisms can be used as an alternative.

We acknowledge that our findings are based on a relatively small sample and that causal identification may be hindered by the lack of a natural experiment. Despite these caveats, we believe our study advances the management literature on the control–growth dilemma and provides a novel and more nuanced theoretical perspective on the effects of CEMs in family-owned firms.

DATA AVAILABILITY STATEMENT

The hand-collected data from public sources that support the findings of this study are available from the authors on request. Other data are available from the Refinitiv Eikon database; restrictions apply to the availability of these data, which were used under license for this study.

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