Analyzing the Impact of Varying Levels of Family Involvement on Firm Performance

By Krishang Nayak
Advised by Dr. Phil Mellizo

Research Question

How does varying levels of family involvement impact firm performance?

Background

Family-owned firms play a crucial role in the global economy, accounting for a significant share of employment and GDP. Despite their prominence, the impact of family involvement on firm performance remains a debated topic.This study explores the relationship between family board representation and firm performance, aiming to contribute to the growing literature on governance in family enterprises.

VARIABLES	log_RevPerEmployee
Full_Shareholding	-0.0261
	(0.0679)
log_Firmsize	-0.431***
	(0.0387)
Industry = 2, Consumer	-0.0789
	(0.0752)
Industry = 3, Energy	0.382***
	(0.138)
Industry = 4, Financial Services	0.391**
	(0.167)
Industry = 5, Government & Infrastructure	0.132
	(0.124)
Industry = 6, Health Sciences & Wellness	-0.00232
	(0.157)
Industry = 7, Technology, Media & Communications	0.154
	(0.135)
Industry = 8, Wealth & Asset Management	0.00304
	(0.164)
Constant	2.746***
	(0.375)
Observations	428
R-squared	0.532

Theoretical Framework

This study models firm performance using a Cobb-Douglas production function with two labor inputs: family and non-family members. In the baseline case, both inputs are equally productive. A second scenario assumes family members are more productive, reflecting potential advantages of family involvement. Using isoquants and the Lagrangian method, the model examines how differences in productivity influence cost minimization and overall firm output.

Data & Variables

This study uses data from the EY Family Business Index, comprising the world's 500 largest family-owned firms.

- Performance Metric: Revenue Per Employee
- Independent variables: No. of family members on the board, Family CEO, Family Shareholding %
- Controle Variables: Firm Size, Region & Industry

VARIABLES	log_RevPerEmployee
log_FamBoardmembers	-0.0959*
	(0.0552)
log_Firmsize	-0.405***
	(0.0386)
Industry = 2, Consumer	-0.108
	(0.0766)
Industry = 3, Energy	0.508***
	(0.154)
Industry = 4, Financial Services	0.514***
	(0.169)
Industry = 5, Government & Infrastructure	0.107
	(0.132)
Industry = 6, Health Sciences & Wellness	0.0465
	(0.163)
Industry = 7, Technology, Media & Communications	0.0962
	(0.135)
Industry = 8, Wealth & Asset Management	0.0594
	(0.155)
Constant	2.596***
	(0.376)
Observations	377
R-squared	0.560

Methodology

To examine the effect of family involvement on firm performance, three separate Ordinary Least Squares (OLS) regressions were conducted for each of the independent variables. To address data skewness and outliers, a trimmed sample approach and log transformations were applied. Robustness was ensured through normality checks, heteroskedasticity tests, and specification tests including the Ramsey RESET test.

Findings

The results show a weak, statistically significant negative relationship between the number of family board members and firm performance. However, no significant relationship was found between performance and the presence of a family CEO or family shareholding. Control variables—especially firm size, region, and industry—had a stronger impact on performance, highlighting the importance of contextual factors in shaping outcomes.

Implications

The findings partially challenge the theoretical expectation that higher family involvement boosts performance. While the negative relationship with family board representation may reflect potential issues like nepotism & resistance to change, the lack of significance for family CEO and shareholding suggests that these forms of involvement may not directly influence productivity. These results align with literature suggesting that the impact of family governance is context-dependent. Overall, professional management practices and firm-specific factors may play a greater role than family control alone.