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Financial performance in the light of corporate governance in Polish family businesses

Abstract

Family businesses continuously are the most prevalent form of conducting business all over the world. What is more, family businesses have a major impact on the economic development on both global and national economies. Family involvement in the ownership and management of business mostly leads to achieving both economic as well as non-economic goals and clearly emphasizing the role and further development of social capital and, which follows that, the strategic perspective is significantly different between family and non-family ones. The need to realize those objectives influences the used ownership and management models in family businesses. Since the beginning of 21st century one has been able to observe the growing interest of empirical research in the field of: corporate governance structure, family involvement measurement and their impact on financial performance in family enterprises. This is the key reason why the authors would like to present this research problem on the basis of the Polish family businesses results.

The article presents a view (on the basis of theoretical and empirical analysis) of corporate governance models used in Polish family businesses through the financial performance and the capital structure. The empirical analysis covered a sample of 24,000 Polish family businesses in the period of 2008-2013. Use of linear regression has allowed the authors to verify the hypothesis concerning the occurrence of differences in profitability ratios and the capital structure in groups of family businesses using variant management models and allowed verifying the relationship between the degree of control and involvement of the owners in the management and financial performance and the capital structure. The received results, though inconclusive, indicate that the involvement of the owner in the governance process can affect the financial aspect of business. The prepared empirical analysis and conclusions of the article contribute to better understanding of the measures taken on the management and control decisions, what is more, they can provide guidance to owners of family businesses in shaping the corporate governance model.

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Introduction

Active involvement of family members in management processes and running a family enterprises are not only key constituents that make a clear differentiation between family businesses from non-family ones, but they can also provide explanation to divergent financial performance of the former group of enterprises (Mazzola, Sciascia, Kellermanns, 2013: 568-574; Le Breton-Miller, Miller, 2009: 1169-1191; Sciascia. Mazzola, 2008: 331-345). Still relevant scientific discussion on the impact of family involvement on family business performance has its roots in the 1970s of the 20th century, when Alfred Chandler described family businesses as ones managed in an incompetent way, full of conflicts and internal fights for power that lead to both to a decrease in their competitiveness capacities and reduced value (Chandler, 1977 MA: Belknap Press). A markedly different attitude was adopted by M. Jensen and W.H. Meckling (1976: 306-360), who labelled family business as associating management functions with ownership which in turn translates into mitigation of many problems that arise from the agency theory through their direct involvement, motivation and high-powered incentives to maximize firm value. Nowadays the Chandlerian camp also point to unequal treatment of employees from within and outside the family, exaggerated emphasis on socio-emotional wealth and excessive urge to make control which results in diminished innovativeness and risk aversion (Gomez-Mejia, Cruz, Berrone, DeCastro, 2011: 106-137; Lubatkin, Dino, Buchholz, 2001: 99–116). A substantial group of researchers present a different point of view, thereby showing numerous merits that can be attributed to control performed by family members. The key strengths include: readiness to invest in development of employees, actions geared towards the achievement of priorities of both a firm and employees, collaborative decision making and sense of affiliation (Miller, Lee, Chang, Le-Breton Miller, 2009: 802-818; Miller, Breton-Miller, Scholnick, 2008: 51-78; Gilson, 2007: 633-645).

The above mentioned different approaches that characterise the effects of family involvement and present its impact on financial results and the structure of firm financing made the authors of this article conduct an in-depth analysis of the relationships between owners and managers in family firms and how these relationships affect the performance of this group of economic units in Poland. For a full depiction of highlighted relationships, in the first part of this article the authors presented corporate governance theories that allow for classifying and structuring of the mentioned relationship. The agency theory, stewardship theory, stagnation perspective, and resource-based view were found to be meaningful and

significant to explain complex owner-manager relationships, and therefore described and characterized. The second part of the article discusses the results of empirical research carried out on the sample of Polish small and medium-sized family businesses. The results suggest that the degree of family involvement in ownership and management can affect financial performance of family businesses and their structure of financing.

Literature overview

Agency theory describes the potential for occurrence of a problem situation as a result of conflicting interests and information asymmetry between the two contracting parties. It assumes opportunistic behaviour of agent who acts with intentions to meet solely their own needs at the expense of other contract party - the principal. The consequences of these activities are referred to in issues of moral hazard and adverse selection. The transaction cost caused by preventing agency problems and opportunistic managerial behavior are reflected in agency costs (Siebels, Knyphausen-Aufsess, 2012: 280-304). According to the assumptions of the described theory these costs increase along with separation of ownership from management.

As scholars reveal, when a family member takes over the role of a manager in a family firm, agency costs decrease due to his/her personal involvement in future company development, and consequently also control mechanism expenditures are reduced (Daily, Dollinger 1992: 177-136; Ang, Cole, Lin, 2000: 81-106; Schulze, Lubatkin, Dino, 2002: 247-259). Clearly, the results arising from conducted research show that family businesses are exposed to a different type of agency cost related to shortcoming of altruistic behavior and desire to take over the firm management (Schulze, Lubatkin, Dino, 2003: 473-490). As to the latter, the literature depicts owner-manager as a person that has in their hands full control over business resources which may bring problems with self-control. As a consequence, a strategy aimed at maximizing long-term welfare of the family business is no longer an option, but instead following merely own benefits that favour short-term individual satisfaction. Giving consideration to the above described case, it should be noted that owner-manager can act favourably only to the group of employees connected or be a part of family, thereby being unjust to other employees or performing operations harmful from the business point of view (Schulze, Lubatkin, Dino, Buchholz, 2001: 99-116). Activities rooted in parental altruism may lead to a situation where a family member holds a managerial position even though their competences, skills and experience do not allow to run a business in an effective manner

(Hendry, 2002: 98-113). Furthermore, those personal relations may affect negatively the ability of control of the principal against the agent. Even if inappropriate behavior has been revealed, disciplinary action will unlikely be undertaken due to family ties. In addition, the quality of control made by the principal may be questioned, with intrinsic risk to lead to free-riding of the family agent (Ling, Lubatkin, Schulze, 2002: 171-181; Chua, Chrisman Bergiel, 2009: 355-372).

Nevertheless, there is also the bright side of altruism. Literature suggests that altruism be in place for relationships described for family businesses may bring many benefits. Scholars indicate that altruism may strengthen the family part creating collective ownership, reducing information asymmetry through communication platform and acting with altruistic preference in mind (Zahara, 2003: 495-512; Berghe and Carchon, 2003: 171-179; Lubatkin, Shulze, Ling, Dino, 2005: 313-330). Furthermore Eaton, Yuan and Wu (2002) deduce that in case of altruism behavior the agency cost can be reduced, at the same direction Kellermanns and Eddleston (2004: 209-228) proved that high level of altruism can cause lack of conflicts, development of participative strategy and overall better firm performance. Some results explicitly indicate altruism behavior as a source of competitive advantage of family businesses (Chami, 2001: 1-37; Carney, 2005: 249-265).

The literature and empirical assumption regarding agency cost in the case of family business do not speak common language. There may be plenty reasons for this mismatch, however the authors would like to draw attention to the survey findings which indicate that altruism behavior is contingent on the level of self-control of the principal and is affected by social and cultural background of any/every family business, there is why the agency cost can vary among family firms (Lubatkin, Durand, Ling, 2007: 1022-1029). It seems to be of equal importance that the discourse was mainly focused on presenting the impact of the discussed relation on economic performance, however for family firms performance financial conditions are integrated with non-economic goals. Due to underlined divergences concerning the family impact on ownership and management on financial performance of family business the authors would like to present the stewardship concept.

Stewardship theory posits that family firm manager acts in the manner that goes beyond the fulfilment of their sole needs. Instead, one concentrates on work aimed to attain common welfare whose activities are fully aligned with expectations of the firm owner (Pierce, Kostova, Driks, 2001: 298-310). The socioemotional involvement and action taken for improving development of the company in the long horizon are two most important dimensions in the relation between the owner and manager (Gomez-Mejia, Hynes, Nunez-

Nickel, Moyano-Fuentes, 2007: 106-137). Therefore, the fundamental conviction that shapes the owner-manager relationship refers to the pursuance of the firm success based on pro-organizational behaviour. It seems to be worth paying attention to the form of control suggested by stewardship theory which is manifested by supporting and advisory activities and not – as it is the case for agency theory – by imposing mechanisms that monitor the agent activities. On the basis of scientific research stewardship can take three forms: continuity, community and connection (Miller, Le Breton-Miller, Scholnick, 2008: 51-78). The focus of the assumption for continuity is to assure longevity of the company, so that the subsequent generations of the family can enjoy wealth from the family business (Gomez-Mejia,. Hynes, Nunez-Nickel, Moyano-Fuentes, 2007: 106-137). Community refers to the creation of common culture that promotes pro-organizational attitude, collaboration and motivation, so that the firm can survive throughout the generations (Arregle, Hit, Sirmon, Very, 2007: 236-245; Miller, Le Breton Miller, 2006: 73-87). Building community and caring for continuity lays foundations for connection that aims to form strong ties both within the firm and with entities in their outer environment (Gomez-Meija, Nunez-Nickel, Guiterrez, 2001: 81-95; Miller, Le Breton Miller, 2006: 73-87). Due to numerous similarities derived from the specificity of family business, on one side, and main assumptions of stewardship theory, on the other side, many researchers concur in using the above assumptions to describe the owner-manager relationship in family firms (Lubatkin, 2007: 59-67;.Eddleston, Kellermanns, 2007: 545–565; Corbetta, Salvato, 2004: 355–362; Greenwood, 2003: 491–494). However, opposing voices can be heard around the scientific world as well. A high degree of family involvement in both management and ownership combined with stewardship continuity may put a stress mainly on the issue of business transfer to the next generation, without a prior review of the successor's readiness to perform those functions. Such actions may result in dispersion of the sense of injustice among the employees, and as a consequence, exacerbate conflicts within the firm thereby leading to reduced value of the company (Mazzola, Sciascia, Kellermanns, 2013: 568-574; Umphress, Bingham, 2011: 621-640). As scholars argue, increase in the size, age and the stage in the lifecycle of the company may provoke – apart from the succession strategy – the growth of negative consequences of stewardship theory (Kara, Tracey, Philips, 2006: 861-877; Blanco-Mazagatos, Quevedo-Puente, Castrillo, 2007: 199-213; Hack, 2009: 1-29). Having that in mind, even more scholars pose a question what determinants shape the relationship between the owner and manager in family firms (what circumstances bring them closer to agency theory, or alternatively to stewardship theory) (Chrisman, Sharma, Taggar, 2007: 1005-1011; Nicholsen, Kiel, 2007: 585-608). The results

of research suggest that the adoption of the specific form of this relationship can be conditioned by values and organisational culture of family business, priorities in goalsetting by the first owner of the company (Eddeleston, Kellermanns, 2007: 545-565; Lubatkin, 2007: 59-67) and the existent system of employees' motivation (Corbeta, Salvato, 2004: 355–362).

The third theory that also characterizes the consequences of the owner-manager relationship and emphasizes its effect on firm performance is a stagnation perspective. Researchers point to a limited access to resources which may affect an acquisition of external capital and modern technologies (Grassby 2000), as well as competent managerial staff and/or specialists (Chua, Chrisman, Bergiel, 2009: 355-372). Conservatism along with a limited access to resources builds up a negative image of the owner-manager relation amidst family firms. This conservatism is reflected in risk-avoiding operations undertaken by family firms and their strategy-driven activities (Habbershon, William, McMillan, 2003: 451-465). The key factor with some potential to moderate this problem situation may appear to be the change of generations that will likely contribute to shifts in a firm's organizational culture. As a result of difficulties with access to resources and a conservative attitude to pursue the strategy, accusations often raised by researchers concern a slow growth and development of family businesses (Weber, Lavell, Lowry, Zellner, Barrett, 2003: 100–114). However, it should be noted that the results of empirical research are ambiguous with this respect and highlight with equal frequency an individualistic nature of the owner-manager relationship that stimulates development-oriented activities undertaken by family firms (Anderson, Reeb, 2007: 1301–1328). The last constituent of the stagnation perspective refers to a low survival rate of family businesses which in most cases can be attributed to growing conflicts between family members. Highlighted discord can also translate into reduced value and performance of the enterprise (Mazzola, Sciascia, Kellermanns, 2013: 568-574). One should also mention the fact that the influence of this factor can be either mitigated or completely eliminated as a result of a generation change.

A different perspective on what affects firm performance is presented by a resource-based view. The literature suggests that due to their unique construct (Habbershon, Williams, McMillan, 2003: 451-465; Eddleston, Kellermanns, Sarathy, 2008: 26-50) family businesses possess a bundle of rare resources, in particular concerning the issue of familiness in the business world (Cabrera-Suarez, Saa-Perez, Garcia-Almeida, 2001: 37-46; Pearson, Carr, Shaw, 2008: 949-969; Zellweger, Eddleston, Kelermanns, 2010: 54-63) that may exert their positive impact on the firm's competitive capabilities and superior firm performance (Sirmon and Hitt, 2003: 339:358) proposed one of the most comprehensive models that describe an

influence of the discussed relation on enterprise performance. They suggested that family firms dispose four unique attributes: human capital, patient capital, social capital and survivability capital, which combined with efficient and purpose managerial structure can become a rare resource (Sirmon, Hitt, 2003: 339-358). Scholars confirm that in case of family business family members have a positive bearing on the formation of human capital base, especially due to their in-depth knowledge of business core, loyal behavior, strategic long orientation and strong motivation (Miller, Le Breton Miller 2005). These highlighted assets build a high level of trust between all employees and flexible work environment (Miller, Le Breton- Miller, Scholnick, 2008: 51-78). On the other hand, the research outcomes reveal that employees' selection or promotion on the bases on family membership, rather than skills, work experience and general business knowledge can adversely affect human capital base (Covin, 1994: 287-296; Dunn, 1995 :17-28).

The main component of patient capital is long-term orientation, which is one of the characteristic of family firms, with the aim of passing the business to next generations (McConaughy, Philips, 1999: 123-321). Stability of business constitutes an aim of overriding importance for family firms when compared to, say, rapid growth strategy, and the results of conducted research show that this feature enables family firms to pursue more innovative and creative solutions (Zahara, Hayton, Salvato, 2004: 363-381; Zahara, Neubaum, Larraneta, 2007: 1070-1079).

Social capital that makes another element of the discussed model is also deeply rooted in long-term perspective of family business. Long-term relations and connections with suppliers, employees and other stakeholders make up the core of social capital accumulated by family businesses, and thereby build this model of unique resources configuration (Aldrich and Cliff, 2003: 573-596; Carney, 2005: 249-265). It is important to add that some scientific analysis suggest that family firms show less activity and participation in building networking connection (Graves, Thomas, 2004: 7-27).

Last but not least, attribute of family businesses is survivability capital which can take the form of free labor, monetary loans or loaned labor. As scholars argue, access to this resource base is only possible as a result of family manager's duality in family and firm relations and commitment to business (Sirmon, Hitt, 2003: 339-358). On the other hand, the research findings reveal that family enterprises withdraw assets from the business, which in the result decrease firm stability (Dyer, 2006: 253-273).

It should be noticed that resource-based view presents how family businesses differ from non-family ones and where are the potentials to build competitive advantage and

superior firm performance. However, there is still lack of empirical research which would be addressed to those mechanisms which might impact the value creation of family businesses.

Presented theoretical background on one hand suggests the positive effect of family involvement in business, especially in terms of participative strategy, common economic and non-economic goals and work stability environment due to succession perspective. On the other hand, negative effects can derive from conflicts that decrease firm value, promoting employees on the basis of their engagement in the family relations and aversion to acquire external resources because of losing control perspective.

In view of therefore inconclusive evidence of the family involvement in business effects the authors would like to present the empirical results corresponding to main topic. To the best of our knowledge, there exist a large number of empirical research dealing with family involvement in management and ownership and their influence on firm financial performance. These are mainly exemplified by listed family companies. However, we find a lack of scientific analysis based on the sample consisting of private family businesses. Despite of this authors would like to present some of the results of empirical research. The methods of analysis were chosen with an aim to thoroughly describe the mentioned relationship and its impact on financial performance for private family businesses. The scientific analysis prepared by Chrisman, Chua, Kellermanns and Chang (2007: 1030-1038) on 5,779 small family firms in USA suggests that if family managers behave as agent and the family owner as principal the firm performance is improved. On the other hand, the results of research conducted on 75 Lebanese company in 2012 suggest that family involvement in management and ownership have a positive relationship with the financial performance. Analyzes concerning family managers are that they act like stewards by considering the success of the company as their own rather than achieving their personal goals - as agents do (Charbel, Elie, Georges, 2013: 30-41). What can be interesting according to the empirical research on 158 Chinese family firms in 2011, family involvement does not relate to firm performance. But the greater the support on family longevity goals (succession perspective) the greater the positive relation between family involvement in management and firm performance, so the managers behave more like stewards when the organization strongly support family interest (Kim, Gao, 2013: 265-274). Some of those findings are similar with the results of the 523 Colombian family firms (privately hold and listed companies) between the 1966-2006, where the scholars observe negative family effect (management, ownership, control) for young and median-age firms when the founder or heirs are in charge. Stronger negative relation can be observed when there is founder presence. But for old firms this family effect changes and

becomes positive on financial performance (González, Guzmán, Pombo, Trujillo, 2013: 2308-2320). Based on the research evidence collected in European countries, researchers argue that in general family control in Western Europe leads to higher profitability of the company and market value (Bartoni, Caprio, 2006: 689-723; Maury, 2006: 321-341). Therefore the authors wish to present the results of two analyzes carried out amidst Italian family firms. The first research contained 113 family businesses (30 listed companies, 83 private)[3] in 2005, and the results suggest positive impact of the presences of family CEO on firm performance. What is more, coexistence of family and non-family managers in top management teams (TMT) hurt firm performance and support for U-shaped relation between the ratio of family members in the TMT and firm performance (Minichilli, Corbetta, MacMilan, 2010: 205-222). The second one was conducted on a sample of 294 small privately hold family businesses, eight years after the first one. Scholars observed inverted U-shaped relation between family involvement in ownership and return on assets and a positive relationship between family involvement in management and return on equity (Mazzola, Sciascia, Kellermanns, 2013: 568-574). In terms of Polish family businesses, the authors find relevant the research conducted by Kowalewski, Talavera and Stetsyuk (2010: 45-59), among 217 family firms between 1997 and 2005. Its results revealed an inverted U-shaped relationship between the family involvement in ownership and financial performance. Results suggest that family involvement in management is positively related to financial performance. Furthermore, firms with family CEOs are likely to outperform their counterparts that have non-family CEOs. According to the authors' best knowledge, there has been no previous research done in Poland that addressed listed family businesses.

Ambiguity of theories and research outcomes that depict the relationships within family businesses and their impact on financial performance encouraged the authors to conduct a survey on the sample of Polish non-public family businesses. In the following part of this article the relationship between financial performance and the degree of family involvement in ownership and management of family firms was tested. In addition to that, an issue of the capital structure in family businesses was examined. As argued by Gallo, Tapies and Cappuyns (2004: 303-318), family firms are driven by a unique logic of financing. Taking into account the features of family business such as long-term strategic orientation, significant contribution of family members in running a company, reduced acceptance of risk

[3] As the authors say: "having both public and private firms in the same sample in the Italian context is not surprising, it is due to the very small less than 300 in total), listed family controlled firms in Italy have very strong familial character.

taking, loyalty, sense of security as well as care of firm reputation, a certain universal sequence of financing used by this type of business entities can be assumed. According to Zata-Poutziouris (2011: 70-81), in order to finance their activities family firms use in first place personal savings of their family members, then retained profits, debt, and lastly external equity capital. Whether along with increased family involvement in the firm its capital structure is subject to change, remains an open question. In this article the following hypotheses were assumed:

H1: There will be an inverted U-shaped relationship between family involvement in ownership and company performance. Moderate levels of family involvement in ownership will be associated with the highest levels of company performance.

H2: There will be an inverted U-shaped relationship between family involvement in management and company performance. Moderate levels of family involvement in management will be associated with the highest levels of company performance.

H3: There will be a relationship between family involvement in ownership and company capital structure.

H4: There will be a relationship between family involvement in management and company capital structure.

Two first hypotheses were adopted after Miller, Le Breton-Miller (2006: 73–87) and Sciascia, Mazzola (2008:331-345). The hypotheses 3 and 4 arise from the above mentioned contentions made by Gallo, Tapies, Cappuyns (2004: 303-318) and Zata-Poutziouris (2011: 70-81).

Research sample and method

The empirical analysis covered small and medium-sized family enterprises with their seat in Poland. For the purpose of this research, a broad definition of a family business was adopted. In accordance with this definition, a family firm is an entity in which more than 50% of the business is owned by an individual or family. Financial data of the companies included in the sample were gathered by Infocredit S.A. in Warsaw and come from financial statements submitted to the National Court Register. The research sample consisted of all entities that submitted financial statements and made available data about their ownership structure and the composition of the management structure. In the years 2008-2012 these requirements were fulfilled by more than 25,000 entities, whereas in 2013 by over 13,000.

In the first step of the research, the values of necessary variables were estimated. The variable *performance* that was estimated with the use of an EBITDA margin, EBIT margin,

return on sales, return on assets and return on equity, aimed at a synthetic assessment of firm performance. The variable *debt ratio* allowed for a preliminary assessment of the financing structure policy used by entities. As an independent variable, we used a *family involvement in ownership (FIO)* ratio that depicts a proportion of family involvement in equity of the enterprise. The variable *family involvement in management (FIM)* illustrates a proportion of family members in management structures. In addition, three control variables, that is *size*, *industry* and *institutional investor* were introduced into the regression equation.

The variable *size* was a dummy variable that enabled to specify whether the enterprise falls into a small or medium-sized category[4]. The variable *industry* was created on the basis of the two first digits of the Polish Classification of Activities (PKD) and allowed to classify enterprises participating in the research into various sectors of activity. The last control, dummy variable *institutional investor* made it possible to observe whether involvement of an institutional investor may affect financial performance and the capital structure of enterprises.

The linear regression equations used in the research took the following form:

$$Performance_{it} = a_0 + a_1\, industry_{it} + a_2\, size_{it} + a_3\, institutional\ investor_{it} + a_4\, FIO_{it} + u_{it} \quad (1)$$

$$Debt\ ratio_{it} = a_0 + a_1\, industry_{it} + a_2\, size_{it} + a_3\, institutional\ investor_{it} + a_4\, FIO_{it} + u_{it} \quad (2)$$

$$Performance_{it} = a_0 + a_1\, industry_{it} + a_2\, size_{it} + a_3\, institutional\ investor_{it} + a_4\, FIM_{it} + u_{it} \quad (3)$$

$$Debt\ ratio_{it} = a_0 + a_1\, industry_{it} + a_2\, size_{it} + a_3\, institutional\ investor_{it} + a_4\, FIM_{it} + u_{it} \quad (4)$$

where *i* indexes the firm, *t* indexes time and u_{it} denotes the error term.

The absence of multicolinearity was checked in each regression model; no tolerance coefficient was close to 0, and no VIF coefficient was higher than 2.

Equations 1 and 2 of the linear regression allowed to verify an influence of family involvement in ownership on firm performance and its capital structure. Equations 3 and 4 enabled to verify an influence of family involvement in family business management. In order to test inverted-U-shaped relationship between family involvement in ownership and management and financial performance and capital structure, in the second step of the analysis, the additional variables *FIO squared* and *FIM squared* were added to the above equations.

[4] Following the Commission Regulation (EC) 800/2008 Annex 1, the category of small and medium-sized enterprises is made up of enterprises which, for a small enterprise, employ fewer than 50 persons and which have an annual turnover and/or an annual balance sheet total not exceeding 10 million euro, and for medium-sized enterprises, those which employ fewer than 250 persons and which have an annual turnover and/or an annual balance sheet total not exceeding 43 million euro, respectively.

Results

The results of the analysis concerning the influence of FIO and control variables on financial performance were presented in Table 1. Throughout all the years of analysis, the regression equations proved to be of statistical significance at the significance level of 0,001. The models marked as (1) tested a linear correlation between a synthetic measure of financial performance and family involvement in ownership. No statistically significant correlations were found. An introduction of a *FIO squared* variable into the models (2) that enabled to test the form of the relationship also failed to reveal statistically significant correlations. Thus, the H1 hypothesis adopted for this research could not be confirmed. Only control variables were of apparent statistical significance. It was demonstrated that in the years 2008-2012, the sector of an enterprise activity exerts its influence on financial performance. An involvement of an institutional investor in the family firm had a statistically significant impact on financial performance in the years 2008 and 2009, and it was negatively correlated. Also the size of the family firm proved to be a variable of statistical significance. As results from the research, medium-sized family enterprises outperformed on average their smaller counterparts between 2009-2013. These results suggest that an increase in family involvement in ownership does not result in higher added value in the form of superior financial performance generated by the company. One should bear in mind here that for all enterprises participating in the survey family had a minimum 50% share in equity capital. In other words, in the majority of cases family could make decisions that were not consulted with the remaining shareholders.

The degree of family involvement in ownership in family businesses, though insignificant in view of financial performance, turned out to be significant as for the capital structure context (see Table 2). The obtained results show that along with increased family involvement in ownership the degree of use of borrowed capital in the firm financing is growing, which confirms the hypothesis H3. Lack of statistical significance of a *FIO squared* variable suggests the linear correlation. Moreover, it should be noted that, like for financial performance, the capital structure varies depending on the sector of activity of enterprises. Also the presence of an institutional investor affects the capital structure – family firms having an institutional investor as co-owner use to a larger extent borrowed capital as compared with other entities. It should also be noted that there were no statistically significant differences in the capital structure between small and medium-sized family enterprises. On the basis of these results it can be concluded that the reluctance to use external sources of financing decreases along with a higher family share in equity capital. These findings can be

explained by the fact that family shareholders are less threatened by a hostile takeover of their company if their percentage capital share increases. Lower risk associated with it makes them encouraged to reach for external sources of financing which, due to the financial leverage, can contribute to an increase in return on equity that largely belongs to the family.

The results of the regression analysis that tested the influence of family involvement in management on financial performance recorded by family businesses were shown in Table 3. Throughout all the analysed periods, an influence of *FIM* on financial performance appeared to be statistically significant. Increased family involvement in family firm management resulted in better financial performance on average. In addition, between 2008-2012 the statistical significance of the *FIM squared* variable indicates that the described correlation is not linear. Positive values of the beta coefficients for the *FIM* ratio combined with negative values of the beta coefficients for the *FIM squared* ratio suggest an inverted U-shaped relationship between family involvement in management and financial performance of Polish family firms which confirms the H2 hypothesis is true. This means that moderate family involvement in management allows for achievement of highest financial performance. This relationship was not confirmed merely in 2013, which may be the result of a smaller research sample that covered ca. 50% of entities from previous years. As for the *FIO* analysis, in the majority of analysed periods (4 out of 6 years) financial performance was affected by the sector of firm activity, and the size of the firms – on average medium-sized family businesses outperformed small ones. Involvement of an institutional investor in the ownership structure turned out to have an impact on financial performance only in 2008 and 2009 – identical as for the *FIO* analysis. Based on the results presented above it can be concluded that family involvement in the company's management affects its financial performance. The relationship showing that moderate family involvement translates into superior financial performance can suggest that family involvement can either bring added value to the company or damage it. Therefore, in the authors' opinion this confirms that there has been no single theory developed yet with enough power to provide an explanation to this issue.

Table 1. Regression analysis. Independent variable: Performance

	2008		2009		2010		2011		2012		2013	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
						Beta Coefficients						
Industry	0,052***	0,052***	0,034***	0,034***	0,015*	0,015*	-0,018**	-0,018**	-0,019**	-0,019**	-0,014	-0,014
Institutional investor	-0,025**	-0,025**	-0,017*	-0,018*	-0,012	-0,012	-0,008	-0,008	-0,005	-0,005	0,014	0,014
Size	0,013	0,013	0,042***	0,042***	0,048***	0,048***	0,043***	0,043***	0,060***	0,060***	0,076***	0,076***
FIO	-0,011	0,057	-0,014	-0,136	-0,008	0,036	-0,005	0,014	-0,008	-0,045	0,017	-0,015
FIO squared		-0,068		0,123		-0,043		-0,018		0,036		0,033
Models						Values						
Adj. R^2	0,003	0,003	0,003	0,003	0,002	0,002	0,002	0,002	0,004	0,004	0,006	0,006
F	18,355***	14,799***	17,686***	14,543***	14,626***	11,749***	13,875***	11,108***	24,785***	19,861***	19,344***	15,488***

* p < 0,05; ** p < 0,01; *** p < 0,001

Table 2. Regression analysis. Independent variable: Debt ratio

	2008		2009		2010		2011		2012		2013	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
						Beta Coefficients						
Industry	-0,074***	-0,074***	-0,069***	-0,069***	-0,064***	-0,064***	-0,061***	-0,061***	-0,052***	-0,052***	-0,048***	-0,048***
Institutional investor	0,073***	0,073***	0,075***	0,075	0,073***	0,073***	0,071***	0,071***	0,073***	0,073***	0,072***	0,072***
Size	0,002	0,002	-0,006	-0,006	-0,009	-0,009	-0,007	-0,007	-0,001	-0,001	0,004	0,004
FIO	0,091***	0,033	0,096***	0,111	0,093***	0,128	0,090***	0,089	0,087***	0,104	0,072***	0,039
FIO squared		0,058		-0,015		-0,035		0,001		-0,017		0,033
Models						Values						
Adj. R^2	0,012	0,011	0,011	0,011	0,010	0,010	0,010	0,010	0,008	0,008	0,007	0,007
F	68,099***	54,565***	71,255***	57,008***	64,583***	51,698***	59,901***	47,919***	52,156***	41,731***	22,151***	17,735***

* p < 0,05; ** p < 0,01; *** p < 0,001

Table 3. Regression analysis. Independent variable: Performance

	2008		2009		2010		2011		2012		2013	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
	Beta Coefficients											
Industry	0,039***	0,040***	0,020**	0,021***	0,000	0,001	-0,030***	-0,029***	-0,030***	-0,030***	-0,028**	-0,028**
Institutional investor	-0,022***	-0,022***	-0,015**	-0,015*	-0,012	-0,012	-0,009	-0,009	-0,004	-0,004	-0,001	-0,001
Size	0,012	0,010	0,041***	0,038***	0,046***	0,043***	0,041***	0,039***	0,058***	0,056***	0,069***	0,068***
FIM	0,042***	0,126***	0,026***	0,155***	0,039***	0,168***	0,032***	0,104**	0,033***	0,121***	0,033***	0,074
FIM squared		-0,086**		-0,131***		-0,131***		-0,074*		-0,090**		-0,042
Models	Values											
Adj. R^2	0,004	0,004	0,003	0,003	0,003	0,004	0,003	0,004	0,005	0,005	0,006	0,006
F	24,010***	20,479***	17,442***	16,984***	22,297***	20,869***	22,558***	19,001***	33,418***	28,153***	21,966***	17,748***

* p < 0,05; ** p < 0,01; *** p < 0,001

Table 4. Regression analysis. Independent variable: Debt ratio

	2008		2009		2010		2011		2012		2013	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
	Beta Coefficients											
Industry	-0,065***	-0,066***	-0,061***	-0,062***	-0,057***	-0,057***	-0,055***	-0,056***	-0,047***	-0,047***	-0,046***	-0,046***
Institutional investor	0,023***	0,023***	0,023***	0,023***	0,022***	0,022***	0,020**	0,021***	0,024***	0,024***	0,030***	0,030***
Size	0,000	0,001	-0,008	-0,006	-0,010	-0,007	-0,008	-0,006	-0,003	0,000	0,003	0,004
FIM	-0,032***	-0,107**	-0,026	-0,127***	-0,024***	-0,127***	-0,029***	-0,126***	-0,030***	-0,141***	-0,026**	-0,059
FIM squared		0,077*		0,102**		0,104**		0,098**		0,112***		0,033
Models	Values											
Adj. R^2	0,006	0,006	0,005	0,005	0,004	0,005	0,004	0,005	0,004	0,004	0,004	0,004
F	37,350***	30,906***	33,375***	28,561***	28,690***	24,874***	29,005***	24,918***	24,801***	22,079***	13,210***	10,677***

* p < 0,05; ** p < 0,01; *** p < 0,001

Estimated regression equations that describe the relationship between the *FIM* and the capital structure were presented in Table 4. They confirmed the hypothesis H4 as true and demonstrated that in the years 2008-2012 the relationship between the use of borrowed capital in financing of family businesses and family involvement in management is U-shaped. This means that in Polish conditions family firms with moderate family involvement in management use relatively lower borrowed capital than others. In 2013 this relationship was linear which might likely be the effect of the reduced research sample. Within the control variables, the capital structure was influenced by sector and institutional investor whose presence affected a higher degree of use of borrowed capital. The adopted capital structure was by no means affected by the size of the enterprise.

Discussion

Summarizing the results, some salient relationships should be indicated. Firstly, financial performance of Polish non-public family firms is primarily influenced by family involvement in management. Inverted U-shaped relationship between family involvement in management and the synthetic measure of firm performance show that moderate degree of family involvement is optimal from the viewpoint of financial performance. It follows that family members in the firm management structure promoting altruism, mobilising social capital and ties with stakeholders contribute to a formation of long-term strategic perspective of the firm, and a firm competitive advantage that can translate into above-average financial performance. For making this come true, managers outside the family should counterpoise to the firm management structure. They can reduce the negative effects of family involvement in management such as self-control problems, attainment of merely family goals, lack of professionalism or excessive conservatism. It should be also mentioned that family businesses with moderate degree of family involvement in management use sources of borrowed financing. Family managers are capable of controlling effectively other managers without being compelled to use debt as a disciplinary tool as evidenced in firms managed exclusively by managers outside the family. Higher proportion of borrowed capital in the firms managed primarily or solely by family members can be explained by reduced fear of losing control over the company.

Secondly, the ownership structure will not affect considerably firm financial performance. However, it will have an effect on the use of the sources of borrowed capital. One should bear in mind that in the analysed enterprises the share of family in the ownership

structure amounted to at least 50%, which in practice means full control of the company. Further increase in capital involvement does not determine, as opposite to the management structure, the change of goals or strategy of the family business. Increased proportion of debt in the firm financing, along with a rise of involvement in ownership is likely to be a result of earlier mentioned fear of losing control over the company. In such situations, the benefits of using financial leverage become evident for firm owners and they can decide to raise the share of debt among the sources of financing with no fear of losing control over the firm.

Thirdly, it was proved that besides the most crucial factors from the viewpoint of this article, namely FIO and FIM, financial performance of family businesses is varied depending on the sector of activity and their size. On average medium-sized family firms outperformed financially small enterprises.

Contribution and limitations

This article attempts to join a broad academic debate in order to better understand and explain the mechanisms of the functioning of family firms. According to the authors' best knowledge, this is the first effort to verify the relationship between family involvement in ownership and management and financial performance of non-public family businesses in Poland. Contrary to the research outcome presented by Sciascia, Mazzola (2008: 331-345) and Minichilli, Corbetta, MacMilan (2010: 205-222) based on the samples of Italian family firms, there is an inverted U-shaped relationship between FIM and financial performance. Variations in the results of the presented pieces of research may have their roots in cultural differences, variables embedded in external environment of enterprises and specific features of a given political and legal framework. On the ground of the Polish market, no relationships between FIO and financial performance like the ones presented by Kowalewski, Talavera and Stetsyuk (2010: 45-59) on the sample of Polish public family companies, were revealed.

Presented conclusions may constitute the guidance for owners of Polish family firms. It turns out that an excessive exposure of family in the management structures does not lead to improved financial performance of these firms. Involvement of both family members and outside managers to run family businesses seems to be optimal. Such combination makes it possible to benefit from the attitudes of family members that promote altruism, and build social capital and ties with stakeholders and managers from outside the family with adequate professional background who reduce intention of the other managers to represent merely the interests of family and are capable of diminishing owners' risk aversion and conservatism.

Finally, one should notice some limitations of the conducted research. The first one concerns the selection of the research sample which by no means can be considered as representative. The sample consisted of all non-public enterprises that had an obligation to submit annual financial reports to the National Court Register and made data on the ownership and management structures available. The second limitation is a relatively low index of adjustment of the models which suggests the existence of other important variables explaining financial performance and the capital structure of family firms that were not covered by the study. Previous studies also gave consideration – apart from control variables employed in this research – to firm age and succession perspective which contribute to family firm performance (Miralles-Marcelo, Miralles-Quirós, Lisboa, 2014: 267-293). Researchers with equal frequency point to heterogeneity of family businesses which means that one incorporated solution cannot obtain the same financial results in other family firm. A decision concerning the choice of the owner-manager relationship is autonomous to each enterprise (Nordqvist , Sharma , Chirico, 2014:192-209).

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