

Does Family Control Matter? International Evidence from the 2008–2009 Financial Crisis

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We study whether and how family control affects valuation and corporate decisions during the 2008–2009 financial crisis using a sample of more than 8,500 firms from 35 countries. We find that family-controlled firms underperform significantly, they cut investment more relative to other firms, and these investment cuts are associated with greater underperformance. Further, we find that within family groups liquidity shocks are passed on through investment cuts across the group. Our evidence is consistent with families taking actions to increase the likelihood that the firms under their control and their control benefits survive the crisis, at the expense of outside shareholders. (*JEL* G01, G14, G32)

Whether family control is beneficial for all shareholders or serves the family's best interest at the expense of outside shareholders is still unclear, despite much research on this issue.¹ In this paper, we shed new light on this topic by studying, around the world, whether and how family control affects valuation and corporate decisions during the 2008–2009 financial crisis.

We argue that the unexpected liquidity shock from the financial crisis moves firms out of equilibrium in a way that magnifies both the benefits and costs of family control. With liquidity scarce, a family could add value by providing

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¹ See Morck, Wolfenzon, and Yeung (2005) for a comprehensive survey.