The Impact of Family Control on the Performance and Financial Characteristics of Family Versus Nonfamily Businesses in Japan: A Matched-Pair Investigation
José Allouche, Bruno Amann, Jacques Jaussaud, Toshiki Kurashina

Research on family businesses has undergone rapid development in the past two decades. Broadly speaking, such companies perform better than nonfamily businesses, as recent investigations in Japan support. To obtain a more precise result, this research has applied to the Japanese context a research methodology that has proven its worth in Western cases. On the basis of data covering the years 1998 and 2003, we found better performance among family businesses in Japan.

Academic research explicitly recognizes the prevalence and better performance of family businesses (FBs) around the world (e.g., Allouche & Amann, 2000; Astrachan & Shanker, 2003; Heck & Stafford, 2001; Sharma, 2004) yet rarely addresses the case of Japan in this context (Kurashina, 2003; Morikawa, 1996; Okocho & Yasuoka, 1984). Prior studies clearly indicate that differences between FBs and nonfamily businesses (NFBs) may exist because of their corporate environment (Smith, 2008). Therefore, Japan should be of great interest because of its long tradition of FBs, beginning even before the country opened its borders to the rest of the world at the end of the 19th century. For example, Japan contains two of the most ancient FBs in the world: Kongo Gumi, founded in 578 and taken over by Takamatsu Corporation in 2006, following the decline in the real estate industry during the 1990s, and Houshi, founded in 718. Furthermore, during the first decades of the 20th century, prior to World War II, the Japanese economy remained structured around Zaibatsu, which refers to FBs that function under the wing of family-owned holding companies.

During the second half of the 20th century, the dominant position of FBs in Japan began to falter. First, Allied forces dismantled Zaibatsu, and when Keiretsu emerged in the 1950s and 1960s as a new form of interfirm cooperation, companies had lost the family dimension (Miyashita & Russel, 1994). In addition, according to Morikawa (1996) and Morck and Yeung (2003), Japanese enterprise ownership underwent dramatic changes in recent decades, mostly at the expense of FBs. So what is the situation today? Do FBs remain a significant force in the Japanese economy? How do they perform and financially structure themselves compared with nonfamily businesses (NFBs)? Do they compare as in Western countries or differently?

Kurashina (2003), on the basis of a Western-based definition of FBs, finds that 42.68% of Japanese-listed companies in 2003 were FBs. On the basis of a widely used classification of Japanese industries, he finds that for 21 of the 33 classes, FBs perform better than NFBs, whereas in only 7 of the 33 do they perform worse. At first sight and broadly speaking, FBs in Japan appear to perform better than NFBs.
This research therefore undertakes a closer investigation of the question of FB versus NFB performance in Japan. We apply a paired-sample method, developed and verified with Western firms, to Japanese companies. As its core argument, this article posits that despite the huge and radical changes in the Japanese economy, FBs in Japan, as in Western economies, globally outperform NFBs. We also argue, in reference to a neglected but important question, that this advantage is not absolute; rather, it relates to the level of family control, such that when this level is weak, the "advantage" vanishes, similar to Anderson and Reeb’s (2003) distinction between active and passive family control.

The remainder of this article is organized as follows. First, we consider theoretical and empirical literature, both Western and Asian, related to the topic. Second, we describe the methodology, data collection, and hypothesis. Third, in presenting the results and discussion, we confirm the improved performance associated with FBs in Japan.

**Background**

As in every emerging field of research, some fundamental questions, both theoretical and practical, remain unresolved. One of these questions pertaining to FBs involves the very definition of the term and the extent to which FBs differ from NFBs.

**Defining FBs and Assessing Performance**

To date, no clear consensus has emerged concerning the definition of FBs.

**Defining FBs.** Westhead and Cowling (1998) consider how definitions of FBs affect comparative studies of family versus NFBs; when they split a sample into FBs and NFBs on the basis of seven different definitions, they obtain very different results. Although several definitions are available and no consensus exists about any one in particular, Villalonga and Amit (2004) argue that most definitions include at least three dimensions: one or several families hold a significant part of the capital; family members retain significant control over the company, which depends on the distribution of capital and voting rights among non-family shareholders, with possible statutory or legal restrictions; and family members hold top management positions. In addition, Chrisman, Chua, and Sharma (2005) differentiate between definitions that focus on components of family business, such as ownership, governance, management, and transgenerational succession, and those focused on what is a family business, including the intent of the family to keep control, firm behavior, and idiosyncratic resources that arise from family involvement.

However, a consensus definition may not represent a pertinent research goal because, by nature, FBs are contingent on the institutional legal context, which differs from country to country. Legal and fiscal frameworks for the transmission of assets to descendants differ strongly even between France and Italy, two neighboring countries within the European Union. Furthermore, the share of capital needed for effective control and the rules that dissociate ownership and voting rights differ from country to country. Therefore, a unique or universal definition of FBs may be misleading, because it cannot take into account fundamental differences in various legal and institutional frameworks (Carney, 2005; Dyer, 2006). This question makes sense in the case of Japan, with its strong, specific institutional features (Aoki, 1988; Gerlach, 1992).

**Performance differences between family and NFBs.** In most countries, FBs account for a major share of business (Astrachan & Kolenko, 1994 (United States); Gallo & Estape, 1992, 1994 (Spain); Martinez, 1994 (Chile); Maury, 2005 (western Europe); Owens, 1994 (Australia); Reidel, 1994 (Germany)). They employ a significant portion of total employees and record significant amounts of turnover, added value, investments, and accumulated capital.

Most empirical investigations find superior performance by FBs compared with NFBs. Of these
studies, the majority focus on financial performance (Anderson & Reeb, 2003; Charreaux, 1991; Dibrell & Craig, 2006; Gallo & Vilaseca, 1996; Monsen, 1969; Monsen, Chiu, & Cooley, 1968), though others investigate both financial and non-financial dimensions, such as growth or alternative qualitative indicators.

Interpretations of performance by family businesses. These results are often interpreted as demonstrations of more effective management resulting from the familial nature of the companies. The arguments put forward are numerous and mainly turn on five main themes, which are themselves closely linked: the reduction of costs, the long-term orientation of the shareholders’ family, the consistency of the system of values, the intricate connection between the family and the business, and a reduced recourse to debt.

The first stresses the reduction of agency costs within family companies, which results from the minimal separation among the functions of property, control, and management (Hill & Snell, 1989). A family structure leads in particular to more effective control by managers and reduced divergences of interest between managers and the shareholders (Fama & Jensen, 1983). However, some limits to the agency theory approach exist (Arrègle, Durand, & Very, 2004). For example, listed companies may suffer a premium to balance the risk borne by minority investors if owners engage in improper controls to increase their profit (La Porta, Lopez-de-Silanes, & Shleifer, 1999; Shleifer & Vishny, 1997). In Spain, Gomez-Mejia, Nunez-Nickel, and Gutierrez (2001) find that family businesses bear higher agency costs because the family is unwilling to fire managers who are members of that family. That is, agency costs are not always lower in the case of FBs. Agency costs differ and therefore must be specified precisely in each case (Morck & Yeung, 2003). Carney (2005) notes that the family governance system comprises three dominant propensities, which may mitigate agency costs: parsimony (capital deployed sparingly and used intensively), personalism (unification of ownership and control in the owner), and particularism (families may employ alternative decision criteria than those based on pure economic rationality).

The second theme refers to the long-term orientation of the shareholders’ family, which is anxious to preserve the family inheritance for its transmission to following generations. This orientation can support in particular the implementation of an optimal investment policy in the long run (James, 1999; Stein, 1989). This argument stems from Porter’s (1998) theory that pressure from financial markets leads to short-term management of listed companies, which may result in “managerial myopia” (Stein, 1988, 1989). Moreover, FBs may perform better as a form of business organization because family managers see further ahead than do managers in nonfamily companies (Anderson & Reeb, 2003; Harvey, 1999). Le Breton-Miller and Miller (2006) precisely note that the long-term orientations of FBs “engender...organizational qualities that are hard for other firms to copy” and lead to stronger long-term investment policies. This argument mirrors one of the four Cs—continuity—that Le Breton-Miller and Miller (2006) highlight as one of the “potent priorities” of great family-controlled businesses.

A third theme refers to the system of values that management team members share with the shareholders’ family on the one hand and with employees, suppliers, and customers on the other hand. The neoinstitutional perspective, which considers an enterprise a social construction, suggests that the set of values shared by managers and family shareholders, such as trust (Chami, 1999; Fukuyama, 1995) or altruism (Van den Berghe & Carchon, 2003), can enhance performance. However, Schulze, Lubatkin, Dino, and Buchholtz (2001) suggest that altruism among family members may harm performance and, to some extent, shareholder value.

The fourth theme stresses the organizational efficiency induced by the intricate connection between the family and the business (or “familiarity” in the words of Habbershon and Williams, 1999). This efficiency makes sense from the resource-based view, which shows that the
network of interactions between the family and productive activities can generate strategic resources, which are themselves sources of competitive advantages (Arrègle et al., 2004; Habbershon & Williams, 1999; Habbershon, Williams, & MacMillan, 2003).

Finally, the last theme highlights the reduced recourse to debt (Gallo & Vilaseca, 1996; McConaughy, Matthews, & Fialko, 2001). Indebtedness reinforces financial risk (Nam, Ottoo, & Thornton, 2003), which correlates positively with the risks of bankruptcy and loss of control (Gilson, 1990). The aversion of FBs to debt is all the stronger for current liabilities (Mishra & McConaughy, 1999), which are associated most strongly, of all the company’s debts, with the risk of loss of control. There is a priori no reason for these five arguments not to be relevant in the case of Japan, too, despite its cultural and institutional specificities.

**Family Business in Japan**

The difficulties that well-known FBs, such as the retailing chain Daiei, experienced at the end of the 1990s tarnished the image of such enterprises in Japan. Family businesses seem old-fashioned in Japan today, where family control represents a source of rigidity in both organization and strategy. However, an investigation by the *Nihon Keizai Shimbun* (2006), a leading economic newspaper, suggests that in Japan, as in Europe and the United States, listed FBs performed better during the 1990s than did listed NFBs in terms of shareholder value. Also according to that investigation, between December 29, 1989, and January 15, 2003, 99 enterprises increased capitalization, and of the top 10 firms, 8 were FBs, according to Kurashina’s (2003) definition. The contrast between the image of FBs in Japan and these results demands a more precise investigation.

Kurashina (2003) bases his definition of FBs on two criteria: the share of capital in the hands of the family and the involvement of family members in managing the firm. Thus, he considers three types of FBs (and nonfamily businesses, which he calls Type A). In Type B, family members hold management positions or are on the board of directors and are among the main shareholders; in Type C, family members do not hold top-ranking management positions but are among the main shareholders; and in Type D, they hold top management positions or are on the board of directors but are not among the main shareholders. According to this definition, Kurashina (2003) finds that 42.68%, or 1,074, of Japanese listed companies in 2003 were FBs, divided as follows: 925 Type B, 119 Type C, and 30 Type D.

Kurashina’s (2003) definition has gained wide acceptance in Japan (i.e., used by *Nihon Keizai Shimbun*). Furthermore, because it uses multiple criteria and is consistent with previous definitions (Allouche & Amann, 1998, 2000), we use it herein. On the basis of this definition, we consider how previous research considers performance in Japan.

Kurashina (2003) bases his performance comparison on a common distribution of economic activities in 33 industries from the *Japan Company Handbook* (Tôyô Keizai). He compares average commercial profitability (consolidated current profit/consolidated sales) of FBs and NFBs for each industry and finds higher commercial profitability for FBs in 21 of them. Three industries reveal virtually equal profitability, and in two cases, no FBs exists. That is, only in seven industries do NFBs perform better on average than FBs.

Although counting the number of industries in which FBs perform better than NFBs appears simple and attractive, such an approach may be misleading because businesses likely differ in other characteristics (e.g., size, profile) in some industries. In this case, how can we verify that the true determinant of performance is the company’s nature—that is, FB or NFB? Failing to control for industry or size leaves open alternative hypotheses that might explain performance results or differences in financial structure, beyond the nature of ownership and/or the level of control. A matched-pair design provides the most effective means of controlling for such variables (Bowen, Noreen, & Lacey, 1981). Therefore, we apply an existing approach to the case of Japan.
Methodology, Hypotheses, and Data

Methodology

To conduct our analysis, we employ a matched-pairs research design, as used previously in other studies on both the performance of FBs (McConaughy et al., 2001; Mishra, Randoy, & Jenssen, 2001; Miller, Le Breton-Miller, Lester, & Cannella, 2007) and the distinctive features of their financial policies (Allouche & Amann, 1995; McConaughy et al., 2001). Yet several academics complain that few studies use this method (Jorissen, Laveren, Martens, & Reheul, 2005; Westhead & Cowling, 1998).

The methodology we adopt systematically compares FBs and NFBs that have the same profile, namely, the same industry and size. We first establish pairs of businesses (one family, one nonfamily) that match in their industry and size. This approach helps neutralize two potential factors of performance variance and thus clarifies the influence of family control on performance. The pairs of businesses carry on similar industry activities, according to their specific four-digit standard industrial classification (SIC) codes, which provide a much clearer classification than the Japanese classification of 33 industries. To match businesses in terms of size, we measure sales and number of employees. That is, we consider two companies in the same industry as the same size if their sales or number of employees are within 20% of each other.

Student $t$ tests conducted on paired samples indicate the statistical significance of the mean differences between the FB and NFB samples. With a sufficient number of such pairs, we can test the assumption of better performance by FBs. Therefore, for each pair, we compute various performance indicators, such as return on assets (ROA), return on equity (ROE), and return on invested capital (ROIC), and then compute the difference between FBs and NFBs. Next, we test whether the difference is significant at a 5% threshold for the entire population of listed companies in Japan. To gain a clearer picture of the potential performance advantages of FBs, we compute not only profitability indicators (e.g., ROA, ROE, ROIC) but also financial structures (e.g., total debts/total capital, long-term debt/total capital, current ratios, quick ratio).

Hypotheses

We test four hypotheses, which we developed on the basis of prior literature. Academic literature pertaining to agency theory (Fama & Jensen, 1983), which stresses the reduced agency costs for FBs and the concept of reduced “managerial myopia” (Stein, 1988, 1989), predicts stronger performances for FBs (i.e., first interpretive theme). Reduced agency costs should lead to increased profitability, and if FB managers have longer-term perspectives than managers in nonfamily companies (Harvey, 1999), investment policies should be less affected by short-term economic circumstances. This trend also should provide a basis for improved performance in terms of profitability, as measured by ROA, ROE, and ROIC. On this basis, we formulate Hypothesis 1.

Hypothesis 1. In Japan, FBs enjoy better performance than do NFBs.

Furthermore, academic literature emphasizes differences in the financial structure between FBs and NFBs, such that FBs tend to take more cautious attitudes toward debt (fifth interpretive theme). The main challenge of family companies is to promote growth without calling into question the permanence of family control (Goffee, 1996). Such an approach is consistent with the theory of longer-term perspectives by FBs (second theme). On this basis, we formulate Hypothesis 2.

Hypothesis 2. In Japan, FBs have stronger financial structures than do NFBs.

Although most empirical investigations find improved performance among FBs, as we noted, few studies consider the influence of the degree of family control. However, existing arguments in the academic literature (i.e., careful attitude toward financing, long-term orientation of family share-
holders and FB managers) imply that stronger family control should lead to stronger outcomes with regard to both performance and financial structure. Therefore, we formulate Hypothesis 3 (profitability) and Hypothesis 4 (financial structures) as follows.

**Hypothesis 3.** In Japan, the level of family control strongly influences business performance in terms of profitability.

**Hypothesis 4.** In Japan, the level of family control strongly influences the financial structure.

For these hypotheses, we adopt Kurashina’s (2003) classifications and distinguish three levels of family control (B, C, D). The set of hypotheses is presented in Figure 1.

The dependent variables in our research relate to performance (ROA, ROE, ROIC) and financial structure (e.g., total debt/total capital, long-term debt/total capital). The qualitative independent variable is the nature of a business, family or non-family, and the degree of family control among the former. The independent variable is categorical: NFBs (Type A), FBs with strong control (Type B), and FBs with weak control (Types C and D).

**Data Selection**

We collected data from two different sources, including the well-known Worldscope database (2003) for the financial indicators and Kurashina’s (2003) identification of family and NFBs among listed companies in Japan. Kurashina relies on various published materials, including several directories, and contacts with many financial institutions, such as brokerage firms, to establish his classifications. Worldscope (2003) provides a wide range of financial and nonfinancial data, including SIC codes, for 3,194 Japanese companies. The definitions of the ratios we use in this study appear in the Appendix.

By cross-referencing the data from Worldscope (2003) and Kurashina’s (2003) list, a major undertaking, we create the study sample pairs. We thus began with firms in the first section, which consists of the largest companies listed on the Japanese Stock Exchange, and compare the performance of different types of FBs (B, C, and D). From the 1,638 companies listed in the first section in 2003, we exclude purely financial firms and some companies with too many missing values in the Worldscope database, for a total sample of 1,271 companies, 491 of which are FBs (Table 1). In most cases (416, or 84.72%), family control exists in terms of both capital (family members among the largest shareholders) and management (family members hold management positions or are on the board of directors). On the basis of this sample, we create 156 pairs of family and nonfamily companies.

To avoid overdependence on a single year of data, which might be subject to specific effects, we base our comparison on both 2003 and 1998, the latter of which represents the Asian crisis era that had a significant effect on the Japanese economy. By contrast, 2003 represents a time when the Japanese economy had recovered. Thus, comparisons of FBs and NFBs during these two very different economic contexts should prove very fruitful. Furthermore, we consider two different sample types.

- The 2003 sample consists of 156 pairs with all types of family control (B, C, and D), 127 of which indicate strong family control (Type B). The subsample of weak family control pairs (29) is too small to allow for statistical analysis.
- The 1998 sample consists of 87 pairs that do not necessarily represent the same companies.
as the 2003 pairs. That is, we ensure the FBs are the same for both years but often use different NFBs.

Results and Discussion

Performance and Financial Structure of FBs Versus NFBs

As mentioned previously, most empirical investigations find better performance and stronger financial structures in FBs compared with NFBs. In Table 2, we compare sharply contrasted types of businesses, that is, NFBs (Type A) versus strong control FBs (Type B). The results and tests reported in this table clearly support Hypothesis 1 regarding profitability and Hypothesis 2 regarding financial structure in both periods (2003 and 1998), though we note the less significant differences in 1998 compared with 2003.

In terms of profitability (Table 2), Hypothesis 1 is valid for both periods. Almost all related ratios show significant differences between FBs and NFBs. Return on equity from a shareholder perspective and ROA and ROIC from a wider perspective all clearly show significant differences in 1998 and 2003. Only earnings before interests and taxes (EBIT) are not significant in 1998, though they still indicate that FBs perform better. These results are consistent with most empirical studies in the field. Broadly speaking, they indicate that in terms of financial profitability, FBs are comparatively more profitable from the point of view of both shareholders (ROE) and other stakeholders (i.e., providers of funds, ROA and ROIC). Greater profitability of sales (cash flow/sales—a measure of how well a company is able to generate cash from its current operations—and net income/sales) suggests that FBs use their resources more efficiently. The sales/employee (significant in 2003) and cost of goods/sales ratios imply the same conclusion. The ratio of sales/employee favors NFBs, but the ratios of cash flow/sales and EBIT/sales clearly indicate that for lower sales, FBs enjoy greater profitability. These results can be interpreted from the perspective of the parsimony argument (Carney, 2005) because the ratios make apparent the strong incentive to assure capital is deployed sparingly and used intensively.

Regarding financial structures (Hypothesis 2), most ratios show significant differences in favor of FBs. In terms of liquidity, the differences in the current and quick ratios are significant at a 5% threshold in both 1998 and 2003. Thus, the results provide global evidence of the greater ability of FBs to meet their short-term financial commitments and survive in adverse economic circumstances, consistent with Mishra and McConaughy (1999), who note the careful management of current liabilities associated with the risk of loss of control.

In addition, the difference in the total debt/total capital ratios significantly favors FBs (5%) in both 1998 and 2003, but the difference in the total debt/total equity ratio is significant only in 2003. These differences indicate that FBs are less dependent on lenders than are nonfamily companies, consistent with existing academic findings (Agrawal & Nagrajan, 1990; Gallo & Vilaseca, 1996; McConaughy et al., 2001; Mishra & McConaughy, 1999) that note reduced recourse to debt and a stronger reserve against debt on the part of FBs.
Table 2 Comparative Performance and Financial Characteristics: Strong Family Control Versus NFBs

<table>
<thead>
<tr>
<th>Indicators</th>
<th>1998</th>
<th></th>
<th>2003</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Means</td>
<td>FBs</td>
<td>Difference</td>
</tr>
<tr>
<td>Return on assets</td>
<td>72</td>
<td>1.46</td>
<td>2.14</td>
<td>0.67</td>
</tr>
<tr>
<td>Return on equity</td>
<td>74</td>
<td>-0.03</td>
<td>2.66</td>
<td>2.69</td>
</tr>
<tr>
<td>Return on invested capital</td>
<td>74</td>
<td>1.66</td>
<td>2.85</td>
<td>1.19</td>
</tr>
<tr>
<td>EBIT (US$)</td>
<td>74</td>
<td>942,077.95</td>
<td>11,071,971.4</td>
<td>10,129,893.45</td>
</tr>
<tr>
<td>Net income (US$)</td>
<td>75</td>
<td>12,452.64</td>
<td>31,984.58</td>
<td>19,531.94</td>
</tr>
<tr>
<td>Pretax margin</td>
<td>75</td>
<td>2.96</td>
<td>4.81</td>
<td>1.84</td>
</tr>
<tr>
<td>Total debts/total capital</td>
<td>68</td>
<td>34.15</td>
<td>28.01</td>
<td>-6.14</td>
</tr>
<tr>
<td>Long-term debt/total capital</td>
<td>71</td>
<td>32.72</td>
<td>28.48</td>
<td>-4.24</td>
</tr>
<tr>
<td>Total debts/total common equity</td>
<td>73</td>
<td>85.23</td>
<td>67.04</td>
<td>-18.19</td>
</tr>
<tr>
<td>Current ratio</td>
<td>74</td>
<td>1.65</td>
<td>2.06</td>
<td>0.40</td>
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<tr>
<td>Quick ratio</td>
<td>73</td>
<td>1.29</td>
<td>1.66</td>
<td>0.37</td>
</tr>
<tr>
<td>EBIT/sales</td>
<td>75</td>
<td>9.43</td>
<td>11.36</td>
<td>1.94</td>
</tr>
<tr>
<td>Net income/sales</td>
<td>74</td>
<td>0.011</td>
<td>0.019</td>
<td>0.008</td>
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<tr>
<td>Sales per employee</td>
<td>71</td>
<td>75.02</td>
<td>69.75</td>
<td>-5.26</td>
</tr>
<tr>
<td>Assets per employee</td>
<td>74</td>
<td>83.05</td>
<td>78.63</td>
<td>-4.42</td>
</tr>
<tr>
<td>Cash flows/sales</td>
<td>74</td>
<td>5.00</td>
<td>6.69</td>
<td>1.69</td>
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<tr>
<td>R&amp;D/sales</td>
<td>0</td>
<td>Shortage of data</td>
<td>Shortage of data</td>
<td>0</td>
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<tr>
<td>Capital expenditures/total assets</td>
<td>0</td>
<td>Shortage of data</td>
<td>Shortage of data</td>
<td>0</td>
</tr>
<tr>
<td>Cash/current assets</td>
<td>70</td>
<td>70.60</td>
<td>70.58</td>
<td>-0.029</td>
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<tr>
<td>Cost of goods/sales</td>
<td>70</td>
<td>Shortage of data</td>
<td>Shortage of data</td>
<td>0</td>
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<tr>
<td>Foreign assets/total assets</td>
<td>70</td>
<td>Shortage of data</td>
<td>Shortage of data</td>
<td>0</td>
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<tr>
<td>Foreign sales/total sales</td>
<td>70</td>
<td>Shortage of data</td>
<td>Shortage of data</td>
<td>0</td>
</tr>
<tr>
<td>Dividend payout</td>
<td>68</td>
<td>7.13</td>
<td>8.69</td>
<td>1.55</td>
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*** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.
We further note that R&D/sales, foreign assets/total assets, and foreign sales/total sales are significantly higher for FBs in 2003 (we lack sufficient data for these measures for 1998). These results imply a greater impetus for innovation and internationalization by FBs. Two indicators also require discussion, namely, the R&D/sales and new infrastructure expenditures with the ratio of capital expenditure/total assets (which reflect the funds used to acquire fixed assets). Both support the long-term orientations of FBs (Le Breton-Miller & Miller, 2006). Compared with NFBs, family firms “invest for the future or undertake initiatives with significant short-term costs” (Le Breton-Miller & Miller, 2006).

**Influence of Family Control**

Despite significant existing literature pertaining to FBs’ performance, empirical investigations of the influence of the level of family control remains sparse. Therefore, we pose Hypothesis 3 to determine whether the level of family control affects company performance: Does an FB in which the family maintains both capital and management control enjoy better performance than an FB in which the family has only one form of control?

We find only a few cases of weakly controlled FBs paired with NFBs in the main sample (Types C and D, 29 and 12 pairs in 2003 and 1998, respectively). Therefore, a direct comparison with strongly controlled FBs, even with appropriate pairs, would not provide reliable statistical results. For the same reason, tests of Hypothesis 3 that compare differences between NFBs and strongly controlled FBs on the one hand with NFBs and weakly controlled FBs on the other will not provide significant enough results. Therefore, we compare differences between NFBs and strongly controlled FBs on the one hand with NFBs and all kinds of FBs (strongly and weakly controlled) on the other. We observe different results in the comparative performance of the two subsamples as a result of the influence of the level of family control on company performance.

Consideration of Tables 2 and 3 clearly reveals that when we compare all FBs with NFBs, the profitability advantage weakens. Almost all related ratios whose differences are significant in comparison with strongly controlled FBs become insignificant in 2003 for the whole sample. In 1998, only ROE, ROA, and ROIC indicate statistical differences. Consistent with Maury (2005), who differentiates between active and passive family control, we argue that this weakening is due to the presence of weakly controlled FBs.

In the same sense, the parsimony reasoning we use for the strong control sample no longer applies in a sample with weakly controlled FBs. The advantage in sales profitability vanishes. In addition, the reasoning pertaining to the long-term orientation of FBs is no longer valid when we introduce weakly controlled FBs into the sample. Both parsimony and the long-term orientations of FBs thus seem linked to the level of control.

We draw several different conclusions about financial structures (Hypothesis 4). In terms of liquidity, the differences in the current and quick ratios are significant, at various levels, in both 2003 and 1998 (Tables 2 and 3). The improved ability of family firms to meet their short-term financial commitments, even in adverse economic circumstances, may reflect an intrinsic characteristic of FBs, regardless of the level of family control. However, even if the differences are statistically significant in both tables (strong family control vs. any family control), the difference between FBs and NFBs increases in the strong control sample, which provides some support for Hypothesis 4.

Finally, the difference in the total debt/total capital ratios remains significant in both 1998 and 2003 in Table 2 but not in 1998 in Table 3, which also supports Hypothesis 4. The picture becomes less clear with regard to ratios related to financial independence (e.g., long-term debts/total capital, total debts/total common equity). Thus, FBs appear less dependent on lenders than NFBs, but the difference remains minimal as a result of the varying levels of family control, in contrast with Hypothesis 4.

To provide a better test of Hypotheses 3 and 4, we return to original data (Kurashina, 2003; Worldscope, 2003) to identify more weakly controlled FBs that we might compare directly to strongly
Table 3 Comparative Performance and Financial Characteristics: Family Versus NFBs

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<td>1.07</td>
<td>1.68</td>
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<td>151</td>
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<td>Net income (US$)</td>
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<td>Current ratio</td>
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<td>1.85</td>
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<td>1.62</td>
<td>2.02</td>
<td>0.39 0.006***</td>
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<td>Quick ratio</td>
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<td>154</td>
<td>1.24</td>
<td>1.64</td>
<td>0.39 0.006***</td>
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<td>EBIT/sales</td>
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<td>11.26</td>
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<td>3.78</td>
<td>4.97</td>
<td>1.18 0.189</td>
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<td>Net income/sales</td>
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<td>0.017</td>
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<td>0.74 0.247</td>
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<td>Sales per employee</td>
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<td>Asset per employee</td>
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<td>58.16</td>
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<td>Cash flow/sales</td>
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<td>5.96</td>
<td>1.39 0.075*</td>
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<td>5.18</td>
<td>6.31</td>
<td>1.13 0.091*</td>
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<td>R&amp;D/sales</td>
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<td>0.085</td>
<td>0.085</td>
<td>0       0.075**</td>
<td>156</td>
<td>0.085</td>
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<td>Capital expenditures/total assets</td>
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<td>70.25</td>
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<tr>
<td>Cost of goods/services</td>
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<td>0.085</td>
<td>0       0.075**</td>
<td>156</td>
<td>0.085</td>
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<td>0       0.075**</td>
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<tr>
<td>Foreign assets/total assets</td>
<td>86</td>
<td>0.085</td>
<td>0.085</td>
<td>0       0.075**</td>
<td>156</td>
<td>0.085</td>
<td>0.085</td>
<td>0       0.075**</td>
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<tr>
<td>Foreign sales/total sales</td>
<td>86</td>
<td>0.085</td>
<td>0.085</td>
<td>0       0.075**</td>
<td>156</td>
<td>0.085</td>
<td>0.085</td>
<td>0       0.075**</td>
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<td>Dividend payout</td>
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<td>0.085</td>
<td>0.085</td>
<td>0       0.075**</td>
<td>156</td>
<td>0.085</td>
<td>0.085</td>
<td>0       0.075**</td>
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<td>Inventory turnover</td>
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<td>9.29</td>
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<td>151</td>
<td>10.5</td>
<td>8.98</td>
<td>-1.169 0.162</td>
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*** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.
controlled ones in terms of performance and financial structure. For 2003, we can identify 57 pairs of strongly versus weakly controlled FBs of the same size and industries. Direct comparison shows again (Table 4) that with regard to both profitability (ROE, ROA) and financial structure (total debt/total common equity), strongly controlled FBs enjoy better results than weakly controlled ones, in support of both Hypotheses 3 and 4.

Our results further show that our findings are highly sensitive to the way we define family businesses (Miller et al., 2007). They also mirror prior findings in the cases of Western companies. Although the approach we adopt is interesting because it helps measure the influence of the level of family control on performance and financial structure, the question remains whether Type C and D companies should be regarded as family businesses. In their cases, family control and influence are so weak that they have no perceptible consequences, similar to the distinction between family businesses and families in business.

## Conclusion

Research on FBs in Japan reveals the same problems, in terms of definitions, as research in Europe and North America. Kurashina (2003), by defining them according to a combination of family control over capital and management, suggests that in Japan, FBs achieve better average performance than NFBs. His findings match results previously obtained by researchers studying firms in Europe and North America.

This article more closely investigates the comparative performance and financial structures of FBs and NFBs in Japan by applying a methodology that Allouche and Amann (1995) and Allouche, Amann, and Garaudel (2007) used with some success in France. The comparison of pairs of companies provides highly reliable results, in a context that has seldom been investigated empirically. Using this method, we confirm that FBs in Japan achieve better performance than NFBs, for both profitability and financial structures. We further confirm that the level of family control strongly influences performance, at least in terms of profitability (though the results are not as clear for financial structures). Thus, our results clearly mirror the predominant findings of academic literature in this field.

This research also has several theoretical and managerial implications. First, it provides an in-depth investigation of FBs versus NFBs in another non-U.S. context, namely, Japan, as requested by Lussier and Sonfield (2006). Extending the national and institutional contexts in which we determine that FBs perform better than NFBs offers a useful contribution (Popper, [1934] 1959). However, we also note the need for further reassessments of this performance differential, given the unique Japanese cultural and institutional context. In addition, we find that the level of family control has consequences for performance; this finding requires confirmation in other national and institutional contexts. Second, because FBs do not enjoy a clear positive image in Japan, some have recently reshuffled their

### Table 4 Comparative Performance and Financial Characteristics: Strong Control FBs Versus Weak Control FBs

<table>
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<td>Total debts/total common equity</td>
<td>54</td>
<td>73.1228</td>
<td>129.82</td>
<td>-56.6972</td>
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</table>

*** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.
governance structure (e.g., Hoya, Omron) to strengthen the confidence of nonfamily shareholders. Although this method makes sense, our research shows that communication about the specific advantages of FBs might be better than governance reforms. This insight may benefit both FB owner-managers and consultants. Third, our research suggests that when looking for a partner or potential investment in Japan, companies should take into account whether the Japanese company is family owned. International alliances and investments are more complex than domestic ones. Asymmetric information and differences in institutional environments greatly complicate the process. Thus, considering an FB could provide a rational criteria.

The dynamics of family control justify the possibility of an inversion of the direction of the causal relation between structure of property and performance (Anderson & Reeb, 2003). To further the theory offered by Demsetz and Lehn (1985), the structure of the capital could be considered an endogenous variable. In the case of FBs, the evolution of past performance may constitute an explanation for the permanence of control. In the event of bad performance or negative anticipation about the evolution of performance, family shareholders likely disengage and sell their shares. Insufficient profitability thus can lead to the takeover of the company by a more powerful group. In turn, sufficiently profitable companies may be better able to preserve family control. Such an inverse perspective demands specific empirical investigation into the conditions in which businesses lose family status.

Appendix 1: Ratio Definitions

All ratios are extracted from the Worldscope (2003) database.

Return on Assets
(Net Income Before Preferred Dividends + ((Interest Expense on Debt – Interest Capitalized) * (1 – Tax Rate)))/Last Year’s Total Assets * 100

Return on Equity—Total (%)
(Net Income Before Preferred Dividends – Preferred Dividend Requirement)/Last Year’s Common Equity * 100

Return on Invested Capital
(Net Income Before Preferred Dividends + ((Interest Expense on Debt – Interest Capitalized) * (1 – Tax Rate)))/(Last Year’s Total Capital + Last Year’s Short Term Debt & Current Portion of Long Term Debt) * 100

Earnings Before Interest and Taxes (EBIT)
EBIT represents the earnings of a company before interest expense and income taxes. It is calculated by taking the pretax income and adding back interest expense on debt and subtracting interest capitalized.

Net Income (US$)
US$ represent the net income of the company converted to U.S. dollars using the fiscal year end exchange rate.

Pretax Margin
Pretax Income/Net Sales or Revenues * 100

Total Debt % Total Capital
(Long Term Debt + Short Term Debt & Current Portion of Long Term Debt)/(Total Capital + Short Term Debt & Current Portion of Long Term Debt) * 100

Long Term Debt % Total Capital
Long Term Debt/Total Capital * 100

Total Debt % Common Equity
(Long Term Debt + Short Term Debt & Current Portion of Long Term Debt)/Common Equity * 100

Current Ratio
Current Assets—Total/Current Liabilities—Total

Quick Ratio
(Cash & Equivalents + Receivables (Net))/Current Liabilities—Total
References
Allouche, Amann, Jaussaud, Kurashina


A Matched-Pair Investigation of Family Versus Nonfamily Businesses in Japan


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AUTHOR QUERY FORM

Dear Author,

During the preparation of your manuscript for publication, the questions listed below have arisen. Please attend to these matters and return this form with your proof.

Many thanks for your assistance.

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