

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

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ABSTRACT

We investigate the relation between the family firms' types and firm performance in Taiwan. Mickinsey company(2003) note that 5% of family firm can continue to create value in third generation of family. Jensen and Meckling(1976) suggest that "Convergence of Interest Hypothesis", it is that managers have higher ownership is consisted with benefit of shareholders, Leland and Pyle(1977) also agree this opinion. But Jensen and Ruck(1983) observe that if managers have most of holding in firm, they will let their interest maximization, then they adopt the disadvantageous plan to shareholders, it is "Entrenchment Hypothesis". In country, Chung(1991) find that the holding of institution is positive relation to firm performance. Yeh and Chiou(1996) argue that the holding of insiders and performance are significantly. Our investigation use family firms of Taiwan as our sample, adopt OLS for our regression analysis, and add the rate of cash dividend paid and CEO dummy to investigate the difference between the family firm' types and firm performance in Taiwan. Our results indicate that when family ownership is less than seven percentage, it confirm to the Entrenchment Hypothesis; and while family ownership is between seventeen to thirty-one percentage, it prove the convergence-of-interest hypothesis. However, regardless of family ownership are less than seven percentage or between seventeen to thirty-one percentage, if their founder or inheritors serve as the CEO, it will hurt company' s performance; but if the CEO served as by external professional manager, it will increase to business performance.

Keywords : family firm、corporate governance、business performance

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