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Abstract: Using 1972 firm-year observations of Belgian subsidiaries, I examine whether the previously documented better performance of family firms can be attributed to the more efficient divestiture decision in these firms. Consistent with this hypothesis, the results reveal that families holding large blocks of shares engage in more restructuring activity. Also, when the founder is present in the family firm, when the chairman of the board belongs to the family or when the function of CEO and chairman is not occupied by the same person, the likelihood of a voluntary restructuring will be higher.

JEL classification: G32, G34

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1. Executive summary

Recently, several authors have demonstrated that family-owned firms outperform other firms, in the US as well as in Continental Europe (Anderson and Reeb, 2003, Barontini and Caprio, 2006, Villalonga and Amit, 2006,). This impact of family firms is not just the consequence of their blockholdings since they also outperform non-family firms with other types of blockholders (Andres, 2008). Additionally, this effect seems to be most pronounced for founder-led firms. Families thus appear to have the capabilities to manage firms better than others. Few empirical studies, however, focus on the reasons for this outperformance. Given the dynamic nature of the firm's organizational structure, a better performance implies that families more adequately react to situations that threaten the future profitability or value of the firm. Underperformance or lack of value creation by some of the activities would thus sooner lead to an intervention by families as compared to other shareholders. As a result, voluntary restructuring would be more likely in family firms if this is one of the causes for their outperformance. Furthermore, previous empirical evidence suggests that especially the families that are still active in the firm, vigilantly scrutinize the contribution of each activity and will immediately divest the harmful activities.

To test this conjecture I use the financial statements of on average 359 non-listed Belgian subsidiaries over the period 1991-1996, resulting in 1972 firm-year observations. Studying divestitures using Belgian firm data offers the opportunity to examine the motives underlying the restructuring decision in a corporate environment characterised by concentrated ownership and in many cases family ownership. On the Brussels Stock Exchange, the sum of the share stakes held by large shareholders amounts to, on average, more than 65% and the largest direct shareholder controls on average 43% of the voting

rights (Renneboog, 2000). Additionally, Becht et al. (1999) show that families own a voting rights majority in 15% of the industrial and commercial companies and hold 26% of the shareholdings of at least 25% in Belgium. Families are mainly the dominant shareholders in industrial and commercial companies with an average substantial shareholding of nearly 20%. This kind of concentrated ownership is typical for many countries around the world as has been demonstrated by several authors (e.g. La Porta et al. (1999), Claessens et al. (2002), Andres (2008)). In this setting, the dominant shareholder has the power and the incentive to monitor management. As a result, management could be forced to divest assets when it is in the interest of the shareholders. Furthermore, the paper adds to the limited empirical evidence about the impact of family ownership on the divestiture decision. Finally, its main contribution follows from the fact that a comparison is not only made between family firms and non-family firms on one hand, but also between the different types of family firms dependent on their ownership concentration and governance characteristics.

The results reveal several interesting insights. As expected, listed firms will voluntarily restructure a subsidiary as the desire to focus increases and as the subsidiary becomes less profitable. This is also in accordance with previous research of Berger and Ofek (1996) and John et al. (1992). Family ownership turns out to be important in the restructuring decision although one should not consider family firms to be a homogenous group. Especially families holding large blocks of shares engage in more restructuring activity. At high levels of ownership concentration, more than 75%, agency costs come into play and family firms become indistinguishable from non-family firms. Other family characteristics also play an important role in the decision to either retain or divest a subsidiary. When the founder is present in the family firm, when the chairman of the board belongs to the family or when the function of CEO and chairman is not occupied by the

same person, the governance of the firm will happen differently as compared to other firms. In these cases the likelihood of a voluntary restructuring will be higher and these family firms will restructure faster. This contradicts the intuitive assumption that families will engage in less restructuring but is consistent with the idea that they will monitor more efficiently. This corresponds with the finding that family firms will outperform other firms.

2. Introduction

In the past, many scholars have examined the dynamics of organizations. A typical example of these firm dynamics are the voluntary firm restructurings that attracted a lot of attention in the popular as well as in the academic literature. The U.S., for example, witnessed a huge number of corporations announcing restructuring programs in the 80's, following a diversifying merger wave. Recently, as a consequence of the financial and economic crisis, firm restructurings again are the subject of many headlines in the press. These dynamism in firm behaviour follows from managers' goal to maximize shareholder value. As a consequence firms will voluntarily restructure their activities and adjust the organizational structure if necessary. This restructuring activity can occur in different ways, including changes in management, operations and organizational structure and changes in financial policies as was documented by John et al. (1992). A considerable amount of this restructuring activity happens through asset sales, involving the sale of plants, divisions or subsidiaries. Therefore, each subsidiary, which is the focus in this paper, should be scrutinized to determine whether it is a likely candidate for a divestiture. Dependent on the underlying motive of management, the subsidiary's characteristics will play a crucial role in this decision process. If certain activities no longer match management's strategy, a restructuring method will have to be chosen. From the financial literature, three important motives have been brought forward that underlie the observed divestiture activity.

A first motive to sell or liquidate a subsidiary, is when the parent firm is subject to financial constraints. This is in line with John et al. (1992) and Kang and Shivdasani (1997) who focus on voluntary restructurings made in response to declining performance. They find that firms respond to financial distress using predominantly contraction policies, which refers primarily to asset sales, divestitures, spin-offs, employment reduction and emphasis on core business. Lang et al. (1995) also argue that management will pursue its own objectives and will sell assets if that provides them with the cheapest funds. They will do so when raising funds on the capital markets is too expensive because of high leverage and/or poor performance. Consistent with this, they document that poor operating results of a subsidiary are mentioned by 26% of the firms in their sample as a motivation for divestitures¹. This implies that a firm suffering from financial constraints will divest or liquidate those subsidiaries that aggravate the financial problems.

An alternative explanation for the divestiture activity observed states that increasing focus motivates divestitures. Since unrelated assets, defined in terms of the activities' sector code, may interfere with the seller's other assets, eliminating the resulting negative synergies leads to higher focus and better performance of the remaining assets. John and Ofek (1995) report that the industry-adjusted cash-flow performance of the remaining assets improves significantly after a focus-increasing divestiture. Furthermore, the seller's abnormal return is higher as the divested division becomes less related. Wernerfelt and Montgomery (1988) and Comment and Jarrell (1995) also find that increases in focus resulted in performance improvements. Berger and Ofek (1996), examining a sample of diversified firms taken over, find that a greater portion of the acquisition price is divested as

¹ John and Ofek (1995) do not support the financial constraints hypothesis since debt repayment has no marginal explanatory power beyond that of increasing focus. Furthermore, Slovin et al. (1995), find a significantly positive abnormal return for the sellers in their sample that do not retain the proceeds, which contrasts the findings of Lang et al. (1995).

the value destruction in the target becomes bigger. Another approach to estimate the importance of focus in the restructuring decision, defines focus in terms of the diversity of the investment opportunities within a firm. Jongbloed (1994) argues that firms that combine units with different investment opportunity sets are more likely to divest units by means of a spin-off or an equity carve-out. He also predicts that the units that will be divested are either the ones with the fewest or the highest growth opportunities. This way the intra-firm variation of the investment opportunities will be reduced most strongly. Using similar arguments, Rajan et al. (2000), demonstrate that the mis-allocation of investment funds is related to the diversity of investment opportunities. As the variance of the investment opportunities increases, transfers from high Q to low Q divisions become more likely. So, if the focus motive is prevalent, the probability of a subsidiary being divested will depend on its relatedness with the other members of the group. If there are few synergies between a subsidiary and the controlling firm or the other members of the group it is likely to be divested. The subsidiaries that differ most from the others will thus be the principal candidates for being sold or being liquidated.

The final motive for divestitures brought forward states that management will search for those assets that best fit their abilities and can be run efficiently. Under the managerial capabilities motive, or the efficiency motive as it is called by Schlingemann et al. (2002), management will try to use its skills and abilities optimally and will restructure those subsidiaries that are not or no longer compatible. In a related paper, Matsusaka (2001) views diversification as a matching/search process. Central in his model is the idea that firms consist of organizational capabilities that can be used in multiple industries. If performance in the existing businesses goes down, it becomes interesting to start looking for other opportunities instead of liquidating. Hence, more firms entering the sector or diminishing profit margins may induce a firm to diversify and eventually abandon its

current activities. Similarly, Maksimovic and Phillips (2001, 2002) develop a model in which firms face decreasing returns to scale from managerial ability. Their empirical evidence suggests that the productivity of a segment, as compared to the productivity of the other segments, determines the segment's growth within conglomerates. Under the assumptions of their model, the segments in which management has more firm-specific knowledge will build up a comparative advantage which results in a higher productivity. As a result these segments will grow more whereas growth will be reduced in the less productive segments. From this the authors infer that the size of a segment can be considered a direct proxy for firm ability. The main divisions will be those where the conglomerate is most productive. As a result, conglomerates are more likely to sell assets from peripheral divisions. This probability also increases as the other divisions become more productive as compared to their industry counterparts.

Although these motives have been shown to drive the restructuring decision in many firms, it remains unclear to what extent this restructuring activity differs between family firms and non-family firms. Furthermore, hardly any evidence exist on the importance of family firm characteristics on this decision. As Sharma & Manikutty (2005) argue, 'virtually nothing is known of the divestment processes in family firms where decisions are governed as much by financial and rational motivations as they are by the emotional forces and family traditions'. So the main contribution of this paper is the additional insights it provides in the way the restructuring activity happens in family firms and the necessity to consider the ownership structure and the governance of the family firm in this decision.

The rest of the paper is organized as follows. The next section describes the theory and develops the hypotheses about the impact of family firm characteristics on the voluntary restructuring decision. Section 4 describes the data used in the paper followed by

a discussion of the results of the binomial logit analyses in section 5. The final section shows the conclusion of this paper.

3. Hypotheses and methodology

When families hold a controlling block of shares, this entails both benefits and costs. One potential benefit associated with the block of shares held by families, is their increased incentive to monitor the firm's activities (Demsetz and Lehn, 1985). Also, in case of family ownership, the traditional agency conflict between shareholders and management is mitigated (Jensen and Meckling, 1976). On the other hand, family ownership also leads to potential costs. In family firms, a different type of agency problems may arise since the potential conflict now is to be found in the different objectives of the controlling family and the minority shareholders in the firm (Faccio et al., 2001). Family relations also tend to make agency problems associated with private ownership and owner management more difficult to resolve due to self-control and other problems engendered by altruism (Schulze et al., 2001). As has been shown previously, family ownership and family management have a positive impact on the performance of the firms under control. This implies that the benefits associated with family ownership dominate the potential drawbacks. Similarly, because of the beneficial impact of family ownership, families will retain or divest certain subsidiaries sooner as compared to other firms when these activities have a negative impact on performance or the value of the firm. This is in line with the argument that family firms have special incentives to effectively manage the firm's financial capital (Gallo & Villaseca, 1996; McConaughy & Phillips, 1999). Moreover, since families invest a major part of their wealth into the company, which results in a poorly diversified portfolio, they will scrutinize the firm's performance thoroughly. As a result one could expect that families

will intervene sooner when confronted with a sub-optimal organizational structure. Corporate restructuring would thus occur more frequently when a company is family-owned.

On the other hand, Sirmon and Hitt (2003) propose that family firm's managers are less likely than nonfamily firms to make appropriate shedding decisions, due to the emotional ties, nostalgia and/or escalation of commitment related to their unique social and human capital. Sharma (2004) also argues that firm performance may have a meaning to family firms which goes far beyond the financial numbers. Since family owners also obtain non-pecuniary benefits, they might decide not to restructure a company, although it would increase the value of the firm when doing so. However, given the often documented outperformance of family firms, I hypothesize that family firms will rather engage in a voluntary restructuring as compared to non-family firms.

Hypothesis 1: Family-owned firms will be more likely to divest or liquidate a subsidiary as compared to non-family firms.

In the previous hypothesis, family ownership has been treated as a single homogeneous group. However, several researchers have demonstrated that this is not the case (Miller et al., 2007). One possible distinction that can be made is based on the percentage held firmly. When the free float, the percentage of shares freely available on the stock market, is large, it can be expected that the block of shares held by the family does not allow the family to impose its will. As a result, the firm would rather be governed in a way similar to that in non-family firms. However, if family ownership induces higher restructuring activity because of the higher incentive to monitor, it could be expected that large ownership by families is positively related to restructuring likelihood.

Hypothesis 2: Family firms in which the family holds a large block of shares are expected to engage in more restructuring activity than other family and non-family firms

Villalonga and Amit (2006) also note that one should distinguish among family firms dependent on the difference in ownership, control and management. In my sample, however, the family holds 50% of the shares in the median firm which makes a distinction between ownership and control less useful. They also find that family ownership only creates value when the founder serves as the CEO or as the chairman of the board with a hired CEO. Other authors have equally stressed the importance of the presence of the founder who seems to possess specific knowledge which leads to a better performance. A similar reasoning can be made for firms that have been taken over by a family or an individual who have brought in new activities and turned the company into a new one. Such firms are called semi-founder firms hereafter². Similar to the founder firms, these semi-founders could be expected to have the ability and knowledge to intervene as soon as the organization deviates from its optimal structure.

Hypothesis 3: Family firms in which the founder or the semi-founder are still active are expected to engage in more restructuring activity than other family and non-family firms.

² A typical example is GBL, the financial holding company of Albert Frère. In 1981 he participated with Pargesa, Cobepa and Gevaert in the former Groupe Bruxelles Lambert and became chairman of the board in 1987. He divested many small participations and turned it into one of the most influential financial holding companies in Belgium.

Besides the distinction dependent on the presence of the founder, it may also be useful to verify whether the family actively manages the family firm. Anderson and Reeb (2003) find that active family involvement in management positions is associated with improved firm performance. Barontini and Caprio (2006), on the other hand, find that family firms where a descendant takes the position of CEO have similar valuation and performance as non-family firms. The importance of active family involvement is also stressed by Maury (2006) who states that active family control is associated with higher profitability compared to nonfamily firms. Andres (2008) also finds that outperformance by family firms is most pronounced in those firms where the family plays an active role. So when a family member occupies the CEO position, it can be expected that the firm's activities will be scrutinized more intensively.

Hypothesis 4: Family firms in which a member of the family takes the position of CEO are expected to engage in more restructuring activity than other family and non-family firms.

Similarly, the impact of the presence of a family member as chairman of the board will be investigated. Villalonga and Amit (2006) show that family firms with the founder as chairman of the board have the highest Tobin's Q whereas the lowest Q is observed for firms in which a descendant occupies the position of chairman. Since most firms in my sample are non-founder firms, it can be expected that monitoring and restructuring likelihood will be higher when a non-family member takes the position of chairman of the board.

Hypothesis 5: Family firms in which a member of the family takes the position of chairman of the board are expected to engage in less restructuring activity than other family and non-family firms.

Additionally, the monitoring function may be hampered when the same person holds the position of chairman of the board and CEO. Yermack (1996) documents that large industrial companies with a non-CEO chairman trade at higher price-to-book multiples. When the positions of chairman of the board and CEO are bestowed in the same individual, restructuring activity may happen less efficiently. This argument, however, is largely grounded in the agency theory. An alternative perspective on this issue is given by the stewardship theory, which argues that managers are inherently trustworthy, which implies that a separation of the function of CEO and chairman of the board is not necessary. A meta-analysis of Dalton et al. (1998) confirms neither of these two theories since they do not find any significant relationship between board leadership structure and firm performance. Therefore, whether a firm adopts a separate board leadership structure or not, should not lead to a difference in restructuring activity.

Hypothesis 6: Restructuring likelihood in family firms will not depend on whether the CEO also occupies the position of chairman of the board.

To assess the impact of these family ownership variables, the following binomial logit regression will be estimated:

$$\text{DIVESTITURE}_{i,t} = \alpha_1 + \beta_1 \text{FAM}_{i,t} + \beta_2 \text{CONSTR}_{i,t} + \beta_3 \text{FOCUS}_{i,t} + \beta_4 \text{CAPAB}_{i,t} + \beta_5 \text{DRECENT} + \beta_6 \text{RGRPSIZE}$$

where $DIVESTITURE_{i,t}$ = a binary variable that has a value of 1 when subsidiary i is restructured the year afterwards and a value of 0 otherwise. $FAM_{i,t}$ = a dummy variable that has a value of 1 when the controlling listed firm is a family-owned or family-controlled firm³. Financial constraints ($CONSTR_{i,t}$) are measured by the ratio of the subsidiary's operating cash flow to total assets. The focus variable ($FOCUS_{i,t}$) is a dummy variable that has a value of 1 when another firm in the group has the same sector code (NACE-code) as the subsidiary and a value of 0 otherwise. The managerial capabilities motive ($CAPAB_{i,t}$) is controlled for using the median industry net profit to total assets based on the 2-digit NACE code. Additional control variables used are $DRECENT$, which is a dummy variable that indicates that a subsidiary has been under control by this listed firm for 3 years or less and $RGRPSIZE$, the relative size of the subsidiary within the group using its relative ranking based on total assets

3. Data and descriptive statistics

3.1. Data

In this paper I consider all Belgian subsidiaries under control of a listed firm to estimate the impact of the subsidiary's financial characteristics on the decision to divest or retain a certain activity. Data for the listed companies and their subsidiaries were obtained from the database of the National Bank, called 'Balanscentrale', which contains balance sheet data and profit and loss data in accordance with the Royal Decree of January 30, 2001⁴ for all listed and non-listed non-financial companies in Belgium. The database also

³ In the empirical tests of hypothesis 2 to 6, the FAM variable will be split up in 2 or 3 groups dependent on whether the family firm exhibits the mentioned characteristic or not.

⁴ Royal Decree "tot uitvoering van het Wetboek van vennootschappen". Previously, the Royal Decree of October 8, 1976.

has data on all minority and majority participations of the companies as well as the NACE-code of all subsidiaries⁵. In order to be considered, the listed firms should have balance sheet data and data on their subsidiaries available with the ‘Balanscentrale’ for at least three years. This results in a total number of 133 listed parent firms, which includes companies that have been delisted before 1996 to avoid a survivorship bias. Since banks and insurance companies are not obliged to publish their balance sheet data in the ‘Balanscentrale’, these firms are not included in the sample. Also companies that are in liquidation are excluded. The sample was further reduced because of the requirement that only listed firms holding a majority of the cash flow rights in non-financial subsidiaries were to be considered. This resulted in a final number of 87 listed firms whose subsidiaries were investigated in detail. Data on the percentage held by blockholders in the listed firm were provided by the Statistics Department of the Brussels Stock Exchange⁶.

Afterwards, for each of these listed firms, the ultimate owner was initially identified following the methodology proposed by Renneboog (2000). As a result the ultimate owner of each firm could be classified in each of the 8 classes, i.e. the holding companies, banks, investment companies, insurance companies, industrial companies, families, federal authorities and realty investment companies. The necessary information was collected based on the annual reports and press articles to determine whether control and/or management was in the hands of a family. When at least 10% of the shares were in the hands of families and the family was the dominant shareholder in the firm, it was considered to be family-owned. As a result 48 of the 87 listed firms were classified as family-owned. Based on the notifications following from the ‘Ownership Disclosure

⁵ The NACE-code consists of 4 digits, is similar to the SIC-code and allows a sector classification for the subsidiaries

⁶ Following the law of March 22, 1989, called the “Ownership Disclosure Law”, investors have to make a notification to the Banking Commission (similar to the American SEC) if their voting rights reach a level of 5% in a company whose securities are traded on a stock exchange located in the European Union.

Regulation' the median family-owned 50% of the voting rights as of 1991. The minimum percentage held by families was 13.75%⁷. At the same time information was gathered for the family firm about the percentage of shares freely available on the stock market, the so-called free float, which was provided by the Statistics Department of the Brussels Stock Exchange. In addition, for the family firms, information was collected to verify whether the founder was still active in the firm or whether the firm had been taken over by a family or individual who brought in new activities, hereafter referred to as a semi-founder. Also the composition of the board was examined to verify whether the chairman of the board or the CEO was a member of the family and whether the chairman of the board was the same person as the CEO.

To compose a sample of subsidiaries involved in a voluntary restructuring by its controlling shareholder, the listed firm, I proceeded as follows. First of all, using the 'Balanscentrale' a list was made of all minority and majority holdings for the listed companies between 1991 and 1996⁸. At the same time, the percentage held was compiled as it was mentioned in the database. Only those stakes in which the listed firm held a majority, were included in the sample and will be called subsidiaries hereafter. Subsequently, for each listed company in the period considered a list was made of all subsidiaries no longer mentioned. As a result, a basic sample of subsidiaries was obtained that were either sold or liquidated.

Insert Table 1 about here

⁷ An exception is the Delhaize Group for which no notifications are made. Still the company is considered to be family-owned since press articles indicate that the family held approximately 35% of the shares in the 90ies. The family does not act as a syndicate though which relieves it from the obligation to make a notification. Additionally the annual report of 1998 indicates that descendants of the founders occupy 8 of the 10 board seats and the position of CEO.

⁸ The 'Balanscentrale' mentions minority as well as majority stakes. Although I had ownership data going back as far as 1986, balance sheet and income statement data were only available for the firms divested or liquidated from 1991 on.

As can be seen in Table 1 Panel A, the final sample contains 151 divested subsidiaries in the six-year period. Over time, restructuring activity seems to decrease somewhat with only 19 subsidiaries divested in 1996 as compared to 30 in 1991. About two thirds of the sample, 103 firms, was sold and 78 of them continued their activities after the takeover as a separate legal entity. The same table also shows that family firms divested 84 subsidiaries over the 6-year period, slightly more than the 67 subsidiaries divested by non-family firms. As Panel B of Table 1 shows, the number of subsidiaries remains relatively constant over time ranging from 353 in 1995 to a maximum of 363 in 1994. At the same time, the number of listed firms with at least one subsidiary slightly decreases to 73 in 1996. The table also shows that on average 7.38% of all subsidiaries are divested annually and more than 1 out of 5 listed firms engage in a sale or a liquidation of a subsidiary.

3.2. Descriptive statistics

Based on the hypotheses outlined in the previous section, significant differences can be expected between the retained subsidiaries on one hand and the divested subsidiaries on the other hand. To have a first idea about the possible differences between the different kinds of subsidiaries, some characteristic variables are shown in Table 2. For each variable the mean, the median, the standard deviation, the minimum and the maximum and the number of observations are included. Each time the calculations are based on the individual firm-year data for the group under consideration. Panel A presents data for the retained subsidiaries whereas Panel B contains the data for the divested subsidiaries in the year before restructuring. In panel A and B the last column represents the z-value of the non-parametric Mann-Whitney U test of the difference between the median value for the retained subsidiaries and divested subsidiaries in the year before restructuring in the former case and the difference between the liquidated and the sold firms in the year before

restructuring in the latter case. In the discussion of the results, emphasis will be upon the median because of the important differences in the data which make the use of the mean less desirable as can be seen in the table.

Insert Table 2 about here

With respect to size, measured as total assets, Panel A shows that the retained subsidiaries are significantly larger with a median of 6,982.71 kEuro as compared to the divested subsidiaries that have median total assets of 3,691.09 kEuro. The productivity, measured as the gross value added per employee, is again significantly higher for the retained subsidiaries with a median of 53.95 kEuro as compared to the median of 43.24 kEuro for the divested subsidiaries. As far as profitability is concerned, all variables indicate that the retained subsidiaries are significantly more profitable than the divested subsidiaries. Both operational profit and net profit are significantly larger for the retained subsidiaries than for the divested subsidiaries. Whereas net profit for the median retained subsidiary is 1.40% of total assets, it is only 0.05% of total assets for the divested subsidiaries in the year before restructuring. The conclusions for the profitability measures also hold when cash flow measures are used including the operational cash flow as a percentage of total assets and the cash flow return on equity. The operational cash flow for the median retained subsidiary is 7.06% of total assets which is significantly higher than the 1.76% for the divested subsidiaries.

4. Family ownership and the divestiture decision

4.1. Family ownership and the restructuring likelihood

From the theoretical section it has become clear that several motives can be brought forward that determine the divesting likelihood of a particular subsidiary. The results of the logit analysis, as presented in Table 3, mostly confirm the motives documented previously. The financial constraints motive, which argues that subsidiaries aggravating the financial situation of the controlling firm will be divested, is confirmed. Table 3 shows that, using the operating cash flow scaled by total assets as a proxy (SUBCF), low cash flows increase the restructuring probability in a significant way. The presence of a cash drain thus seems prominent as a motivation for restructuring. This finding does correspond with the argument that the controlling firm suffers from financial constraints and therefore decides to dispose of the subsidiaries that drain resources.

The focus motive is also confirmed since a subsidiary is most likely to be retained if another subsidiary in the group has the same 2-digit sector code (DNACE). The last motive, the managerial capabilities or efficiency motive, states that a subsidiary's performance might also be below its optimal level because management does not have the capabilities or experience to run a firm in this kind of sector. As a result, the subsidiary will perform worse than the median firm in the industry and value creation could be achieved by transferring control. To examine whether management actually tries to optimise the fit between its capabilities and the subsidiaries under control industry profitability will be included as an explanatory variable, following the methodology of Schlingemann et al. (2002). Industry profitability (INDNP) is defined as the median ratio of net profit to total assets of the industry at the 2-digit level of the NACE sector code. As columns 1 to 4 show, high industry profitability decreases the likelihood of divestment for a subsidiary in a significant way. Performing worse than the industry thus makes a sale or liquidation less likely. This is the opposite of what was expected according to the managerial capabilities

motive but consistent with Schlingemann et al. (2002) who found no confirmative evidence for this motive.

With respect to the impact of family ownership, column 1 of Table 3 shows that family ownership increases the probability of a divestiture, albeit not in a significant way. The first hypothesis is thus not confirmed. A more refined analysis of family ownership reveals interesting results though. Since Anderson and Reeb (2003) argue that the performance gains associated with family ownership begin to taper off at 30%, the group of family firms is split up in a group where less than 30% of the shares are in firm hands (SMALLOWN) and those in which more than 30% are controlled by the family (LARGEOWN). As can be seen in column 2 in Table 3, and confirmative of hypothesis 2, the family firms that hold more than 30% of the shares are indeed more likely to restructure, consistent with the greater incentive to optimize the organizational structure. This effect is also specific to families since large blockholders also hold more than 30% in all but one of the non-family firms. The results are thus in line with those of Andres (2008), indicating that families have capabilities that are not easily imitated by other large shareholders. When the family holds a relatively small stake or is not grouped into a single block, it is less able to impose its will and it is not significantly different from the non-family firms. Family ownership induces more restructuring, consistent with the closer monitoring view, but only when they are powerful enough to take action when warranted. When family ownership is spread among a large number of family members that do not act as a single block or do not form a coalition, family firm behavior is not distinguishably different from that of non-family firms.

Insert Table 3 about here

The importance of the percentage of shares held by a family is further highlighted in Figure 1. When all variables are set at their median value, a subsidiary has a probability of 8.61% of being expelled out of the group when the ultimate owner is a family holding a block of at least 30%. This is significantly more than the 6.27% probability for non-family-owned firms and certainly higher than the trivial probability of 2.67% for subsidiaries of family-owned firms with dispersed ownership. The same pattern emerges when cash flow performance is at the level of the 25% quartile, holding the other variables fixed. Restructuring likelihood is the highest when families exercise control through a major stockholding and smallest for family firms that have less voting power. The former group has a probability of 9.67% of a change in control, whereas the latter has a probability of 3.02%.

Insert Figure 1 about here

Several authors though, including Anderson and Reeb (2003) argue that there is a non-linear relationship between ownership and performance. More specifically, at high levels of ownership concentration, the benefits of family ownership would disappear and the agency costs would increase. Families could try to entrench themselves and extract private benefits from the family firm. Therefore, in the analysis the group of family firms in which the family holds more than 30% is split up into a group where the family holds between 30% and 50% (FAM30TO50), a group where the family holds between 50% and 75% of the shares (FAM50TO75) and a group where the family holds more than 75% (FAM>75). The results in column 3 in Table 3 confirm the non-linear relationship between ownership concentration and divestment activity. As before, when the family holds between 30% and 50% of the shares of the listed family firm, a divestiture is significantly

more likely as compared to non-family firms. When the family holds more than 50% of the shares, the impact is less positive and is also no longer significant at conventional levels. Finally, beyond the 75% ownership level, restructuring activity is no longer significantly different from that in the non-family firms. These results thus indicate that the benefit of family ownership is the highest when the family holds between 30% and 50% of the shares. When they increase their ownership above 50% and certainly when it is more than 75%, they will rather pursue their own goals and the family firm will no longer be different from the non-family firm.

4.2. Family governance and the restructuring likelihood

Villalonga and Amit (2006), among others, also emphasize the importance of the presence of the founder who seems to possess specific knowledge which leads to a better performance. Therefore the family firms are split up dependent on whether the founder is still active in the firm as CEO or chairman of the board (FOUNDER). A similar distinction will be made for firms that have been taken over by a family or an individual who have brought in new activities and turned the company into a new one. These kinds of firms are called semi-founder firms hereafter (NEWFOUND). Similar to the founder firms, these semi-founders could be expected to have the ability and knowledge to intervene as soon as the organization deviates from its optimal structure. This conjecture is confirmed in column 4 of Table 3 that shows significantly positive coefficients for both founders and semi-founders. This finding is thus consistent with previous evidence that founders are able to run the firm in a more efficient way and confirms hypothesis 3. Under the assumption of median values for all variables, the subsidiaries run by semi-founders have a restructuring probability of 17.79% which is similar to the 13.59% for the subsidiaries run by a founder. When cash flow performance decreases to the level of the 25% quartile, these probabilities

become 19.85% and 15.25%. This is in sharp contrast with the other ownership groups that exhibit a probability of 5.40% in case of family ownership but no presence of a founder or semi-founder and 6.04% for the non-family-owned firms in case of median cash flow performance. When performance declines to the level of the 25% quartile, these percentages increase to 6.13% and 6.86%. These findings further support the view that a founder or semi-founder will monitor more actively and will intervene sooner when things are going the wrong way. When control is in the hands of descendants, organizational changes become less likely.

Another important aspect with respect to family firms relates to their involvement in management as has been stressed by Anderson and Reeb (2003) and Andres (2008). To verify the importance of the family being represented in management, the distinction will be made between companies where the CEO belongs to the family (FAMCEO) and those firms where an external manager is in charge (NOFAMCEO). As can be seen in column 5 of Table 3, the results are consistent with the findings of Barontini and Caprio (2005) since none of the coefficients is significant. Family CEO's thus seem to have no disadvantage relative to hired CEO's and hypothesis 4 is not confirmed.

Similarly, the impact of the presence of a family member as chairman of the board is investigated. Villalonga and Amit (2006) find that family firms with the founder as chairman of the board have the highest Tobin's q whereas the lowest q is observed for firms where a descendant occupies the position of chairman. Since most firms in my sample are non-founder firms, it could be expected that monitoring and restructuring likelihood will be higher when a non-family member takes the position of chairman of the board. This view is confirmed in column 6 of Table 3 that shows that restructuring likelihood when a family member is chairman of the board (FAMCHAIRMAN) is not distinguishably different from non-family firms whereas an independent chairman (NOFAMCHAIRMAN) makes a

divestiture or liquidation more likely, as was expected according to hypothesis 5. This could be interpreted as a lack of monitoring ability on management by mostly descendant family members.

Additionally, the monitoring function may be hampered when the chairman of the board and the CEO are the same person as was argued by Yermack (1996). When the positions of chairman of the board and CEO are bestowed in the same individual, restructuring activity may happen in a less efficient way. However, the meta-analysis of Dalton et al. (1998) does not find any significant relationship between board leadership structure and firm performance. The results in column 7 of Table 3 are consistent, though, with the argument based on agency theory that monitoring will happen more efficiently when the chairman is not the CEO. When the position of chairman is not occupied by the CEO (CHAIRMAN $\neq$ CEO), the subsidiary is more likely to be liquidated or divested, contrary to the expectations of hypothesis 6. From a monitoring point of view, the separation of the two main positions in the family firm seems to be recommended. A subsidiary with median values for all variables has an 8.83% probability of being divested or liquidated the year afterwards when the chairman is not the CEO. When this is not the case this probability is only 6.56%, which is comparable to the 6.32% probability for non-family firms. When operating cash flows decrease to the level of the 25% quartile the same view emerges. Whereas the likelihood increases to 9.89% for the family firms that separate those two functions, it only increases to 7.37% for the other family firms and 7.10% for the non-family firms. These results are consistent with the previously made argument that family relationships could prevent efficient monitoring on management, which is certainly the case when the position of chairman and CEO is occupied by the same person.

4.3. Robustness test

In order to verify the robustness of the results to alternative proxy variables for the focus, the financial constraints and the managerial capabilities motive, the previous logit regressions are repeated. The results presented here are those for the family firms in which the family holds a block of more than 30% and those family firms in which it is not the case, but the results are qualitatively similar for the other types of family firms. The results of these regressions are reported below in Table 4. In each of the regressions, the coefficient for the family firms in which the family holds a large block is significant. The other family firms on the other hand exhibit the same behavior as the non-family firms. This is very similar to the previous results and stresses the importance of holding a block of shares large enough to exercise control and enjoy the benefits of family ownership.

Insert Table 4 about here

With respect to the financial constraints motive, the results are completely in line with those from previous regressions. Both low profit and low operating cash flows induce restructuring activity as can be made up from the highly significant coefficients in the first three columns. The coefficients on the focus motive also confirm the conclusions made before. Relatedness in terms of the sector code has a significant impact on the restructuring decision as can be seen in column 1 but differences in asset growth rate or the extent of trade within the group do not. The arguments brought forward by Jongbloed (1994) and Rajan et al. (2001) are thus not confirmed. With respect to the managerial capabilities motive finally, the coefficients are at the level of those reported before. Industry profitability is significantly but negatively related to restructuring likelihood, quite the

opposite of what was predicted. High industry productivity on the other hand, makes restructuring more likely in a significant way, as can be seen in the last column in Table 4.

5. Conclusion

This paper examines how family firms differ from non-family firms in their divestment decisions in a corporate environment characterised by concentrated ownership. Using the financial statements of on average 359 non-listed Belgian subsidiaries over the period 1991-1996 I am able to compose a unique dataset which consists of 1972 firm-year observations. The results reveal several interesting insights. As expected, listed firms will voluntarily restructure a subsidiary as the desire to focus increases and as the subsidiary becomes less profitable. This is also in accordance with previous research of Berger and Ofek (1996) and John et al. (1992).

Family ownership turns out to be important in the restructuring decision although one should not consider family firms to be a homogenous group. Especially families holding large blocks of shares engage in more restructuring activity. However, too high levels of family ownership, more than 75%, increase the agency costs and abolish the benefits of family ownership. Other family characteristics also play an important role in the decision to either retain or divest a subsidiary. When the founder is present in the family firm, when the chairman of the board belongs to the family or when the function of CEO and chairman is not occupied by the same person, the governance of the firm will happen differently as compared to other firms. In those cases the likelihood of a voluntary restructuring will be higher and these family firms will restructure faster. This contradicts the intuitive assumption that families will engage in less restructuring but is consistent with the idea that they will monitor more efficiently. This corresponds with the finding of

several authors, for example Anderson and Reeb (2003), that family firms will outperform other firms.

My paper thus shows that efficient monitoring by family firms and divesting activities promptly when they no longer fit the organizational goals, lies at the origin of the previously documented outperformance of family firms. Especially those family firms where agency problems are small or family incentives are prominent, drive these results.

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Table 1: Divestiture activity of the Belgian listed firms in the period 1991-1996

Panel A: Number of divestitures per year per category

	Total Divested (1= 2+3)	Total Sold (2)	Total Liquidated (3)		Subsidiaries Family Firms	Subsidiaries Non-Family Firms
Period 1991-96	151	103	48		84	67
1991	30	25	5		20	10
1992	33	19	14		17	16
1993	23	13	10		13	10
1994	25	16	9		13	12
1995	21	17	4		9	12
1996	19	13	6		12	7

Panel B: Frequency of divestiture activity for the Belgian listed firms in the period 1991-1996

	1991	1992	1993	1994	1995	1996	Average 1991-1996	Median 1991-1996
Number of subsidiaries (beginning of the year)	360	360	361	363	353	355	359	360
Number of listed firms (with at least 1 subsidiary)	79	80	77	77	73	73	77	77
Number of divested subsidiaries	31	34	26	28	21	19	27	26
Percentage of subsidiaries divested	8.61%	9.44%	7.20%	7.71%	5.95%	5.35%	7.38%	7.46%
Number of restructuring listed firms	17	21	15	21	15	15	17	17
Percentage of restructuring. Listed firms	21.52%	26.25%	19.48%	27.27%	20.55%	20.55%	22.60%	21.03%

Table 2: Summary statistics

Variable	Mean	Median	Std.Dev.	Min	Max	N° Obs.	z-value
Panel A: Retained Firms (period '90-'95)							
Total Assets (kEuro)	39,764.50	6,982.71	144,162.93	3.22	1,820,144.3	1571	2.75
Sales/TA (%)	145.49	107.61	157.58	0.01	2,773.45	1384	0.62
Gross Value Added Per Employee (kEuro)	80.22	53.95	236.70	-790.32	4,586.40	1256	2.88
OpProf/TA (%)	0.99	2.19	34.63	-445.79	928.76	1570	4.45
NetProf/TA (%)	-2.12	1.40	46.20	-802.31	927.45	1571	3.70
Net Return on Equity after Taxes (%)	1.30	5.04	197.92	-1,809.41	6,206.78	1481	3.66
OpCF/TA (%)	6.84	7.06	35.27	-692.25	933.53	1571	3.91
Gross Return on Equity after Taxes (%)	59.98	22.10	718.61	-2,018.88	21,627.12	1494	2.94

Variable	Mean	Median	Std.Dev.	Min	Max	N° Obs.	z-value
Panel B: Divested Firms (year before restructuring)							
Total Assets (kEuro)	14,566.56	3,691.09	37,472.20	3.57	367,547.27	151	2.59
Sales/TA (%)	172.76	112.14	193.76	1.21	1,071.96	127	0.24
Gross Value Added Per Employee (kEuro)	57.40	43.24	130.08	-539.49	1,147.92	118	2.30
OpProf/TA (%)	-23.42	-0.09	164.32	-1,715.97	74.40	151	1.12
NetProf/TA (%)	-40.71	0.05	241.48	-2,115.87	332.01	151	0.22
Net Return on Equity after Taxes (%)	-68.90	0.79	496.76	-5,468.67	147.11	132	0.40
OpCF/TA (%)	-3.52	1.76	63.76	-747.97	47.94	151	2.58
Gross Return on Equity after Taxes (%)	-5.56	15.61	361.81	-3,858.37	1,189.30	132	1.82

Total Assets is the level of total assets at the end of the year, Gross Value Added per Employee expresses the gross value added scaled by the number of employees, OpProf/TA is the operational profit scaled by total assets, NetProf/TA is the net profit scaled by total assets, Net Return on Equity after Taxes is the net profit as a percentage of equity, OpCF/TA is the operational cash flow scaled by total assets, Gross Return on Equity after Taxes is the operational cash flow as a percentage of equity. The columns represent the mean, the median, the standard deviation, the minimum, the maximum and the number of observations. Panel A represents data for the retained firms and Panel B for the divested firms in the year before the restructuring. In Panel A the last column represents the z-value of the non-parametric Mann-Whitney U test of the difference between the median value of the retained firms and the value in the year before restructuring of the divested firms. In Panel C the last column represents the z-value of the non-parametric Mann-Whitney U test of the difference between the liquidated and the sold firms in the year before restructuring.

Table 3: The impact of family ownership on the divestiture decision

Logit regression where the dependent variable takes the value of 1 when the subsidiary is liquidated or divested the next year and 0 otherwise. CONSTANT is the intercept of the logit regression. SMALLOWN is a binary variable with a value of 1 when controlling blockholders hold less than 30% of the shares in a family firm, LARGEOWN is a binary variable with a value of 1 when controlling blockholders hold more than 30% of the shares in a family firm, FAM30TO50 is a binary variable with a value of 1 when controlling blockholders hold between 30% and 50% of the shares in a family firm, FAM50TO75 is a binary variable with a value of 1 when controlling blockholders hold between 50% and 75% of the shares in a family firm, FAM>75 is a binary variable with a value of 1 when controlling blockholders hold more than 75% of the shares in a family firm, FOUNDER is a binary variable with a value of 1 when the founder is still active in the family firm, NEWFOUND is a binary variable with a value of 1 when the firm has been taken over by an individual or family who is still active in the firm, OTHERFAM is a binary variable with a value of 1 when the firm is a family firm where the founder or the semi-founder is no longer active, CEO is a binary variable with a value of 1 when the CEO of the family firm is a member of the family, NOFAMCEO is a binary variable with a value of 1 when the CEO of the family firm is not a member of the family, CHAIRMAN is a binary variable with a value of 1 when the chairman of the board of the family firm is a member of the family, NOFAMCHAIRMAN is a binary variable with a value of 1 when the chairman of the board of the family firm is not a member of the family, CHAIRMAN=CEO is a binary variable with a value of 1 if the chairman of the board is the same as the CEO in the family firm, CHAIRMAN≠CEO is a binary variable with a value of 1 when the chairman of the board is not the CEO in a family firm, SUBCF is the subsidiary's operating cash flow scaled by total assets, DNACE is a dummy that has a value of 1 if there is an other subsidiary in the group with the same 2-digit NACE code, %NACE is the percentage of subsidiaries in the group with the same 2-digit NACE code as the subsidiary, INDNP is the median industry ratio of net profit to total assets, DRECENT is a dummy that takes the value of 1 when the subsidiary has been under control of that listed firm for 3 years or less. RGRPSIZE is the relative size of the subsidiary within the group using its relative ranking based on total assets. Probabilities (p-values) of the coefficients are mentioned in brackets. N°Obs is the number of observations used in the logit regression. LogL is the log-likelihood. R² is the rescaled R-squared.

	1=RESTR. 0=RETAIN	1=RESTR. 0=RETAIN	1=RESTR. 0=RETAIN	1=RESTR. 0=RETAIN	1=RESTR. 0=RETAIN	1=RESTR. 0=RETAIN	1=RESTR. 0=RETAIN
CONSTANT	-1.3476 (0.0002)	-1.4182 (0.0002)	-1.3350 (0.0006)	-1.8050 (0.0000)	-1.3473 (0.0002)	-1.3360 (0.0004)	-1.3340 (0.0003)
FAM	0.2517 (0.1600)						
SMALLOWN		-0.8915 (0.1348)	-0.8737 (0.1488)				
LARGEOWN		0.3428 (0.0581)					
FAM30TO50			0.6568 (0.0379)				
FAM50TO75			0.3304 (0.1162°)				
FAM>75			0.1343 (0.6488)				
FOUNDER				0.8936 (0.0027)			
NEWFOUND				1.2132 (0.0001)			
OTHER FAM				-0.1191 (0.5818)			
CEO					0.2422 (0.2092)		
NOFAMCEO					0.2733 (0.3120)		
CHAIRMAN						-0.0848 (0.6742)	
NOFAM CHAIRMAN						0.9246 (0.0002)	
CHAIRMAN =CEO							0.0407 (0.8683)
CHAIRMAN ≠ CEO							0.3629 (0.0747)
SUBCF	-2.0173 (0.0006)	-2.0511 (0.0005)	-2.0442 (0.0004)	-2.1731 (0.0003)	-2.0197 (0.0006)	-1.7939 (0.0035)	-2.0247 (0.0005)
DNACE	-0.3942 (0.0337)	-0.4075 (0.0286)	-0.3894 (0.0385)	-0.5117 (0.0069)	-0.3928 (0.0336)	-0.4155 (0.0263)	-0.3876 (0.0376)
INDNP	-0.1214 (0.0461)	-0.1004 (0.1033)	-0.1253 (0.0666)	-0.0006 (0.9924)	-0.1217 (0.0463)	-0.1181 (0.0578)	-0.1259 (0.0412)
DRECENT	-1.0072 (0.0001)	-1.0181 (0.0001)	-1.0055 (0.0001)	-1.0729 (0.0001)	-1.0068 (0.0001)	-1.0490 (0.0001)	-1.0179 (0.0001)
RGRPSIZE	-0.4803	-0.4999	-0.4772	-0.4810	-0.4795	-0.4956	-0.4718

	(0.1252)	(0.1104)	(0.1233)	(0.1248)	(0.1263)	(0.1170)	(0.1314)
N°Obs.	1972	1972	1972	1972	1972	1972	1972
LogL	-500.0725	-476.1819	-500.0725	-500.0725	-500.0725	-500.0725	-500.0725
R ²	0.0418	0.0602	0.0623	0.0767	0.0528	0.0729	0.0548

Table 4: Robustness of family ownership to divestiture variables

Logit regression where the dependent variable takes the value of 1 when the subsidiary is liquidated or divested the next year and 0 otherwise. CONSTANT is the intercept of the logit regression, LARGEOWN is a binary variable with a value of 1 when controlling blockholders hold more than 30% of the shares in a family firm, SMALLOWN is a binary variable with a value of 1 when controlling blockholders hold less than 30% of the shares in a family firm, SUBNP is the subsidiary's net profit scaled by total assets, SUBCF is the subsidiary's operating cash flow scaled by total assets, SUBPROD is the subsidiary's value added per employee, DNACE is a dummy that has a value of 1 if there is an other subsidiary in the group with the same 2-digit NACE code, GRWTA is the subsidiary's growth in total assets minus the growth in total assets of the median firm in the group, GRPTRADE is the percentage of short term debt with affiliated firms as a percentage of short term debt, INDNP is the median industry ratio of net profit to total assets, INDPROD is the industry's median value added per employee, DRECENT is a dummy that takes the value of 1 when the subsidiary has been under control of that listed firm for 3 years or less. RGRPSIZE is the relative size of the subsidiary within the group using its relative ranking based on total assets. Probabilities (p-values) of the coefficients are mentioned in brackets. N°Obs is the number of observations used in the logit regression. LogL is the log-likelihood. R² is the rescaled R-squared.

	1=RESTR. 0=RETAIN	1=RESTR. 0=RETAIN	1=RESTR. 0=RETAIN	1=RESTR. 0=RETAIN
CONSTANT	-1.4099 (0.0001)	-1.6532 (0.0000)	-1.9856 (0.0000)	-2.4192 (0.0000)
LARGE OWN	0.3506 (0.0544)	0.3249 (0.0737)	0.4050 (0.0316)	0.2492 (0.2302)
SMALL OWN	-0.9131 (0.1286)	-0.8539 (0.1545)	-0.7843 (0.1913)	-1.1349 (0.1102)
SUBNP	-1.5030 (0.0000)			
SUBCF		-1.9322 (0.0020)	-2.0532 (0.0010)	
SUBPROD				-0.00003 (0.3884)
DNACE	-0.4584 (0.0152)			-0.4901 (0.0211)
GRWTA		-0.1340 (0.5058)		
GRPTRADE			0.2742 (0.3598)	
INDNP	-0.1254 (0.0303)	-0.1099 (0.0972)	-0.0931 (0.1582)	
INDPROD				0.0099 (0.0000)
DRECENT	-1.0348 (0.0001)	-0.5077 (0.0567)	-0.8769 (0.0009)	-1.3473 (0.0001)
RGRPSIZE	-0.5250 (0.0898)	-0.4621 (0.1490)	-0.3623 (0.2793)	-0.8484 (0.0193)
N°Obs.	1972	1764	1922	1571
LogL	-500.0725	-481.6207	-453.8047	-390.7408
R ²	0.0664	0.0417	0.0510	0.0998

Figure 1: The Impact of (Large) Family Shareholdings on Restructuring Likelihood