

Do structures of family business governance fail stakeholders?

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News Corp is in the news and so are family businesses. It has been suggested that News Corp is all about family and that it has failed to create value for its stakeholders. This also raises questions about the ownership structure of family firms.

The evidence points to the contrary. First, research has shown that family ownership creates long-term value. Consider research by Belén Villalonga of Harvard who studied Fortune 500 family controlled firms during 1994-2000, and found that family ownership creates value, especially when the founder serves as CEO of the family firm or as Chairman with a hired CEO.

Andersen and Reeb look at family firms listed on S&P 500 and find that family firms outperform non-family firms. Likewise Benjamin Maury from Swedish School of Economics examined how family-controlled firms perform in relation to firms with nonfamily controlling shareholders in Western Europe. Drawing evidence from a sample of 1672 firms, he showed active family control is associated with higher profitability compared to nonfamily firms, whereas passive family control does not affect profitability.

Second, the ownership structure, which creates a wedge between owners and minority shareholders, is not an exception in the west. Similar ownership structures are found across the world. These structures serve well in an investor environment, which increasingly looks towards short-term gains, and managers strive to secure yearly performance bonuses. Dow Jones would still be a family controlled firm if Bancroft's had paid attention to the ownership structure. Consider Washington Post, which has survived as it experienced temporary dips in its performance. We just need to look at who is driving the growth in Asia and Latin America. You will see that family businesses are largely viewed not as parasites but paragons. When you have no worry about legacy you are going to leave, why as a CEO would you bother? After all, it is about this year's bonus ... isn't it?"