
Karl V. Lins
University of Utah

Paolo Volpin
London Business School

Hannes F. Wagner
Bocconi University

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. 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...

We are grateful to Mike Weisbach (the editor), an anonymous referee, Morten Bennedsen, Alon Brav, Mike Cooper, Francesca Cornelli, Julian Franks, Vito Gala, Ning Gao, Ernst Maug, Colin Mayer, Jean-Marie Meier, Randall Morck, Fausto Panunzi, Nicolas Serrano-Velarde, Henri Servaes, Jan Sokolowski, Matt Spiegel, and Chendi Zhang, as well as participants at the 2011 Gerzensee Summer Symposium in Financial Markets, the 2012 European Finance Association meeting, the 2013 SFS Finance Cavalcade, and seminar participants at University of Amsterdam, Bocconi University, University of Bristol, Cass Business School, University of Exeter, INSEAD, London Business School, the Said Business School, Schulich School of Business, and University of Warwick for comments. Stefano Collina and Tanya Georgieva provided excellent research assistance. We gratefully acknowledge research support from Carefin–Bocconi Centre for Applied Research in Finance and SDA Bocconi’s School of Management Claudio Dematté Research Division. Send correspondence to Karl Lins, David Eccles School of Business, University of Utah, 1655 E. Campus Center Drive, Salt Lake City, UT 84112, USA; telephone: (801) 585-3171; E-mail: karl.lins@business.utah.edu.

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