LARGE SHAREHOLDERS AND FIRM PERFORMANCE: EVIDENCE FROM TURKEY

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Abstract

Using data for the period 2003-2010 of 164 industrial firms listed on Istanbul Stock Exchange (BIST-Borsa Istanbul), we empirically explore the impact of large shareholders on firm performance measured by ROA and Tobin's Q. Empirical findings based on panel data analysis suggest that large shareholders have a significantly positive effect on the performance of the firms. In other words, the concentration of corporate ownership overcomes conflict of interest between the small shareholders and the managers. At the same time, in the case when share ownership of the large shareholder exceeds a certain level, once again, we find significant positive relation between large shareholders and firm performance. As a result, while we do not reject the validity of the efficient monitoring hypothesis, but rather the expropriating hypothesis in Turkey.

Keywords: Large Shareholders, Agency Problem, Private Benefits of Control

Introduction

Concentrated ownership structure that gives rise to agency problems between large shareholders and any other stakeholders such as managers, workers, outside investors and creditors is of capital importance in terms of corporate governance. It is one of the most important variables that influences performance and hence value of firm. The relationship between concentrated ownership and performance of firm has received considerable attention and been intensely discussed in the corporate finance literature. The discussion dates back to the classic thesis of Berle & Means (1932). They claim that the relation between a publicly-held firm's ownership structure and its performance should be negatively related. They argue that as a

publicly-held firm's share ownership diffuses among a wide range of the small shareholders, control of the firm is delegated to professional managers and thereby the small shareholders are unable to effectively secure capital share of return on their investment. Additionally, they postulate when the goals of the small shareholders and professional managers do not coincide, professional managers may seek to maximize their own interest at the cost of the small shareholders. In this case, agency problems arise between the small shareholders who provide finance to the firm and the managers who have considerable discretion in running the firm. In other words, separation between ownership and control in publicly-held firms leads to agency problems stemming from incongruence between the small shareholders and the managers (Jensen & Meckling, 1976; Fama & Jensen, 1983).

Conflict of interest between the small shareholders and the managers is termed as principal-agent problem in the relevant literature. Many solutions have been advanced in the literature to mitigate this problem. In general, these solutions can be classified under two headings. The first one is internal corporate control mechanism (the board of directors, managerial shareholdings and concentrated ownership) and the second one is external corporate control mechanism (among others, laws and regulations, capital markets, labor and product/service markets). These mechanisms can be used to help align managers' interests with those of the outside shareholders (Agrawal & Knoeber, 1996; Shleifer & Vishny 1997; Kirchmaier & Grant, 2005). The most simplest and direct mechanism of dealing with shareholder-manager agency conflicts is internal corporate control mechanism in which shareholders take part in management using their voting rights and choose board of supervisors and thus can have an effect on managers of the firm. In this case, share ownership should be concentrated in the hands of a small number of large shareholders instead of a great number of small shareholders. Due to the fact that the large shareholders have stronger incentives and greater power to directly monitor managers' activities than the small shareholders, they can curb the conventional principal agent problems which Berle & Means (1932) identified. However, that share ownership is concentrated in the hands of the large shareholders could also arouse another kind of agency problem between the large shareholders and any other stakeholders. By this way, large shareholders may manipulate the firm and expropriate the small shareholders (Stiglitz, 1985; Shleifer & Vishny, 1986; Shleifer & Vishny, 1997; Ararat & Ugur, 2003; Hamadi, 2010; Abbas et al., 2013).

Although concentrated ownership is common in many developed countries (except the countries with Anglo-Saxon origin) and less developed countries, it is more pronounced in less developed countries. In other words, share ownership in less developed countries with a low degree of protection

of shareholders' rights is much more concentrated than that of in developed countries with a high degree of protection of shareholders' rights (Shleifer & Vishny 1997; La Porta et al., 1999; Wiwattanakantang, 2001; Villalonga & Amit, 2006).

We aim to empirically analyse that concentrated ownership by the large shareholders can remedy to which of the two agency problems that the small shareholders can be subjected in a less developed country, namely Turkey. In this purpose, we examine the relation between concentrated ownership and performance of firms listed in manufacturing industry on Istanbul Stock Exchange. Turkish firms provide an ideal setting to investigate each of agency problems. First of all, Turkey is a developing country where the level and quality of corporate governance and legal rules protecting both shareholders and creditors are very weak. Secondly, the majority of firms on Istanbul Stock Exchange exhibit highly concentrated ownership structures. In Turkey, even though firms are mostly controlled by the large shareholders like families, the Turkish government, foreign investors, institutional firms etc., the most important type of ownership is family ownership.

In this study, a shareholder is "a large shareholder" if he directly or indirectly holds at least 10% of outstanding shares of the firm according to the widely accepted definitions in the literature (La Porta et al., 1999; Guney et al., 2006). We have categorized firms into three groups in terms of the stakes owned by the largest shareholder group. The levels of ownership are (0-10%), (10-50%) and (>=50%). They are represented by dummy variables in regression models. Thus we will find opportunities to examine how the variations in ownership level influence performance of the firms. Moreover, even though most previous studies assume concentrated ownership variable is an exogenous variable, we assume it as an endogenous variable in this study. This study aims to expand existing empirical knowledge on the impact of concentrated ownership on firm performance. To the best of our knowledge, there is no research by this time to have modeled the relation between the levels of ownership and firm performance for Turkish firms.

The rest of the study unfolds as follows. Section 2 provides previous research and hypotheses development. Section 3 summarizes the data and includes descriptive statistics. We also give a detailed description of the variables used in the study. Section 4 presents the model specification and the empirical findings. In the final section, we give the general conclusions that can be drawn from the findings of our study and suggestions for future studies.

2. Previous research and hypotheses development

Empirical findings from the previous studies that examined the relationship between concentrated ownership and firm performance are

mixed. For example, Wiwattanakantang (2001) investigates the relationship between controlling shareholders and company value, measured by Tobin's Q, ROA and sales-assets ratio by using a sample of 270 non-financial firms listed in the Stock Exchange of Thailand in the year 1996. She defines ''controlling shareholders" as an entity that holds at least 25% shares of the firms. To take into account the possibility that variation in the levels of ownership influences corporate performance, companies are categorized into four groups (less than 25%, 25–50%, 50-75%, 75–100%) according to the shares held by the largest shareholder group. In addition to this, companies where controlling shareholders participate in management are also categorized into four groups according to the shares held by controlling shareholders involved in management. Findings obtained from the regression models reveal two different results in terms of expropriation hypothesis. The first one indicates that the large shareholders at each ownership levels are positively linked to corporate performance, measured by ROA and sales–asset ratio and the hypothesis that the large shareholders expropriate minority shareholders is not valid. But, the second one shows that when the large shareholders are involved in the management and hold (25–50%) of the shares of the company, the large shareholders' involved in the management is negatively linked to corporate performance, measured by ROA and sales–asset ratio. This negative relationship suggests that the hypothesis of private benefit of control by the large shareholders works in Thailand.

Onder (2003) studied the relation between the concentrated ownership and performance of all the corporations listed on the Istanbul Stock Exchange (ISE) in Turkey between 1995 and 2006. On her study, she employed ROA and Tobin's Q as dependent variables and measured ownership concentration according to the percentage of shares held by public, the largest shareholders and three largest shareholders. Her results based on OLS show that there is no significant relation between measures of ownership concentration and ROA, while there is a quadratic relation between ownership concentration and firm market performance, measured by Tobin's Q. A quadratic relationship between concentration by the largest shareholder and Tobin's Q is positive when the small shareholders own less than half of the shares of the firm. In a study using a dataset of 185 Turkish industrial companies listed on the Istanbul Stock Exchange (ISE) for the period of 1992-1998, Gonenc (2006) investigates the effect of ownership concentration measured by the percentage of shares owned by the three largest shareholders and managerial ownership measured by the percentage of shares owned by management on the company performance, modeling the ownership structure as an endogenous variable. Both ROA and market-to-book ratio have been used as performance variables in the analysis. He uses a simultaneous equations framework to explain ownership-performance

relationship. Regression results using the method of OLS, in which ownership concentration is assumed to be exogenous, suggest that there is a reverse causation between ownership concentration and market performance of the company. However, his findings obtained from 2SLS (Two Stages Least Squares) regression, considering the endogeneity of ownership structure indicate that accounting performance of the company has significantly negative effect on ownership concentration.

Alonso-Bonis & Andrés-Alonso (2007), who studied the influence of ownership concentration on firm performance, chose a sample of 101 Spanish non-financial firms listed on the Madrid exchange market. Their analysis covers the period from 1991 to 1997. In order to analyse the relation between ownership structure and firm performance, they considered two measures with regard to ownership structure variables, i.e. the fraction of stakes held by the largest shareholders and the fraction of stakes held by the directors and used Tobin's Q as a proxy for firm performance. After applying panel data methodology to control for the endogeneity of ownership structure, results obtained from the Generalised Method of Moments (GMM) show that there is a positive and significant relation between ownership concentration and firm performance.

Chen et al. (2005) investigated a sample of 412 publicly listed Hong Kong firms for the period of 1995–1998. They employed three performance measures i.e. ROA, ROE and market-to-book ratio and the fraction of total company shares outstanding held by the controlling family for ownership concentration. As a result, they conclude that the family ownership has no significant positive effect on performance measures. In contrast, using panel data on 275 German exchage-listed firms listed on Frankfurt Stock Exchange for the period of 1998-2004, Andres (2008) examines the relation between the large owners and firm performance. After seperating the family companies from other companies in terms of block holders using a family dummy variable, he finds that family companies perform better than companies with a small number of controlling shareholders or widely held companies in the case when they both control shareholders and manage the firm. He highlights that family firms can solve each of the two agency problems that the small shareholders are subjected to only under certain condition.

Mandaci & Gumus (2010) conducted a study on 203 non-financial firms listed on the Istanbul Stock Exchange in the year 2005. On their study, they used ROA and Tobin's Q rates as dependent variables and ownership concentration and managerial ownership as independent variables. Their findings indicate that there is a positive and significant relationship between ownership concentration and performance measures, while the relationship between managerial ownership and Tobin's Q is significant and negative.

Wellalage & Locke (2012) explore the relationship between ownership structure (insider, institutional and local ownership) and performance of firms for a sample of 152 firms listed in the Colombo Stock Exchange in Sri Lanka. They use panel data from 2004 to 2009 and ROA and Tobin's Q as a proxy for firm performance. In order to analyze how level of insider ownership affect company performance, insider ownership variable is categorised as 4 groups (0%, 0-30%, 30-70%, 70-100%) according to percentage of insider ownership. While GMM regression results show that there is an inverse U-shaped relationship between insider ownership and corporate performance, this relationship is more positive and significant.

Pervan, Pervan & Todoric (2012) investigate the effects of ownership structure and company performance measured by ROA, using data of listed Croatian firms from the Zagreb during the period from 2003 to 2010. Empirical results based on GMM show ownership concentration measured by concentration ratio of the four largest shareholders have a significantly negative effect on company performance. In other words, Croatian listed firms suggest that more concentrated ownership results in lower company performance. Using the data on all the listed Pakistani companies for the period of 2006–2009, Abbas, Naqvi & Mirza (2013) find a positive relationship between concentrated owners assumed to be exogenous and firm performance, measured by accounting measures such as ROA and ROE. However, when ownership concentration of the large shareholders exceeds 50%, the relation between concentrated owners and firm performance becomes negative.

As can be understood from the explanation above, it can be mentioned that there are two main hypotheses based on agency problems. According to the first one, concentrated ownership may minimize the agency problems which appear between the small shareholders and the managers of the firm. Hence, concentrated ownership may have a positive effect on firm performance because of the monitoring effect. As to the other one, when ownership concentration exceeds a certain level, it can bring about private benefits to the large shareholders and they may easily enjoy private benefits of control at the cost of the small shareholders' interest or any other stakeholders because of the expropriation effect. In this situation, positive relation between ownership concentration and firm performance may disappear and firm performance decreases (Fama & Jensen, 1983; Stiglitz, 1985; Grossman & Hart, 1988; Shleifer & Vishny, 1997; Yurtoglu, 2000; Kirchmaier & Grant, 2005; Villalonga & Amit, 2006; Hu & Izumida, 2008; Hamadi, 2010). These lead us to test the following hypotheses:

H1. The presence of the large shareholders is positively related to firm performance.

H2. The ownership of the large shareholders at higher level has negative effect on firm performance.

3. Data, Descriptive Statistics and Variables

We analyze a sample of an unbalanced panel of 164 listed Turkish firms of manufacturing sector over the period 2003 to 2010. The yearly financial tables of the industrial firms provided by the official web site of Istanbul Stock Exchange are employed as the source for data. Table 1 reports the descriptive statistics for the sample data. The mean value for concentrated ownership by the largest shareholder is 48.57%. The concentrated ownership (CO) of the largest shareholder ranges from 99.28% to 0. 006%. The results for the mean value for concentrated ownership are similar to Yurtoglu (2000), Demirag and Serter (2003) and Mandaci & Gumus (2010). In their study they reported that an average concentrated ownership by the largest shareholders was at 44.12%, 48.25%, and 45.10% respectively. Consequently, we can say that the ownership structure of Turkish industrial firms is highly concentrated in the hands of large shareholders. Tobin's Q as a market-based performance measure has a mean of about 1.27. Mean value of the return on assets (ROA) as an accounting-based performance measure is 0.03. The control variables, log of sales and percentage of debt to equity are also listed in Table 1.

Table 1: Descriptive Statistics

Variable	Mean	Median	Sd	Min	Max	N
TQ	1.267667	1.06136	1.008723	0.2927408	13.48961	1204
ROA	0.0303373	0.0319889	0.1110014	-0.830685	0.8690543	1207
SIZ	5.247587	5.179534	1.473732	2.055405	9.540939	1207
LEV	1.325931	0.7735195	1.820921	0.0062431	25.02	1206
CO	0.4857273	0.4867	0.229838	0.006	0.9928	1205
CO1	0.9560895	1	0.204981	0	1	1207
CO2	0.4739022	0	0.4995254	0	1	1207
CO3	0.4821872	0	0.4998897	0	1	1207

Firm performance as a dependent variable is measured with Return on Assets (ROA), a measure of firm profitability and Tobin's Q, a market-based measure of the value of the firm. ROA is defined as net profit divided by total assets and Tobin's Q is defined as market value of equity plus total debt to total assets. We use three independent variables as ownership variables. These are dummy variables that take value of 1 or 0 according to levels of ownership by large shareholders. As for control variables, they are firm size and leverage. Firm size is natural logarithm of total sales and leverage is debt to equity ratio. All variables used in this study and their definitions can be referred from Table 2.

Table 2: Description and Symbol of Variables Used in This Study

Variables	Description	Symbol
Performance Measures		
ROA	The ratio of net income to total assets	ROA
Tobin's Q	Market value of equity plus total debt to total assets	TQ
Independent Variables		
Ownership Variables		
Existence of the large shareholder	Dummy variable, taking the value of 1 if the firm has a large shareholder, otherwise 0.	CO1
The large shareholder holds (0.10-0.50)	Dummy variable, taking the value of 1 if the large shareholder has (0.10-0.50%) of the firms's shares, otherwise 0.	CO2
The large shareholder holds (0.50-1.00)	Dummy variable, taking the value of 1 if the large shareholder has 0.50 % or more than 0.50 % of the firms's shares, otherwise 0.	CO3
Control Variables		
Size	Natural logarithm of sales	SIZ
Debt to Equity Ratio	Percentage of debt to equity	LEV

4. Model Specification and Empirical Findings

The aim of our analysis is to estimate the the possible impact of concentrated ownership on firm performance based on panel data analysis. Concentrated ownership by the large shareholdeers is assumed to be endogenous in this study. When we research percentage changes in ownership structure of the Turkish firms over the period 2003-2010, we see that percentage of stock ownership by the large shareholders varies over the time. Thus the large shareholders may change their holdings of stock based on prospects about future performance of firms. In other words, if they have better information than market, they may increase or decrease their holdings of stock in advance, in their prospects of good or bad performance of firms. In this case, stock ownership of large shareholder may be endogenously determined by performance of firm (Demsetz & Lehn, 1985; Hermalin & Weisbach, 1991; Demsetz & Villalonga, 2001; Gonenc, 2006). When considering that concentrated ownership is an endogenous variable, the estimators of static panel data models (fixed effects or random effects estimators) to estimate coefficient in our models are not appropriate. The point to be emphasized here is that these estimators do not assume the potential endogeneity between dependent and independent variables and they can seriously produce biased coefficients (Roodman, 2009). Therefore, we decide to employ the dynamic panel data models to deal with endogeneity problem between both variables. The system GMM estimator developed for dynamic panel models by Arellano-Bover (1995) and Blundell-Bond (1998) is a typically used technique that enables us to control for problems of

endogeneity stemming from unobservable heterogeneity, reverse causality, simultaneity and also past performance (Blundell and Bond 1998; Villalonga & Amit, 2006; Guney et al., 2006; Wintoki et al., 2012). The dynamic models for which a lagged performance variable is included as one of the explanatory variables to empirically test our two hypotheses are shown below:

$$PER_{i,t} = \beta_0 + \beta_1 (PER)_{i,t-1} + \beta_2 (SIZ)_{i,t} + \beta_3 (LEV)_{i,t} + \beta_4 (OC1)_{i,t} + \beta_5 (YEAR)_t + u_i + \varepsilon_{i,t}, \quad (1)$$

$$PER_{i,t} = \beta_0 + \beta_1 (PER)_{i,t-1} + \beta_2 (SIZ)_{i,t} + \beta_3 (LEV)_{i,t} + \beta_4 (OC2)_{i,t} + \beta_5 (OC3)_{i,t} + \beta_6 (YEAR)_t + u_i + \varepsilon_{i,t}, \quad (2)$$

Where i denotes the firm number (N=170), t denotes the number of the years (T=8). The β parameters are the coefficients to be estimated. YEAR is a set of dummy variables for each year (2003-2010), u is the unobserved, time invariant and fixed-effect for firm i, ε is an unobserved disturbance term, which is assumed to be independent and identically distributed (iid). The definition of the variables in the regression equations is summarized in Table 2. When sample size is small, asymptotic standard errors obtained from two-step system GMM estimator can be severely downward biased (Blundell and Bond 1998). Since our sample size is not very large, the models are estimated by two-step system GMM with the Windmeijer (2005) finite sample correction for standard errors.

Table 3 presents the two-step system GMM estimation results of Equation (1) and Equation (2) when the dependent variable is one of the performace measures i.e. the return on assets (ROA) or Tobin's Q, respectively. The diagnostics statistics of GMM estimations for both Equation (1) and Equation (2) are also provided at the bottom of the Table 3. The diagnostics statistics in Table 3 indicate that the models we used to estimate the relationship between concentrated ownership and performance are well fitted with statistically insignificant test statistics for both the Hansen J-test and AR(2) test, that is, the Hansen J-test for overidentification restrictions does not reject the null hypothesis that instruments used in our regression equations are valid or are not correlated with errors and the AR(2) test does not reject the null hypothesis that error term in the first difference regression exhibits no second-order serial correlation. The results of F test for the joint significance of independent variables indicate that the model specifications are convincing. The point to be emphasized here is that the presence of first order serial correlation AR(1) does not mean that the estimations are inconsistent. Moreover, the coefficients on the lagged performance variables are significant at the 1% level for all four models. This finding confirms that the dynamics implied by our models are not rejected.

We employ ROA in models 1 and 2 and Tobin's Q in models 3 and 4 as performance measures. In models 1 and 3, we use CO1 dummy variable which shows that share ownership of large shareholder is more than or equal to 10% in order to research whether "efficient monitoring hypothesis" works in the context of Turkey or not. The estimated coefficient for CO1 dummy variable is positively and statistically significant at the 5% and the 10% levels and this indicates that the existence of the large shareholders increases performance, especially regarding the accounting measure of firm performance. In other words, firms with large shareholders are significantly more profitable than firms with no large shareholders.

In models 2 and 4, we employ CO2 dummy variable indicating share ownership of large shareholder is between 10-50% and CO3 dummy variable suggesting share ownership of large shareholder is 50% or more than 50%. Our aim to use these two dummy variables is to examine whether "expropriating hypothesis" is valid in Turkey or not by comparing the performance of firms whose share ownership of large shareholder is less than 10% with the performance of firms whose share ownership of large shareholders is between 10-50% and with the performance of firms whose share ownership of large shareholders is 50% or more than 50%. The estimated coefficients on CO2 and CO3 variables are positive and significant. This indicates that higher levels of ownership by large shareholders increase performance of the firm. This result suggests that firms with large shareholder levels of the (0.10-0.50%) and the (>=0.50) have higher ROA relative to firms whose share ownership of the large shareholder is less than 10%. In terms of control variables, SİZE has a significant positive effect on ROA and a significant negative effect on Tobin's Q in all four models. The other factor that affects ROA is debt to equity ratio. The coefficient on LEV variable in models 1, 2 and 4 is negative and statistically significant at 1% level.

The results are similar to Wiwattanakantang (2001), who finds that controlling shareholders is positively and significantly associated with firm performance measured by ROA and Tobin's Q using data on 270 non-financial firms listed in the Stock Exchange of Thailand. These findings, however, are different from the findings of Yurtoglu (2000), who uses data of 126 manufacturing Turkish firms listed on the Istanbul Stock Exchange. He finds that concentrated ownership by the largest shareholders is negatively related to firm performance measured by ROA.

Table 3: Dynamic Panel-Data Estimation, Two-Step System GMM

	ROA	ROA	Tobin's Q	Tobin's Q
	Model 1	Model 2	Model 3	Model 4
CO1	0.6255522** [0.2829712] (2.21)		1.648109* [0.870336] (1.89)	
CO2		0.3763941* [0.2242445] (1.68)		4.156606* [2.193992] (1.89)
CO3		0.4744163* [0.2642802] (1.80)		5.645303** [2.378463] (2.37)
SIZE	0.0208642* [0.0113892] (1.83)	0.0256378** [0.0102248] (2.51)	-1.029612** [0.4657919] (-2.21)	-0.6876548** [0.2949996] (-2.33)
LEV	-0.1012118*** [0.0322144] (-3.14)	-0.0998792*** [0.0311181] (-3.21)	-0.1072219 [0.1779734] (-0.60)	-0.2365225** [0.1151326] (-2.05)
PER (-1)	-0.7113013*** [0.2070654] (-3.44)	-0.6069063*** [0.1344202] (-4.51)	0.4828834*** [0.1225575] (3.94)	0.3504132*** [0.1322534] (2.65)
Intercept	-0.5238103** [0.2394786] (-2.19)	-0.3953853* [0.2244513] (-1.76)	5.212394** [2.336466] (2.23)	0.5746856 [3.0201] (0.19)
Regression Diagnostics				
F test statistics	6.84 (0.000)	10.11 (0.000)	19.06 (0.000)	10.32 (0.000)
AR(1) statistics	-1.91(0.056)	-1.65 (0.098)	-1.66 (0.096)	-2.05 (0.040)
AR(2) statistics	0.36 (0.719)	0.27 (0.788)	1.56 (0.118)	1.45 (0.146)
Hansen J-statistics	15.85 (0.392)	33.00 (0.418)	16.09 (0.376)	52.55 (0.268)
Observations	971	971	1032	1032

Note: We report the two-step system GMM estimator with Windmeijer (20005) finite sample correction for standard errors (reported in square brackets). The t-statistics are shown in parentheses. Each model includes a set of dummy variables for each year but the results are not reported. The symbols ***, **, and * indicate significance levels of 1%, 5% and 10%, respectively.

Conclusion

In this study, 164 industrial firms listed on Istanbul Stock Exchange (BIST-Borsa Istanbul) for the period of 2003-2010 are used to empirically analyze the impact of large shareholders on firm performance measured by ROA and Tobin's Q. Concentrated ownership by the large shareholders is assumed to be endogenous in our study and GMM estimator is used. According to our findings from our panel data analysis, we fail to reject the validity of the efficient monitoring hypothesis (fail to reject H1) and reject the validity of expropriating hypothesis (reject H2) in Turkey. Since we fail to reject the first hypothesis, we can mention that the increase in shares of

large shareholders in the firm motivates better monitoring of managers. Since we reject the second hypothesis, we can comment that ownership of large shareholders at higher level does not have negative effect on firm performance. This result indicates that the large shareholders do not generate private benefits at the cost of the small shareholders.

Since the presence of large shareholder improves the firm performance, in a firm with small shareholders, the existing shareholders may choose to be financed by a large shareholder rather than selling shares on stock exchange to many different shareholders. Lack of large shareholder can even jeopardize the existence of the firm apart from decrease in firm performance. For example, in Turkey it is seen that managers may take riskier decisions (such as writing cheques more than usual) since shareholder can lose his investment however the managers may lose their jobs at most. According to these results, regulators may support large ownership in firms rather than small ownership because improved firm performances in the country may benefit the economy in a more positive way. The firm with improved performance can pay higher taxes, can employ more employees and may export to foreign countries and get foreign currency to the economy. Since most of the family owned firms are aware of the risks by delegating more responsibility to the management, they especially control critical activities such as making long term investments, writing cheques above a threshold. Shareholders can give options to management for buying shares at favorable rates in the future and give yearly bonus in order to align the motivation of managers with the motivation of shareholders.

In future studies, different criteria for firm value such as EVA, MVA etc. can be used in the analysis and the results can be commented. The impact of the shareholding status of family owned firms can be analyzed in deeper form.

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