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The Role of Family in Family Firms

Marianne Bertrand and Antoinette Schoar

History is replete with examples of spectacular ascents of family businesses. The Rothschilds, for example, not only amassed the greatest concentration of private wealth the Western world has ever seen, they are also credited with changing the fate of history by financing monarchs and kings—one of their most famous bets being the support for Wellington’s armies, which ultimately led to the defeat of Napoleon at Waterloo. At the height of their power, a French journalist reportedly said in 1841: “There is but one power in Europe and that is Rothschild” (Ferguson, 1998).

Yet there are also numerous accounts of family businesses brought down by bitter feuds among family members, disappointed expectations between generations, and tragic sagas of later generations unable to manage their wealth. One of the more spectacular examples in U.S. history is the Vanderbilt fortune. Cornelius Vanderbilt created a fortune in shipping and railroads. He is reported to have been as driven and ingenious as a businessman can be. However, only 50 years after his death, several of his direct descendants were penniless. John Kenneth Galbraith (as quoted in Vanderbilt, 1989), “said that several generations of Vanderbilts showed both the talent for acquiring money and the dispensing of it in unmatched volume, adding that they dispensed of their wealth for frequent and unparalleled self-gratification and very often did it with a forthright stupidity.”

Examples of family businesses are not restricted to history textbooks. Even

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today a large fraction of businesses throughout the world are organized around families. The Murdochs at News Corporation, the Waltons at Walmart or the Rigas at Adelphia are just a few of the many current business dynasties whose fortunes and misfortunes the media has scrutinized closely. Family firms are characterized by a concentration of ownership, control and often key management positions among family members, even after the retirement of the firms' founders.

Such family arrangements are predominant among privately held firms, but are also present in a large fraction of publicly held firms. Involvement of families in businesses is very common in Latin America, Africa and the Middle East, and in parts of western Europe and Asia—though there is a lot of heterogeneity across countries. For example, as reported by La Porta, Lopez-de-Silanes and Shleifer (1999), 65 percent of the 20 largest firms in Argentina have at least a 20 percent family stake; in Hong Kong this fraction is 70 percent. In contrast, in Japan, the fraction of family control among the 20 largest firms is only 5 percent. Even in the United States, families are not absent from large publicly traded firms. Anderson and Reeb (2003) show that some founding family ownership is present in 35 percent of firms in the Standard and Poor's 500 and represents about 18 percent of equity.

Why are family firms so prevalent? What are the implications of family control for the governance, financing and overall performance of these businesses? These questions are only beginning to receive attention in the economic research community. At the core of the debate is the question of whether family firms evolve as an efficient response to the institutional and market environments, or whether they are an outcome of cultural norms that might be costly for corporate decisions and economic outcomes.

The idea that a culture based on strong family ties may sometimes impede economic development is not new. Such a view dates back at least to Max Weber's 1904 essay, which argues that strong culturally predetermined family values may place restraints on the development of capitalist economic activities, which require a more individualistic form of entrepreneurship and the absence of nepotism. Another early proponent of this cultural view is Banfield (1958) who described the "amoral familism" in the south of Italy as one of the main reasons for the smaller average firm size and slower economic development of the south relative to the north. He found in his work on families in southern Italy a potential trade-off between trust among the narrow realm of kinship networks and trust in the society at large. A similar argument has been developed by Fukuyama (1995), who puts forth that in societies where people are raised to trust their close family networks, they are also taught to distrust people outside the family, which impedes the development of formal institutions in society. Under such a cultural view, suboptimal economic organizations can emerge when parents put too much weight on keeping the business in the family, maybe due to a strong sense of duty towards other family members or a more selfish desire to turn the business into a family legacy.

We first review in this paper the efficiency arguments that have been put forward to rationalize family ownership and management of businesses. We then expand on the cultural explanation, under which family ownership and management are no longer value-maximizing but rather utility-maximizing for founding

families. In support of a cultural view, we present some preliminary cross-country evidence linking stronger family ties to worse economic outcomes and to organizational structures that are tilted towards smaller firms, more self-employment, less reliance on external finance, and a larger fraction of family control among listed firms. Moreover, the cross-country data show that family norms and values seem more robustly related to economic outcomes than is another more commonly discussed cultural variable: trust. One obvious limitation of this cross-sectional evidence is that family values may be an outcome rather than a driver of economic development. While we do not offer here any definitive answer to the question of causality, we do show that family values are quite stable over time across countries and show little adjustment to economic conditions, at least in the short or medium run. We also show that the relationship between economic and organizational outcomes and family values is fairly robust, even after controlling for formal institutions such as investor protection or legal origin, which has been shown to be an important historical determinant of formal institutions across countries.

Why Family Firms?

In this section, we explore efficiency-based theories for family firms, under which family control is a source of comparative advantage for firms, allowing them to achieve superior economic outcomes over their nonfamily counterparts. In the following section, we turn to the cultural view, under which strong family values may inefficiently push business organizations towards family control.

Managing for the Long Term

The enormous longevity and success of some prominent family firms has prompted a popular perception that family-controlled firms embrace a longer-term approach to management. Widely-held corporations, in contrast, are often associated with short-termism and myopia of corporate managers. In the words of Giovanni Agnelli, the late patriarch of the Italian industrial dynasty (as quoted in Betts, 2001): “The [family] company is an inheritance to be protected and handed on. It is the outcome of the next and each generation’s commitment to the last.” Similarly, John Walton of Wal-Mart describes his family’s perspective on their involvement with Wal-Mart as follows (Weber and Lavel, 2001): “We view [the company] really more as a trust, as a legacy we are responsible for, rather than something we own.” The underlying idea is that the links that binds current generations to future ones provide family firms with “patient capital,” a focus on maximizing long-run returns and the desire to pursue investment opportunities that more myopic widely held firms would not.

The Rothschild family is a case of such dynastic thinking.¹ The family began its ascent with Mayer Amschel Rothschild and pioneered international finance during

¹ The following discussion is based on Ferguson (1998).

the industrialization of Europe in the eighteenth century. The Rothschilds made their fortune from exchange-rate transactions and bond-price speculation, and also developed the first international government bond market due to their close connections with governments throughout Europe. An essential part of Amschel Rothschild's strategy was to keep control of the business in family hands. The Rothschild coat of arms was a clenched fist with five arrows symbolizing the five sons, with the family motto beneath: "*Concordia, Integritas, Industria*" (Unity, Integrity, Diligence). In his will, Amschel set the rules that would closely tie his family to the future of the business he had started. In particular, he dictated that all key positions in the House of Rothschild were to be held by male members of the family and that the family was to intermarry with their own first or second cousins. Such rules created a long-term commitment of the Rothschild family to the banking business.

Substitution

An alternative explanation for the presence of family firms is that family ties serve as a second-best solution in countries with weak legal structures, since trust between family members can be a substitute for missing governance and contractual enforcement. In 1798, Amschel Rothschild sent one of his sons, Nathan, to England to establish an office from which Nathan would directly handle the firm's textile trade with England. Nathan took with him half of the firm's assets to set up operations (Bellow, 2003). Giving control to his trusted son likely gave Amschel much less to worry about than if he had selected an outside manager, who might have run away with the money. Ferguson (1998) demonstrates that these trust relationships were a key to the family business success, allowing the business to cover a wide geographical range at a time when law enforcement and communication across long distances were impossible. This enabled the Rothschilds to profit vastly from international business where they had almost no competition, and to weather political storms in different regions of their empire.

In a recent paper Burkart, Panunzi and Shleifer (2003) formalize the argument that family control may be a substitute for weak formal investor protection. If the pecuniary private benefits of control are large, a founder may decide it is best to retain a controlling ownership stake in the firm and to appoint a trusted family successor. This explanation for family-controlled businesses has been mainly applied to countries with weaker formal institutions, such as many in south Asia, where private benefits of control are expected to be largest. Note that family control in this case, while privately beneficial to the family, may be socially inefficient if this control is used to tunnel capital and resources away from minority shareholders.

Human Capital

Another often-heard argument for the superiority of family involvement is that it gives founders access to a better talent pool. This could be true if there is a strong within-family correlation in managerial talent. This could also be true if the transmission of knowledge about the business is easier between a founder and his

children than between a founder and some outside manager. For example, family members may receive exposure to the business even before becoming formally involved in it. In an interview with *Wharton Alumni Magazine* (Moffitt, 2000), Brian L. Roberts, current CEO of Comcast and son of Ralph J. Roberts, the founder of Comcast, reports going to work with his father as a teen and “learning the nuts and bolts of the cable business.” His father had “his teenage son sit in on some of significant deals in the making, positioning Brian at the back of the room and instructing him to quietly listen.”

Also, families might serve as a capital pooling device in countries where capital markets are very illiquid and where it is difficult to raise large amounts of money to start a company. In such environments, family firms can be advantageous if they promote cooperation and cohesion and ensure that assets are not easily broken apart. Finally, the easier cooperation that may naturally exist between family members might also economize on a set of costs associated with the operation of the organization. For example, there might be less need for spending resources on monitoring managers that are family members or on coordinating the different activities they perform.

To again draw on our favorite example, some have argued that business ability did run in the Rothschild family (at least among Amschel’s sons). Bellow (2003) comments on how Amschel Rothschild had been unusually successful at molding his sons in his image without compromising their instinct for independence, while impressing upon them the importance of brotherly harmony. Such harmony, some have argued, may have been key in ensuring the coordination of the activities of the family business across the wide geographic range it covered, and in establishing the power of the Rothschilds’ business over Europe in the nineteenth century.

Politics

Finally, political connections can provide large benefits for private firms, especially in economies with high levels of corruption (Fisman, 2001; Faccio, forthcoming 2006). These connections may result in preferential access to public resources such as subsidized credit, government contracts or favorable legislation. Family firms might be especially well-positioned to benefit from those transfers since they often have extensive kinship networks that stretch across politics and business. If trust relationships are strong among the family members, family firms might find it easier to maintain political connections or even build new ones by sending one or more of their children into politics.

This greater facility of family firms in dealing with the political system creates private benefits for the family, but can be socially inefficient if resources are channeled to connected but underperforming firms. In fact, Morck and Yeung (2004) argue that powerful business families can play an important role in sustaining a high level of political corruption within an economy. If family firms indeed have longer horizons than their nonfamily counterparts as discussed above, those firms will be less likely to renege on their implicit contracts with politicians. Because of this long-term orientation, politicians might prefer to exchange “favors” with family firms. Therefore, the prevalence of strong family firms might endogenously

lead to extensive “cooperation” between business and government. Morck, Strange-land and Yeung (2000) argue that, as a consequence, inefficient firms can survive and create implicit barriers to entry for more efficient and innovative new firms.

Family Values and Family Firms

In contrast to these efficiency explanations for family firms, cultural theories propose that the organization of business around families may not necessarily be an optimal adaptation to the economic environment but instead the outcome of a (partially) predetermined set of norms. Cultures that foster strong family ties may make it difficult for a founder to dissociate the family from the business, despite the possible costs this may impose on the business. If such cultural values shape the preferences of a founder, he might be willing to forgo financial returns in order to maximize his overall utility, which includes his respect of family values and obligations. (An alternative to modeling cultural norms as changes in the founders’ utility function would be to assume that cultural norms impose exogenous constraints on a founder.) Therefore, family values can create efficiency distortions if they introduce nonmonetary objectives into the founder’s utility maximization that run counter to the optimal decisions for the business.²

Nepotism

A culture based on strong family ties can give rise to nepotism. Barnett (1960), for example, analyzes Cantonese entrepreneurs who immigrated to the United States. He argues that they still use narrow kinship networks in making hiring decisions even after immigrating. This narrow “familism,” he suggests, ultimately impedes the ability of these firms to grow. More generally, because founders may derive utility from seeing relatives involved in the business, they may decide to hire key managers from within their kinship network rather than turn to more talented professional managers. Beyond the direct effect of these lower-quality appointments on performance, nepotism may also have adverse spillover effects in that it creates negative incentive effects throughout the organization. If lower-down employees know that promotion decisions are not tied to performance, they might be less willing to exert high effort or to remain within the family business, thus making it more difficult to retain talent.

One of the more egregious examples of nepotism is that of Suharto, the former dictator of Indonesia, and his youngest son, Tommy. Besides controlling political power in the country, Suharto was also involved in a number of private and state-owned companies in the economy. Tommy’s dream was to turn Indonesia into

² By itself, a founder’s desire to maximize the financial well-being of his family does not necessarily lead to any inefficiency for the business or the economy overall. A founder who wants to maximize the wealth he passes on to his children would be better off selling the business and distributing the cash flows among his children (or hiring a professional manager), if he sees that they are unable to run the business efficiently. It is therefore central to this cultural view that nonmonetary factors enter into the founder’s decision.

an economic world power by developing a domestic automobile industry. Most industry observers at the time regarded Tommy's car project as a vanity-driven scheme that made no economic sense. But to allow his son to pursue this idea, the father installed him at the head of a new subsidiary in one of the family firms. He first tried to produce a domestic car, called the Timor. After this project failed, he convinced his father to buy him a majority stake in Maserati, the luxury car maker that produces Lamborghini, which led to similarly disastrous results (Singh and Loveard, 2001).

Legacy

Cultural beliefs might also dictate a will to build a family legacy, and instill the desire to ensure survival and family control at all cost. This objective may not always be aligned with the best long-run strategy, especially if it leads families to display excessive risk aversion or forgo profitable expansion strategies or mergers with other firms. Take the example of Tia, a company that was founded in 1933 by Carlos Steuer and had, by the early 1990s, become a very successful family retail business in Argentina. By the late 1990s, international pressures led Francisco de Narvaez, general manager of Tia and grandson of Carlos Steuer, to conclude that it might be best to sell the business. However, his mother, a large shareholder of Tia, immediately dismissed the prospect of selling the company, claiming: "I do not want to sell the company. It's part of my life. I've inherited it from my father, your grandfather. It's a sense of life for me, and I do not think I could live with the decision to sell" (Hill and Doughty, 2000).

The Rothschilds' history also possibly illustrates the cost of wanting to build a family legacy. Just as close family control was a key to their nineteenth-century success, it contributed to their decline in the twentieth century. In 1901, with no male heir in sight, the Frankfurt House closed its doors after more than a century in business. For similar reasons the Rothschilds failed to establish a dominant presence in the United States before the turn of the century. This is often seen as the reason for their decline in the first half of the twentieth century (Ferguson, 1998).

Inheritance Norms

Finally, perhaps most symptomatic of the cultural constraints within family firms are the inheritance rules that govern many of these firms. Such inheritance norms vary from strict primogeniture, where the oldest son inherits everything, to equal sharing rules among all the sons of a founder. Rigid inheritance rules may have direct costs for family businesses. It has been argued, for instance, that the reliance on patrilinear relations by many Chinese businesses (likely a direct outcome of a Confucian belief system) is a driver of the small average size of these businesses (for example, Whyte, 1996). In addition, equal sharing rules that involve all of the sons of a founder in the business might breed conflict, since cooperation between siblings can be difficult to achieve, despite parental will. Even if strong ties originally exist between family members, daily interactions within the context of the family business may lead to brutal infighting. Indeed, there are many examples of

families (and their businesses) ripped apart by such infighting. One extreme such case is that of the Thammawattana family in Thailand (Bangkok Post, 2003). Before the matriarch of the family died, she amended the business charter to stipulate that if any one of her children needed to sell his/her stake in the firm, the remaining children were the only ones who could buy these shares. In the years following her death, two of the heirs died from mysterious causes or inexplicable suicides. While none of the cases has been officially closed and no one has been convicted, the Thai press interprets these deaths as an outcome of intra-family rivalries.

In contrast, historians describe the emergence of male primogeniture in continental Europe during the thirteenth century as a consequence of intensified demographic transition. Goody, Thirsk and Thompson (1976) show that between the fifteenth and the eighteenth centuries the inheritance of land among large landowners and aristocracy was regulated by primogeniture, which ensured the stability of family wealth and thus enabled the families to benefit from scale economies in production. But primogeniture is not without problems either. It severely restricts the founders' ability to select the most talented person to take over the family firm. If the oldest son is not talented, primogeniture will endanger the survival of the entire business.

While such rigid inheritance rules may be constraining to family businesses, as discussed above, breaking away from these rules may also be costly if it destroys the expectations of individual family members about their place in the family and the business. Backman (2001), for example, describes the problems that plagued the Jumabhoy family, the richest Indian family in Singapore, when the patriarch decided in 1992 to pass over two of his sons and, instead, to give a large controlling stake in the group's holding company to one of his grandsons, whom he viewed as the most entrepreneurial member of the family. After six years of costly feuding between family members at the expense of the company's health (including secret acquisition deals and the like), the family eventually sold off what was left of the company in 1998.

What Do the Data Say (So Far)?

How much systematic evidence is there for the economic superiority of family-controlled businesses? A reading of the empirical literature so far suggests: not a lot. Several papers have established that family firms appear to underperform relative to nonfamily firms in most countries: for example, Claessens, Djankov, Fan and Lang (2002) for several southeast Asian countries; Morck, Strangeland and Yeung (2000) for Canada; and Cronqvist and Nilsson (2003) for Sweden. Also, Bloom and Van Reenen (2005) find that family firms in France, Germany, Great Britain and the United States are systematically associated with worse managerial practices. Two notable exceptions, though, are Khanna and Palepu (2000) who find that business groups in India, which are for the most part family-controlled, perform better than stand-alone firms in matched industries; and Sraer and Thesmar (2004) who find a premium for family firms in France.

There is also mixed evidence so far as to whether family-controlled firms are indeed a response to weak formal institutions (La Porta, Lopez-de-Silanes and Shleifer, 1999; Holmen and Hogfeldt, 2004; Roe, 2003). As mentioned before, family-controlled businesses are far from absent in the United States even though there is limited scope for expropriation. Also, a country like Sweden is often used to exemplify a case where the estimated pecuniary private benefits of control are low (between 1 and 7 percent of market value) and yet the frequency of family-controlled firms high (Gilson, 2005). Moreover, Claessens, Djankov, Fan and Lang (2002) show that family firms underperform relative to nonfamily firms, and even other group firms, in several Southeast Asian countries that score relatively low on the investor protection index.

Of course, one should be careful not to stretch any of the evidence too far, since these cross-sectional comparisons are subject to many possible omitted-variable and selection biases. Moreover, one might argue that the observed low performance of family firms is not inconsistent with high financial benefits for the families themselves. The low performance may reflect a tunneling of capital out of the firms by the controlling families. Thus, family firms may be worse for minority shareholders, but financially beneficial for families. In addition, family members may receive “favors” from politicians that are not reflected in their companies’ balance sheets.

A few recent papers have made some first steps in demonstrating the role that nepotism, family structure and inheritance norms may play in driving the performance of family businesses. Perez-Gonzalez (2004), Villalonga and Amit (2004) and Morck, Strangeland and Yeung (2000) show that the lower performance of family firms is in large part related to the passing of active management and control from the founder to his or her descendants. For example, Perez-Gonzalez studies 335 chief executive officer (CEO) transitions in firms with concentrated ownership or founding family involvement. Of these 335 transitions, he finds that 122 involve the appointment of a “family CEO.” Compared to unrelated CEOs, family CEOs are associated with about an 18 percent decline in return on assets and a 14 percent decline in market-to-book ratios in the three-year window after the succession event. These declines in performance are especially strong when the appointed family CEO did not attend a selective college.

Using a sample of Danish firms, Bennedsen, Nielson, Perez-Gonzalez and Wolfenzon (2005) confirm that such findings cannot solely be attributed to the endogeneity of family CEO successions. Specifically, they use the gender of a departing CEO’s firstborn child as an instrument for family succession. In Denmark at least, male firstborns are associated with a higher likelihood of family succession. Bennedsen et al. find a large drop in performance postsuccession when the departing CEO’s firstborn is a male, rather than a female. This evidence certainly does not support the idea that families have a comparative advantage at running businesses because of intergenerational transmission of managerial talent or better alignment of incentives.

Bertrand, Johnson, Samphantharak and Schoar (2005) study the largest business families in Thailand, most of which are of Chinese origin. While they find that

one son of the founder (most of the time the eldest son) is typically appointed as heir of the group when the founder retires, involvement in the group (through both ownership and management) is most often extended to more than one son. Specifically, when the founder retires, the assets of a group are divided into a larger number of group firms when there are more sons. They also find that groups with more sons record lower performance after the founder retires and, also, delay restructuring in response to the negative economic shock induced by the Asian economic crisis. These facts, they conjecture, reflect an attempt to endow each son with his own part of the company in accordance with some culturally set inheritance norms, even at the cost of performance.

Empirical Analysis

In the following analysis, we try to provide some suggestive evidence to substantiate the idea that family culture might be a first-order determinant of economic outcomes. We first document that there are systematic correlations across countries between the strength of family ties and economic outcomes. Countries where family is generally regarded as more important have lower levels of per capita GDP, smaller firms, a higher fraction of self-employed, fewer publicly traded firms, and a smaller fraction of total market value controlled by families, on average. In addition, these economic variables are more robustly correlated with family values than with other cultural variables such as trust in society. We also shed some preliminary light on the possibility of a truly causal interpretation of these findings.

Measuring Family Values

To measure the strength of family ties in a cross-section of countries, we rely on a set of questions from four waves of the World Values Survey: 1981–84, 1990–93, 1995–97 and 1999–2001. The specific questions we focus on are the following: First, respondents are asked to assess how important family is in their life, from 1 being very important to 4 being not important at all. Second, respondents are asked to choose which of the following two statements they agree with: 1) Regardless of what the qualities and faults of one's parents are, one must always love and respect them, or 2) One does not have the duty to respect and love parents who have not earned it. Also, respondents are asked to choose with which of these two views they most tend to agree: 1) It is the parents' duty to do their best for their children even at the expense of their own well-being, or 2) Parents have a life of their own and should not be asked to sacrifice their own well-being for the sake of their children. Finally, we use a set of questions asking respondents about the qualities they regard as most important for children. We isolate independence and obedience as most related to the strength of parental authority over their children.

Not surprisingly, these variables are correlated with one another. Countries where the family is viewed as more important also put more weight on unconditional parental duty to children and unconditional respect of parents by their children, and also value obedience rather than independence in their children.

Table 1
Correlation Between Family Values

	(1)	(2)	(3)	(4)	(5)
(Un)importance of family (1)		-.49	-.38	-.41	.13
Parental duty to child (2)			.37	.70	-.38
Respect for parents (3)				.49	-.34
Obedience of child (4)					-.42
Independence of child (5)					

Notes: The unit of observation is a country ($N = 70$). All family values are country means based on four waves of the World Value Survey.

Table 1 reports the correlation matrix between these variables. We undertake a principal component analysis to summarize these five variables into a single index. Principal component analysis creates a linear combination of the original variables that captures the variance in the dataset.³ Parental respect by children, parental duty to their children, the general importance of family in life and the importance of obedience as a quality in children all have positive coefficients in the creation of our index, while independence as a quality in children has a negative coefficient. Countries such as Switzerland, Belarus and the Czech Republic rank around the 25th percentile in the distribution of this index, whereas countries such as Vietnam, Chile and South Africa rank around the 75th percentile. Closer to the median of the distribution are countries such as the United Kingdom and Ukraine.⁴

Family Values and Economic Development

We first establish that countries with stronger family values have lower economic development on average, measured by GDP per capita. We run cross-country

³ More specifically, principal component analysis is a technique that can be used to summarize the information contained in an original set of variables into many fewer variables. In practice, a principal component analysis defines new variables (the principal components) that are linear combinations of the initial variables. The first principal component is the linear combination of the original variables that captures the greatest variance in the dataset; the second principal component is the linear combination that captures the second greatest variance, and so on. For our analysis, our index is the first principal component, which captures more than 55 percent of the variance in the dataset.

⁴ Although we focus on country effects here, an obvious question is how important are country effects compared to individual characteristics in explaining family values? To address this question, we undertook a variance decomposition analysis of family values at the individual level. Specifically, we used the first principal component in the micro data as a single index of family values. We included, as possible determinants of family values, personal characteristics such as age and gender dummies, and seven education dummies, as well as country fixed effects and wave fixed effects. Combined, these variables explain about 20 percent of the variance of the “strength of family” index in the micro data. Country fixed effects account for about 80 percent of the explained variance, or 16 percent of the total variance. In contrast, education dummies account for only about 8 percent of the explained variance. For comparison, we undertook a similar variance decomposition exercise in the micro data for trust, a variable discussed later in this paper. The same model explains only about 11 percent of the variance in the micro data. Country effects account for 87 percent of the explained variance, or about 9 percent of the total variance. We interpret these findings as supportive of the view that family norms have a large country-level component, and are to a much lesser degree explained by the standard set of individual demographic characteristics.

regressions of GDP per capita as of 1990 (from the Barro–Lee data set) on our measures of family values.⁵ We start with the index created by principal component analysis described above, which we will from now on refer to as “strength of family,” for convenience. In the first column of Table 2, we show that the coefficient from a regression of the logarithm of GDP per capita on the strength of family is highly negative and significant. Countries with stronger family ties also have lower GDP per capita. The second column controls for human capital, measured as the logarithm of the average schooling years in the total population over age 25 as of 1985 (also from the Barro–Lee data set, in which controlling for education reduces the sample size from 51 to 46 observations.) By adding this variable, we might be “over-controlling,” since educational choices might themselves be an outcome of family values. For example, Coleman (1990, p. 580) argues that the changes in the educational system in England were closely linked to changes in family structure around the time of the Industrial Revolution. After industrialization, many people gave up their family farms to move to the city to work in factories. Consequently, children would not automatically take over the family farm once they grew up, and, thus, the need for an organized educational system became more important. The addition of human capital does weaken the effect of family values on GDP by about half. However, the estimated coefficient stays negative and statistically significant. The magnitude also stays economically meaningful. A one standard deviation increase in the strength of families (1.66) is associated with a 23 percent lower level of GDP per capita, or about a quarter of a standard deviation.

In columns 4 to 7, we repeat the specification in the second column but break down the “strength of family” variable into its five individual components. Each of these individual components, except for child independence, relates to GDP per capita in the expected way. Unconditional respect of parents, a stronger sense of parental duty towards children, a higher general importance of families and more weight put on obedience all are associated with lower GDP, conditioning on human capital.

Family Values or Trust?

Social scientists like Putnam (1995) and Fukuyama (1995) have argued that only nations with high levels of trust will be able to develop the large-scale organizations that are needed to compete in a modern economy. In support of this view, papers such as Knack and Keefer (1997) and La Porta, Lopez-de-Silanes and Vishny (1997) have found in cross-country data a positive correlation between trust and economic development, as well as other economic outcomes such as firm size. In the light of this earlier work, one may worry that the cross-country differences in family values we exploit in the regression above are simply picking up on cross-country differences in the level of trust.

Is there a correlation between family values and trust? Following previous papers, we measure trust using the following question in the World Values Survey:

⁵ The Barro–Lee dataset, as well a description of this dataset, is available at (<http://www.nber.org/pub/barro.lee>).

Table 2
GDP Per Capita and Family Values

	<i>Dependent variable: log(GDP per capita) in 1990</i>									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Strength of family	-.37 (.06)	-.15 (.06)							-.34 (.07)	-.15 (.07)
Log(schooling)		1.11 (.20)	1.35 (.17)	1.33 (.18)	1.07 (.21)	1.16 (.19)	1.43 (.17)			1.08 (.21)
(Un)importance of family			2.36 (1.12)							
Parental duty to child				-1.41 (.88)						
Respect for parents					-1.87 (.69)					
Obedience of child						-1.62 (.64)				
Independence of child							.07 (.48)			
Trust								3.01 (.74)	.50 (.85)	.31 (.70)
R ²	.47	.70	.68	.66	.69	.69	.64	.25	.47	.70
N	51	52	46	46	46	46	46	52	51	46

Notes: The unit of observation is a country. All family values, except “strength of family,” are country means directly computed from the World Values Survey. “Strength of family” is the first component from a principal component analysis of the 5 family values described in Table 1. “Schooling” is defined as average schooling years in the total population over age 25 as of 1985. Ordinary least squares estimations; standard errors are reported in parentheses.

“Generally speaking, would you say that most people can be trusted or that most people cannot be trusted?” We find a strong negative correlation across countries between the strength of families and the level of trust that a citizen places in other people.⁶ However, a more careful look at the data indicates substantial heterogeneity across countries in the strength and even the direction of this correlation. Specifically, using the individual-level data, we computed the correlation between family values and trust country by country. The correlation is negative in about half of the countries. For example, in the United States and in Canada, the correlation between trust and family values is negative. In contrast, this correlation is positive in countries such as India and Ghana.

How much of the correlation between GDP and family values can be explained away if we include trust as an additional control? We investigate this question in the last three columns of Table 2. We first confirm earlier results in column 8 by showing a strong positive univariate correlation between trust and GDP per capita. In column 9, we include both social norms (family values and trust) in the same

⁶ For the purpose of our exercise, it would have been preferable that the trust question refer explicitly only to people outside the family. However, the question we rely on is the only trust question available in the World Values Survey.

regression. Strikingly, the correlation between GDP per capita and family values survives conditioning on trust. In fact, the point estimate on family values barely changes compared to that in column 1. In contrast, there is no statistically significant correlation between GDP and trust after conditioning on family values. The same holds after we control for human capital in column 10.

One interpretation of the finding in Table 2 is that the relationship between GDP and trust ultimately passes through the strength of families. In other words, the importance of trust for economic outcomes is a function of family values in a society. Alternatively, the family variables might be a better proxy for trust than the commonly used trust variable.

Family Values and Organizational Structure

The next question is whether the negative relationship between GDP and family values also translates into differences in organizational form and industry structure across countries.⁷ We explore this question in Table 3.

The industry structure outcome we would most like to study is the total fraction of family firms in a country's economy. Unfortunately, such a variable is not available for many countries. Instead, we use a set of industry structure variables that we believe are related to the prevalence of family firms. One variable is establishment size (specifically, the log of the average establishment output). We expect the stronger reliance on family members in the ownership and management of family firms to be associated with smaller size on average. As discussed above, family members may make it a priority to ensure the survival of the family firm for the next generation and in turn forgo growth opportunities. Reliance on family members rather than professional managers may also lead to inefficiencies in decision making that will on average slow firm growth. Finally, average firm size may be lower because assets are split between different family members at the time of the founder's retirement (Bertrand, Johnson, Samphantharak and Schoar, 2005).

For a similar set of reasons, we use the fraction of self-employed as an industry structure outcome. Some earlier work has suggested the possibility that family and culture might be important determinants of self-employment. For example, Hout and Rosen (2000) find that the level of self-employment in the United States is correlated with family structure. Children from larger families and those that come from more traditional household structures are more likely to be self-employed. Also, some papers suggest systematic differences in self-employment rates of immigrants in the United States based on their country of origin. Yuengert (1995) finds that higher self-employment rates in the immigrant's country of origin correlate with higher self-employment rates among these immigrants in the United States.

We construct average establishment size from the United Nations Industry

⁷ In principle, there are other channels that might generate a negative correlation between the importance of family and GDP. For example, a labor market channel might be that stronger families may induce less geographic mobility as children are less likely to move away from their parents to search for better job opportunities.

Table 3
Industry Structure and Family Values

	<i>Strength of family</i>	<i>Trust</i>	<i>N</i>
Self-employment	.04 (.01)	.07 (.09)	80
Log(av. establishment size)	-.17 (.10)	1.21 (1.18)	48
External finance dependence	-.02 (.01)	.07 (.15)	48
Log(# of firms/population)	-.19 (.10)	1.95 (1.19)	42
Share of market capitalization controlled by top 5 families	.03 (.02)	-.13 (.18)	19
Maximal marginal transfer tax rate from parent to child	-3.45 (2.56)	-6.82 (25.60)	31

Notes: The unit of observation is a country. “Strength of family” is the first component from a principal component analysis of the five family values described in Table 1. Each row corresponds to a separate ordinary least squares regression; standard errors are reported in parentheses. See text for detailed definition of (and sources for) all dependent variables.

Development Organization (UNIDO) database. The UNIDO database reports, country by country, number of establishments and total output for a set of manufacturing industries. Aggregating over the 1990s and all industrial sectors, we compute average output per establishment for each country in the UNIDO database. The fraction of self-employed is directly constructed from the World Values Survey. It is defined as the number of self-employed in a country divided by total number employed (across all waves for a given country).

All rows in Table 3 correspond to separate regressions. Based on our earlier discussion, we report correlations conditional on the level of trust in a country. In the interest of space, we only report correlations between these industry structure variables and our index variable described above, “strength of family.” Table 3 shows that stronger families are associated with a higher fraction of self-employment and smaller average establishment size. These correlations are significant at least at the 10 percent level. A one standard deviation increase in “strength of family” is associated with a 6 percent higher rate of self-employment and a 28 percent drop in average establishment size.

Interestingly, these industry structure variables appear to be statistically more strongly correlated with the strength of family ties than with trust. While each of these variables unconditionally correlates to trust in the expected way (more trust associated with larger firms and less self-employment), this correlation weakens substantially (and in the case of self-employment, flips sign) when we control for the strength of families in a given country. The point estimates are also consistent with a stronger economic role for family values (one standard deviation in trust is 0.14 compared to 1.66 for one standard deviation in the “strength of family” index).

We also report correlations between family values and two industry structure variables aimed at capturing the different financing choices we expect to see in

family businesses. These variables are a country-level measure of external finance dependence and the number of listed domestic firms in a country as a fraction of its total population. Because we cannot directly measure external finance dependence in each country, we proxy for it by measuring whether the industrial structure of a country is more or less tilted towards sectors that are heavily dependent on external finance, as measured in U.S. data. We measure external finance dependence parallel to Rajan and Zingales (1998). Specifically, we start with COMPUSTAT data and compute within each three-digit industry in the United States the mean level of external finance dependence across firms in this industry. External finance dependence is defined as the fraction of capital expenditure not financed by internal cash flows. We then use UNIDO data over the 1990s and compute, for each country, the fraction of total country output that a given three-digit sector contributes to in that country. External finance dependence in a country is defined as the weighted average of the U.S. three-digit sector external finance dependence, where each sector is weighted by its contribution to total output in that country. We measure the number of domestic firms listed on the stock market of a given country, as a fraction of that country's total population, and averaged over the years 1996–2000, using the Emerging Market Database published in 2001 and World Bank data published in 2001.

A higher strength of family is associated with a lower number of listed firms (as a fraction of total population). A one standard deviation increase in “strength of family” is associated with a 30 percent drop in the number of listed firms (as a fraction of total population). There is also a negative association between “strength of family” and external finance dependence, even though this relationship is not significant at the 10 percent level.

While there is no available measure of prevalence of family firms as a fraction of all firms across countries, some researchers have computed measures of the importance of family control among listed firms in a limited subset of countries. Specifically, Faccio and Lang (2002) provide data on the fraction of total market capitalization that is controlled by the top five families for 13 western European countries between 1996 and 1999. Claessens, Djankov and Lang (2000) provide the same information for nine east Asian countries. We use this variable in the second-to-last row of Table 3. After merging this variable with our World Values Survey sample, we end up with 19 observations. There is positive and significant, univariate correlation between this variable and “strength of family.” A one standard deviation increase in the “strength of family” raises the fraction of total market capitalization controlled by the top 5 families in a country by about 6 percent. That relationship is economically almost unchanged, though statistically weaker, after controlling for trust, as reported in the table.

Finally, in the very last row of Table 3, we consider a somewhat different country-level outcome: the maximal marginal transfer tax rate from parent to child. These data are collected from Coopers and Lybrand International Tax Summaries (various years). We view this variable as possibly reflecting a country's respect for family ownership. This variable is available for 31 countries that are also covered in the World Values Survey. There is a negative correlation between the strength of

families within a country and the level of estate tax, although the relationship is statistically insignificant. In summary, while we cannot directly measure whether family culture relates to the overall representation of family firms in a given country, we do find that stronger family values relate to a set of industry structure variables—such as smaller firm size, higher self-employment rate, lower number of listed firms and lower reliance on outside financing—that we expect to be related to the fraction of family firms in a country. In very restricted samples of the data, there is also some limited evidence that stronger family values are reflected in a larger share of family control in the stock market and, possibly, lower estate taxes.

Do Family Values Change in Response to Economic Development?

By their nature, the correlations in Tables 2 and 3 cannot shed light on the direction of causality between family values and GDP. At least in theory, family values will adjust to economic and institutional changes. As economies develop, and industrial activities become more important than home-based agricultural production, family values may weaken. At the heart of assessing the direction of causality is the question of how fast family values move and how quickly they respond to economic change. While we cannot unambiguously rule out such a reverse causality interpretation, we can provide some evidence suggesting that it is not the main explanation behind our evidence.

Long-run cross-country evidence on family values does not exist. However, the World Values Survey has sampled several countries at different points in time, allowing us to observe how responses to the questions relating to family values have changed over the medium run. Family values can be compared over about a 20-year time window for 19 countries from roughly 1980 to roughly 2000. These 19 countries are: Argentina, Belgium, Canada, Denmark, Finland, France, Hungary, Iceland, Ireland, Italy, Japan, Korea, Mexico, the Netherlands, South Africa, Spain, Sweden, the United Kingdom and the United States. The addition of several developing nations to the World Values Survey in 1990 also allows us to study changes in family values over a potentially more interesting set of countries over a ten-year window from 1990 to 2000. In addition to the countries listed above, the 1990–2000 panel includes Austria, Chile, China, India, Poland, Portugal, Romania and Turkey.

Reported in Table 4 are mean family values in the first and last waves of a given panel. We report these means both across all countries in a given panel and also after breaking down a given panel into those countries that have experienced above- and below-median real GDP growth over the panel length.⁸ Not all family-related questions were asked in all waves and we therefore focus our attention on the subset of questions that appear in the relevant waves for each panel.

Several dimensions of family values prove to be remarkably stable over these

⁸ The fast-growing countries over the 1980–2000 window are: Canada, Iceland, Ireland, Japan, the Republic of Korea, the Netherlands, South Africa, Spain, the United Kingdom and the United States. The fast-growing countries over the 1990–2000 window are: Argentina, Canada, Chile, China, Denmark, India, Ireland, Republic of Korea, Mexico, the Netherlands, Portugal, Turkey and the United States.

Table 4
Changes in Family Values Over Time

<i>Panel A: Time horizon 1980–2000</i>			
	<i>All countries</i>	<i>Fast growing countries</i>	<i>Slow growing countries</i>
	Mean Family Values: 1980		
Respect for parents	.68 (.15)	.69 (.14)	.66 (.17)
Parental duty to child	.72 (.11)	.75 (.10)	.69 (.12)
Obedience of child	.24 (.10)	.24 (.10)	.24 (.11)
Independence of child	.31 (.13)	.31 (.09)	.31 (.16)
Trust	.38 (.11)	.40 (.05)	.36 (.15)
	Mean Family Values: 2000		
Respect for parents	.73 (.16)	.72 (.17)	.73 (.16)
Parental duty to child	.71 (.11)	.70 (.15)	.72 (.07)
Obedience of child	.32 (.15)	.32 (.17)	.32 (.14)
Independence of child	.57 (.16)	.61 (.14)	.53 (.18)
Trust	.36 (.16)	.36 (.12)	.37 (.20)
<i>Panel B: Time horizon 1990–2000</i>			
	<i>All countries</i>	<i>Fast growing countries</i>	<i>Slow growing countries</i>
	Mean Family Values: 1990		
Respect for parents	.74 (.14)	.74 (.15)	.73 (.14)
(Un)importance of family	1.18 (.09)	1.19 (.12)	1.17 (.04)
Parental duty to child	.76 (.11)	.76 (.12)	.76 (.09)
Obedience of child	.34 (.15)	.34 (.14)	.34 (.16)
Independence of child	.44 (.21)	.46 (.20)	.43 (.23)
Trust	.38 (.15)	.39 (.16)	.37 (.14)
	Mean Family Values: 2000		
Respect for parents	.76 (.15)	.81 (.17)	.73 (.13)
(Un)importance of family	1.13 (.08)	1.13 (.11)	1.13 (.05)
Parental duty to child	.72 (.11)	.74 (.11)	.70 (.10)
Obedience of child	.33 (.15)	.36 (.16)	.30 (.15)
Independence of child	.53 (.19)	.53 (.19)	.53 (.19)
Trust	.33 (.16)	.34 (.18)	.32 (.16)

Notes: Reported in the table are means and standard deviations (in parentheses) across countries. For each panel, we separate countries into those that have experienced above median growth (“Fast Growing Countries”) and below median growth (“Slow Growing Countries”) over the panel length.

20- and 10-year time frames, even among developing countries that have experienced very rapid growth. Consider for example the question related to whether one should always respect one’s parents. If anything, a higher fraction of respondents answer positively in the later waves (73 percent in 2000, Panel A) than in the earlier waves (68 percent in 1980, Panel A).⁹ In India, for example—a country that experienced rapid growth over the 1990s, after a wave of policy reforms—the fraction of individuals responding positively to this question increases from 84 percent at the beginning of the 1990s to more than 88 percent at the end of that decade. Similarly, the mean value of “(un)importance of family” goes from 1.24 to

⁹ We obtain quantitatively similar results if we control for cohort effects, for instance by netting out age dummies from the family value variables.

1.09 in India between 1990 and 2000, again indicating, if anything, a move towards a higher importance of family. There is a slight decrease over time in the fraction of individuals thinking that parents have a strong duty towards their children (76 percent in 1990, Panel B, compared to 72 percent in 2000, Panel B), but no systematic evidence of a stronger decline in faster-growing countries.

When it comes to qualities that are valued in children, obedience appears about as important at the beginning and end of these panels. In Panel B, child obedience is valued on average across the sampled countries by 34 percent of the respondents in 1990 and 33 percent in 2000. It appears that child obedience has become, if anything, a more valued quality over time (in Panel A, 24 percent in 1980 compared to 32 percent in 2000). In India, about 56 percent of respondents value this quality in children in both 1990 and 2000. One family value that seems to have changed much more over time is the valuation of independence in children. A much higher fraction of individuals value this quality in the later survey years. There is, however, no evidence that this trend is stronger in faster-growing countries.

We also report changes in the trust variable for these two panels. Interestingly, the mean level of trust seems to have declined a little over time, even though this drop is not statistically significant. In Panel B, the average fraction of respondents trusting others is 38 percent in 1990 across countries, and 33 percent in 2000. There is no evidence of trust growing at a faster rate in faster-growing countries. Again, countries are quite heterogeneous with respect to trust. For example, 41 percent of people in India in 2000 report trusting other people, compared to 35 percent in 1990. In contrast, in China, 54 percent report trusting others in 2000 compared to 60 percent in 1990.

We can sharpen this analysis a little further by contrasting younger and older generations across these two time periods. Again, take India as an example. We computed mean family values in 1990 among those respondents more than 50 years old, as well as mean family values in 2000 among those respondents younger than 35 years old. We find a striking similarity in mean family values across the two groups. In fact, younger Indians in 2000 are more likely than older Indians in 1990 to respond that family is very important in their life. Among the five variables we have focused on in this analysis, the only one along which the two groups appear to differ systematically is the valuation of independence in children. Consistent with the view that fertility decisions may evolve more quickly with economic growth, are the different opinions of each group on the ideal number of children: that ideal number drops from 2.58 among those over 50 in 1990 to 2.12 among those less than 35 in 2000.

The overall picture that emerges from this analysis is that family norms are fairly stable over the short to medium run, even in rapid growth environments and possibly across generations. Obviously, this insight does not rule out the possibility of change over a longer run. One would optimally like to study longer panels and a richer sample of countries and family dimensions. However, it does not appear that family values change rapidly in response to economic changes.

Are Strong Family Values a Substitute for Weak Formal Institutions?

A related concern about interpreting the causality between family values and economic outcomes arises from the possibility of a trade-off between formal institutions and family ties. Some papers such as Burkart, Panunzi and Shleifer (2005) and Caselli and Gennaioli (2004) begin with an argument that if formal institutions regarding investor protection, contract enforcement or property rights protection are weak or nonexistent, strong family ties may provide a second-best solution for the development of economic activity. If this is true, the correlations documented in Tables 2 and 3 may be the results of an important set of omitted variables: formal institutions.

We investigate this possibility in Table 5. The formal institution we focus on in Panel A is investor protection. Our measure of investor protection is a summary index from La Porta, Lopez-de-Silanes and Shleifer (2006; see also La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998). This index uses principal component analysis to create an index based on three variables relating to securities law in a given country: disclosure standards, liability standards and anti-director rights. The index varies from 0 to 10, with higher values corresponding to higher levels of investor protection.

There is a positive correlation of 0.19 between “strength of family” and investor protection. This is inconsistent with the idea that stronger family values develop in response to weak investor protection laws. To get more directly at the issue of omitted variable bias, we present in Panel A of Table 5 regressions of GDP per capita and all the organizational variables discussed in Table 3 on both “strength of family” and investor protection. Perhaps it is not surprising, given the positive correlation between “strength of family” and investor protection, that controlling for investor protection, if anything, strengthens the correlations between various economic outcomes and “strength of family” compared to our findings in Tables 2 and 3. In all regressions in Panel A, the estimated coefficient on “strength of family” is statistically significant at the 5 percent level, except for transfer tax and external finance dependence. Investor protection appears related to these various economic outcomes in the expected ways, but only the relation between investor protection and the number of domestic listed firms is statistically significant.

As documented in Table 4, family values appear to move very slowly over time. This suggests that a better test of the possible endogeneity of family values to formal institutions would rely on using a more historic perspective on formal institutions in a given country. While such historic values are not systematically available, a recent literature has suggested that one important driver of many formal institutions is legal origin. English (common) law countries have been shown, among other things, to have higher levels of investor protection, superior protection of property rights, and a more efficient judicial system. Therefore, in Panel B of Table 5, we propose to proxy for past and present formal institutions within a country with a dummy for whether a given country has a common law tradition.

As a first step, we regressed “strength of family” on a common law dummy (not reported in the table). The point estimate is positive and statistically significant. Again, this finding is in contrast to what one might have expected under the view

Table 5
Formal Institutions and Family Values

<i>Panel A: Investor protection</i>			
	<i>Strength of family</i>	<i>Investor protection</i>	<i>N</i>
Log(GDP per capita)	-.43 (.06)	.40 (.44)	40
Self-employment	.03 (.01)	-.07 (.07)	41
Log(av. establishment size)	-.24 (.08)	-.38 (.60)	34
External finance dependence	-.02 (.01)	.12 (.09)	34
Log(# of firms/population)	-.36 (.08)	1.94 (.56)	42
Share of market capitalization controlled by top 5 families	.05 (.02)	-.11 (.13)	19
Maximal marginal transfer tax rate from parent to child	-3.75 (2.09)	12.59 (13.74)	31
<i>Panel B: Legal origin</i>			
	<i>Strength of family</i>	<i>Common law</i>	<i>N</i>
Log(GDP per capita)	-.39 (.06)	.08 (.23)	50
Self-employment	.04 (.01)	-.00 (.03)	76
Log(av. establishment size)	-.21 (.09)	-.06 (.37)	47
External finance dependence	-.02 (.01)	.04 (.05)	47
Log(# of firms/population)	-.39 (.08)	1.00 (.29)	42
Share of market capitalization controlled by top 5 families	.05 (.02)	-.14 (.06)	19
Maximal marginal transfer tax rate from parent to child	-2.99 (2.08)	-.23 (7.39)	31

Notes: The unit of observation is a country. “Strength of family” is the first component from a principal component analysis of the five family values described in Table 1. “Investor Protection” is an index of investor protection (from 0 to 10); “Common Law” is a dummy variable that equals 1 if a country has a common law tradition, 0 otherwise. Each row corresponds to a separate ordinary least squares regression; standard errors are reported in parentheses. See text for detailed definition of (and sources for) all dependent variables.

that stronger families are a substitute for weak formal institutions. We then replicate in Panel B of Table 5 the regressions of Panel A but replace investor protection with a dummy for common law.¹⁰ As in Panel A, controlling for this measure of the strength of formal institutions in fact strengthens the correlation between the

¹⁰ We obtain similar results if we include dummies for all legal origins instead of simply grouping all other legal origins into a single “non-common law” category.

various economic outcomes and “strength of family.” All coefficients on “strength of family” are significant at the 5 percent level, except for transfer tax. As already shown in prior work, common law origin is associated with a larger number of listed firms, a lower fraction of family control in total market capitalization and a stronger level of external finance dependence. There is, however, no systematic relationship between common law and firm size, fraction of self-employed or estate taxation.

In summary, the findings in Table 5 lend only very moderate support to the idea that stronger family values should be mainly interpreted as a reflection of weak formal institutions.

Conclusion

Family values may play an important role in shaping the organization of businesses and their efficiency. However, the macro-type evidence presented here can at best be suggestive. More research needs to be done to assess the relevance of cultural explanations for family firms and the exact mechanisms through which family values affect firms. It would be of particular interest to understand which dimensions of family values are most persistent and have the biggest impact on family businesses. The empirical work in this paper has focused on the strength of family ties as one source of cultural differences across countries. Other family-related differences of interest would be variations in inheritance structures or marriage norms such as polygamy, which might affect the longevity and cohesion of family firms. The cultural view of family firms implies that these firms might be less willing to make changes to their overall strategy even when market pressures ask for such changes. Out of a sense of duty and respect for their elders, younger generations might find it difficult to change decisions such as where to locate, what to produce, or which customers to serve. Future work might develop empirical approaches to investigate such sources of differences between family firms and nonfamily firms.

Moreover, it will be important to understand the interaction between family values and the formal institutions within a country. If family values are indeed (partially) exogenous and do not simply adjust in response to the economic environment, a more complicated dynamic between family values and formal institutions will arise. For example, shocks to the market of corporate control or increased governance pressures could make it more costly to indulge in these family-centered preferences. Alternatively, better markets for corporate control could allow families to hire professional managers while maintaining the beneficial elements of family ownership. A very interesting example of such dynamics between formal and informal institutions is highlighted in the work by Greif (1989). He analyzes how kinship relationships and norms between Maghribi traders facilitate the enforcement of contracts across long distances. These norms gave the Maghribi traders a comparative advantage when they were forced to leave their original homestead around Baghdad and move to Northern Africa. However, Greif also shows that the inability to change these norms hurt them in the long run, since

later on it prevented them from competing effectively with the Genoese traders, who were developing more advanced formal institutions.

We believe that much can be learned by taking seriously the “family” part of “family firms.” Our understanding of the nexus between family and firm should improve with more microeconomic studies that analyze how the structure of a given family—including its size, gender and age composition—alters the strategic choices and eventual performance of the family firm. Because of the very detailed data required to perform such analysis, future micro research on this work might be forced to proceed on a country by country basis. Ultimately, we believe that a richer understanding will be gained from the accumulation of many such detailed studies, spanning a wide range of countries with different cultural norms and formal institutions.

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