A Study on Difference between the Family Firms' Types and Firm Performance in Taiwan

Mickinsey company (2003) notes that 5% of family firms can continue to create value in the third generation of family. Jensen and Meckling (1976) suggest the "Convergence of Interest Hypothesis," which states that managers have higher ownership, and it is consistent with the benefit of shareholders. Leland and Pyle (1977) also agree with this opinion. However, Jensen and Ruck (1983) observe that if managers have most of the holding in the firm, they will let their interest be maximized, and then they adopt disadvantageous plans for shareholders, which is the "Entrenchment Hypothesis." In the country, Chung (1991) found that the holding of institutions is positively related to firm performance. Yeh and Chiou (1996) argue that the holding of insiders and performance are significantly related.

Our investigation uses family firms in Taiwan as our sample, adopts OLS for our regression analysis, and adds the rate of cash dividend paid and CEO dummy to investigate the difference between the family firm's types and firm performance in Taiwan. Our results indicate that when family ownership is less than seven percentage points, it confirms the Entrenchment Hypothesis; and when family ownership is between seventeen to thirty-one percentage points, it proves the convergence-of-interest hypothesis. However, regardless of family ownership being less than seven percentage points or between seventeen to thirty-one percentage points, if the founder or inheritors serve as the CEO, it will hurt the company's performance; but if the CEO is served by an external professional manager, it will increase the business performance.

Keywords: family firm, corporate governance, business performance

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