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Managerial Efficiency in Family Owned Firms in Pakistan - An Examination of Listed Firms

Rida Zaidi
Ahmad Aslam

LAHORE UNIVERSITY OF
MANAGEMENT SCIENCES

Centre for Management and Economic Research (CMER)
Lahore University of Management Sciences (LUMS)
Opposite Sector 'U', D.H.A, Cantt, Lahore, 54792
Pakistan
URL:http//ravi.lums.edu.pk/cmer

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Rida Zaidi

Doctoral Candidate, Faculty of Economics
University of Cambridge
Wolfson College, Cambridge
United Kingdom
E-mail: rz213@cam.ac.uk

Ahmad Aslam

Program Manager
Pakistan Wetlands Program
Ministry of Environment
Government of Pakistan, Islamabad
E-mail: aslam@imperial.ac.uk

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Rida Zaidi and Ahmad Aslam[1]

1. Introduction

Family firms are a fundamental and intrinsic feature of the Pakistani economy. Approximately 80% of all listed companies on the Karachi Stock Exchange have family involvement or are indirectly affiliated to a large business family. Almost all unlisted (private) companies barring a few which have access to private equity (venture capital) can be classified as family firms. For an area with such an overriding significance, it has not received the corresponding attention in academic and policy literature. This paper intends to contribute towards the correction in this deficiency. Very little work on corporate governance directly addresses this particular form of ownership structure. While legal rules, enforcement and board of director structures are all important components of any strategy targeted towards corporate governance, the particular organizational structure within which the guidelines are to be implemented also become essential point of analysis. This leads us to the vital importance of studying the form of the family management, the attributes they possess and their effect on firm performance.

Family firms are defined as firms where one family or a group of families have a controlling stake in the firm. The reason why we only consider family firms, rather than comparing with non-family firms is to consider a constant contracting environment, so that we can examine differences across the same 'type' of firm.

This study seeks to understand the relationship between managerial proficiency and firm performance within the context of family firms. We seek to examine four important questions:

1. Are 'outside' managers necessarily better qualified relative to 'insiders' and does this translate into superior firm performance? Is there a return of the prodigal son? Do family firms have access to a limited pool of qualified management?
2. Do firms with larger families perform better compared to family firms where a smaller number of family members are involved?
3. Are there any returns to training and education?
4. What are the differences in the motivations for corporate governance amongst family firms?

These questions consider firm performance as the broadly defined benchmark to compare the impact of managerial ownership, decision-making structures and training on firms. The family firm has traditionally been considered as a black-box and much of the explorations have been between family and non-family firms. We extend this to consider the different managerial practices and structures within family owned corporations.

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The degree to which management style influences firm performance has important policy implications towards reaffirming the need to strengthen managerial expertise (in weaker areas) through training programs targeted specifically towards family based firms. Equally important, it can highlight the particular forms of knowledge base that are distinctive and unique to family firms, but which remains un-utilized by several inside managers. This can go a long way in not only developing managerial efficiency but also towards raising awareness of good governance as a tool to attracting capital (foreign and local), a key but hugely neglected area. Furthermore, detailed understanding of the family structure and its hereditary structure can allow us to assess the constraints (or advantages) it poses which in turn affect corporate decisions and the ultimate performance of the firm. It will also direct effort towards understanding the contextual factors that may impede or enhance the transfer of knowledge across generations, highly relevant to the case of Pakistan: where there are both older firms with several generations of experience and there are newly founded successful family firms allowing us the variation required for our study.

We find from the survey analysis that the role of the family especially in decision making is extremely important. While many firms do rely on outside managers in technical areas such as operations management or production, the large bulk of strategic decision making takes place within the milieu of the family members and does not expand beyond the ‘trusted’ group. As a result of this the family firm heavily relies on informal sources of training and evolution which include business advice from senior and elder family members. These results are then examined to determine whether any of these dominating features of the family firm also result in superior performance and a natural advantage. These findings must be interpreted in the context of the Pakistani corporate environment. For example, many family firms seek to gain private benefits of control, through tunnelling of funds or typically through tax evasion. While it is difficult to suggest the direction of causation, i.e., does the close knit management arise due to this behaviour or is it the close knit management that encourages this behaviour; we must keep this factor in mind when interpreting accounting measures of performance.

The two key findings from the study aid in defining what we mean by an efficient management. Firstly, we find firms which include outsider managers in not only the top management but also in the decision-making structure have a positive relationship with performance. This also holds for outsider monitoring, for instance in the board of directors, i.e., “outsiders can translate into an efficient management”. Alternatively, due to possibilities of greater private benefit extraction, this finding may suggest that outsiders lead to greater external disciplining and hence superior firm performance. Secondly, we find that while formal educational degrees may not matter, there are some returns to training (where training is distinguished from formal educational degrees). Ongoing training to supplement core skills can be a defining characteristic in performance across these family firms. There is a positive relationship between performance and firms where both top management and CEO’s place importance on improving their own efficiency, i.e., “training can translate into an efficient management”.

This paper is divided as follows. Section 2 analyses the related literature in this area, its shortcomings and possible areas of expansion. Section 3 examines the Pakistani family firm environment specifically focusing on its key intrinsic and differentiating features. Section 4 sets out the hypotheses that are examined in this paper while Section 5 considers the data set use and details the survey and the methodology employed to examine the survey results. Section 6 examines the family firm legacy of Pakistan through a univariate analysis and also compares it to its western counterpart. Section 7 provides summary statistics on the sampled firms. Section 8 details the results from the survey data and section 9 concludes.

2. Literature Review

How well governed firms are, according to a wide expanse of literature, can influence corporate performance and determine flow of funds to growth industries, spurring economic growth. The prime focus though in corporate governance studies has been on ways to structure contracts or use the market, to induce managers to maximize shareholder wealth.[2] This concept of providing appropriate incentive schemes or disciplining mechanisms is common to all organizations and exists in all cooperative efforts. Arrow (1974) puts the debate on corporate governance into perspective by defining it as the means available to corporations to ensure that any gains from authority are directed towards the benefit of the company and not exploited for private advantage.

Majority owners and managers may maximise their collective utility through collusive behaviour, as agents prefer to minimize conflict with the principal. In such a case, minority shareholders interests diverge from those of majority owners and managers, and they pay a price that reflects the monitoring costs that owners pay (Shleifer and Vishny, 1997).

This begs the question of whether the focus has been on the wrong agency problem. Instead of the owner manager relationship, in this case there exists an expropriation of minority rights, whereby controlling shareholders shift funds to themselves or simply maximise their own wealth rather than the wealth of all shareholders (Shleifer and Vishny, 1997). Consequently, concentrated ownership presents a new corporate governance problem, which is the three way ‘majority owner-minority owner and manager’ agency conflict. As evidenced in Claessens et al. (2002), in East Asian corporations, on average 60 per cent of controlling owners appoint managers from amongst themselves, which strengthens their control of the organization. Appointing managers from within the family or colluding with professional managers then collapses the agency conflict to a two-way divergence between majority and minority owners.

The issue of concentrated holdings has also been couched in family concentration which is run by the founder or the founder’s family. The form of governance system that is most applicable and relevant to the case of developing countries is the family-based structure. Family ownership is prevalent in both publicly traded and privately held companies (see LaPorta et al., 1999; Claessens et al., 2000). Although most firms embark as family-owned firms, succession decisions made by entrepreneurs determine the degree of separation and control (Burkart et al., 2003). In Anglo-Saxon firms,

[2] Contracts can include compensation schemes.

founders hire professional managers early on. However, in most firms in developing countries, there does not exist a separation of ownership and control, where most firms are controlled and managed by founders or their successors. In some cases, owners may relinquish control to professional managers, but continue to remain controlling owners and partake in the benefits. The family-based firm is not examined in much detail, except for a few studies.

Morck et al. (2000) is one of the few empirical studies that focuses on the family based firm and gives empirical evidence of problems that are likely to arise. Heir controlled firms show poor financial performance, low capital–labour ratios and investment in R & D and Morck et al. (2000) observe for the Canadian market that concentrated inherited corporate control impedes growth. An empirical analysis of performance of inherited firms with a comparison between professional managers and heirs is an area that is unexplored for Pakistan.

Burkart et al. (2003) develop a theoretical framework to explain succession in family firms by the legal environment. They propose that in countries with weak shareholder protection, since founders are unable to control expropriation by managers, they retain control in the family. In countries with strong protection, the insiders do not need to monitor and hire professional managers. Hence, they suggest, separation of ownership and control as a response to the extent of legal protection. However, this paper relies on a strong assumption that professional managers produce better results and show superior performance as compared to family management. This assumption may not necessarily hold true for all cases. It is frequently suggested in the case of many firms in developing countries, where successors to founders are trained in ivy-league universities abroad and given experience in the firm, may be better managers than the professional. However, there is no literature (to our knowledge) that deals with this issue. We refer to this as the return of the prodigal son hypothesis that requires further analysis.

Some U.S. based studies find family members are more likely to become entrenched and are less able to churn out consistent performance. One study finds the sudden death of founding CEO's results in a positive stock price response (Johnson et al., 1985). Another study provides evidence that firms managed by the founding family are associated with a lower Tobin's Q relative to those with outsider presence (Morck et al., 1988). However, no study examines the case of developing countries, where the impact of large controlling shareholders (in the form of the family firm) along with weak legal contracts creates a unique setting. Anderson and Reeb (2003), however, suggest that when family members serve as CEOs the performance is better than with outside CEOs. They attribute this difference partly to the presence of specialized knowledge that family CEOs are able to access. We investigate this further for the case of Pakistan, i.e., whether managerial performance / style based on qualifications does influence firm performance. It is argued that if families limit executive positions to family members, they will have access to a much restricted labour pool from which to employ qualified and capable talent.

However, there is also a need to shift away from a with-without analysis of firms (family / non-family) and instead move towards a deeper understanding of the form of the family firm in terms of degree of family involvement. For instance, Astrachan et al. (2002) suggest a scale based on power, experience and culture. They suggest the need to consider the influence of family experience through the breadth and depth of dedication of the family members to the business. Therefore, the proficiency of management should also be examined in terms of founders versus successor set up. The proficiency of future generations depends on the effectiveness of knowledge transfer within the family (Steier, 2001). Initial studies reveal founders have a positive role on firm performance in terms of anchoring the firm (Anderson and Reeb, 2003). They bring unique value-adding skills to the firm which decay over time with inherited control having poor performance (Peres-Gonzalez, 2001).

3. Overview of Pakistani Environment

Family owned firms can be defined as a mode of organization where the primary source of management (labour / expertise), finance and market information comes from within the family. Therefore, it is essentially a much wider network based on trust and shared ideals of the members, where the members also extend to wider relations such as uncles, aunts, cousins, etc. However this definition is as easily applicable to Italian, Swedish and even American family firms, where genealogy determines succession. In the case of Italy, business is heavily intertwined with politics and 60 of the top 200 business groups are family controlled (Colli and Rose, 1999). Then what is it that makes the Pakistani firm different from European firms? Aside from the fact that the entrenchment of the family firm is much more than in the case of Italy and less than Sweden (where Wallenbergs control 40% of listed company stocks (see Bebchuk et al., 2000)), another differentiating factor is the extent of family involvement, which also extends to distant relations like second and third cousins and close family friends. Similar to the other countries in the South-Asian region, an important way to expand businesses has been through inter-marriages. Cases of marriages between prominent business families are the norm rather than an exception (for instance Manshas and Saigols). The caste system also serves as an important and larger institution that individuals can rely on to meet their various business needs. Therefore, it actually performs the function of a much larger business group or an umbrella group that firms within a particular caste are able to rely on especially when they require capital, business advice or political connections, etc. This kind of reliance based on a group that is ‘beyond’ the ‘family’ does not exist in the West. For instance in India, it is argued that caste has eroded as a form of economic control. However, this is not very true for Pakistan, where caste clustering in terms of occupation continues to exist. Therefore, chiniotis which are a big business caste in Pakistan continue to wield greater control over the market. Therefore being a chinioti is a mechanism to coordinate control between firms.

Another differentiating factor is the cultural traditions of the subcontinent. Due to dominance of males in the society, we have seen very little involvement of females within the family firm. Their role is restricted to a silent shareholder, i.e., they usually have equity holdings in the firm but hold no executive position.[3] This does not only

[2] In some cases women might hold executive positions but may not have any say in managing affairs of the company. Such acts are done to avoid political harassment.

mean the power of men over women, but the power of elders over younger men, where the elders are the founders. Similarly as Harris-White (2004) argues for the case of India where young boys are trained on management of capital from a very early age. This is similar to the subcontinent and other countries where family firms abound. This skewed structure is, however, changing in recent years, where more female family members are being appointed to director and executive positions within the firm. Religion has always been the most important shared value influencing operations of Pakistani firms. It sets the grounds and limits within which family firms operate. For instance, one of the biggest differentiating factors has been Islamic banking, where interest-rate debt financing is renounced. Many large businesses have in recent years swapped their debt with Islamic financing.

The partition is the single-most important historical event that has shaped the path of the current industrial elite, differentiating it from any type of family firm in the Western world. The current industrial elite emerge from families that migrated at the time of partition. These family firms were established traders in different parts of India, and it was a historical accident that they were able to establish themselves in Pakistan. We do not mean to take the credit away from where it is due. The current industrial elite did have the vision to take advantage of opportunities upon the creation of Pakistan in 1947. However, were it not for this event, it is quite possible that these merchants would not have grown into industrialists. By developing cozy relations with the government and encouraged by specific government policies in the early 1950s (such as import controls) these families were able to enter into growth industries, principally textile. Hence, industrial elite was created from relatively unknown small traders. These are the same families that continue to dominate Pakistan's corporate sector and are now into the second generation of their existence. Studying the Pakistani case is interesting as many firms have only recently entered into their second generation which raises issues on heir controlled firms. For example Morck et al., (2000) find poor governance causes heir-controlled firms to perform poorly on average. Also, entry barriers to entrepreneurs in terms of access to capital means that heir control remains that allows uncompetitive firms to survive.

Post nationalization era in Pakistan also brought a new class of industrialist and family businesses. Pre-nationalization business families like Adamjees, Habibs or Valikas were so adversely affected that they never really invested in businesses in Pakistan again. At the same time privatization and liberalization of the economy during the last 18 years have mostly helped textile tycoons to venture into other sectors.

Finally, one of the most defining features of the family structure, according to anecdotal evidence is the degree of expropriation of private benefits. It is suggested that most family businesses seek to maintain control over firms and management as it allows them to engage in tunneling of corporate funds and engaging in activities such as tax evasion.

4. Hypotheses

While installing family members as managers should not be harmful to a firm if they are the best placed to operate the firm, this may not necessarily be the case according to evidence based on U.S studies. Since there is a good mix of the two kinds of managers in Pakistani firms with the outside managers mostly working for employee owned companies, firms with foreign holdings or government owned institutions, it provides a convenient control tested environment in which we can explore our hypotheses. Although it may seem that outside managers may have better qualifications and experience, at least on paper, it is apparent (and increasingly so) that insiders (especially in developing countries) are also able to access human capital through transfer of knowledge across generations. Therefore, this issue is not so clear cut as it would seem.

4.1 Presence of Founder versus Successor and its Impact on Firm Performance

Founders due to their closeness with the next generation may not be in the position to 'objectively' assess who is best suited and capable of inheriting leadership of the company. However, there are several cases (in older businesses) where power has been transferred to heirs who in many cases are better qualified than the founders. In particular, post September 11 combined with the slow-down in the US economy has seen Pakistani professionals return back to Pakistan and (re-integrating themselves into their family businesses. Consequently, there is little difference, in some cases, between the qualifications of owner-managers as opposed to professional managers. In fact, under these circumstances owner-managers may be better prepared and suited to handle family business as they have already been exposed to corporate values and have inside knowledge of its operations. Therefore, the return of the ‘prodigal son’ may have a strong effect on financial performance. Hence, we examine whether presence of founder versus successor has an impact on firm performance.

However, the family firm in itself is not necessarily a single entity and is itself composed of individual family members with varying financial and non-financial goals. The single most important entity within the family firm is the founder, who has a significant influence on the cultural values of the firm and seeks to anchor the firm so that it exists and expands beyond his tenure. Therefore, organization goals and performance capabilities of those firms where ultimate control lies with the founder is different when compared with those firms that have witnessed post-founder succession, which are also likely to collapse into inter-family struggles to control firm resources. In Pakistan two different sets of family groups exists: those which existed pre-1947 and continued their operations in Pakistan and those that have emerged during the industrialisation period of the 1960s where Development Finance Institutions (DFIs) financed much of the industrial growth.

4.2 Breadth of family involvement – entrenchment or enforcement

Continuing with the thesis of examining the form of the family firm, we examine in greater details key positions (board and executive) occupied by family members, i.e., the breadth of the family involvement, the allocation of control and ownership rights across family members and collate that with firm performance and qualifications of the members involved. Does breadth of family involvement lead to entrenchment or enforcement? Greater family involvement should ease enforcement of corporate governance rules (less conflict) and therefore should be associated with good governance. If this holds true firms should have better performance. Also, restricting executives to only family members can be beneficial in terms of special skills and tools family members can bring to the firm. Morck et al. (1988) similarly argue for innovating expertise that is brought by family /founder CEOs. This is supplemented by research by Anderson et al. (2003) that continued presence of family members in the firm can create positive affect on reputation by providing incentives for family members to improve firm performance. However, alternatively the entrenchment of family members along with lack of involvement of outsiders as key monitors and decision-makers may have a negative impact on firm performance. Especially in the Pakistani case, this should be reflected in poor performance, due to activities such as tax evasion. Even if it is not reflected in accounting performance, the market should be able to price in such private benefits of control.

4.3 The role of knowledge and information transfer in affecting managerial efficiency

Next we consider the role of knowledge and information transfer in affecting managerial efficiency. This is an area where literature has been largely silent and much of the emphasis has been on returns to education and training for the individual (see Blundell et al., 1999 for a review of this literature). While traditionally there exists an externality in training management for the employer as the management may seek out employment, this externality is mitigated for the case of the family members. In such a case, we should expect not only greater emphasis on training by family firms, but also a positive relationship with firm performance and profitability.

5. Data and Methodology

This research work relies heavily on data collected through primarily sources. The raw data collected is then statistically analyzed and the results are compared with the research findings of the earlier studies. Each step of methodology is explained in proceeding paragraphs.

5.1 Data sources

We have restricted our analysis to the largest non-financial listed companies some of which also belong to the 50 largest family groups in Pakistan.[4] We have solely considered family firms to understand the dynamics of managerial performance within this group. The status of a company as a family firm is determined using the dataset employed by Zaidi (2005) that classifies a firm as a family versus non-family firm using the ownership structure. In this study average market capitalization for the year 2003 has been used as a selection criterion for the largest firms. We have used 2003 as a benchmark and a reference point because of the availability of financial data for

[5] This number will be reduced based on the responses we obtain for the mail-in survey.

that year. We have restricted this research study primarily to manufacturing concerns as they represent some of the largest family firms. Besides being manufacturing concerns, balance sheet items such as plant and machinery, inventory, etc. are similar making comparison meaningful. However, services sector is also included. In terms of representation of sectors, a heavy emphasis is on textile industry, which is the largest and most dominant amongst the listed firms, but there is representation of various other sectors such as cement, energy generation, sugar, glass, etc. Finally, we have excluded the financial sector because of the different nature of the assets represented on the balance sheet makes it is difficult to compare their financial statements and key ratios as well as statistics with those from other sectors. Furthermore, the sector is highly regulated and that makes it difficult to assess managerial efficiency on standalone basis.

We have used two main sources of data: a survey and secondary sources (financial reports) for accounting information. We have also relied upon articles and news items printed in national and local newspapers, general reputation of the business groups and public knowledge can be classified as public information. The Internet is also used to access background information on sectors and family businesses in Pakistan. Such information has been used to supplement data gathered through survey and published research material.

The questionnaire was sent as a mail-in survey (via post and email) and was addressed to top management officials the key respondents, which in this case were members of the Board, CEOs, CFOs or Chairmen of the companies within our sample. While a large proportion of the questions required responses from the above, we also obtained information on the group history, i.e., dates of incorporation that is normally provided by representatives of the establishment branch or HR of the firm. We carefully chose respondents because we wanted primary knowledge about the business and wanted to document opinions on subjects like corporate governance vision of the top brass of the company. This information was then supplemented by key informant interviews conducted with 3 representative firms – the non-family model with professional management, the family model with an active founder and the family model with successors operating. These will be used to supplement information that may not be available due to limiting features associated with questionnaires. It will be used to investigate the hypothesis that family management is more or less efficient in comparison with professional management. It will also be used as a corollary to determine the understanding and importance attached to corporate governance in obtaining financing from equity markets. Although data on ownership structures has been difficult to obtain, the improved transparency and financial disclosure required by the SECP provided aid in this task. Time-series financial accounts data has been used as a measure of firm's performance.

The questionnaire also seeks to determine the qualifications of the management in the publicly listed firms in the sample. The survey is divided into 6 equally important sections and was specifically designed to gather primary information and to gauge managerial proficiency as well as firm performance within the context of family run businesses. It addressed issues related to transfer of knowledge and expertise to generations, decision making process and the level of family involvement, independence of the board, importance of informal education versus formal training as well as investments in human resources.

The questionnaire is divided into eight sections:
General Information: This section pertains to the family background of the respondent and the group in general.
Company History: In this section information related to the company incorporation, place of incorporation and reasons for IPO are recorded. We obtain information on the general history of the firm, and its historical evolution. In the case of Pakistan, as discussed earlier, this historical evolution provides insight into determining the behaviour of the company and the kind of structure it then adopts, including the involvement of insider managers.
Management Transition: The third section tries to gather information about changes in management since the inception of the company and the problems faced during those transitions. We include these set of questions to better understand whether any informal business related transfer of knowledge has taken place across successive generations that should lead to a greater command of managers on business management, leading to greater efficiency.
Company Leadership and Performance: This section looks at some of the qualitative and quantitative aspects of leadership of the company's current and past top executives.
Composition of Management and Board: This part congregates information about company's composition of senor management vis-à-vis family and outside managers, independence and the ability of the board to oversee the management as well as decision making process. The responses this section are used to determine whether firms rely on professionally trained managed or prefer to use internal resources. This section also tackles the issue of entitlement of family members to a job in the company, i.e., whether the family-owned firms go through a hiring process for family members or the members get a job by virtue of their position. This further aids us in exploring the hypotheses discussed earlier.
Managerial Details: The sixth section gathers information about the skill level and the composition of senior management. It further explores the issue of top management positions held by non-family executives and family members with special emphasis on level of education and formal trainings.
HR Development and Training: This section addresses the importance of investing in human capital. It looks at a company's training budgets and the training courses attended by executives at all levels of a company. It especially tries to gather information on trainings and expertise of executives from and related to the controlling family. This is important because not only does managerial efficiency involve the existing skill set that managers in the firm may have, but also the evolution of the skill set and the ability for the management to dynamically adapt to new technologies and strategies through for instance, the use of training schemes, among others. The survey goes into significant detail on the kind of training exercise the management has undertaken, whether the management considers these as important and finally whether there is a specific training budget allocated within family firms for this exercise.

Corporate Governance: The last part addresses the importance of corporate governance in running of businesses and the relevance of corporate governance laws to existing Pakistani business culture and norms. Questions on corporate governance though may not be directly relevant to our point of analysis, they will aid in understanding the views of family firms on corporate governance and what are the most important motivations for good governance.

To summarize it the questionnaires allows us to obtain a more detailed review of skill sets and the ownership structure than is possible through the use of published and documented information. This then allows us to specifically consider the driving factors for good performance managers, rather than only considering whether the manager is insider or outsider. We did not encounter problem in the questionnaire design as the majority of the responses were binary based, which will facilitate comparison across firms. The questions try to draw out facts rather than illicit opinions, which reduces any biased responses in our analysis.

One concern with the use of survey methodology is whether the responses are then representative of the target population. We compare measures of size (total assets, total sales) and market share of largest 200 firms with the summary statistics of the respondents. Most of the firms that we receive responses from are the larger listed firms on the stock exchange and therefore constitute a significant proportion of market share. We do not believe that the responses introduce any bias in the results. However, one caveat is that the results are applicable of the typical large family firms in the country, rather than the smaller single family owned enterprises.

5.2 Methodology

The raw data is examined through summary statistics and correlations. We are unable to carry out a fuller econometric analysis due to the small number of observations available. In order to supplement the cross-sectional analysis, as the survey took place at a particular point in time, we consider firm performance measures over time. Warner et al. (1988) show that stock performance is a noisy measure of managerial performance and makes it difficult to identify firms with poorly performing managers. Hence, instead of firm value, we also employ firm performance measures such as return on assets.

6. Univariate Analysis of the Family Unit

We initially carry out analysis using financial reports data of the top 250 listed firms, specifically focusing on top family houses based on data collected by Zaidi (2005). This analysis shows that it is the older firms that are the more successful in terms of control of industrial assets and operations. However, some of these families have also been subject to intra-group fighting over succession and have since split into separate business houses. A small number have seen male heirs going for their own start-up. Therefore, the older generation of family firms as was the case in the 1960s has been watered down by the rise of a new set of family firms. These family firms include Dewans, Crescent, etc that have in fact become one of the larger business families, coming from relatively smaller backgrounds in the 1960s.

Table 1 provides descriptive statistics mainly relating to generational aspects of the firms. We use the rankings of families as determined by percentage of assets controlled in Table 1 to test for differences across firms.[6] We measure date of establishment as the date when the primary business enterprise was incorporated as a private or public limited company. We use this definition instead of listing date or status change to public incorporation of the 'umbrella' firm of the concerned business group, because this obviates (and underestimates) the features of the family firm that we are trying to address for instance access to human and social capital, intergenerational transfer of knowledge, etc.

Table 1

The following table provides summary statistics for the top 50 family groups. It lists the average age and the percentage of firms with active founders, by the size of the family groups (all families, top 5 families, top 10 etc by asset size).

	Average Age	% with Active Founders
All Families	54.02	32.43
Top 5 Families	76.40	0%
Top 10 Families	67	10%
Top 20 Families	60.9	16.7%

According to the data, the median firm was established in 1960, although there is a large degree of variation from 1841 to 1978. Many of these families had entered their business at the time of or before the partition. They constitute about 34 % of the families in our sample (not shown). Approximately 10% were established in the late 1940s, i.e., immediately after partition and have grown into sizeable business groups. With a few exceptions, we find these small business groups transforming themselves into large diversified business groups. There are only a few cases of pre-partition business groups that have remained medium sized groups. This is partly due to their niche strategy where they have focused on their primary industry and have not attempted to diversify into other areas. Therefore, although they are the leaders in their particular industry, their dominance on overall industrial assets is less.

A large proportion of the family houses have entered at least the second generation of their life-cycle, with only a small number having their founders still active in the firm. In fact, amongst the top 5 business families, there are no active founders. In the case of the latter as well, many of the founders have taken their position as anchors and have assumed positions and honorary roles such as chairman of the board, while the executive managerial positions are left to relatives. Even in this case, the real money investment and real decisions are made by the oldest family member. Succession is only to family members and non-family employees are less likely to be appointed to executive positions. However, in many cases, there is an unwillingness to cede control to managers and ageing founders are unwilling to retire. In the case of Pakistan, we find a few cases that fit this bill. Aside from having implications for corporate governance,

[6] We do not report how these rankings are determined using total assets. They can be made available upon the request by the reader.

this can eventually lead to infighting and power struggles once the founder does exit especially if he has not groomed a successor.

However, in other cases building a fortune and then passing it down to heirs is an important motivation for entrepreneurs. Due to their closeness, founders will place family members as replacement for them, although they might not have that best qualifications for it (Burkart et al., 2003). Another explanation for this phenomenon is that some individuals may prefer not to work in family firms, as they involve far complex decision-making especially involving a compromise and accommodation of family-related concerns (Mitchell et al., 2003).

The fact that a small proportion of family firms still have active founders raises interesting issues on the next-generation family members: do they possess desirable successor attributes, how does their perspective differ and the effectiveness with which the 'tacit' knowledge possessed by founders is transferred across generations (Steier, 2001). This may be the reason why a few prominent business houses have lost their former glory. Performance of these post-founder firms, aside from relying on the absorptive capacity of the successors (Zahra and George, 2002), also depends on the vision adopted by the founders. Post-founder performance of the firm also reflects the extent of self-control imposed by the founder itself. For example, those firms where the founders were able to withhold immediate gratification of their family by setting sights on long-term gains for the family and business are more likely to survive successive generations.

An economy having a significant proportion of old firms with well-defined owners in control is a troubling sign as it lacks entrepreneurial vision, where older firms are more wedded to the past. These statistics for Pakistan reveal a very small concentration of new entrepreneurs on the market. This is starkly different from the case of India, which started off with similar concentration of wealth amongst a few large families at the time of (and shortly post) partition. Even up till 1991, 22 out of the top 50 companies were controlled by family groups that were able to extract benefits during the protectionist period in India's economic history. In the case of Pakistan from the largest ten companies, five are government owned, a few of which are undergoing privatisation currently. Out of the remaining four only one is a home-grown entrepreneur, while two involve foreign investment and two are army concerns (welfare trust). If we consider the largest 50 firms by assets, a large proportion are foreign multi-nationals or firms with foreign investment are at the top of the ladder. Excluding these multinationals, the mix of firms that are run by older generation families versus new breed of managers (i.e., first generation) is relatively even. In India, a recent study by Goswami suggests, only 4 out of 50 largest businesses were run by the older families, which is a positive change for corporate governance in the country. In Pakistan, there is no such case of this evolution or steady decline in control of the old (premier) business families.

Another country that the Pakistani case is comparable to is Sweden where a few families control a large proportion of the GDP of the country. In Sweden 31 of the largest 50 listed firms are controlled by family business houses that were established prior to 1914 (Hogfeldt, 2004). Government policies (despite the existence of a social democratic republic) have sustained the dominant position of the large firms and have discouraged the entry of new entrepreneurs. Similar to Pakistan, most investments have been financed out of retained earnings or debt (which is tax subsidised) resulting in relative stability of corporate ownership structure. Since the 1930s corporate wealth has remained in the hands of a few owners with the share of the large families becoming increasingly concentrated. In the case of Pakistan, the current evidence when compared with the results from 1970 indicates a reduction in the degree of concentration. However, the control of the large (old) business families continues to remain strong but the degree of their control is substantially less as compared to Sweden. Partly this is a result of the short history of Pakistan, whereby most of the largest business families remained in present day India, while some of the smaller merchant class migrated to Pakistan and are now the 'ruling' class in the corporate sector. Therefore, we would place the Pakistani case in between Sweden and India – two countries with interesting cases of family ownership.

This broad overview of the top Pakistani family houses is supplemented with some of the results from our own surveys. Most of the surveyed firms in our sample belong to the younger group of firms, many of which started production on average, as late as 1979-1980. As a result the founders are still active and firms are yet to face the inter-generational transfer issues. These issues become even more critical then for our sampled firms, many of which are some of the top performers in their respective industries and would have a wider economic impact. In our sampled survey 60% of the firms have not witnessed succession problems and 25.71% of the firms have seen transfer of power to one generation (see table 2). This refers to firms where there were successions in the first place. Also the transfer has typically been from the father to the son, though in a small number of cases, nephews and other relatives have also been possible heirs. Aside from generational transfers, there has been a limited degree of CEO turnover. Less than 10% of the firms have seen CEO turnover greater than three times. Given that the average firm is more than 20 years old, this provides evidence of a degree of entrenchment of CEO in the family firm. This is affirmed by respondent results that current CEOs on average (and median) have had a stint of 14 years with the firm.

Table 2 – Generational Transition in the firm

The following table provides summary statistics for the firms sampled in the survey. Columns 1-3 provide details on number of family generations that have passed through since the existence of the firm and the number of CEO transfers it has had. Columns 4-5 provide details on inter-generational transfer of power.

No.	Generations	Number of CEOs	Number of CEOs – Post Founder	Succession	
1	26.83%	47.62%	58.72%	Litigation	2.70%
2	12.20%	28.57%	8.26%	Power Structure	10.81%
3	2.44%	16.67%	5.50%	Smooth	51.35%
4	-	4.76%	8.26%	None	35.14%
5	-	2.38%	4.59%		

[6] We do not report how these rankings are determined using total assets. They can be made available upon the request by the reader.

Table 2, also summarises some of the key findings, including interesting information on successional issues. While in many cases the respondents have cited that the transfer of power was smooth, there are some cases cited of litigation and power struggle amongst the firms. These are of critical importance because if the number of these power struggles enlarges, then the most important aspect of transfer of power from founder to heirs, such as transfer of knowledge, would be significantly eroded. In the next section, we will explore the differences in performance for firms with active versus non-active founders, to test whether this is true.

7. Data Description

We first examine several features of our respondents for placing the results in perspective. As identified earlier, it was ensured that the top management of the firms was the target respondent, because it is them who along with directors and chairman are responsible for framing key decisions within the firm. They are also in a position to create a vision for corporate governance. Table 3 summarises the position of the respondents, of which over half were CEOs, with a smaller and varying percentage of respondents being chairmen and directors of the firms. As large majority of the respondents had been with the organization for over 10 years, it mitigated our concerns related over lack of knowledge of the respondents of the company specific questions in the survey. Finally, in terms of the caste, much of the polled firms were either chiniotis or an unidentified caste. Minority respondents came from Punjabi Sheikhs, Syeds and Memons.

Table 3 – Firm and Respondent Profile

Respondents Profile			**Firm Profile**	
	Position	Years with Organisation		Caste
CEO	40.91%	18.14	Punjabi Sheikh	5.13%
Director	25.00%	17.96	Syed	5.13%
Chairman	9.09%	29.28	Bohras	2.56%
Executive Director	9.09%	13.31	Chinioti	28.21%
CFO	4.55%	1	Khoja Ismaili	2.56%
Director Operations	2.27%	2	Memon	10.26%
Director/COO	2.27%	10	Others	33.33%

The sample size was not restricted by a specific size class and hence, there is sufficient variation in assets, sales and employees. Table 4 provides some summary information on firm size. For instance, using total assets as a measure of firm size, we find that the average firm is rather large with assets of Rs 2.44 billion and the median firm only has half the value of the total assets. In fact, there is a variation across firms from Rs. 136 million to Rs. 18 billion. Similarly, some of the organizations in terms of total employees could be classified as small firms with less than 50 employees; however the majority of firms fall in the large sized category.

Table 4 – Descriptive Statistics on Firm Size

Total Assets; Fixed Assets and *Total Sales* are in million of Rupees. *Pvt firms* is defined as number of private firms that belong to the business group of the firm; *Listed firms* is defined as number of listed firms that belong to the business group of the firm; *Same industry* refers to percentage of firms where the associated firms belong to the same industry.

	Size				**Business Group**		
	Total Assets	Fixed Assets	Total Employees	Total Sales	No. Pvt Firms	No. Listed Firms	If Same Industry
N	41	41	38	41	38	40	38
Mean	2,440	1,310	795.72	2,320	3.37	2.4	0.61
Median	1,280	636	631.00	1,200	4	2	1
SD	3,440	1,860	660.39	3,160	1.48	1.60	0.50
Min	136	54.2	31	144	0	1	0
Max	18,700	8,640	2,707	16,400	5	5	1

Our survey also highlights some of the key features of the group across the firms to address business group characteristics. For example business groups are labeled as a source of inefficiency or expropriation via tunneling (see Johnson et al., 2000), but they are also frequently cited as a source of capital and pool of managerial talent (see Khanna and Palepu, 2000). Business groups have a highly dominant mode of pooling capital for the family firms in our sample. Furthermore, much of the business group relationships span across privately held firms. For instance, most of the firms on average have over 3 private firms in their business group and at least one associated firm listed on the KSE, though it may not necessarily be in the same industry.

The youngest firm in the sample is 7 years old (in 2005), although some firms have been in production since pre-partition times. While much of the firms (see table 4) are associated with private limited firms in their business groups, they have themselves been directly publicly incorporated and very few have taken the indirect route of private and then public incorporation.

Table 5 summarizes key performance measures that are typically used as indicators of past performance of the firm. There is a significant variation across the performance measure. There are some outliers with negative performance indicators such as return on assets and return on equity, but the median firm has a return on assets of 4.55% and gross profit margin of approximately 15.00% which are modest numbers. As mentioned, these are the key variables that we can rely on to determine efficiency of management, though we bear in mind given that degree of tax evasion, profitability measures may just be indicative of high tax evasion rather than inefficient management structures.

Table 5 – Descriptive Statistics on Firm Performance and Legal Status

Gross profit margin is measured as a ratio of gross profit to total sales (%); *ROA* is return on assets measured as ratio of earnings before tax to total assets (%); *ROE* is return on equity measured as ratio of earnings before tax to shareholders equity (%); *Date of production* refers to the year when the firm first started production; *Public incorporation* refers to firms which were first incorporated as public limited firms instead of making the transition from private limited.

	Performance			Age	
	Gross Profit Margin	ROA	ROE	Date of Production	Public Incorporation
N	36	41	41	37	45
Mean	15.87	4.18	21.80	1979	0.71
Median	12.6	4.43	12.98	1985	1
SD	11.23	8.11	51.64	14.95	0.46
Min	2.24	-31.15	-75.10	1938	0
Max	45.87	14.57	237.16	1998	1

Tables 6 and 7 provide the above summary statistics by industry type. We find that not only are the largest industries represented in the sample: cement and automobile in terms of assets and employees, they also give some of the strongest performance. Textile firms in our sample have a large asset base and are also the most significant in terms of employment generation in these manufacturing firms. Business group measures are distributed evenly across all sectors, although much of the privately held associated firms belong to the automobile, cement, pharmaceutical and chemicals and sugar industry. Contrary to expectations, firms in the textile are also not the best performers. Since size (assets and sales) is directly correlated with performance, it may be worthwhile to explore this relationship in terms of managerial talent. The fact that the textile industry has by far the largest employee base may indicate inefficiencies that have not been explored so far.

Table 6 – Descriptive Statistics on Firm Size and Business Group by Industry Type (Means)

Total Assets; *Fixed Assets* and *Total Sales* are in million of Rupees. *Pvt firms* is defined as number of private firms that belong to the business group of the firm; *Listed firms* is defined as number of listed firms that belong to the business group of the firm; *Same industry* refers to percentage of firms where the associated firms belong to the same industry.

	Automobile	Cement	Engineering	Food	Glass	Paper	Pharma	Sugar	Textile
Total Assets	1680	6,360	1,600	718	805	601	823	646	2,330
Fixed Assets	626	4,070	484	356	330	316	507	440	1,420
Total Employees	295	512	482	374	912	536	313	481	1,259
Total Sales	3,240	2,340	1,720	829	635	767	642	939	2,340
Pvt firms	5.00	4.25	3.4	2.25	2.00	5.00	5.00	4.50	2.96
Listed Firms	5.00	3.00	2.4	2.00	2.00	4.00	1.00	1.67	2.04
Same Industry	1.00	0.38	0.5	0.50	0.00	0.50	0.00	0.00	0.81

Table 7 – Descriptive Statistics on Firm Performance and Legal Status by Industry Type (Means)

Gross profit margin is measured as a ratio of gross profit to total sales (%); *ROA* is return on assets measured as ratio of earnings before tax to total assets (%); *ROE* is return on equity measured as ratio of earnings before tax to shareholders equity (%); *Date of production* refers to the year when the firm first started production; *Public incorporation* refers to firms which were first incorporated as public limited firms instead of making the transition from private limited.

	Automobile	Cement	Engineering	Food	Glass	Paper	Pharma	Sugar	Textile
Gross Profit Margin	11.48	37.92	19.23	23.21	25.63	10.37	22.92	12.39	9.18
Tobins Q	1.63	1.92	1.54	1.66	1.00	1.39	1.20	1.41	1.25
ROA	13.68	9.21	9.87	5.46	12.09	10.38	4.78	1.34	1.39
ROE	48.75	19.19	27.91	15.91	-18.81	38.26	16.23	18.73	9.09
Production Date	1963	1980	1981	1980	1955	1977	1982	1994	1983
Public Incorporation	0.50	0.63	0.54	0.25	0	1	1	0.67	0.84

8. Survey Results

We now consider the results obtained from the survey. The average response rate to mail-in surveys is approximately 30%. We obtained responses from 45 firms from different industry sectors and profiles. We have examined the responses by features that distinguish different family firm from each other:

- Return of Prodigal Son – do firms with successors have superior performance?
- Composition of the management – how important is insider managers versus outsider managers in firm performance?
- Effect of control of the board of directors on performance
- Extent to which education matters in distinguishing firms
- Training of managers – if there are differences between inside and outside managers, can some of it be a result of the efficiency of the managers?
- What is the understanding of good governance for the sampled firms?

8.1 Return of Prodigal Son

We examine performance of firms by disaggregating those that have active founders versus firms where successors are now in place (see table 8). The results interestingly reject the founding family hypothesis by Andersen and Reeb (2003) who had found in their study that firms with active founders have better performance. To the contrary, the results highlighted in table 8 indicate better performance for firms where leadership has been passed to successors. While this does not hold for all measures, but we do find better gross profit margins, return on assets and the market also prices this in through a higher Tobin’s q.

This may reflect better knowledge and training within successor managed firms. Alternatively, it may be indicative of a 'learning by doing' effect, where the successor has capitalized on business tools and expertise received from the founders and have multiplied upon it.

Table 8 – Founder Vs Successor and Firm Performance

The following table relates performance against whether the founder is still active or a successor has taken over. *Gross profit margin* is measured as a ratio of gross profit to total sales (%); *ROA* is return on assets measured as ratio of earnings before tax to total assets (%); *ROE* is return on equity measured as ratio of earnings before tax to shareholders equity (%); *cashflow/sales* is ratio of operating cashflow to sales (%); *opexp/sales* is ratio of operating expenses to sales (%); *leverage* refers to ratio of debt to equity (%).

	gpmargin	Tobin's q	roa	roe	cashflow /sales	opexp/ sales	leverage
	Successor						
N	14	17	17	17	17	17	15
Mean	16.92	1.49	6.20	18.73	10.17	8.22	2.55
Median	14.98	1.47	4.77	9.90	10.17	4.78	1.31
	Founder Active						
N	21	23	23	23	23	23	20
Mean	14.43	1.39	3.10	24.87	8.46	5.86	5.87
Median	10.30	1.25	3.60	17.24	7.99	4.52	2.52

8.2 Management Composition Effects:

The advantage of this survey is that the respondents automatically help us define the family firm, with the use of the term insider and we are not required to depend on the last names of the top management, to determine whether they belong to the same family. While each of the firms do have high concentration of ownership, but like the West it is theoretically possible to hand over management to professional managers. Within the sample, we find that an exceptional majority of firms have a family member taking the top post, i.e., of CEO (see table 9). However, in contrast, insider chairmen are a relative minority, with only 32.61% of the firms having family members as the chairman of the board. This is a positive sign, given the role of a chairman in providing oversight for efficient decision-making. Next we also consider other top management positions such as marketing, finance and production heads of the firm. In this case, we find more variation, with majority of the firms having outside professionals heading these units.

The highest presence of outsider managers is within marketing and production units, though sales and procurement have a sizeable proportion of outside managers. The results imply that areas which require specific technical and professional expertise as opposed to pure management skills seem to attract non-family members. In order to retain professionals, just under one-quarter of these firms (i.e., firms which have outsiders in senior management) provide some form of equity in the firm as part of a bonus or appraisal.

Table 9

This table details on percentage of firms that have inside (family) managers by posts of top management.

Designation	Inside Manager
CEO	95.35%
Chairman	32.61%
Market Head /General Manager	7.75%
Sales Head / General Manager	27.91%
Production (operations) Head / General Manager	2.27%

We examine the relationship between management structure and firm performance. While we should point out that this analysis cannot be tested based on statistical t-tests and econometric analysis, due to small number of observations, it can still provide us with some indications on the direction of impact and the interplay between the variables in question. Table 10 provides summary statistics for outside monitoring with various performance measures. Column 1 on outside CEO does not provide much information, as we have only one firm which has an outsider as a CEO. However, column 3 with outsider chairman indicates that firms with outsiders as chairman of the board have a positive relationship with performance in terms of almost all the measures: GP Margin, Tobin's Q, ROA, ROE and also a lower propensity to take on outside finance. However, they also have higher operating expenses to sales ratio. Similarly, having outsiders in the senior management and equity stakes held with outsiders are all positively related to performance. While the differences in Tobin's Q are small, it must be kept in mind that due to stock market volatility and inefficiency (whereby stock prices may not accurately reflect fundamental value of the firm), Tobin's Q is rarely an effective measure of performance in developing countries. The results imply possibility of what has been noted by Schulze et al. (1999) that placing family members at top management positions can create resentment at the hands of senior non-family managers as talent, education level and tenure are not the hiring criteria. In fact as expected only fewer than 40% of the firms state that they have some form of a hiring criteria for the family, while for the rest family membership automatically entitles them to a job in the firm.

In all cases, where there is an outsider present in senior management or the board chairman, firms are leveraged significantly less. Most family firms in Pakistan appear to be extremely insular, in that they try to keep the senior management positions within the family. The family remains the potent force within the firms, despite generational dilution of control, and most decision making and hierarchies are defined by the family itself.

Table 10 – Outside Monitoring and Firm Performance

We define 'outside' manager/chairman etc as a manager (chairman) who does not have any affiliation (personal or through equity) with the firm and is a professional hired from the industry. *Outside ceo* refers to cases where the CEO is an outsider; *Outside GM* refers to cases where the general manager of marketing or sales is an outsiders; *outside chairman* refers to cases where the chairman of the board is an outsider; *outside snr mgmt* refers to presence of outsiders in overall senior management of the firm; *equity stake outside mgmt* refers to cases where while the management may not have any personal affiliation with the firm, but do hold equity in the firm. *Gross profit margin* is measured as a ratio of gross profit to total sales (%); *ROA* is return on assets measured as ratio of earnings before tax to total assets (%); *ROE* is return on equity measured as ratio of earnings before tax to shareholders equity (%); *cashflow/sales* is ratio of operating cashflow to sales (%); *opexp/sales* is ratio of operating expenses to sales (%); *leverage* refers to ratio of debt to equity (%).

	Outside CEO	**Outside GM**	**Outside Chairman**	**Outside Snr Mgmt**	**Equity Stake Outside Mgmt**
No	95.35%	92.86%	33.33%	11.11%	77.78%
Yes	4.65%	7.14%	66.67%	88.89%	22.22%
			GP Margin		
No	16.77	16.01	11.92	12.33	15.83
Yes	6.23	24.43	17.84	16.44	16.04
			Tobin's Q		
No	1.46	1.44	1.25	1.42	1.44
Yes	1.06	1.51	1.50	1.42	1.33
			ROA		
No	5.51	4.37	0.84	4.83	3.59
Yes	0.97	6.60	5.92	4.09	6.64
			ROE		
No	23.73	23.41	7.23	14.22	20.36
Yes	0.94	25.94	29.36	22.86	27.74
			Cashflow/ Sales		
No	10.11	8.47	5.66	6.82	8.45
Yes	-12.13	16.66	10.41	9.06	10.19
			Operating Expenses/ Sales		
No	2.96	6.52	5.20	7.03	5.96
Yes	7.04	13.55	7.55	6.71	10.00
			Leverage		
No	3.26	3.33	7.26	10.81	4.66
Yes	4.75	2.57	3.15	3.38	3.57

It is difficult to conclude though that outside management or having outsiders in management makes the firm more efficient, i.e., from a productivity perspective. It is possible that this positive relationship with performance may suggest better external disciplining from outside management rather than efficiency improvements per se.

8.3 Board of Director Composition Effects:

In Tables 11 and 12, we carry out a similar analysis of different forms of board of director structures that exist within the surveyed family firms. As a result of recent SECP policies, almost all the firms have institutional directors on their board who represent their investors. Concurrently, there has also been an increase in the number of independent directors, who are present in 82% of the firms. However, on average firms typically keep the minimum representation of independent director as a board member to comply with regulatory requirements. We depict the correlation between the different types of director affiliation and our performance measures and find a strongly negative relationship between the number of family directors and firm performance. Higher number of independent directors is positively correlated with GP margin, but negatively related with ROA and Tobin's Q. However, only the negative correlation with Tobin's Q is significant. The findings seem to indicate little role of institutional and independent directors in disciplining management or insiders.

Table 11 – Outside Monitoring and Structure of Board of Directors

	N	Mean	Median	SD	Min	Max
Number of Family Directors	45	4.93	5	1.89	1	8
Number of Institutional Directors	44	0.82	1	0.92	0	4
Number of Independent Directors	45	1.23	0	1.89	0	8

Table 12 – Correlation - Board of Director Structure and Performance Measures

	Family Director	**Institutional Director No.**	**Independent Director No.**	**Independent Director No.**
Gp margin	-0.39**	0.00	0.07	0.10
Tobin's q	-0.30*	0.09	-0.22**	-0.06
Roa	-0.37**	0.15	-0.01	0.04
Roe	-0.46***	0.41*	0.09	0.08
Cashflow/sales	-0.40**	0.10	0.04	0.17*
Operating expenses/sales	-0.13	0.13	0.11	0.11
Leverage	0.30*	0.08	0.10	0.19**

***, **, * refer to significance at the 1%, 5% and 10% level

8.4 Decision-making Structure Effects:

The above analysis has so far assumed particular decision-making structures within insider controlled firms versus firms that involve outside management. In this section, we directly analyse whether there are different decision-making processes based within family firms. Table 13 summarizes the survey responses. Only one firm suggested that its structure was such that decisions were made by a single leader. Almost 70% of the firms consolidated decision-making within the firm while 21.43% of the firms limited their decision making to only the family members. Of the firms where limited decision making rests with the family members, almost half of the respondents foresaw a decrease in family involvement as the optimal structure, while the rest preferred increased family involvement. Therefore, a large proportion does consider the role of the family extremely important in the day to day affairs of the firm. While under a third of the firms stated that their decision making structure is either an authoritarian style of a single individual making all decisions, or the entire family (without any outsiders) being involved in the decision making, a third of all firms do foresee increased family involvement to be effective in improving firm performance.

Table 13 - Decision-making Structures

The following table relates the various decision-making structures that firms have identified themselves with and tests for inter-relationships in the firms responses. *Family firm types* refers to the degree of involvement of the family in the firm; both equity and management; board of director only and only equity investment. *Leadership structure* refers to which agent decision-making resides with: family members; top management or a single leader. *Future structure* refers to decision-making structure that the firm intends to follow in the future: decreased family involvement; increased family involvement or a complete separation of ownership and management.

	Leadership Structure		
Family Firm Types	Decisions with Family Members	Decisions with Top Management	Single Leader
Equity and Management	21.43	69.05	2.38
Board of Director Only	0.00	2.38	0.00
Equity Only	0.00	4.76	0.00
Future Structure			
Decreased Family Involvement	11.90	11.90	0.00
Increased Family Involvement	35.71	23.81	14.29
Separation of Ownership and Management	2.38	0.00	0.00

The preference for the future structure that firms would like to have is in contrast with their existing management composition and decision-making structure. In Table 14, we relate both the current and future preferences with firm performance and find firms where the leadership structure incorporate the entire top management rather than just only the family have superior performance and lower leverage, in general. Firms suggesting that in the future they would like to have separation of ownership and management and decreased family involvement also have superior performance on most measures that have been employed. Interestingly, the firms that are suggesting separation of ownership and management are those that already have higher percentage of outsiders in top management – see table 15. This indicates that some firms have already been making the necessary changes to move towards their future preferred structure. In summary, the results unambiguously suggest more efficient firm performance or lower extraction of private benefits is positively related to a more democratic decision-making structure relative to entrenched family interests.

Table 14 – Preferred Leadership and Decision Making Structures

The following table refers to the decision-making structures adopted at the firms. *Family firm types* refers to the degree of involvement of the family in the firm; both equity and management; board of director only and only equity investment. *Leadership structure* refers to which agent decision-making resides with: family members; top management or a single leader. *Future structure* refers to decision-making structure that the firm intends to follow in the future: decreased family involvement; increased family involvement or a complete separation of ownership and management. *Gross profit margin* is measured as a ratio of gross profit to total sales (%); *ROA* is return on assets measured as ratio of earnings before tax to total assets (%); *ROE* is return on equity measured as ratio of earnings before tax to shareholders equity (%); *cashflow/sales* is ratio of operating cashflow to sales (%); *opexp/sales* is ratio of operating expenses to sales (%); *leverage* refers to ratio of debt to equity (%).

		gpmargin	Tobin's q	roa	roe	cashflow /sales	opexp /sales	leverage
Family Firm Types								
Equity and Management	**93.02%**	15.78	1.39	4.608	15.67	8.417	6.216	3.44
Board of Director Only	**2.33%**	20	1.429	13.771	33.21	10.497	5.018	1.41
Equity Only	**4.65%**	25.92	1.395	3.2	8.6	13.7	19	1.71
Leadership Structure								
Decisions with Family Members	**22.73%**	10.804	1.454	4.588	22.738	8.314	5.78	4.373
Decisions with Top Management	**72.73%**	17.527	1.398	4.579	14.622	9.527	6.504	2.902
Single Leader	**4.55%**	5.190	0.890	1.694	7.56	3.922	2.856	43.62
Future Structure								
Decreased Family Involvement	**51.16%**	17.346	1.471	4.529	11.241	9.308	7.539	1.878
Increased Family Involvement	**34.88%**	12.208	1.282	3.759	18.673	5.672	4.294	6.03
Separation of Ownership and	**13.95%**	21.494	1.546					

Table 15 Decision-Making Structure and Outsiders
The table below relates the different decision-making structures with percentage of outsiders (in the vertical columns) that firms have in their top-management.

	0-10%	10-20%	20-30%	30-40%	>=50%	Total
Family Firm Types						
Equity and Management	16.28	6.98	18.60	48.84	2.33	93.02
Board of Director Only	0.00	0.00	0.00	2.33	0.00	2.33
Shareholder Only	0.00	0.00	0.00	4.65	0.00	4.65
Total	16.28	6.98	18.60	55.81	2.33	100.00
Leadership Structure						
Decisions with Family Members	4.65	6.98	6.98	4.65	0.00	23.26
Decisions with Top Management	11.63	2.33	9.30	48.84	2.33	74.42
Single Leader	0.00	0.00	2.33	0.00	0.00	2.33
Total	16.28	9.30	18.60	53.49	2.33	100.00
Future Structure						
Decreased Family Involvement	9.30	4.65	11.63	25.58	0.00	51.16
Increased Family Involvement	4.65	4.65	6.98	16.28	2.33	34.88
Separation of Ownership and Management	0.00	0.00	0.00	13.95	0.00	13.95
Total	13.95	9.30	18.60	55.81	2.33	100.00

8.5 Education Efficiency Effect:

Next we examine whether the insider managers or specific forms of family firm have access to superior pool of talent and whether this superior pool of talent as measured by education actually has any discernable impact in terms of performance. The educational training of the current leaders of the firms is evenly placed, with CEOs that have post-graduate qualification represent 50% of the sample (see table 16). This would mirror Western firms where now predominantly business educated and qualified (MBAs) are found to be CEOs of these firms. In order to overcome the cross-sectional nature of this study, we compare the performance results from 2002 till 2004, providing three years of data as a comparison. We also test whether professional education from abroad plays any part in efficiency. In this case, we find that a greater percentage of the top family management to be educated from abroad, rather than the overall senior management (that comprises of outsiders). Therefore, there is a pre-disposition amongst family management to acquire education from institutes abroad. While this does not have any implication on the quality of the education or training they receive, we can test for this differential in our study. We can treat the earlier results on the composition and the skewing of decision making towards only family members in the management with caution because if education abroad implies stronger qualification, then the concentration of decision-making may not imply inefficiency.

Table 16
The following table provides frequency statistics for the surveyed firms on the educational background and characteristics of the top management and senior family management. Age is the age of the CEO (director) tabulated against the education level of the CEO. Row 2 provides the frequency distribution of firms, giving the percentage of top (or family) management that has been educated abroad.

		Age <50	**Age >50**	
Education of the respondent (CEO/Director)	Post-Graduate	8	7	
	Bachelor	12	13	
	0-24%	**25-49%**	**50-74%**	**75-100%**
Education Abroad (Family)	17	5	6	17
Education Abroad (Top Management)	22	8	10	4

In terms of superior impact of post-graduate qualifications of CEO on performance, we do no find sufficient evidence (see table 17). In fact, firms where CEOs have graduate qualifications show better results and superior performance relative to post-graduate qualified CEOs. While there may be other factors at play which this study is unable to control, we can suggest that it is possible that education does not lend any managerial efficiency as hypothesized. On the contrary, other informal forms of education and knowledge that experience provides may have a more important role to play. While there is mixed evidence on post-graduate qualifications and its impact, the impact of foreign education is found to be much stronger. We find for the top management and the family members, a higher proportion of foreign educated members do raise firm performance. Importantly, this is the case for all three years and is not a one-off event. It is nonetheless important to mention here, that we cannot draw a strong conclusion on the direction of impact. While foreign education and performance are correlated, it is possible that high performing firms are able to attract stronger candidates and is more likely to send them abroad for foreign education as well. The results from Table 17 indicate that there may be some positive impact of foreign education, but the acquisition of post-graduate qualifications may not necessary put a firm on a superior performance path.

Table 17 – Education and Firm Performance

The following table relates education of CEO and Top Management with performance measures. *CEO Education* refers to whether CEO has graduate or post-graduate level of education; *Top Management* refers to education of the top management i.e. graduate or post-graduate; *Family Foreign Education* refers to firms where % of family members who have foreign education is: less than 30% or greater than 30%; *Top Management Foreign Education* refers to % of top management with foreign education less than 30% or greater than 30%. *Gross profit margin* is measured as a ratio of gross profit to total sales (%); *ROA* is return on assets measured as ratio of earnings before tax to total assets (%); *ROE* is return on equity measured as ratio of earnings before tax to shareholders equity (%); *cashflow/sales* is ratio of operating cashflow to sales (%); *opexp/sales* is ratio of operating expenses to sales (%); *leverage* refers to ratio of debt to equity (%).

		year	gpmar-gin	tobins q	roa	roe	cash flow/ sales	opexp/ sales	leverage
Ceo Education									
Graduate	64.44%	2004	16.27	1.43	4.69	17.78	9.11	7.09	4.94
Post Graduate	35.56%	2004	14.5	1.31	4.6	11.42	7.25	5.05	3.34
Graduate		2003	17.38	1.33	4.55	18.34	9.70	6.40	5.60
Post Graduate		2003	14.43	1.19	5.76	11.25	7.35	6.08	2.28
Graduate		2002	18.45	1.19	4.13	12.33	9.53	6.55	9.57
Post Graduate		2002	14.25	1.13	1.24	16.42	6.13	6.87	20.7
Top Management									
Graduate	55.56%	2004	13.41	1.35	5.36	19.11	8.05	5.82	6.02
Post Graduate	44.44%	2004	19.37	1.44	3.74	11.13	9.02	7.13	2.34
Graduate		2003	14.6	1.31	5.45	17.39	8.19	6.3	6.34
Post Graduate		2003	19.06	1.24	4.4	13.87	9.71	6.27	2.38
Graduate		2002	15.57	1.17	3.77	14.69	7.93	6.51	21.69
Post Graduate		2002	19.34	1.17	2.17	12.67	8.76	6.87	2.32
Family Foreign Education									
>30%	51.11%	2004	17.76	1.42	6.63	21.31	10.72	6.23	5.07
<30%	48.89%	2004	13.45	1.35	2.58	9.62	6.12	6.55	3.85
>30%		2003	17.653	1.34	5.65	15.39	9.34	7.19	1.97
<30%		2003	15.34	1.21	4.28	16.27	8.36	7.19	1.97
>30%		2002	16.91	1.17	33.61	13.06	9.24	7.35	11.45
<30%		2002	17.28	1.17	2.76	14.66	7.27	5.92	15.59
Top Management Foreign Education									
<30%	66.67%	2004	15.46	1.38	3.36	14.85	8.06	6.64	2.86
>30%	33.33%	2004	16.33	1.41	7.47	17.26	9.39	5.86	7.91
<30%		2003	16.68	1.26	4.35	13.94	7.92	6.1	2.28
>30%		2003	16.11	1.32	6.24	19.59	10.74	6.67	9.2
<30%		2002	18	1.13	2.5	15	6.83	6.82	18.44
>30%		2002	15.46	1.24	4.19	11.57	11.11	6.36	2.36

8.6 Training Acquisition Efficiency Effect:

In terms of on-going efficiency practices, while every firm in the sample finds formal education and training to be essential towards acquisition of business skills (see table 18), just below 40% of the firms have a training budget assigned towards skill development (see table 19). This is in contrast to MNCs where training is given importance (based on primary interviews with MNC management). Family firms are likely to have an introverted outlook towards personal development, where family involvement aids in personal growth, negating the need for formal acquisition of skills. This is certified by the fact that in a sizeable number of surveyed firms, the CEO has not undertaken any training to boost his/her skills (40.71%). However, other senior members of the management are more open to undertaking training exercises (see table 19). Family members, during the past three years, have undertaken several trainings abroad. In some rare cases directors and CEOs are also likely to have undertaken skills training abroad. The form of training undertaken has typically been of a seminar nature, rather than acquisition of business-specific skills.

Table 18 – Training

The table below depicts firm responses on the value of training and types of training undertaken in the past three years.

	V. Important	Important	
Formal Training Importance	77.27%	22.73%	
	Yes	No	
Training Director	37.78	62.22	
Training Head of Department	26.67	73.33	
Training Family	46.15	53.85	
	Degree	Seminars	Specialised Courses
Type of Training by Family	17.5	17.5	10

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Table 19- Training and Performance

The table below relates training to performance measures. *Training budget* refers to whether the firm has a budget for training or not; *CEO training* refers to whether the CEO has undertaken any training to boost his skills; *Training in the last 3 years* refers to whether the management has undertaken any training in the last three years. *Gross profit margin* is measured as a ratio of gross profit to total sales (%); *ROA* is return on assets measured as ratio of earnings before tax to total assets (%); *ROE* is return on equity measured as ratio of earnings before tax to shareholders equity (%); *cashflow/sales* is ratio of operating cashflow to sales (%); *opexp/sales* is ratio of operating expenses to sales (%); *leverage* refers to ratio of debt to equity (%).

		year	gpmar-gin	tobins q	roa	roe	cashflow/sales	opexp/sales	leverage
Training Budget									
No	62.22%	2004	11.40	1.37	3.54	17.01	6.23	4.93	7.08
Yes	37.78%	2004	19.01	1.50	6.47	16.82	12.47	7.99	2.06
No		2003	14.34	1.26	4.41	17.84	7.32	5.46	7.60
Yes		2003	17.18	1.35	4.86	12.18	10.16	8.56	1.90
No		2002	15.31	1.23	2.91	13.93	7.59	5.65	26.65
Yes		2002	18.54	1.17	4.84	17.62	10.31	8.82	1.70
CEO Training									
No	40.71%	2004	9.47	1.31	2.98	15.74	5.18	4.77	7.06
Yes	59.29%	2004	21.35	1.59	7.28	18.63	13.97	8.21	2.08
No		2003	13.12	1.23	4.38	17.70	6.44	5.34	7.53
Yes		2003	18.64	1.38	4.91	12.40	11.44	8.73	1.99
No		2002	13.89	1.21	2.62	13.29	6.49	5.52	26.62
Yes		2002	20.48	1.21	5.29	18.63	12.05	9.03	1.73
Training in the last 3 years									
No	48.65%	2004	10.47	1.35	3.59	18.79	5.53	5.37	7.68
Yes	51.35%	2004	18.43	1.49	5.91	15.07	12.07	7.01	2.48
No		2003	14.96	1.28	4.58	18.69	6.64	6.03	8.78
Yes		2003	16.13	1.30	4.61	12.57	10.20	7.37	2.31
No		2002	15.20	1.26	2.82	11.02	6.66	6.33	16.47
Yes		2002	17.92	1.15	4.50	19.71	10.65	7.44	14.75

The relationship between training and performance is stronger relative to the results on education. We find that firms which have a training budget and have provided training to the CEO or have sent some of their management on training during the last three years have shown stronger performance on all the performance measures. These results are depicted in table 19. We again cover the years 2002-2004 so that we are able to control any market specific effects in a particular year. These results indicate some (but not great) importance being given to formal sources of skill acquisition so it could be a potential tool towards boosting performance. Therefore, one source of managerial efficiency can come from training and acquisition of business-skills on a continuous basis.

We also consider the role of information education. We disaggregate between different sources of informal education such as advice from family elders, senior managers, family friends and reading business publications. Informal education relative to training is given greater importance within this sample. We find that business advice form senior members of the family and relatives carry more weight than other business men and business publications (see table 20). Therefore, again this reiterates the importance of the cohesiveness of the family unit, that not only is important in decision making but in the acquisition and evolution of business acumen. There is agreement on the need for a two-fold process, formal and informal, as most firms state that they consider both processes to be equally important. However, given the lack of formal processes in place for training, it seems that informal education seems to weight more heavily. Therefore, we find approximately 42% of the firms indicate this transfer of knowledge to be sufficient for successfully managing the affairs of the company.

Table 20 - Role of Informal Education

The table summarizes the role of informal education as a form of training for family members. The ranks 1-5 range from highest to lowest in order of importance that the respondents attach to each form of informal education.

	1	2	3	4	5
Advice from family elders involved in business	21	11	7	3	0
Advice from senior managers in the business (older and experienced)	13	12	15	4	0
Advice from family friends and business community	4	14	13	5	7
Reading business publications	1	13	11	13	0

8.7 Corporate Governance:

Next we also provide an overview of the level of importance given to good corporate governance (defined as any tools and mechanism that provide a fair return to the shareholders). We check whether the respondents within our sampled firms are aware of this loose definition as employed by us (see table 21). While an overwhelming majority find corporate governance is a mean of ensuring a fair return to shareholders, almost half of them also find good governance requires an inclusion of other stakeholders such as creditors, customers, suppliers and employees. While the mere knowledge and understanding of governance does not necessarily imply that these firms are likely to adopt stricter governance patterns or translate into to lower expropriation of private benefits and hence more efficient managers, the results are heartening nonetheless. Also, within the establishment corporate governance is not considered as a Western ideal that has been transplanted onto the firms, and instead they consider good governance to be a necessity for each firm that has to adapt to global conditions. They do, however, suggest that it should evolve according to the needs of the local institutions rather than simply transplanting foreign rules that are more applicable to their institutional environment.

Table 21 – Motivations for Corporate Governance
The table below highlights the frequent distribution by key motivations firms hold for opting into stricter corporate governance provisions. The ranks 1-5 indicate very important, important, ndifferent, unimportant, v. unimportant, respectively.

	1	2	3	4	5
To attract equity finance	7	8	17	5	4
To gain credibility with customers	8	15	11	3	3
To develop a better image of the firm in the local market (reputation building)	16	13	5	1	4
To develop a better image of the firm in the foreign market, creating a more global outlook	13	14	5	5	4
For better functioning of the firm	19	15	0	3	4
Better performance of the firm in terms of profitability and productivity	19	19	3	1	0

But then why would a firm opt into a more strict governance regime and adopt governance provisions that may not be adopted by other firms within the same market. LaPorta et al. (1997, 1998) suggest that there exists a financing effect, whereby firms that are well-governed are more likely to attract financing for the firm. This, however, ranks the lowest within firms in our sample. We attribute this perhaps to high level of liquidity in the banks as a result of which very few firms are constrained access to finance and hence may not need to rely on good governance as a source of 'soft' information to ease financing constraints. Alternatively, Himmelberg et al. (2002) suggests that firms which are more likely to expropriate ex-post due to the nature of their contracting environment, may opt into stricter governance requirements so as to guard against expropriate ex-ante. Although, we are unable to test for this, we do consider other motivations for adopting good governance. Most firms find it important for developing a stronger reputation of the firm in the public eye, especially in the foreign market, i.e.. in order to attract foreign investors. Other important factors are better functioning of the firm and improving performance. Therefore, the surveyed firms do admit that there a relationship between good governance and firm performance may exist as is evidenced in a large body of literature. However, many of them believe that concentrating and improving financial performance is more important than focusing on good governance.

Within areas of corporate governance, the respondents do admit the need and importance of having an independent director as an area requiring significant reforms. They are, however, more enthusiastic about the need of having independent auditors or greater shareholder activism. Separation of the CEO and the chairman, though considered important is again lower on the priority list. Therefore, the only reform that these firms are supportive of (and that they already are required to comply with) is that of independent auditors. Having non-executive directors is not considered very important. Amongst the surveyed firms, we find each firm has between 1-2 independent director that may or may not be serving the interest of an institutional investor.

9. Conclusions and Recommendations for Further Work

Most literature examines the family-owned firm as a black-box seeking to explore variations across family and non-family owned firms. However, a much neglected area of study has been a deeper exploration of the family firm itself. This paper has sought to narrow this gap in the literature by performing an exhaustive overview of key differences across family firms in the structure and training of its managers and how these factors translate into performance variations across the firms. We have employed survey-based responses to examine these questions. The paper highlights variations in the findings of this research and the work of earlier authors and provides possible reasons as for this have been explained in the paper.

Specifically, we study the differences across firms in their perceptions and in actuality on the role of the managers, their efficiency, composition and levels of training and education. We then determine whether these differences are significant in explaining differences in firm performances. This is essentially the reason why we only consider family firms in this survey, so as to keep the contracting environment same across the firms.

Earlier research which focuses primarily on Western countries provides conflicting evidence on the proficiency of management, i.e., the question of in-house family management versus outside management. Our analysis delves deeper into the actual traits / qualifications possessed by these successors than previous studies and in fact questions this a priori assumption (also made by Burkart, Panunzi and Shleifer, 2003) that outside managers perform better than insiders. We argue based on the ‘return of the prodigal son’ hypothesis along with the ‘transfer of knowledge’ that successors may be better acquainted with the family businesses than pre-supposed by the existing literature. From our initial results, there is some support for the ‘prodigal son’ hypothesis. On all the performance measures, firms which now has successors as leaders seem to perform better than firms with active founders. This is an important result for Pakistan, where most firms are now entering into their second generation. Based on these results, we feel that such firms could see an improvement in performance. We find that while a non-democratic structure where only family members are making decisions may be inefficient, if accompanied by sufficient training and transfer of knowledge (formal and informal) family firms may not perform as poorly. For instance successors will be better than active founders, perhaps due to the positive multiplier effect of knowledge and experience.

We find that while many firms do rely on outside managers in technical areas such as operations management or production, the large bulk of strategic decision making takes place within the milieu of the family members and does not expand beyond the ‘trusted’ group. We relate these to their relationship with firm performance and find firms where outside managers are not only part of the top management but are also incorporated in decision-making to have superior performance, as they may be less entrenched than owner managers. This is also in contrast to research by Morck et al (1988) and Anderson et al. (2003) that founder CEOs can bring innovation to a firm and also continued presence of the family member can create powerful effects on reputation. While insider managers may be less efficient than outside and more professional managers, the results do not imply that the only way for firms to improve performance is through hiring outsider professionals in their management. As suggested by Morck et al. (1988) family members of US based firms can bring positive value-enhancing expertise to the firm, it is possible that additional training and redirection could generate similar benefits in the Pakistani case. We are, however, mindful that instead of efficiency these results may indicative less closely knit family groups have lower ability to expropriate and therefore have better performance. Even in this sense then outsiders are performing a disciplining role and therefore improving ‘efficiency’ of the firm, albeit in a broader sense of the term.

We do find support for our hypothesis that training and education are associated with performance and efficiency gains. Firms which have formal training budgets and processes to remain updated with newer business skills are typically more likely to have superior performance. It is the latter case, where family firms can capitalise on their existing advantages and channel them into superior firm performance. Also it is necessary to highlight, that it is not education per se that matters, as we do not find sufficient difference in performance across post-graduate and graduate education levels in management. Instead the ongoing training is important in developing management capabilities. Family firms overall do not have access to a pool of talented managers in terms of the degree of education as percentage of post-graduate qualified family members is not significantly high. However, the degree of emphasis placed on informal education means that lack of formal education does not necessarily discount efficiency of these family managers.

These results are important in identifying the weak and performance-enhancing aspects of the family firm and consequently those areas where enhancement of knowledge on ‘good corporate governance’ can take place. More specifically, we are able to identify what we mean by an efficient management: where decision-making involves members of top management beyond family members; where outsiders on the board provide monitoring and where training and informal education are equally given consideration. Such a clear recognition that insider entrenched family firms fare poorly relative to firms where decision-making is on a more democratic basis involving outsider top management should affirm the need for continued persistence in corporate governance reform in Pakistan. Also, the findings of significance of training are important and will suggest the need for development of training programs to overcome any shortcomings of formal education. This is an important result, especially as we would expect that there does not exist a traditional externality to third parties, where the benefits of training accrue to a subsequent employer of the employee. This is because family members would typically stay employed within the family business rather than explore opportunities outside of it.

Training programme schemes can augment the desirable attributes within management of family firms such as business-specific skill acquisition, ongoing training for members of top management and also a deeper understanding of good governance. In the case of the latter, while we found many of the firms understood the need for good governance, they still responded for a trend of increasing family involvement. Many firms continue to hire limited number of independent directors and outsiders, despite stating that corporate governance is an important consideration for them. These findings again reiterate the need for training programs and greater dissemination (through seminars and workshops) of knowledge on corporate governance.

Within a broader perspective an identification of the attributes why certain firms are well-governed and perform better (in terms of less entrenchment and agency conflict and managerial efficiency) will go a long way in establishing notions of good corporate governance within the unique setting of the Pakistani case. Finally, a deeper understanding of features of family firms along with positive features of family ownership within Pakistan will be important in attracting vital international capital.

While these results are important in providing an overview of possible direction of relationships, they also identify the need for a more detailed analysis involving a larger sample of firms. We have tried to overcome the limitations of the dataset by incorporating some time-series elements to the dataset and analyzing performance over a period of three years. However, reliance on more sophisticated econometric analysis that controls for other market changes remains important. We have explored the characteristics of these family firms, but what remains to be seen is their comparison with non-family listed companies. Such an analysis would help in identifying the necessary benchmarks for efficiency/training that are desirable within any type of firm. This coverage of this work has been wide, as it is a preliminary attempt to document corporate governance and management structures of Pakistani firms.

A more detailed analysis (along with our analysis) should be beneficial for policymakers at the SECP in understanding not only the views of the firms regarding the changes the SECP has instituted, but also whether any of these policy initiatives are having the expected impact. If for instance, the role of training as identified in our study is the largest managerial component in determining performance (compared with non-family firms), then regular seminars and training events for industry representatives will be the way forward.

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Abstract

We examine a set of listed family firms through the means of a survey that seeks to understand the variations in the level of training, education and experience across this business form. We find great degree of concentration of family members in the top management in key critical positions. Other positions in the top management that involve technical knowledge are the ones that are left open to professionals (outside managers). However, most of the decision-making takes place within the milieu of the family. There is also a variation across firms in the level of importance according to formal training schemes, with some firms not having any access to training budgets. We find more democratic decision-making structures involving outsiders and regular training of management are key to superior performance among family firms for several reasons.

CMER

Centre for Management and Economic Research

Lahore University of Management Sciences,
Opposite Sector 'U', Defence Housing Authority,
Lahore Cantt. 54792, Pakistan
Phone: 92-42-5722670-9 (Ext. 4201)
Fax: 92-42-5722591
http://ravi.lums.edu.pk/cmer/