RIETI Discussion Paper Series 17-E-052

Do Family Firms Have Worse (or Better) Management Practices?

ASABA Shigeru
Waseda University

RIETI
Research Institute of Economy, Trade & Industry, IAA

The Research Institute of Economy, Trade and Industry
http://www.rieti.go.jp/en/

RIETI Discussion Paper Series 17-E-052

March 2017

Do Family Firms Have Worse (or Better) Management Practices?*

ASABA Shigeru

Waseda Business School

Abstract

Existing survey evidence suggests that family firms have worse management practices than non-family firms. Given that better management practices result in higher firm performance, family firms are assumed to have lower performance than non-family firms. Performance comparisons between family and non-family firms, however, have found the contradictory result that family firms outperform their non-family counterparts. To resolve this conflict, this study examines the relationship between the ownership-management structure and management practices of firms, using comparable survey data on Japanese firms. We find that family-owned and -managed firms and founder-managed firms have as good management practices as non-family firms and that family-owned but not managed firms have better management practices. Moreover, we find that management ownership has a negative impact on management practices. These results suggest that family ownership has a positive impact, and combined ownership and control have a negative impact on management practices. In family-owned but not managed firms, only a positive effect works while in family-owned and -managed firms, a positive effect is offset by a negative effect. These results contrast with agency theory, which argues that the source of family firms' advantages is reduced agency conflicts. However, they are in line with agency theories emphasizing entrenchment effects, and the theory arguing that the preservation of socio-emotional wealth is the source of the characteristics of family firms.

Keywords: Family firms, Management practices, Socio-emotional wealth

JEL classification: G39, L29, M14

*This study is conducted as a part of the "The Role of Intangibles on Productivity Improvement" project undertaken at the Research Institute of Economy, Trade and Industry (RIETI). The author is grateful for helpful comments and suggestions by Dr. Makoto Yano, President of RIETI, Dr. Masayuki Morikawa, Vice-President of RIETI, Prof. Tsutomu Miyagawa, and the members of the "The Role of Intangibles on Productivity Improvement" project and Discussion Paper seminar participants at RIETI.

INTRODUCTION

More than 80 years ago, Berle and Means (1932) predicted that ownership and control would be separated in modern corporations. Despite their prediction, however, relatively few corporations have dispersed shareholdings and firms owned and managed by the founding family remain prevalent globally. Motivated by the large body of research findings that family businesses outperform their non-family counterparts (Mehrotra, Morck, Shim, & Wiwattanakantang, 2013; Miller, Le Breton-Miller, Lester, & Cannella, 2007; Saito, 2008, Villalonga & Amit, 2006), many researchers have examined the distinctive behavior and strategy of family firms.[1] However, few quantitative empirical studies systematically compare the organizational processes of family and non-family firms. Indeed, this study is the first empirical examination of the organizational processes of family firms that uses survey data on the management practices of Japanese firms.

Management practices of various organizations have been surveyed globally since the mid-2000s (Bloom & Van Reenen, 2007; Miyagawa, Ozaki, Kawakami, & Edamura, 2008; Miyagawa, Lee, Kabe, Lee, Kim, Kim, & Edamura, 2010; Miyagawa, Nishioka, Kawakami, & Edamura, 2011). In their series of studies analyzing survey data, Bloom and colleagues (Bloom, Genakos, Sadun, & Van Reenen, 2012; Bloom & Van Reenen, 2007, 2010) found that good management practices have significantly positive impacts on organizational performance as well as that family-owned and -managed firms have the worst management scores. They also argued that family firms are badly managed because the eldest son becomes the CEO regardless of his

[1] For example, Anderson and Reeb (2003) studied corporate diversification, Asaba (2013) examined tangible asset investment, Gomez-Mejia, Makri, and Kintana (2010) investigated internationalization, Miller, Le Breton-Miller, and Lester (2010) analyzed acquisition behavior, and Asaba and Wada (2016), Block (2012), and Chen and Hsu (2009) studied R&D.

capability and because product market competition may not be sufficiently effective to drive them out of business because of the family owners' subsidization through cheap capital.

The findings of empirical studies that compare the performance of family and non-family firms and those of Bloom and colleagues' studies of management practices are somewhat contradictory. While the former has found that family firms outperform non-family firms, suggesting that they are well managed, the latter found family firms to be badly managed and poorly performing. In the present study, we aim to resolve this conflict by exploring the relationship between family and non-family firms' management practices and ownership-management structures, taking different theories of family firms' characteristics into account.

We examine survey data on the management practices of Japanese firms and offer several key findings. We find that family-owned and -managed firms and founder-managed firms have as good management practices as non-family firms and that family-owned but not managed firms have better management practices. Moreover, we find that management ownership has a negative impact on management practices. The results help us distinguish among the theories of family firms' characteristics and advantages.

THEORY AND HYPOTHESES

Existing studies discuss the advantageous and disadvantageous characteristics of family firms. Demsetz (1983) argued that founding families may choose non-pecuniary consumption and draw scarce resources away from profitable projects. Families also often choose their CEOs from a restricted pool of family members, making it difficult to obtain qualified and capable talent continuously and potentially leading to competitive disadvantages relative to non-family firms. Nepotism may also lower the motivation of non-family employees.

The advantages of family firms relate to their long time horizons (James, 1999; Stein, 1988, 1989; Zellweger, 2007) and collaboration with various stakeholders. Since founding families regard their firms as an asset to pass onto their descendants rather than wealth to consume during their lifetime, family firms emphasize firm survival and long-term value rather than short-term financial performance (Casson, 1999). Moreover, most family firms have enduring and substantive missions that flow from the values of the founder (Miller & Le Breton-Miller, 2005). To achieve their missions, family firms continuously accumulate capability or loyalty in a defined market, retain a cohesive community of employees to sharpen capabilities, and establish stable partnerships with suppliers, clients, and the community to enhance the robustness and longevity of the firm. Unique resources such as human capital, social capital, patient capital, and governance structure also lead to advantages for family firms (Carney, 2005; Chrisman, Chua, & Sharma, 2005; Sirmon & Hitt, 2003).

Two theories explain family firms' characteristics noted above: agency theory and the theory of socio-emotional wealth. Agency theorists argue that the separation of ownership and control is a good organizational design because it creates easy access to capital and encourages the recruitment of professional managers (Fama & Jensen, 1983). However, public corporations without strong corporate governance systems may suffer from agency conflicts (Jensen, 1989; Jensen & Meckling, 1976). Managers may even indulge their preference for non-value-maximizing behavior such as empire building and overemphasis on employee welfare (Baumol, 1959; Jensen, 1986, 1993; Marris, 1964).

When ownership and control are separated, it is difficult to develop contracts that firmly specify the value-maximizing behavior managers must take. Because of the large monitoring costs compared with benefits and free-rider problems, dispersed shareholders are unlikely to participate in corporate governance. Thus, public corporations often incur considerable agency

costs. One organizational structure that aims to reduce such agency costs is combined ownership and management. Therefore, family firms owned and managed by the founding family mitigate agency conflicts by aligning the interests of owners and managers.

However, while family firms owned and managed by the founding family may mitigate agency conflicts, they are not the only type of firm with low agency problems. Another organizational structure used to reduce agency costs is management ownership. Managers holding a large equity share maximize firm value because of small agency conflicts (Claessens, Djankov, Fan, & Lang, 2002; Morck, Shleifer, & Vishny, 1988). In other words, when ownership and control are combined, agency conflicts should reduce. Therefore, the value of a firm under management ownership should increase since ownership and control become more closely aligned.

Agency theory also predicts a negative effect of combined ownership and management. The entrenchment hypothesis supposes that firm value falls for a range of high management ownership because owner-managers may choose to exchange profits for other benefits such as choosing current over future consumption and on-the-job non-pecuniary consumption (Demsetz, 1983; Fama & Jensen, 1983). When a manager owns a large equity stake, the takeover threat is small and he or she is unlikely to be ousted by other investors; hence, the manager has little incentive to maximize firm value (Fama, 1980; Stulz, 1988).[2]

By contrast, other researchers argue that family firms prefer to continue their businesses, maintain the family's control, and improve the family's reputation. Such non-financial objectives comprised in the socio-emotional wealth of family firms. Socio-emotional wealth is defined as

[2] Several empirical studies have found an inverse U-shaped relationship between managerial equity ownership and firm valuation because of combination of alignment and entrenchment effects (Claessens et al., 2002; Morck et al., 1988).

the non-financial aspects of the firm that meet the family's affective needs such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty (Gómez-Mejía, Takács Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). In other words, family firms prioritize the preservation of their socio-emotional wealth.

While the existing studies reviewed above suggest that the management-ownership structure of the firm affects firm performance, we suppose that management practices mediate the relation between management-ownership structure and firm performance. Therefore, we set the two following hypotheses on the relationship between management-ownership structure and management practices:

H1: The management practices of family-owned and -managed firms are different from those of non-family firms.

H2: The management practices of family-owned but not managed firms are different from those of non-family firms.

Researchers arguing that family firms usually choose an unqualified CEO from the pool restricted to family members predict that family-owned and -managed firms adopt poor management practices, whereas family-owned but not managed firms adopt good management practices because they can choose a qualified CEO from outside the family.

For agency theorists, not family ownership but owner-manager relationship does matter. Agency theorists considering reduced agency conflicts to be a source of family firms' advantages predict that family-owned and -managed firms adopt better management practices than family-owned but not managed firms, which adopt as good management practices as non-family firms. On the contrary, agency theorists who emphasize entrenchment effects (i.e., management ownership deteriorates firm value) predict that family-owned and -managed firms adopt worse management practices than family-owned but not managed firms, which adopt as good management practices as non-family firms.

For theorists of socio-emotional wealth, on the other hand, not owner-manager relationship but family ownership does matter. They argue that family firms trying to preserve socio-emotional wealth adopt good management practices regardless of whether the CEO is a family member. Thus, they predict that both family-owned and -managed firms and family-owned but not managed firms adopt good management practices.

Therefore, if *H1* is supported and family firms adopt better management practices, agency theories emphasizing alignment effects and the theories of socio-emotional wealth hold. If *H1* is supported and family firms adopt worse management practices, the theories of limited CEO pool and agency theories emphasizing entrenchment effects hold. If *H2* is not supported, the theories of limited CEO pool and agency theories hold. If *H2* is supported and family firms adopt better management practices, the theories of socio-emotional wealth hold.

Moreover, to complement the analyses above, we test two more hypotheses. First, the theory of socio-emotional wealth considers that the strong mission, value, and corporate philosophy of family firms create their characteristics. To achieve their missions, family firms try to retain a cohesive community of employees (Miller & Le Breton-Miller, 2005).[3] Hence, they may have better management practices in terms of human resource management. Therefore, we set the following hypothesis:

H3: Family firms have better management practices in terms of human resource management than non-family firms.

Second, as agency theories emphasizing entrenchment effects predict, the equity shares of management are supposed to have a negative impact on management practices and firm performances. Therefore, we set the following hypothesis:

[3] However, Aoi, Asaba, Kubota, and Takehara (2015) found no evidence that Japanese family firms have good human resource management practices.

H4: The higher the equity share of the management of the firm, the worse the management practices of the firm are.

METHODS

We analyzed the micro data of "Intangible Assets Interview Survey in Japan (IAISJ)" in 2008 and in 2011-2012, which was conducted by the Research Institute of Economy, Trade and Industry (RIETI) Research Project, "Study on Intangible Assets in Japan" IAISJ is nearly comparable with the survey conducted by Bloom and Van Reenen (2007). In 2008 survey, four manufacturing industries such as manufacture of electrical machinery, equipment and supplies, manufacture of information and communication electronics equipment, manufacture of motor vehicles, parts and accessories, and manufacture of precision equipment, and three service industries such as services incidental to video picture and sound information production, information services were examined, while in 2011-2012 survey, all the manufacturing industries were examined.[4] Some questions were asked in each survey, while other questions were different between the two. Therefore, this study used the following 18 questions common to the two surveys:

Dimension 1: Organizational Management
- Target setting
- Target sharing
- Performance tracking
- Performance review
- Consequent management (goal achieved)
- Consequent management (goal unachieved)
- Time length of change
- Scope of change
- Delegation
- IT utilization

Dimension 2: Human Resource Management
- Incentive

[4] Therefore, if some differences are found between 2008 and 2011-2012 surveys, the differences may not be caused by different timing of the surveys but be caused by industry differences.

- Cope with poor performers
- Promoting high performers
- Retaining talents
- Evaluation of managers
- Off JT
- OJT
- Rotation

We next calculated three management practice scores: the total score of the 10 questions in Dimension 1 (*OrgScore*), total score of the eight questions in Dimension 2 (*HRScore*), and total score of all 18 questions (*Score*). These management practice scores were then used as the dependent variables in the analysis.

To test the four hypotheses, we examined whether there is a significant difference in each score between family and non-family firms. That is, the variables of family firms and the other types of firms were set as independent variables. We have three kinds of family firms: family-owned but not managed firms (*FBO_nonM*), family-owned and -managed firms (*FBO_M*), and founder firms (*Founder_D*). *FBO_nonM* is a dummy variable that is equal to 1 if any founding family members are listed in the 30 largest shareholders but not on the board of directors, and 0 otherwise. *FBO_M* is a dummy variable that is equal to 1 if any founding family members are listed in the 30 largest shareholders and are on the board of directors, and 0 otherwise. *Founder_D* is a dummy variable that is equal to 1 if the CEO is the founder, and 0 otherwise. The data used to construct these dummy variables were collected from the *Yuka Shoken Hokokusho* (*Japanese form 10 K*) of each firm and *Ookabunushi* (*Large Shareholders*) *Data* of *Toyo Keizai*. To test *H1, H2,* and *H3*, the distributions were compared as a whole by using the Kolmogorov–Smirnov test (K-S test).

Next, we constructed continuous variables based on these firm types. *Family_share* is the equity share of the founding family. *Family_director_R* is the ratio of the number of directors from the founding family to the number of board members. *Management_share* is the equity

share of the directors. The sources of the data are the same as before. We ran multiple regressions for the whole sample with these continuous variables as explanatory variables to test *H4*. The dependent variable was *Score.*

In addition to the explanatory variables, we constructed several control variables. Bloom and Van Reenen (2007) argued that product market competition and labor market regulation influence the management practices firms adopt. They used the Lerner index of competition, 1 – profit/sales. Instead of this industry-level index of competition, we used the return on sales of the firm (*ROS*), because we examined the differences in management practices across firms, while Bloom and Van Reenen (2007) mainly analyzed differences across industries or countries. The expected sign of *ROS* is negative. Similarly, since we focused on the firm level, we constructed the coefficient of variation of the number of employees in the previous three years as an indicator of the firm's employment flexibility. The expected sign of this variable (*EMP_CV*) is positive.

Contingency theory suggests that environmental uncertainty influences the organizational structures and processes firms adopt (Burns & Stalker, 1961). As the variable related to environmental uncertainty, we constructed the coefficient of variation of sales in the previous three years (*Sales_CV*). In a highly uncertain environment, firms tend to adopt organic organizational structures, which are sufficiently flexible to respond to exceptions, make changes, and innovate. Thus, environmental uncertainty promotes organizational change. However, firms cannot adopt well-systematized and regulated organization in a highly uncertain environment. Therefore, we did not have any expectation on the sign of this variable.

We also controlled for firm age and size. Firm age (*Age*) is the number of years from establishment to the execution of the survey. Firm size (*Sales*) is the average sales of the firm in the previous three years. We did not have any particular expectation about the signs of these

variables. We also included industry dummies. Table 1 summarizes the correlation matrix and descriptive statistics.

Insert Table 1 about here

RESULTS

Table 2 summarizes the means and standard deviations of the management practice scores (*Score, OrgScore, HRScore*) of different types of firms. For *Score,* family-owned but not managed firms (FBO_nonM) are the highest and founder firms (Founder) are the lowest in the mean of the score. For *OrgScore,* FBO_nonM is the highest and Founder is the lowest in the mean. For *HRScore,* FBO_nonM is the highest and family-owned and -managed firms (FBO_M) are the lowest in the mean. That is, family-owned but not managed firms are the highest in the mean of any management scores.

As to standard deviations, FBO_nonM has the largest standard deviation for any of the three scores, while non-family firms have the smallest standard deviation for *Score* and *OrgScore* (For *HRScore*, Founder has the smallest standard deviation). Therefore, many family owned but not managed firms do not get a high score, but high score and low score firms coexist. Many non-family firms, on the other hand, get relatively high score. Founder firms have the minimum score for all the three scores, while for *Score* and *HRScore,* they have the maximum score as well.

Insert Table 2 about here

The K-S test examines whether the cumulative distribution functions of the two samples are the same, that is, $F_{(x)}=G_{(X)}$. The maximum differences (D_{mn}) between the two distributions are defined as follows:

$$D_{mn} = \sup_{-\infty<x<\infty} \left| F_m(x) - G_n(x) \right|$$

In the K-S test, the null hypothesis states that the two distributions are the same. If $(mn/m+n)^{1/2}D_{mn}$ is larger than c and c is appropriately constant, then the null hypothesis is rejected. For both surveys, we compared the samples of the three family firm types (family-owned but not managed firms, family-owned and -managed firms, founder firms) with the sample of non-family firms according to the different management practice scores. Table 3 summarizes the results of the K-S tests.

Insert Table 3 about here

For example, let's look at the table at the top and left corner, the comparison between non-family firms and family-owned but not managed firms in terms of *Score* for the whole sample. The first line (non family < FBO_nonM) tests the hypothesis that *Score* for non-family firms is lower than that for family-owned but not managed firms. The largest difference between the distribution functions is 0.164. The approximate *p*-value for this is 0.112, which is not significant. The second line (FBO_nonM<non family) tests the hypothesis that *Score* for non-family firms is higher than that for family-owned but not managed firms. The largest difference between the distribution functions is 0.094. The approximate *p*-value for this small difference is 0.487. The third line (Combined test) is the test using the larger D between the first and second lines. The approximate *p*-value for the combined test is 0.225, which is not significant.

Among the results, only three for the 2008 survey show significant results: the comparison between non-family firms and family-owned but not managed firms in terms of *Score, OrgScore,* and *HRScore*. The largest difference between the distribution function of the *Score* of non-family firms and that of family-owned but not managed firms is 0.465 and the *p*-

value is 0.014, which is significant. That is, in the 2008 survey, family-owned but not managed firms have a larger *Score* value than non-family firms. Similarly, in 2008, family-owned but not managed firms have larger *OrgScore* and *HRScore* values than non-family firms.

Therefore, *H1* is not supported. The management practices of family-owned but not managed firms are not significantly different from those of non-family firms. On the contrary, *H2* is supported for the 2008 survey data. The management practices of family-owned but not managed firms are significantly better than those of non-family firms. Moreover, *H3* is also supported as far as family-owned but not managed firms are concerned in the 2008 survey. Family-owned but not managed firms have better management practices in terms of human resource management than non-family firms.

Figure 1, 2, and 3 show the distributions of management practice scores of different types of firms. Figure 1 summarizes the distributions for the whole sample, Figure 2 for the 2008 survey sample, and Figure 3 for the 2011-2012 survey sample. As noted before, family owned but not managed firms have the highest mean of the scores for the whole sample and the largest standard deviation. Non-family firms, on the other hand, the smallest standard deviation of the *Score* and *Orgscore*. These are shown in the top-left figure and middle-left figure of Figure 1. In both figures, the distribution of non-family firms' score is sharp around mean, while the distribution of FBO_nonM's score is flattened. In other words, there are high score firms and low score firms among family owned but not managed firms.

Insert Figure 1, Figure 2, and Figure 3 about here

Next, we ran multiple regressions to test *H4* on the negative effect of management ownership. Table 4 summarizes the results. *Family_share* is positive in all models but significant

only in Model (1). *Family_director_R* is negative in all models and not significant, whereas *Management_share* is negative and significant in all models.

As for the control variables, *ROS*, *Sales_CV*, and *Sales* are significant. *ROS* is significantly positive, although we expected a negative sign. Lower *ROS* is supposed to lead to higher competition, which forces firms to improve management practices. However, in our analysis, *ROS* is a firm-level variable. Therefore, the positive sign may indicate that better management practices lead to better firm performance or that profitable firms can afford to improve their management practices.

Sales_CV is significantly negative. This finding suggests that in a highly uncertain environment, firms adopt organic organizational structures that lack well-formulated systems or rules, leading to lower management practice scores. *Sales* is significantly positive, suggesting that larger firms can afford to improve management practices. Therefore, *H4* is supported. Finally, the significantly negative *Management_share* suggests that firms with management that have a larger equity share have worse management practices.

Insert Table 4 about here

DISCUSSION AND CONCLUSION

This study examined whether family firms have different management practices from non-family firms, using data taken from two waves of the Management Practice Survey in Japan. The results suggest three findings: (1) family-owned and -managed firms and founder firms have as good management practices as non-family firms, (2) family-owned but not managed firms have better management practices than non-family firms as far as the 2008 survey data are concerned, and (3) management-owned firms have worse management practices.

These findings may help us distinguish among theories to some extent as stated in the second section. Since either family-owned and –managed firms or founder firms does not adopt different management practices from non-family firms (rejection of *H1*), agency theory emphasizing alignment effects does not hold. The theory of socio-emotional wealth is the only theory which predicts that family-owned but not managed firms have better management practices than non-family firms (*H2*), although rejection of *H1* is not consistent with this theory. A negative impact of management ownership on management practices supports agency theory emphasizing the entrenchment effects, although rejection of *H1* and support of *H2* are not consistent with the entrenchment theory.

We cannot distinguish among the theories clearly, probably because the positive and negative effects are mixed in some kinds of family firms. The preservation of socio-emotional wealth is considered to positively affect management practices, while hiring an unqualified family CEO from the restricted pool of family members and the entrenchment effect of combined management and control are expected to have a negative effect on management practices. Therefore, family-owned but not management firms have better management practices since they have only a positive effect. On the other hand, family-owned and -managed firms where the positive and negative effects are offset have as good management practices as non-family firms.

That is, the findings suggest that the theory of socio-emotional wealth and agency theory emphasizing entrenchment effects have some explanatory power, while agency theory with alignment effects does not. In other words, the substantial source of the distinctive characteristics of family firms is not reduced agency conflict but rather preserving socio-emotional wealth.

Previous studies using similar survey on management practices have found that family firms score lower than non-family firms (Bloom et al., 2012). However, they have also shown that family-owned firms with family CEOs (family-owned and -managed firms in this study) and

family-owned firms with founder CEOs (founder firms in this study) have the worst management practices, while family-owned firms with external CEOs (family-owned but not managed firms in this study) have marginally worse management practices than firms with dispersed shareholders. Hence, our findings are different from theirs in the difference between family and non-family firms, but the same in a sense that family-owned and -managed firms have worse management practices than family-owned but not managed firms. Moreover, our finding that these latter firms show better management practices is consistent with previous comparisons of the performance of family and non-family firms.

The different results on the association between ownership-management structure and management practices presented in this study in contrast to the previous literature could occur for two main reasons. One reason could be that we only examined data on Japanese firms. The standard management practices or the average score of management practices of firms vary across countries. Indeed, if the management style many Japanese firms have traditionally adopted, namely Japanese type of management, is composed of good management practices, Japanese firms are likely to adopt good management practices regardless of whether they are family or non-family firms. Consequently, there should be no significant difference in the scores between family and non-family firms in Japan.

The other reason is related to the level of analysis. While previous survey data were derived at the establishment level with respondents including plant managers, retail store managers, clinical service leads, and school principals, the survey used in this study was conducted at the headquarters level and typical respondents were strategic planning division managers. Different respondents may perceive their own management practices differently. While family firms have good management practices in their headquarters, the plants and shops of family firms may have worse management practices.

Despite not finding a clear significant difference between the management practices of family and non-family firms, this study is the first attempt to empirically examine the organizational characteristics of family firms in Japan. This study also makes a contribution to the body of knowledge on this topic by combining different theories on family firms.

The above interpretation of the results, "the theory of socio-emotional wealth and agency theory emphasizing entrenchment effects have some explanatory power, while agency theory with alignment effects does not," may lead to some policy implications. Recent corporate governance reform seems to be based on agency theory and to try to find the way to maximize firm's value. To reform corporate governance, Japanese firms have changed reporting system and introduced outside directors. The reform works to some degree, while it is costly.

Moreover, as the above interpretation suggests, not only agency theory but also the theory of socio-emotional wealth explain why family firms have good management practices. Socio-emotional wealth is the non-financial aspects of the firm, including mission, value, and philosophy. If sharing them among managers, employees, shareholders, and other stakeholders good for corporate governance, the firms can run the business well with much less costs.

Therefore, policies not only to promote corporate governance reform, but also to promotes disclosure of non-financial information such as firm's value, mission, and philosophy and to share them among various stakeholders are expected.

REFERENCES

Anderson, R. C., & Reeb, D. M. 2003. Founding-family ownership, corporate diversification, and firm leverage. ***Journal of Law and Economics***, 46: 653-684.

Aoi, M., Asaba, S., Kubota, K., & Takehara, H. 2015.Family firms, firm characteristics, and corporate social performance: A study of public firms in Japan. ***Journal of Family Business Management***, 5: 192-217.

Asaba, S. 2013. Patient investment of family firms in the Japanese electric machinery industry. ***Asia Pacific Journal of Management***, 30: 697-715.

Asaba, S. & Wada, T. 2015. Contact Hitters or Power Hitters? R&D Behavior of Family Firms in the Japanese Pharmaceutical Industry, Paper presented at the Academy of Management Annual Meeting.

Baumol, W. 1959. *Business behavior, value, and growth*. New York: Macmillan.

Berle, A., & Means, G. 1932. ***The modern corporation and private property***. New York: Macmillan.

Block, J. H. 2012. R&D investments in family and founder firms: An agency perspective. ***Journal of Business Venturing***, 27: 248-265.

Bloom, N., Genakos, C., Sadun, R., & Van Reenen, J. 2012. Management Practices across Firms and Countries. ***Academy of Management Perspectives***, 26: 12-33.

Bloom, N., & Van Reenen, J. 2007. Measuring and Explaining Management Practices across Firms and Countries. ***Quarterly Journal of Economics***, 122: 1351-1408.

Bloom, N., & Van Reenen, J. 2010. Why Do Management Practices Differ across Firms and Countries? ***Journal of Economic Perspectives***, 24: 203-224.

Burns, T. E., & Stalker, G. M. 1961. ***The Management of Innovation***, London, Tavistock.

Carney, M. 2005. Corporate governance and competitive advantage in family-controlled firms. *Entrepreneurship Theory and Practice*, 29: 249-265.

Casson, M. 1999. The economics of the family firm. ***Scandinavian Economic History Review***, 47: 10-23.

Chen, H. L., & Hsu, W. T. 2009. Family ownership, board independence, and R&D investment. ***Family Business Review***, 22: 347-362.

Chrisman, J. J., Chua, J. H., & Sharma, P. 2005. Trends and directions in the development of a strategic management theory of the family firm. *Entrepreneurship Theory and Practice*, 29: 555-575.

Claessens, D., Djankov, S., Fan, J. P. H., & Lang, L. H. P. 2002. Disentangling the incentive and entrenchment effects of large shareholdings. *Journal of Finance*, 57: 2741-2771.

Morck, R., Shleifer, A., & Vishny, R. 1988. Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics*, 20: 293-315.

Demsetz, H. 1983. The structure of ownership and the theory of the firm. ***Journal of Law and Economics***, 25: 375-390.

Fama, E. 1980. Agency problems and the theory of the firm. *Journal of Political Economy*, 88: 288-307.

Stulz, R. M. 1988. Managerial control of voting rights: Financing policies and the market for corporate control. *Journal of Financial Economics*, 20: 25-54.

Fama, E., & Jensen, M. 1983. Separation of ownership and control. *Journal of Law and Economics*, 26: 301-325.

Gómez-Mejía, L. R., Takács Haynes, K., Núñez-Nickel, M., Jacobson, K. J. L., & Moyano-Fuentes, J. 2007. Socioemotional wealth and business risk in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly*, 52: 106-137.

Gómez -Mejia, L. R., Makri, M., & Kintana, M. L. 2010. Diversification decisions in family-controlled firms. ***Journal of Management Studies***, 47(2): 223-252.

James, H. 1999. Owner as manager, extended horizons and the family firm. *International Journal of the Economics of Business*, 6: 41-56.

Jensen, M. C. 1986. Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review*, 76: 323-329.

Jensen, M. C. 1989. Eclipse of the public corporation. *Harvard Business Review*, 67(5): 61-74.

Jensen, M. C. 1993. The modern industrial revolution, exit, and the failure of internal control systems. *Journal of Finance*, 48: 831-880.

Jensen, M. C., & Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3: 303-360.

Marris, R. 1964. *The economic theory of managerial capitalism*. Glencoe, IL: Free Press.

Mehrotra, V., Morck, R., Shim, J., & Wiwattanakantang, Y. 2013. Adoptive Expectations: Rising Sons in Japanese Family Firms. ***Journal of Financial Economics***, 108: 840-854.

Miller, D., & Le Breton-Miller, I. 2005. *Managing for the long run*. Boston: Harvard Business School Press.

Miller, D., Le Breton-Miller, I., & Lester, R. H. 2010. Family ownership and acquisition behavior in publicly-traded companies. ***Strategic Management Journal***, 31: 201-223.

Miller, D., Le Breton-Miller, I., Lester, R. H., & Cannella Jr., A. A. 2007. Are family firms really superior performers? ***Journal of Corporate Finance***, 13: 829-858.

Miyagawa, T., Lee, K., Kabe, S., Lee, J., Lee, H., Kim, Y., & Edamira, K. 2010. Management Practices and Firm Performance in Japanese and Korean Firms – An Empirical Study Using Interview Surveys–. ***RIETI Discussion Paper Series*** 10-E-013

Miyagawa, T., Nishioka, Y., Kawakami, A., & Edamura, K. 2011. Human Resource Management and Productivity of Japanese Firms: An Empirical Analysis Using Interview and Questionnaire Surveys. ***RIETI Discussion Paper Series*** 11-J-035 (in Japanese).

Miyagawa, T., Ozaki, M., Kawakami, A., & Edamura, K. 2008. Organizational Reform and Firm Performance in Japan. ***RIETI Discussion Paper Series*** 08-J-062 (in Japanese).

Saito, T. 2008. Family Firms and Firm Performance: Evidence from Japan. ***Journal of Japanese and International Economies***, 22: 620-646.

Sirmon, D., & Hitt, M. 2003. Managing resources: Linking unique resources, management, and wealth creation in family firms. *Entrepreneurship Theory and Practice*, 27: 339-358.

Stein, J. 1988. Takeover threats and managerial myopia. *Journal of Political Economy*, 96: 61-80.

Stein, J. 1989. Efficient capital markets, inefficient firms: A model of myopic corporate behavior. *Quarterly Journal of Economics*, 103: 655-669.

Villalonga, B., & Amit, R. 2006. How do family ownership, control and management affect firm value? ***Journal of Financial Economics***, 80: 385-417.

Zellweger, T. 2007. Time horizon, costs of equity capital, and generic investment strategies of firms. *Family Business Review*, 20: 1-15.

Table 1: Correlation Matrix and Descriptive Statistics

	1	2	3	4	5	6	7	8	9	10	11	12
1 *Score*												
2 *OrgScore*	0.89											
3 *HRScore*	0.84	0.51										
4 *Family_share*	-0.02	-0.03	0.01									
5 *Family_director_R*	-0.07	-0.09	-0.03	0.61								
6 *Founder_D*	-0.04	-0.08	0.02	0.64	0.74							
7 *Management_share*	-0.09	-0.08	-0.07	0.77	0.50	0.53						
8 *ROS*	0.14	0.09	0.17	-0.04	-0.22	-0.11	-0.06					
9 *Sales_CV*	-0.16	-0.14	-0.14	-0.05	0.02	0.02	0.05	-0.29				
10 *EMP_CV*	-0.02	-0.02	-0.02	-0.02	0.01	0.04	-2.10E-03	0.07	0.40			
11 *AGE*	-0.01	0.01	-0.03	-0.49	-0.37	-0.41	-0.54	0.09	-0.07	-0.06		
12 *Sales*	0.10	0.12	0.05	-0.20	-0.17	-0.20	-0.19	3.60E-03	-0.05	-0.05	0.26	
Obs	499	499	499	499	499	499	499	444	444	446	499	444
Mean	44.37	24.27	20.11	16.25	0.09	0.47	0.10	0.03	0.14	0.07	53.70	115465.10
Std. Dev.	8.70	5.44	4.58	20.06	0.10	0.50	0.14	0.14	0.16	0.11	21.38	346789.90
Min	18	6	8	0	0	0	0.0000517	-1.70	2.01E-03	0	5	445.67
Max	66	36	32	89.43	0.57	1	0.83	0.71	1.37	1.46	118	3521995

Table 2: Summary of Management Practice Scores

		Score				*OrgScore*				*HRScore*			
Variable	Obs	Mean	SD.	Min	Max	Mean	SD.	Min	Max	Mean	SD.	Min	Max
non-family	186	44.51	8.16	21	63	24.48	5.14	9	36	20.03	4.48	9	31
FBO_nonM	52	45.12	10.80	22	65	24.85	6.53	10	36	20.27	5.27	11	32
FBO_M	24	44.33	8.76	25	59	24.54	5.52	13	34	19.79	5.12	12	31
Founder	237	44.11	8.63	18	66	23.95	5.42	6	35	20.16	4.46	8	32

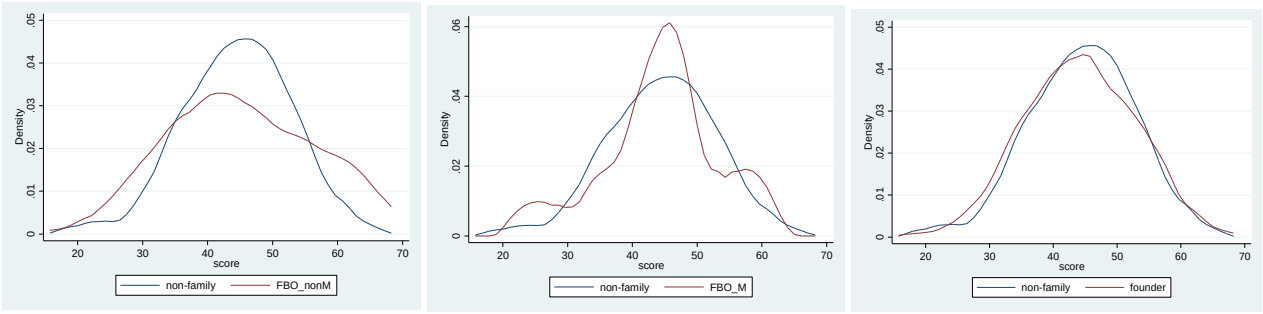
Table 3: The Results of Kolomogolov-Smilnov Tests

Whole sample			2008 Survey			2011-2012 Survey		
	D	p-value		D	p-value		D	p-value
Score			*Score*			*Score*		
non family < FBO_nonM	0.164	0.112	non family < FBO_nonM	0.465	0.014	non family < FBO_nonM	0.064	0.776
FBO_nonM < non family	-0.094	0.487	FBO_nonM < non family	-0.004	1.000	FBO_nonM < non family	-0.128	0.363
Combined test	0.164	0.225	Combined test	0.465	0.028	Combined test	0.128	0.692
non family < FBO_M	0.097	0.672	non family < FBO_M	0.177	0.796	non family < FBO_M	0.150	0.453
FBO_M < non family	-0.109	0.604	FBO_M < non family	-0.238	0.662	FBO_M < non family	-0.078	0.809
Combined test	0.109	0.963	Combined test	0.238	0.986	Combined test	0.150	0.824
non family < founder_D	0.037	0.752	non family < founder_D	0.214	0.156	non family < founder_D	0.012	0.976
founder_D < non family	-0.055	0.532	founder_D < non family	-0.077	0.784	founder_D < non family	-0.073	0.411
Combined test	0.055	0.910	Combined test	0.214	0.312	Combined test	0.073	0.766
OrgScore			*OrgScore*			*OrgScore*		
non family < FBO_nonM	0.126	0.273	non family < FBO_nonM	0.368	0.069	non family < FBO_nonM	0.072	0.726
FBO_nonM < non family	-0.126	0.278	FBO_nonM < non family	-0.008	0.999	FBO_nonM < non family	-0.192	0.103
Combined test	0.126	0.535	Combined test	0.368	0.139	Combined test	0.192	0.205
non family < FBO_M	0.124	0.522	non family < FBO_M	0.329	0.454	non family < FBO_M	0.131	0.547
FBO_M < non family	-0.081	0.758	FBO_M < non family	-0.134	0.877	FBO_M < non family	-0.110	0.652
Combined test	0.124	0.901	Combined test	0.329	0.824	Combined test	0.131	0.923
non family < founder_D	0.058	0.499	non family < founder_D	0.230	0.118	non family < founder_D	0.029	0.873
founder_D < non family	-0.103	0.110	founder_D < non family	-0.057	0.878	founder_D < non family	-0.092	0.242
Combined test	0.103	0.219	Combined test	0.329	0.824	Combined test	0.092	0.477
HRScore			*HRScore*			*HRScore*		
non family < FBO_nonM	0.102	0.427	non family < FBO_nonM	0.385	0.054	non family < FBO_nonM	0.051	0.851
FBO_nonM < non family	-0.073	0.649	FBO_nonM < non family	-0.077	0.890	FBO_nonM < non family	-0.128	0.367
Combined test	0.102	0.788	Combined test	0.230	0.235	Combined test	0.128	0.698
non family < FBO_M	0.055	0.879	non family < FBO_M	0.073	0.962	non family < FBO_M	0.072	0.832
FBO_M < non family	-0.086	0.730	FBO_M < non family	-0.354	0.402	FBO_M < non family	-0.110	0.652
Combined test	0.086	0.998	Combined test	0.354	0.752	Combined test	0.110	0.983
non family < founder_D	0.030	0.826	non family < founder_D	0.190	0.231	non family < founder_D	0.049	0.669
founder_D < non family	-0.043	0.684	founder_D < non family	-0.052	0.897	founder_D < non family	-0.067	0.476
Combined test	0.043	0.991	Combined test	0.190	0.456	Combined test	0.067	0.851

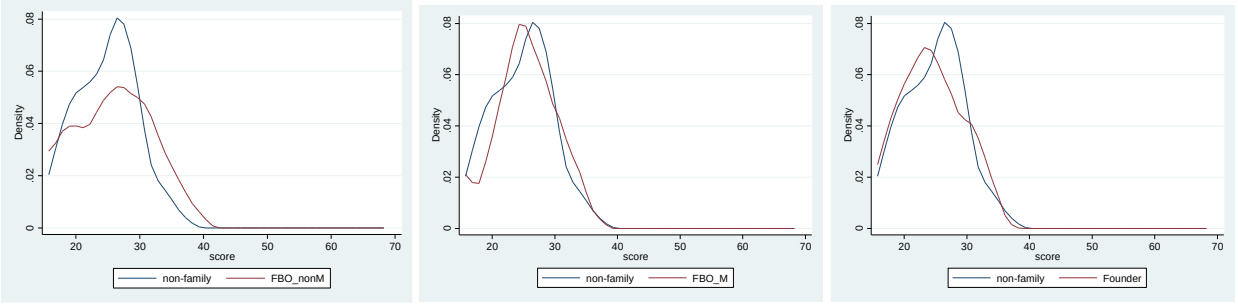
*:

Figure 1: Distribution of Management Practice Scores (whole sample)

Score



OrgScore



HRScore

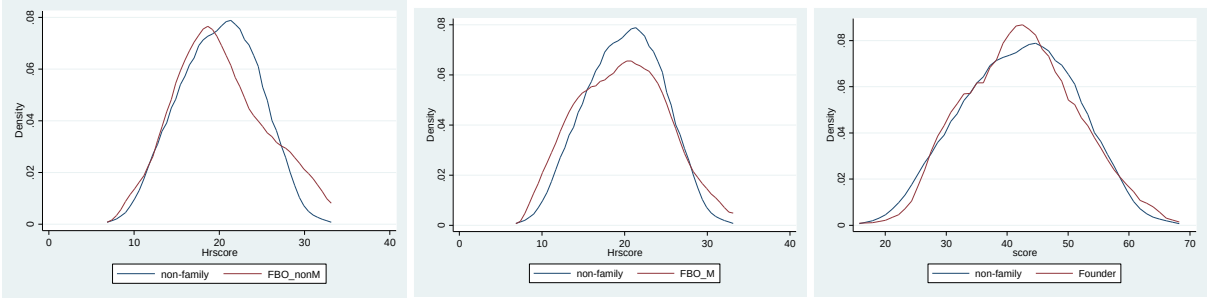
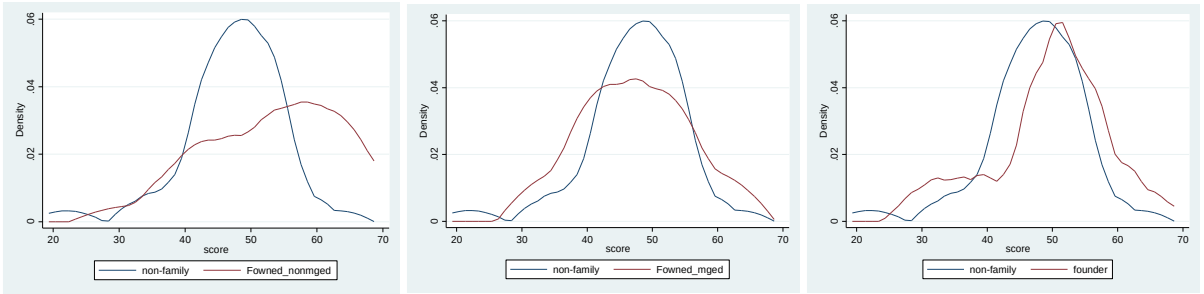
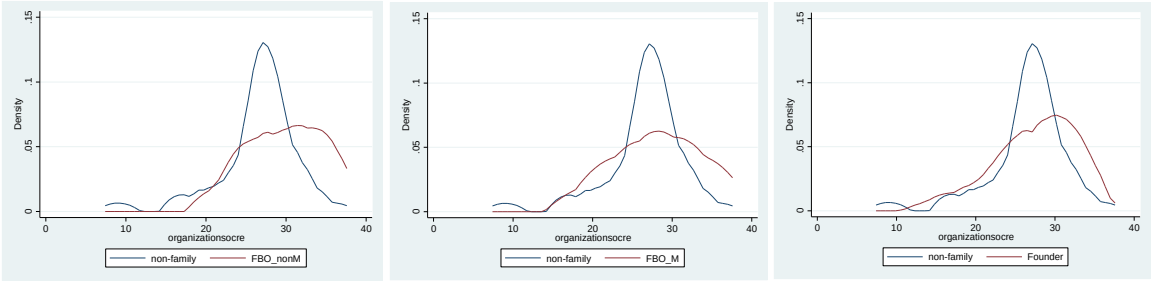


Figure 2: Distribution of Management Practice Scores (2008)

Score



OrgScore



HRScore

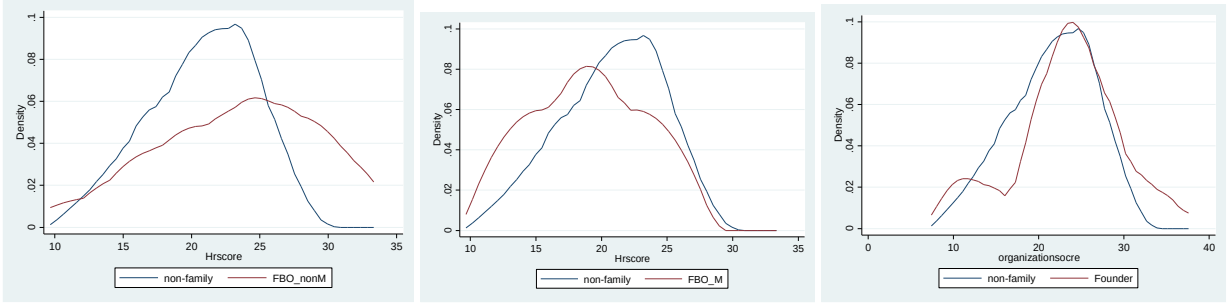
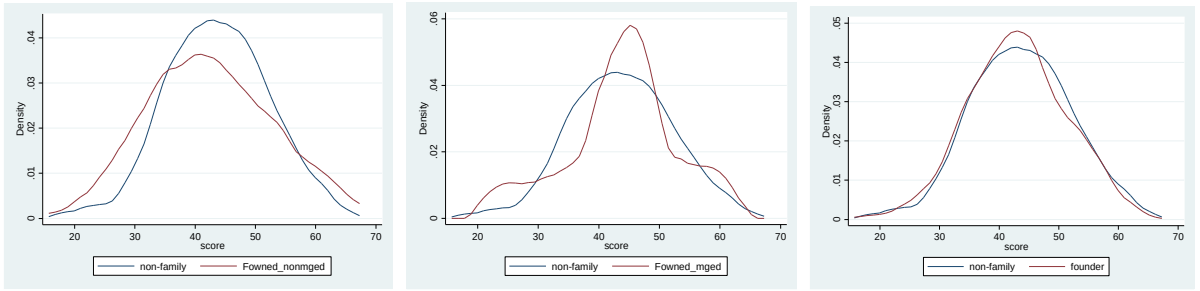
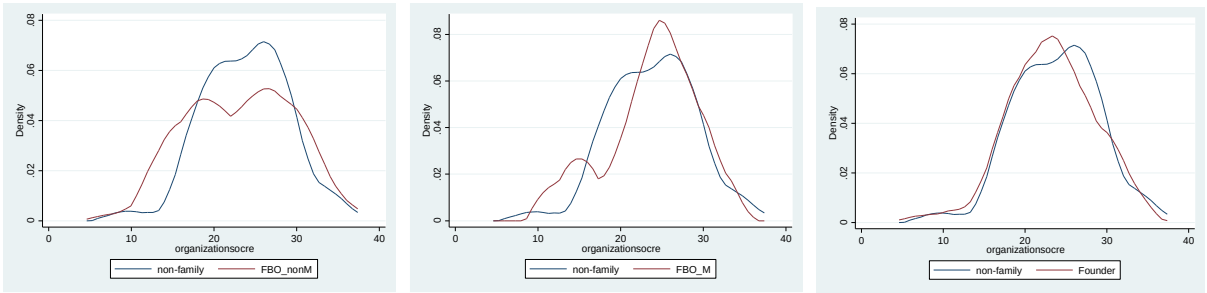


Figure 3: Distribution of Management Practice Scores (2011-2012)

Score



OrgScore



HRScore

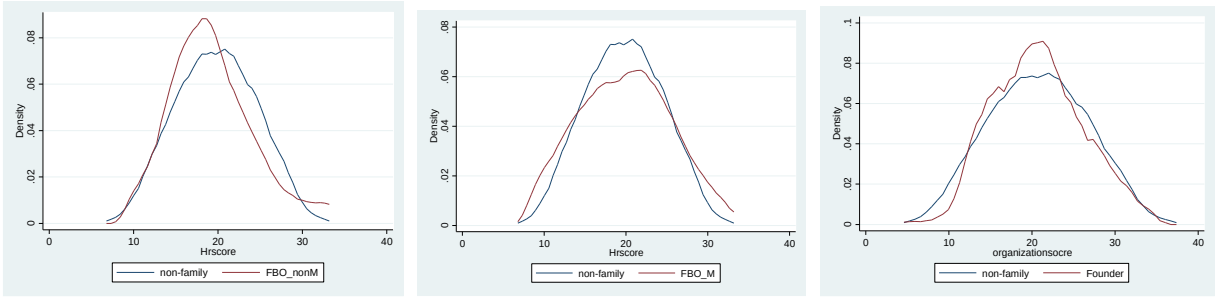


Table 4: The Results of Multiple Regressions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Family_share	0.07**	0.06	0.04	0.05	0.06	0.05	0.06	0.04
	(2.06)	(1.62)	(1.20)	(1.31)	(1.50)	(1.53)	(1.62)	(1.11)
Family_director_R	-7.54	-5.79	-3.34	-6.26	-6.84	-6.15	-6.38	-3.39
	(-1.59)	(-1.19)	(-0.66)	(-1.26)	(-1.38)	(-1.26)	(-1.28)	(-0.67)
Management_share	-8.77**	-11.47**	-11.07**	-10.35**	-11.74**	-12.82***	-11.49**	-11.94**
	(-1.99)	(-2.41)	(-2.26)	(-2.1)	(-2.39)	(-2.58)	(-2.34)	(-2.33)
ROS			8.89***					7.47**
			(2.89)					(2.29)
Sales_CV				-7.29***				-5.76*
				(2.61)				(-1.76)
EMP_CV					-2.11			0.51
					(-0.56)			(0.12)
AGE						-0.02		-0.04
						(-0.98)		(-1.45)
Sales							2.36E-06*	2.48E-06**
							(1.94)	(2.02)
Industry Dummy		included	included	included	included	included	included	included
Cons.	44.79***	42.79***	42.34***	43.82***	43.20***	44.15***	42.76***	44.95***
	(84.59)	(24.82)	(24.04)	(24.67)	(24.42)	(19.98)	(24.30)	(19.12)
Adj. R-squared	0.01	0.03	0.05	0.05	0.03	0.03	0.04	0.06
NOB	499	474	444	444	446	474	444	444

*: 10%, **: 5%, ***: 1%. t value is in parentheses.