

## Chapter 19

# Corporate Governance and Financial Features of Portuguese Family Firms

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### ABSTRACT

*This study analyses whether corporate governance and financial features of private family firms are different from private non-family firms and discusses the role of private family firms in regional economic development. The evidence is drawn from a database of Portuguese private family owner-managed firms in order to determine the differences in the management and experiences of venture capital and other financing options. The main results demonstrated that family firms have significantly lower ratios of leverage, are less interested in venture capital, have much more experience in management and are less likely to be female than those in non-family firms. Our results indicate that the financial development of Portuguese private family firms is also consistent with the moderate tenet of family firms which could hamper their business growth and demonstrate that corporate governance features assist the family identity and the ability to exert family influence.*

### INTRODUCTION

Many businesses in the global economy are family firms. In the European Union, family enterprises represent 60–90% of economic activities depending on the country and are responsible for two thirds of gross domestic product and workplaces. Family firms in Germany represent approximately 80% of all businesses and employ 80% of the working population (Block, 2009), while in Portugal they represent about 80% of all firms and more than 60% of the gross domestic product (Coimbra, 2008).

Although the private family firm is the predominant form of business organisation, the private family business sector has received sporadic attention from academics and policymakers (De Massis, Kotlar, Chua, & Chrisman, 2014; Salvato & Moores, 2010). In recent years, more empirical studies have inves-

DOI: 10.4018/978-1-6684-3550-2.ch019

tigated the structure, conduct and performance of listed family owner-managed businesses compared to non-family firms in the economy (Ali, Chen, & Radhakrishnan, 2007; Paiva Lourenço, & Curto, 2019; Borralho, Gallardo-Vázquez, & Hernández-Linares, 2019). This study focuses on the issue of the corporate governance and financial development of Portuguese private family businesses. It analyses whether the corporate board and financial features of private family firms are likely to be different from private non-family firms and discusses the role of private family firms in regional economic development.

Current literature on the issue of corporate governance and financial development provides evidence that family firms adopt different financial practices from their non-family counterparts. Private family firms are at an advantage in terms of management experience and governance and a disadvantage when it comes to obtaining long-term debt and external equity. This may be the result of the unique characteristics of the private family business, namely overlapping owner-managerial and financial market imperfections (Chittenden, Hall, & Hutchinson, 1996; Lopez-Gracia & Aybar-Arias, 2000). Not surprisingly, private business owners often harm their growth potential because they do not address evolving growth barriers on the financial, managerial, technological and marketing side or other family objectives may even take priority over refrain growth (Poutziouris & Chittenden, 1996; Perry, Rahim & Davis, 2018). This study expands on prior research in that it focuses on analyses of corporate governance and financial development of Portuguese private family firms and comparisons to non-family firms.

With our research question, we address critical omission in the family business literature. The aim is to address the following two questions: What differences are there in the features of corporate governance in family firms compared to non-family firms? What are the differences in the financial features of family firms compared to non-family firms? The empirical analysis is based on a sample of Portuguese private family firms between 2013 and 2016. Portugal is classified as a country of civil-law origin with the highest level of ownership concentration (La Porta, Lopes-de-Silanes, Shleifer & Vishny, 1998). There is a large predominance of small and micro-sized firms in the Portuguese economy that are characterised by family firm governance.

We find that private family firms are less interested in venture capital and have significantly lower leverage ratios than non-family firms. Additionally, we find that family firm managers have much greater age, much more firm age and experience, are less likely to be female and live nearer the business than those of non-family firms. Our results indicate that the financial development of Portuguese private family firms is also consistent with the moderate tenet of family firms which could hamper their business growth. This demonstrated that family firms are skeptical about growth due to their control and their dependence on external funds. Additionally, results indicate that Portuguese private family firms have corporate governance features which assist the family identity and the ability to exert family influence (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). Our findings add value to the scarce research on private family businesses by looking at corporate governance and financial development for non-family businesses. The results suggest that not all family businesses adopt the same practices and research should treat them as a heterogeneous group.

The results contribute to the literature on family business, strategic leadership and financial development in various ways. First, as Howorth and Ali (2001) note, the Portuguese family firm has not been adequately explored in research. This study adds to the corporate governance literature, providing financial evidence on Portuguese family firms. We show that private family firms are systematically dependent on internally generated funds for their development which can be the cause of problems. Second, we provide evidence that furthers the explanation for the difference in the financial development of private family and non-family firms (Poutziouris, 2006). Specifically, most family firms have a relatively short-

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