

The Life Cycle of Family Ownership: A Comparative Study of France, Germany, Italy and the U.K.

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Motivation

- As we know from LLS (1999) and Faccio and Lang (2002), family ownership is common in some countries and rare in others (at least among large companies).
- Why is this the case?
- Our analysis is based on the traditional view of a firm evolving in a life cycle à la Berle and Means
 - Firms start as family-controlled entrepreneurial entities, raise external capital to grow, and as a result dilute founding family ownership.
 - The transition involves the firm becoming a public company with diffused ownership, run by a professional manager and subject to the market for corporate control.

Motivation

- Study the landscape of ownership, with an emphasis on *family firms*, along three dimensions:
 - **Across countries** - in France, Germany, Italy and the UK
 - **Independent of listed status** - both private and listed companies
 - **Over time** – trace firms over the decade 1996-2006
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- The life cycle view provides a central hypothesis to test across countries: We conjecture that the likelihood and speed of transition should vary across countries.
 - We expect the UK as an *outsider system* to conform to this view, and the three other countries (France, Germany, Italy) as *insider systems* to depart from it.

Data 1

- Our main dataset is built selecting from Amadeus the 1,000 largest firms in each country (by sales).
- Both private and listed firms.
- Ownership data is obtained from Amadeus and extensively cleaned.

“Top 4000 Firms”

France: 1,000 firms

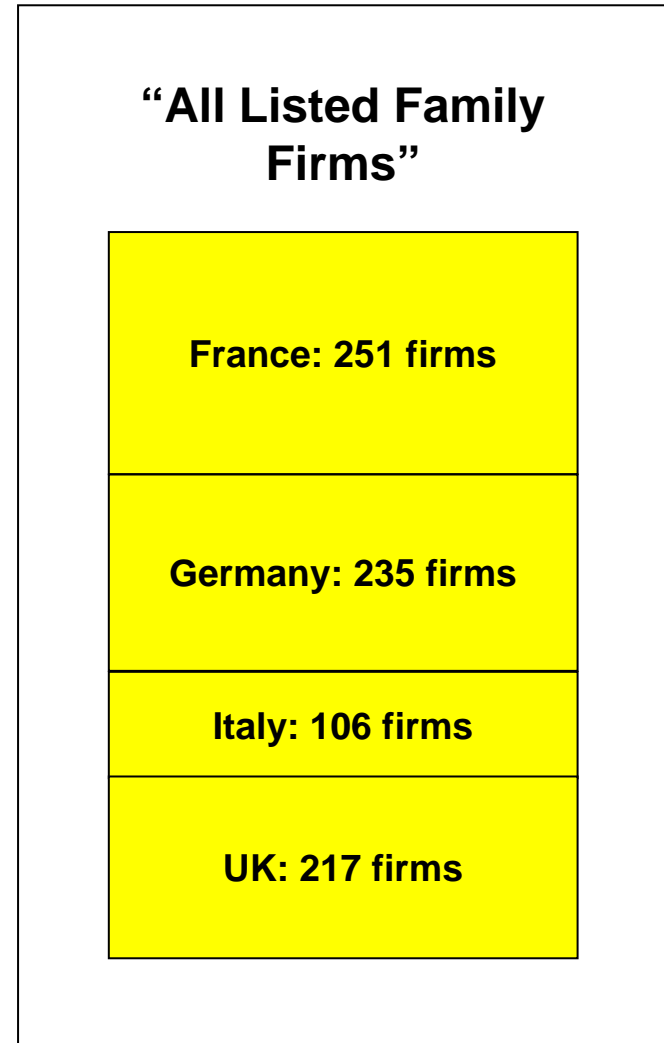
Germany: 1,000 firms

Italy: 1,000 firms

UK: 1,000 firms

Data 2

- To confirm and extend the analysis of family firms, we also study a second sample containing all listed *family firms* companies (even if they do not belong to the top 1000).
- Ownership data is obtained from Faccio and Lang (2002) and carefully



Main results

- In the UK, 12% of firms are controlled by domestic families, 40-50% in Continental Europe. Family control patterns are similar for both listed **and** private firms.
- Family firms follow a life cycle in the UK, but not in the other three countries.
- High turnover of control in the UK, high stability of control in Continental Europe.
- Need for external financing and the market for corporate control reduce survival probability of family firms in the UK, but not in Continental Europe.
- The results are consistent with the view of outsider systems (UK) versus insider systems (Continental Europe).

Hypotheses 1

- The evolution from family firm to public corporation runs smoother when
 - Private benefits of control are smaller;
 - Opportunity cost of risk diversification is greater;
 - Raising equity is less expensive;
 - Market for corporate control is more efficient;
 - ...
 - In short, in “outsider” rather than “insider” systems.

Hypotheses 2

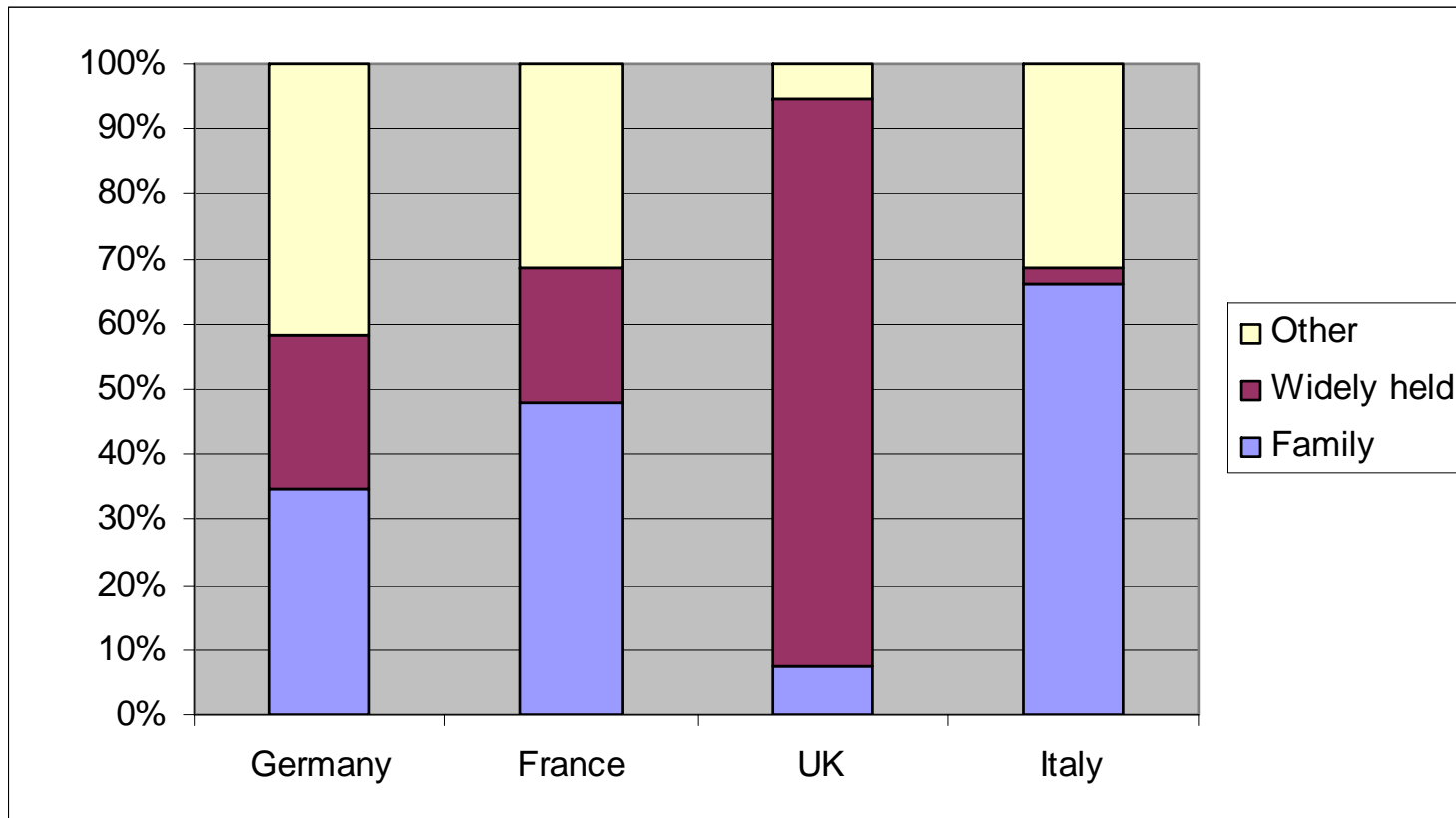
- **Survival of family firms:** Family firms have a lower chance of survival as family-controlled firms in outsider compared to insider systems.
- **Age as a determinant of family control:** Firm age is more negatively correlated with family control in outsider systems than in insider systems.
- **Need for external financing:** Family ownership concentrated in industries with lower need for external capital in outsider systems, but not in insider systems.
- **Differences in profitability:** Less difference in profitability between family firms and non-family firms in outsider systems than in insider systems. Non-family firms favoured in outsider systems, family firms favoured in insider systems.

How important are listed firms?

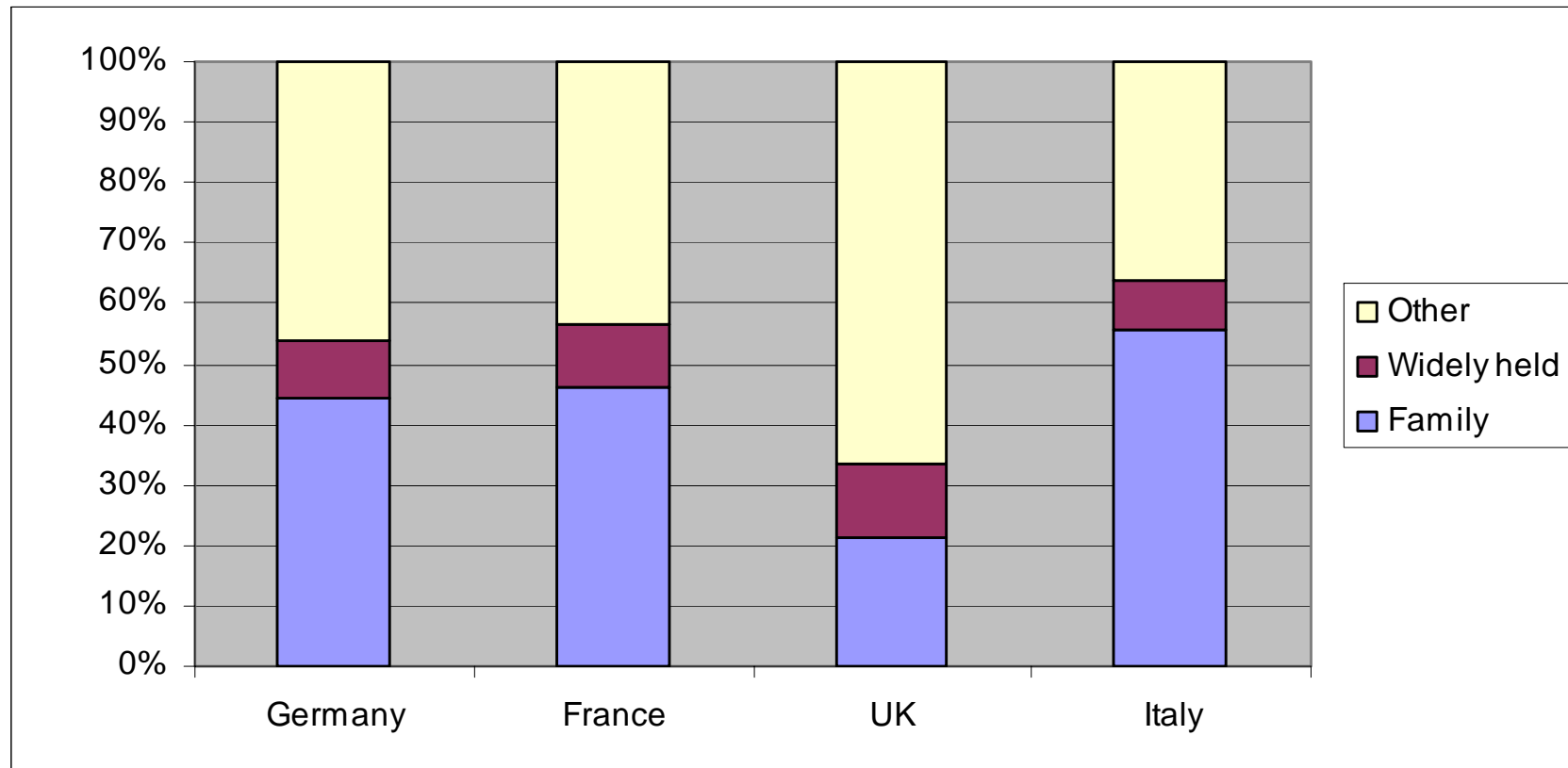
Of the top 1,000 firms in the four countries, how many are listed?

	Germany	France	UK	Italy
Listed firms, % of all firms	17.4	19.3	42.6	11.0

Listed Firms: Family Firms Much More Common in Continental Europe, Widely Held Much Less Common



Private Firms: Family Firms Less Common in the UK



Transition of control

Germany					
	Family in 2006	Other in 2006	State in 2006	Widely held in 2006	Number of firms
Family in 1996	62%	24%	0%	14%	107
Other in 1996	25%	63%	3%	9%	67
State in 1996	9%	21%	58%	12%	57
Widely held in 1996	10%	33%	2%	55%	42

France					
	Family in 2006	Other in 2006	State in 2006	Widely held in 2006	Number of firms
Family in 1996	62%	27%	2%	10%	177
Other in 1996	23%	63%	7%	7%	70
State in 1996	12%	26%	57%	6%	51
Widely held in 1996	9%	19%	0%	72%	67

UK					
	Family in 2006	Other in 2006	State in 2006	Widely held in 2006	Number of firms
Family in 1996	38%	43%	0%	19%	47
Other in 1996	29%	62%	3%	6%	34
State in 1996	13%	13%	75%	0%	8
Widely held in 1996	5%	31%	1%	63%	168

Italy					
	Family in 2006	Other in 2006	State in 2006	Widely held in 2006	Number of firms
Family in 1996	78%	15%	1%	6%	191
Other in 1996	40%	40%	10%	10%	20
State in 1996	31%	0%	59%	10%	29
Widely held in 1996	12%	9%	0%	79%	34

Testing the Life Cycle Hypothesis

Dependent variable:	Firm is family controlled (1) or not (0)			
Regression type	Probit	Probit	Probit	Probit
Firm age	0	0.001		
	[0.002]	[0.002]		
(U.K.) X (Firm age)		-0.007***		
		[0.002]		
Firm cohort (deciles)			-0.006	0.01
			[0.020]	[0.028]
U.K. X Firm cohort deciles				-0.075***
				[0.026]
Log (Sales)	-0.146***	-0.145***	-0.146***	-0.145***
	[0.031]	[0.033]	[0.031]	[0.033]
Foreign control	-0.697*	-0.716**	-0.697*	-0.713**
	[0.359]	[0.350]	[0.358]	[0.352]
Listed firms	-0.514**	-0.519**	-0.505**	-0.506**
	[0.258]	[0.262]	[0.256]	[0.258]
Industry fixed effects	YES	YES	YES	YES
Country fixed effects	YES	YES	YES	YES
Observations	2663	2663	2663	2663
R ²	0.154	0.154	0.156	0.156

Family firms are concentrated in a small number of industries in all countries...

Concentration of family firms in top 5 and top 20 industries:

Out of all 48 Fama French industries:	Germany	France	U.K.	Italy	Total
5 top industries with largest concentration of family firms	59.0%	62.5%	54.5%	36.0%	48.0%
20 top industries with largest concentration of family firms	94.5%	94.0%	86.6%	86.4%	87.6%

...but dependence on external finance only matters in the UK.

- External dependence is defined as in Rajan and Zingales (1998)

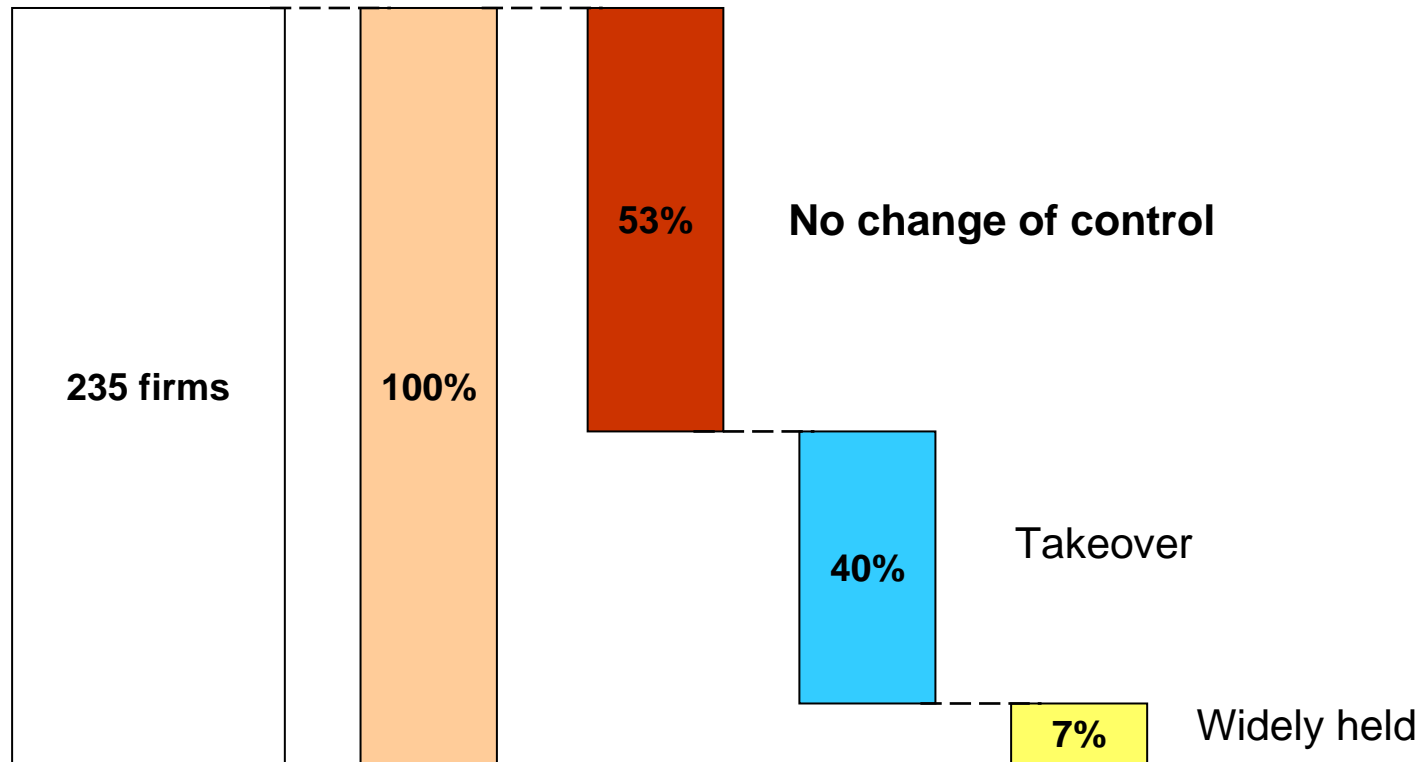
Dependent variable:	Firm is family controlled (1) or not (0)		Firm survives the decade (1) or not (0)	
Probit regression sample:	All firms	All firms	Family firms	Family firms
	(1)	(2)	(3)	(4)
Firm age	0.001 [0.002]	0.002 [0.002]	0.004** [0.002]	0.004** [0.002]
(U.K.) X (Firm age)	-0.007*** [0.002]	-0.007*** [0.002]	-0.006*** [0.002]	-0.005*** [0.002]
(U.K.) X (External dependence)		-0.241*** [0.058]		-0.753*** [0.224]
Log (Sales)	-0.145*** [0.033]	-0.143*** [0.032]	0.022 [0.031]	0.023 [0.035]
Foreign control	-0.716** [0.350]	-0.717** [0.352]	-0.08 [0.100]	-0.07 [0.097]
Listed firms	-0.519** [0.262]	-0.524** [0.259]	0.339 [0.214]	0.367** [0.185]
Industry fixed effects	YES	YES	YES	YES
Country fixed effects	YES	YES	YES	YES
Observations	2663	2642	1060	1049
R^2	0.156	0.157	0.071	0.076

Comparison of Performance of Family versus non Family Firms

	(1)	(2)	(3)	(4)	(5)	(6)
Estimation method	OLS	OLS	OLS	OLS	OLS	OLS
Dependent variable	<i>P/Assets</i>	<i>P/Sales</i>	<i>P/Book equity</i>	Sales growth	Book leverage	Labor costs
(Non U.K.) x Family firm	0.014*** [0.004]	0.012*** [0.004]	0.03 [0.023]	0.017 [0.013]	-0.018** [0.008]	0.008 [0.007]
U.K.	0.029*** [0.005]	0.022*** [0.005]	0.027 [0.026]	0.042*** [0.014]	-0.052*** [0.011]	-0.047*** [0.008]
(U.K.) x (Family firm)	-0.011 [0.007]	-0.013** [0.006]	-0.05 [0.040]	-0.001 [0.022]	-0.001 [0.018]	-0.008 [0.010]
Log (Sales)	0.006*** [0.001]	0.003 [0.002]	0.020*** [0.005]	0.005 [0.004]	0.026*** [0.003]	-0.010*** [0.003]
Listed firm	0.000 [0.004]	0.005 [0.004]	-0.066*** [0.018]	-0.001 [0.013]	-0.095*** [0.009]	0.028*** [0.007]
Foreign control	0.007 [0.005]	-0.001 [0.004]	0.043* [0.026]	0.029** [0.014]	-0.001 [0.009]	-0.023*** [0.007]
Industry and country fixed effects	YES	YES	YES	YES	YES	YES
Observations	1370	1370	1367	1097	2521	1366
R ²	0.128	0.131	0.086	0.089	0.232	0.343
<i>U.K. family vs non-U.K. family t-test</i>	ND	ND	ND	ND	*	***

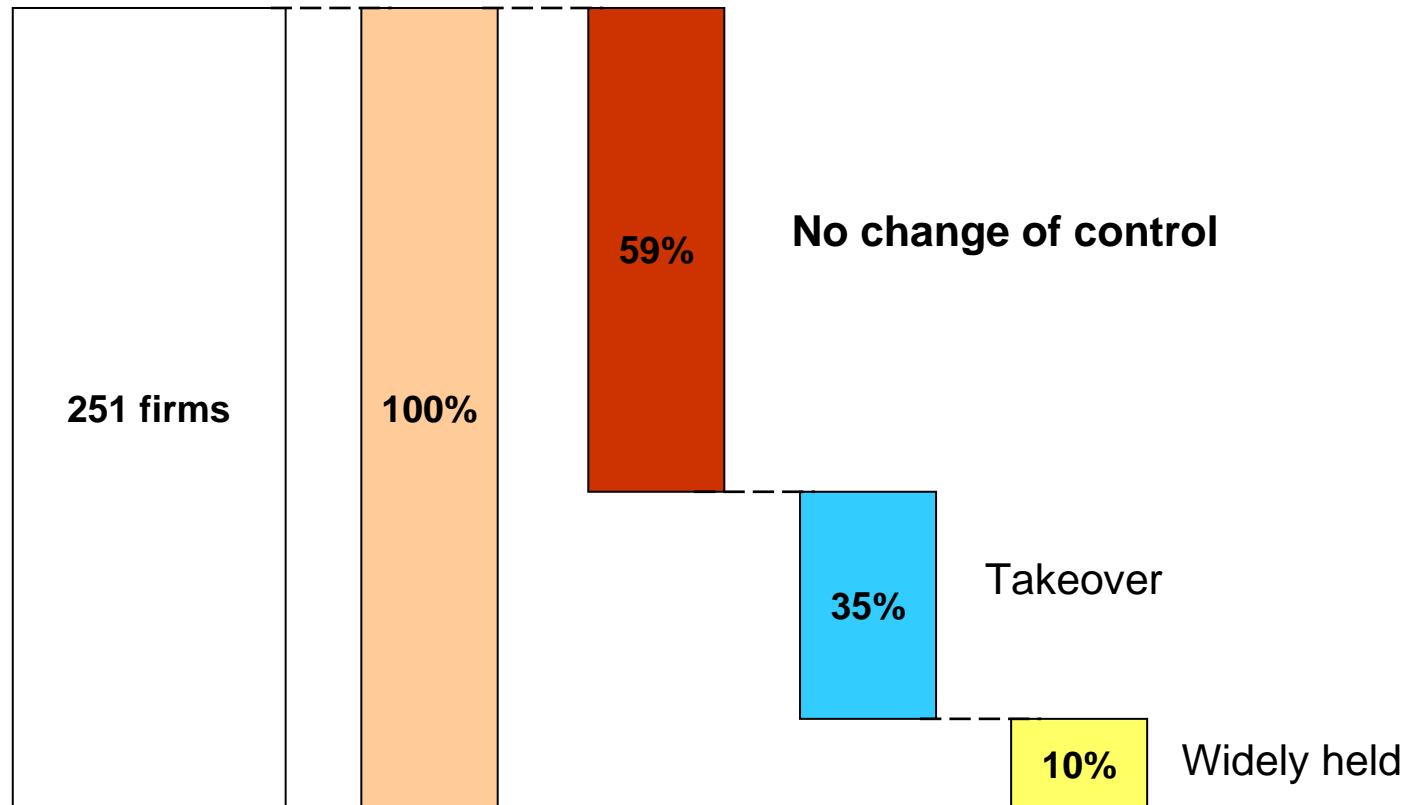
Evolution of Listed Family Firms 1

Germany



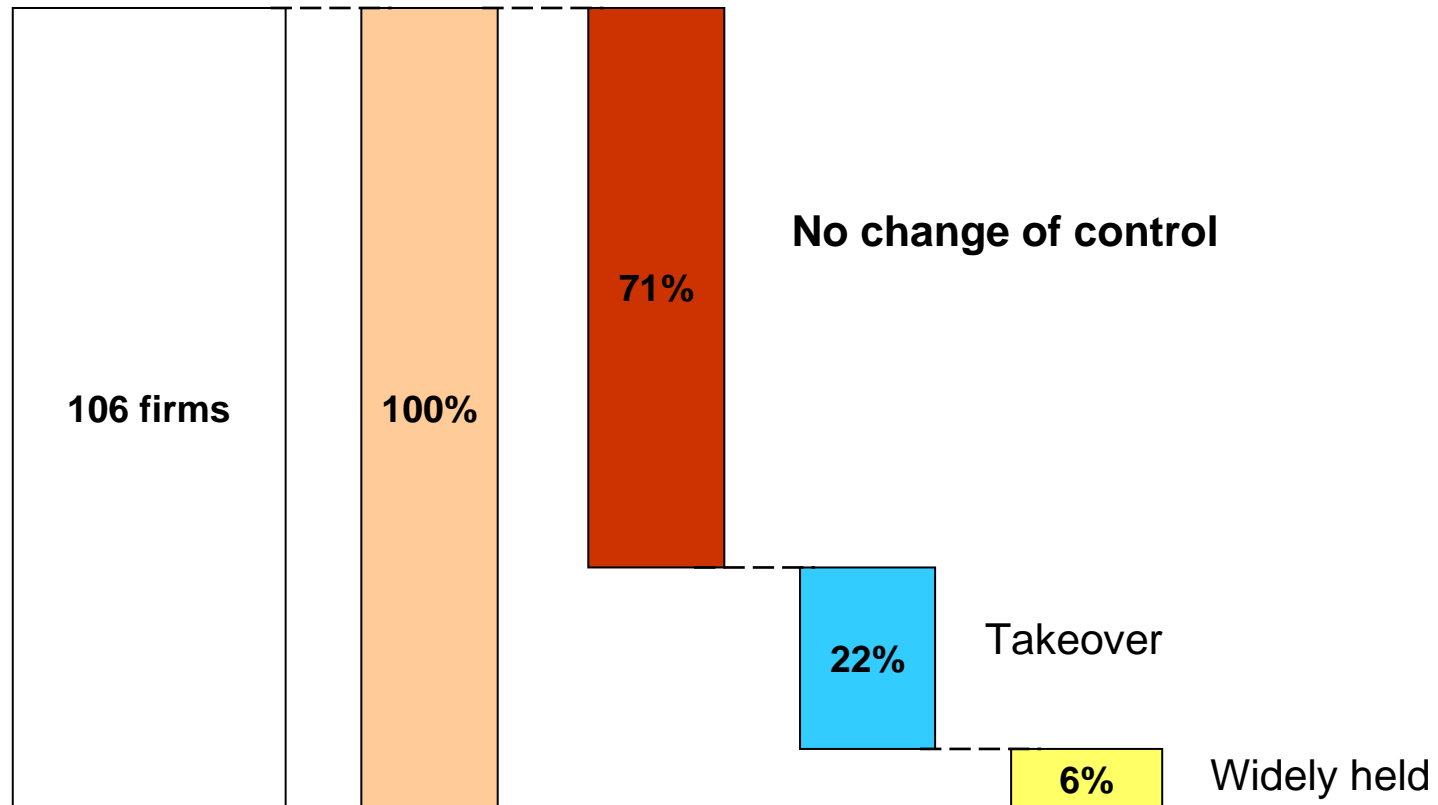
Evolution of Listed Family Firms 2

France



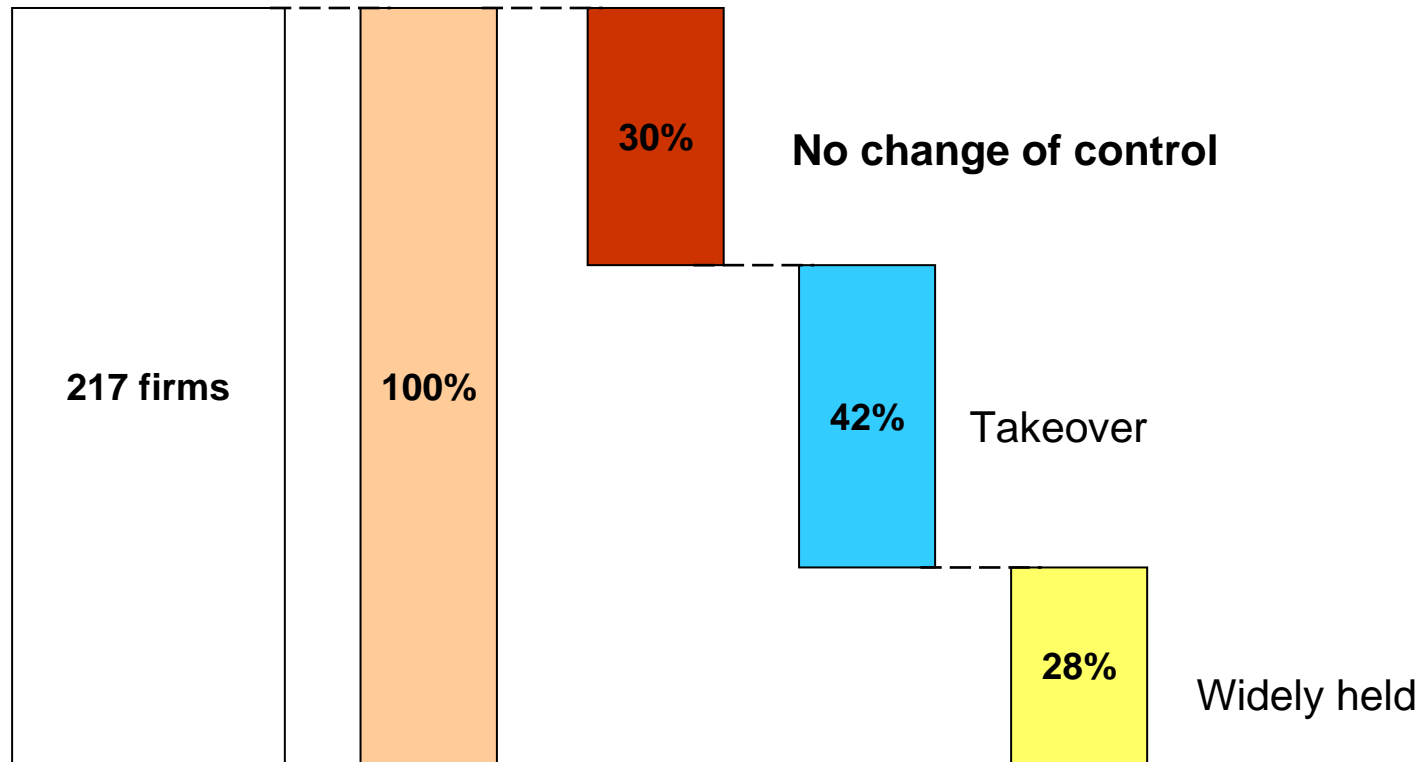
Evolution of Listed Family Firms 3

Italy



Evolution of Listed Family Firms 4

UK



What features cause control changes in family firms?

Dependent variable: Change of control from 1996 to 2006

	(1)	(2)	(3)	(4)
Founding family in control in 1996	-0.580*** [0.118]	-0.644*** [0.122]	-1.060*** [0.172]	-1.078*** [0.181]
Control divided among family members	0.192* [0.105]	0.195* [0.109]	0.491*** [0.146]	0.466*** [0.155]
Voting rights (%)	-0.018*** [0.003]	-0.018*** [0.003]	-0.009** [0.004]	-0.007* [0.004]
1st generation (founder) in control	-0.104 [0.119]	-0.123 [0.126]	-0.042 [0.160]	-0.014 [0.173]
3rd generation in control	-0.149 [0.129]	-0.142 [0.135]	-0.067 [0.172]	-0.015 [0.185]
U.K.			1.215*** [0.191]	1.192*** [0.205]
Log(sales)			-0.079** [0.039]	-0.071* [0.042]
Industry fixed effects	NO	YES	NO	YES
Pseudo R ²	0.074	0.094	0.192	0.219
Observations	742	718	443	424

Faccio and Lang (2002) data set revisited

	Germany	France	U.K.	Italy	Total
Number of family-controlled firms according to F-L	417	395	425	122	1,359
Number of family-controlled firms according to our study	253	251	217	106	827

Why the differences in classification?

	Germany	France	U.K.	Italy	Total
1) Firm is not family controlled according to our sample (%)	25.2%	29.9%	33.4%	13.1%	28.0%
2) Firm is not a listed firm in 1996 according to our sample (%)	8.4%	0.0%	5.5%	0.0%	4.3%
3) Ownership of private firm somewhere in the control chain cannot be traced (%)	5.8%	6.6%	12.7%	0.0%	7.6%

Methodology contribution of identifying owners of private firms

- 28% of listed firms identified as family-controlled in F-L (2002) are *not* family-controlled according to our results.
- What causes this striking difference?
 - F-L assume that whenever a private firm appears anywhere in the control chain to the ultimate owner, this indicates a family as the ultimate owner.
 - We show this assumption is usually wrong.
- The obvious implication for future work is therefore that an analysis of ultimate ownership of **listed** firms must take into account the true ownership structures of **private** firms that are involved in controlling these listed firms.
- **We believe that this result is an important issue for empiricists to consider.**

Conclusions

- First ever in-depth survey of ownership transitions across these four countries.
- In the UK, family firms naturally evolve into widely-held firms as they grow bigger and older. This does not happen in Continental Europe (CE).
- Generally, high turnover of control in the UK. Low turnover in CE.
- Why these differences?
 - Insider versus outsider systems
 - Two mechanisms may lead to dilution of family ownership:
 1. The need to raise external capital to finance growth
 2. The activity of the market for corporate control.
 - We find evidence consistent with both mechanisms for the UK, and no or weak evidence for Continental Europe