Two models of Family Firms in Dividends and Investments Policy

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Two models of family firms in dividends and investments policy

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Abstract: The purpose of our research is to verify the role of the family variable in the dividends policy and investments one, distinguishing family firms (FFs) and non-family firms (NFFs) and between large FFs (FFs listed in FTSE MIB index) and medium-sized FFs (FFs listed in STAR index), in terms of dividends and investments policies adopted. Medium-sized FFs have a weaker dividends distribution policy than large FFs, due to a high interest in saving the liquidity in order to finance the attractive investment opportunities. Large FFs are interested in a stronger dividends policy, in order to attract new shareholders and reward the old ones, more than with large NFFs. FFs have a stronger investments policy compared with NFFs and this difference is more evident in medium-sized companies. The medium-sized FF can take advantage of the power of the family to maintain a continuous growth and development of the business, even when liquidity is restricted.

Keywords: family firms; FFs; family businesses; dividends policy; investments policy.

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1 Introduction

The family business phenomenon is widespread especially in Europe, Asia and Latin America and so the importance of family businesses in the economic and social context cannot be ignored (La Porta et al., 1999; Claessens et al., 2000; Faccio and Lang, 2002; Astrachan and Shanker, 2003; Morck and Yeung, 2004; Culasso et al., 2012, 2013; IFERA, 2013). Particularly with regards to the European environment "the context is characterized by high ownership concentration and the presence of family groups that remain in control of a significant number of firms, in contrast to the less amenable American and Anglo-Saxon markets" (Garcìa-Ramos and Garcìa-Olalla, 2011).

In recent years, competitive context has been characterised by structural change due to many factors, but mostly two forces: globalisation and technology (Bresciani et al., 2013a, 2013b). It is easy to understand that in Italy the presence of numerous small and medium-sized enterprises, often family-controlled (AIDAF, 2011; Mediobanca, 2013), represents a distinctive factor within the international scenario.

The main purpose of our study is to verify the role of the family variable in dividends and investments policy. We referred to several studies, for which the family is considered as a missing variable in organisational research. Among these studies, Dyer (2006) stated that "failing to use the family as a variable in organizational research can lead to incomplete or misleading findings". In addition, Sharma et al. (2012) agreed with the research conducted by Yu et al. (2012) that provided evidence of the role of the family involvement in the management, ownership and governance of the business. In particular, Yu et al. (2012) concluded family business studies are focused on the family variable and on its impact on family business performance and corporate governance. These findings reinforced the emerging consensus in the field, in which a strong consideration of the reciprocal role of family and business distinguishes family business studies from other disciplines (e.g., Astrachan and Shanker, 2003; Rogoff and Heck, 2003; Zahra and Sharma, 2004).

In our research, we were interested in understanding whether the differences between family firms (FFs) and non-family firms (NFFs) and between large FFs and medium-sized FFs, were reflected by the dividends and investments policies adopted.

In this article, we first looked at the analysis of the theoretical background of the FFs, drawing particular attention to the purposes of our paper. We then outlined the methodology, in terms of the description of the sample and the research method. In the fourth section, we presented and discussed the findings of the research. Finally, conclusions and implications of the study are given, along with the limitations of the research.

2 Theoretical background

2.1 FF contextual framework

In the literature there are several different definitions for 'family business', reflecting the different criteria considered. In terms of ownership and control, the following definitions may apply:

- an FF is a "firm in which significant voting rights or ownership is controlled by a member or members of a single family" (Barnes and Herson, 1976)
- in an FF the share of capital is owned by a single family (Alcorn, 1982; Anderson and Reeb, 2003; Cronqvist and Nilsson, 2003; Lansberg et al., 1988; Villalonga and Amit, 2006)
- in an FF, the owners of the full risk are one or more families having kinship or similar ties (Ferrero, 1980; Di Mascio, 2008; Litz, 1995; Morris et al., 1997; Westhead and Cowling, 1998).

FFs might be defined if considering the number of family members involved in its management (Churchill and Hatten, 1987; Stern, 1986; Ward, 1988).

The definitions have also been based on a combination of criteria relating to ownership and control (Astrachan et al., 2002; Sciascia and Mazzola, 2008; Smyrnios et al., 1998). In particular, a company is classed as a family business if (Chua et al., 1999):

- the family owns at least 50% of the shares and the company is family-run
- the family owns at least 50% of the shares, but the company is not family-run. Nevertheless, the CEO perceives it as a family business
- the family owns less than 50% of the shares and the others are owned by a venture capital or investment company. The company is family-run and the CEO perceives it as a family business.

Some studies (Birley, 2001; Beckhard and Dyer, 1983; Davis and Harveston, 1998; Kepner, 1983; Litz, 1995) classed companies as FFs based on the degree of involvement of family members in the company, who were considered 'internal stakeholders' of an FF (Freeman, 1984). In particular a study conducted by Fiegener (2010) examined family involvement in small private businesses in the US and found that family involvement (family directors, managers and employees) is positively related to family ownership and firm size. Another study (Lin and Hu, 2007) explored the choice of family versus professional CEOs in a sample of Taiwanese firms over the period 1991–2000. They find that the presence of a family CEO is positively related to family ownership and firm size.

Predictably, researchers have come up, diachronically with many definitions of 'family business', some more generic and others more fit for specific contexts (Table 1).

In all definitions the union between the family (considered as an entity), its members and the business activities is strong. The firm's survival and value creation is influenced by the connection between family and enterprise (Lansberg, 1983; Dunn, 1999; Belardinelli, 2002; Miglietta, 2009). The family considers a maintenance and support of its members the main goal; to reach this goal; the family invests its own resources in the activities of the company, following the entrepreneurial values (Bertini, 1995; Catturi, 1995; Coda, 1988). A series of shared values characterises both the family and the company, such as the continuity of the economic activity (Giannessi, 1960; Onida, 1954; Zappa, 1957) and the value creation (Catuogno, 2006; Cuccurullo, 2006; Tiscini, 2006). In particular the study by Villalonga and Amit (2006) showed that value creation in FFs is affected by whether the controlling family's voting rights exceed its cash flow rights. In addition, Chen et al. (2005) stated: "On the other hand, in Japan, where firms are subject to monitoring from banks and takeovers are rare, the positive relationship between managerial ownership and firm value has been shown to be monotonic and holding for all levels of ownership". Similar evidence has been obtained by Hiraki et al. (2003), who maintain that managerial ownership is monotonically and positively related to the value of Japanese manufacturing companies.

In conclusions, it is possible to summarise that a FF is an entity in which one or more families exercise their influence on the properties and/or the management of the business itself (Dematté and Corbetta, 1993). Of course, it differs because of several factors, such as goals (Tagiuri and Davis, 1992), size and financial structure (Romano et al., 2000), international structure and strategies (Zahra et al., 2004a, corporate governance (Golinelli, 2000; Montemerlo, 2000) and entrepreneurial behaviour (Zahra et al., 2004; Zahra and Sharma, 2004).

Table 1 the evolution of the family business definition

Authors	*Years*	*Definition*
Donnelley	1964	A business in which at least two generations of the same family whose ties should influence both the strategy of the enterprise and the interests/objectives of the family.
Bernard	1975	A company controlled by members of one family through shares.
Barnes and Hershon	1976	A company in which an individual or members of one family have a controlling interest.
Alcorn	1982	A company in which the family, even if the property is held by external parties, must manage the business and participate in equity.
Davis	1983	Family businesses in which the strategic and managerial aspects are subject to significant influence of one or more families. The influence is exerted through the property and, upstream, the contribution of family management.
Rosenblatt et al.	1985	A company in which the majority of the capital (or control) is in the hands of a single family and at least two family members are or have been directly involved in management.
Pratt and Davis	1986	A business in which two or more families influence management through the exercise of family ties, of managerial roles or rights of ownership.
Stern	1986	A business owned and operated by members of one or more families.
Churchill and Hatten	1987	A family elder to a younger family considers an enterprise the family business in which it is proposed or in case of sale of control.
Babicky	1987	It is a type of small business, started by one or a few people who have a business, working hard to ensure their development and that, often with the help of limited resources, fail to ensure their growth, keeping the majority of the capital.
Lansberg et al.	1988	A business in which members of a family have the legal control of the firm.
Handler	1989	An organisation in which family members in the management or the board of directors influence the major operational decisions and succession planning.
Dreux	1990	There are companies that appear to be controlled by one or more families, who have a level of incidence in organisational governance sufficient to substantially affect business decisions.
Leach et al.	1990	A company in which a family controls more than 50% of the votes or a family actually controls the company and/or a significant proportion of managers are members of one family.
Donckels and Frohlich	1991	A company in which family members have at least 60% of the capital.

Source: Tardivo and Cugno (2011)

Table 1 the evolution of the family business definition (continued)

Authors	*Years*	*Definition*
Gallo and Sveen	1991	A company in which a single family owns a majority stake and has total control.
Lyman	1991	A company in which a single family owns a majority stake and has total control.
Holland and Oliver	1992	Any business in which relations between members of one or more families influence decisions concerning the ownership or management.
Tagiuri and Davis	1992	A business in which two or more family influence management.
Dematté and Corbetta	1993	We are in the presence of a family business where one or several families linked by close ties of kinship or affinity will put the disposal of financial capital in full risk or low risk, real or personal guarantees and managerial skills.
Welsch	1993	A company concentrated ownership, with the owners or relatives of owners involved in management.
Carsrud	1994	A company owned by a limited number of subjects, in which the property and the decision process are dominated by a group of people linked by affective relations of kinship.
Litz	1995	Family business in which ownership and management are concentrated in the hands of a single family unit whose members are committed to maintaining an organisation that focuses on the ties of kinship.
Astrachan and Schanker	1996	Broad definition: family business in which the family has control over strategic activities and participate in various ways and levels of the business
Sharma et al.	1997	The business enterprise which is managed with the intention to train, develop and sustain over time, a vision shared by a dominant coalition controlled by a member of the same family or a small group of families.
Smyrnios et al.	1998	The business to be considered 'family' has to be characterised by at least one of the criteria identified:
		more than 50% of the property is held by a single family;
		more than 50% of the property is held by more than one family;
		a single family group helds the effective control of the business.
Chua et al.	1999	The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.
Angiola	2000	The family business is that enterprise consists of a household or by two or more nuclei linked by close ties of kinship or affinity, which provide the financial capital of the full-risk or low risk, real or personal guarantees or managerial skills.
Habbershon et al.	2003	The concept of family business is tied to the desire to convey the property to the next generation and the trans-generational commitment to create value.

Source: Tardivo and Cugno (2011)

Table 1 the evolution of the family business definition (continued)

Authors	*Years*	*Definition*
Astrachan and Schanker	2003	Family business is a family in which the owner intends to pass the company to the heirs and the founder or his heirs should be involved in management.
Habbershon et al.	2003	The concept of family business is tied to the desire to convey the property to the next generation and the trans-generational commitment to create value.
Villalonga and Amit	2006	Is family that businesses in which one or more family members holding 5% of capital or are directors or managers, there is at least a family member as an administrator and as a manager, the family is the main shareholder voting, one or more family members of generations after first having at least 5% of capital or are managers or directors, the family is the major shareholder and has at least one family as a manager and at least one as an administrator, the family owns at least 20% of the capital and is the main shareholder. One or more family members possess at least 5% of capital or are administrators but there is no family among the managers, the family is the largest shareholder, owning at least 20% of the voting capital, at least one family member is an administrator and manager, the family is a second generation or later.
Zocchi	2007	The family business is that enterprise characterised by two main factors: the feelings of family members and the patrimonial assets of the family. This affects the appearance and transmission of capital, income, investment, corporate boards and management.
Di Mascio	2008	The family business firm which is characterised by: the interplay of familiar figures in the various private and managerial roles and the close relationship of interdependence between the family business and the family business itself, by a strong grounding in economic and political territory; by a strong institutional overlap between family, business, property that generates critical especially during the generational transition of the company and the family property.
Bertoldi et al. and Bresciani et al.	2011, 2013a and 2013b	FFs have certain key characteristics: they are managed by a limited group of people, their decisions are made quickly, the final approval on a new product is often given by the family members who is leading the company
Rhee et al. and Pérez-Luño et al.	2010 and 2011	Family businesses have a strong entrepreneurial orientation which is positively related to innovation
Chen et al.	2012	A FF is characterised by product innovativeness, product development speed, customer-focused performance and financial performance

Source: Tardivo and Cugno (2011)

2.2 *FFs dividends and investments policies*

Many scholars focused on:

a dividends policy

b investments policy.

About *dividends policy*, it has emerged that FFs shareholders are reactive to the dividends choices made by management. Take for instance dividends distribution: the amount of dividends should be determined in accordance with actual and future company objectives (Gallo and Vilaseca, 1996). Therefore, dividends follow the trend of incomes (Damodaran, 2006). Some studies have shown that FFs are less reluctant to cut dividends if it is well justified (Gugler, 2003).

Other contributions affect the dividends policy in terms of agency theory (Shavell, 1979; Fama, 1980; Rozeff, 1982; Fama and Jensen, 1983; Rasmusen, 1987; Prendergast, 2000). Dividends policy is an instrument in reducing agency cost; indeed, in case of conflicts between management and shareholders, managers may opt for a low dividends distribution, investing money in non-optimal solutions. In these terms, agency conflicts may be attenuated thanks to a distribution of dividends. In FFs the family directly managing the company tries to adopt a controlling role, reducing the separation between owners and managers, which represents the classical agency problem (Anderson and Reeb, 2004; Villalonga and Amit, 2006; Jaggi et al., 2009). In addition, some problems may be caused if a dividends policy is not explained and agreed upon with shareholders, especially in the case of additional financing via alternative means [e.g., an increase of equity, an initial public offering (IPO), a negotiation of a long-term loan].

Some studies have shown that many FFs do not pay dividends and reach a lower ROE, losing their degree of appeal to actual or potential shareholders compared with NFFs (Gallo et al., 2004). In addition, in a study that analysed a panel of Austrian firms, it was found that family-controlled firms choose significantly lower target pay-out levels (Gugler, 2003).

Chen et al. (2005) found a significant positive relationship between family ownership (from 10% to 35% of total company shares outstanding) and the dividend yield in small market capitalisation firms. These firms also exhibit low sensitivity of dividend pay-outs to performance. This evidence suggested that controlling shareholders had been viewing dividends as a solution to extract resources out of the firms they controlled.

In terms of *investments policy*, the FFs investments policy with a long-term vision leads to an increased propensity for risk: this long-term vision favours the selection of investments that are able to support the creation of value over time (Miller and Le Breton-Miller, 2006; Sraer and Thesmar, 2007; Mihai, 2012). On the other hand, NFFs are not as interested in a long-term vision, preferring to have good performance in the short term (Miller and Le Breton-Miller, 2005).

Some studies have shown that FFs investments are limited in their diversification (Morris, 1998). Indeed, FFs investment sectors can be considered an extension of the field of the founder family sector (e.g., the textile and food sector) and the development of family tradition (e.g., the wine sector) (Donckels and Frohlich, 1991).

FFs tend to prefer labour-intensive sectors to capital-intensive ones, which require less investment in technological development and concern less risky strategies. In addition, FFs tend to focus more on market niches, differentiating product range and operating only in certain phases of the production process, with a less vertical integration in the value chain (Mussolini, 2007) than NFFs. FFs have a long-term investment time horizon to preserve family objectives and company growth and development. In addition, investment in research and development has a greater lack of innovation for FFs than NFFs, as the FFs are more risk averse. In addition, when breaking long-term investment down into its two components (R&D and capital expenditures), it emerged that FFs prefer investing in physical assets relative to riskier R&D projects than NFFs. Additional tests indicate that FFs receive fewer patent citations per dollar of R&D investment relative to NFFs (Anderson et al., 2012).

It seems that when performance does not reach the desired level, family and management goals tend to converge: FFs, much more than NFFs, tend to increase investments policy in research and development and reduce the variability of investments (Chrisman and Patel, 2012).

FFs seem more responsive to their investment opportunities, investing regardless of cash flow availability: this tendency is strongest when the company founder has a management role. In addition, FFs agency costs and asymmetries with external financing are lower than with NFFs. It also emerged that block-holders other than founding family have limited influence on investments policy (Andres, 2011).

Some studies found that FFs maintain a great competitive advantage, with more possibilities of success, especially if the sector requires lower investments but greater knowledge and culture (Cabrera-Suárez et al., 2001; Sirmon and Hitt, 2003). Indeed, a family has a 'familiness' (Habbershon and Williams, 1999) that is a set of unique and distinctive competencies and these are tacit (Teece, 1982), but they represent a key factor in their competitive advantage. This 'familiness' is influenced both by the notion of human capital (Dunn, 1995; Sirmon and Hitt, 2003), characterised by 'warm, friendly and intimate' relationships between its members (Horton, 1986) and financial capital managed as long-term assets (Dreux, 1990). Some researchers defined this capital as a 'patient capital', that is, the capital invested without predictable return and oriented to future creativity and innovation (Teece, 1992). Due to the 'familiness', FFs are characterised by investing its own resources in the company, respecting tradition, unity and affection values (Ward, 1997) and continuity of the economic activity (Onida, 1954; Zappa, 1957; Giannessi, 1960; Coda, 1988).

Investments policy is influenced by the lack of capital available to small, private FFs (Mahérault, 2000). An IPO may represent the best solution to overcome this lack of capital (Anderson and Reeb, 2003), but an issue of new shares could be an alternative choice only if there were no other solutions to finance company growth (Osteryoung et al., 1992; Mulkay and Sassenou, 1995; Bracci, 2007; Gualandri and Schwizer, 2008), as issuing new shares reduces family control. The reluctance to an IPO may be a disadvantage, when the wealth of the family is insufficient to support the growth and development of the company (Gallucci et al., 2012).

Other studies concerning FFs showed that self-financing is considered the best financial internal resource (Churchill and Lewis, 1985; Ennew and Binks, 1994; Dunn and Hughes, 1995; Mahérault, 2000; Zocchi, 2012), followed by the contribution of capital by family shareholders and short-term bank loans, while other external debts are considered too risky. FFs are leveraged more commonly than NFFs of the same size and dividends payout ratio, also due to the reluctance to issue new shares (Andres, 2011). Debts may be about 50% of liabilities, of which bank loans are predominant (Preda, 2011), with a short-term arrangement with several banks (Miglietta, 2009). Regarding external financing, it emerged that access to financial resources is not easy for small FFs (Harvey and Evans, 1995; Coleman and Carsky, 1999), due to both a limited bargaining power with the banking system and the current financial crisis. In addition, the financing policy is influenced by growth degree, size and proportion of capital in the family's hands, in terms of business savings or loans from the family or banks (Smyrnios et al., 1998). The use of credit and loans is influenced by the company's age and by family ownership versus non-family ownership (Coleman and Carsky, 1999). In our findings, we referred to performances with the purpose to differ FFs to NFFs.

Our work differs from the previous studies in the following ways. First, we analysed the connection between the dividends policy and the investments policy: indeed, a weaker dividends policy might save the liquidity to finance attractive investment opportunities. For this purpose, we compared FFs with NFFs to highlight the role of the family variable in the dividends policy and investments policy. Then, we thoroughly analysed within FFs, with the purpose to distinguish large FFs (FTSE MIB) and medium-sized FFs (STAR). Consequently, we confirmed the assumptions that there are two main configurations of FFs, which are influenced by the size of the company and in terms of dividends and investments policy.

3 Methodology

3.1 The sample

Our sample is made up of companies listed on the Italian stock market in February 2013, included in the FTSE MIB and STAR indexes. FTSE MIB represents the main benchmark index of the Italian stock market and it consists of 40 Italian large capitalised and high liquidity companies, belonging to several economic sectors and capturing about 80% of the domestic market capitalisation. STAR index is relating to 67 medium-sized firms on the Italian stock market with a market capitalisation between €40 million and €1 billion and respecting high transparency and communicativeness, high liquidity and Corporate Governance aligned to the international standards.

First at all, we considered the whole sample, distinguishing between FFs and NFFs. Then, we also separately analysed the sample, distinguishing between FTSE MIB companies and STAR ones, in order to verify the differences due to the size of the companies.

Focusing on Italian companies of the industrial sector, we excluded banks, insurance and other financial companies and also foreign industrial listed companies. This brought the number of selected companies to 80.

FFs and NFFs were distinguished using mixed criteria (Smyrnios et al., 1998), which reflects the Italian context. Specifically, we defined an FF as a company that has:

- a level of control of the capital by the family/ies
- the presence of at least one family member on the board.

Data included in the corporate governance report of each company published on the Borsa Italiana website were used to distinguish FFs and NFFs.

It emerged that of the 80 companies 55 were FFs and 25 were NFFs, as shown in Table 2.

Table 2 The sample

	FFS	*NFFs*	*FTSE MIB FFs*	*FTSE MIB NFFs*	*STAR FFs*	*STAR FFs*
Companies (no)	55	25	13	14	42	11
Companies (%)	68.75%	31.25%	48.15%	51.85%	79.25%	20.75%

Source: Own elaboration

It is interesting to observe that 68.75% of companies in the sample are FFs. In the FTSE MIB index (large-capitalised companies), the percentage of FFs is 48.15%, while in the STAR index (medium-capitalised companies) FFs are 79.25%.

3.2 The research method

The main purpose of our research is to verify the role of the family variable in dividends and investments policy. In particular, we were interested in understanding whether the differences between FFs and NFFs and between large FFs and medium-sized FFs, were reflected by the dividends and investments policies adopted.

We referred to a previous study of ours concerning the impact of the family variable on performance in the period 2006–2011 (omitted) on a sample of Italian industrial companies listed on the Italian stock market in February 2013, included in the FTSE MIB and STAR indexes. It emerged that there are two main categories of FFs: the large-capitalised FFs (FTSE MIB) and the medium-capitalised FFs (STAR). This distinction is based on their size, expressed in terms of:

1 number of employees

2 assets quantified in the balance sheet

3 revenues measured in the income statement, which is always positively correlated with the capitalisation.

In medium-capitalised FFs, the family is a relevant variable in achieving better profitability and financial performances if compared to NFFs of the same size. In large-capitalised FFs, the family is an irrelevant variable in achieving better profitability and financial (debt ratio) performances if compared to NFFs of the same size. In addition, the family is a relevant variable independently by the size on the financial performances (with the exception of the financial leverage). The same study also compared FFs and NFFs in terms of performance: in terms of economic performance, NFFs outperform FFs in the FTSE MIB index, while the reverse occurs in the STAR index; in terms of financial performance STAR FFs outperform STAR NFFs, while FTSE MIB FFs outperform FTSE MIB NFFs in all financial ratios (with the exception of the debt ratio). Our research confirmed past literature on FFs performance that emphasised a positive correlation between family presence and performance, especially considering the size of the company as a relevant variable (Anderson and Reeb, 2003; Chu, 2011; Culasso et al., 2012; Gonzalez et al., 2012).

In addition to performance focused on the above research, we then extended our findings by analysing the dividends policy of the sample in order to obtain further information concerning their behaviour in attracting shareholders or saving liquidity to finance attractive investment opportunities. Primarily, we compared the dividend policies of FFs with those of NFFs to highlight the role of the family variable in dividends policy. In addition, we made a thorough analysis of the dividends policy of FFs, distinguishing between large FFs (FTSE MIB) and medium-sized FFs (STAR) in order to verify the role of the size of a FF. The source of the data was the AIDA database, which contains a wide variety of information on about one million companies in Italy, with up to five years of history and in particular accounts following the scheme of the fourth directive CEE, company financials and economic and financial indicators.

For this reason, we hypothesised that in medium-sized FFs the dividends policy was weaker than in large FFs due to an high interest in saving the liquidity to finance attractive investment opportunities: the financial strategy is oriented to maintain a good level of self-financing, adopting a weaker dividends policy. On the contrary, large FFs are interested in a stronger dividends policy, in order to attract new shareholders and reward long-standing shareholders, even more than with large NFFs.

H1 The large FFs have a stronger dividends policy than medium-sized FFs and, consequently, their behaviours are more similar to large NFFs than medium-sized FFs.

We classed the dividends policy in terms of it being either:

- a so-called 'weaker' dividends policy
- a so-called 'stronger' dividends policy.

The 'weaker' dividends policy is characterised by being relatively steady over a period of time and by distributing low dividends per share in relative terms; a 'stronger' dividend policy usually increases over a period of time and the dividends per share are high (always in relative terms, that is, in comparison with other companies). In order to measure the dividends policy of a company, we analysed the average dividends per share in 2011 (referring to 2011 financial statement, delivered in 2012) of both large FFs and medium-sized FFs and the dividends' rate of increase over 5 years (that is, from 2007 to 2011 financial statements), comparing this value between FFs and NFFs, large FFs and medium-sized FFs.

Due to the fact that we explained the results of this analysis by taking a different strategic approach between FFs in terms of dividends policy, influenced by the size and effects on investments, we decided to analyse the investment policies of the sample companies as well. We were aware of the external factors that could influence the investment policies of the companies, especially in periods of global crisis and we decided that this element could be a possible test bench for our research. So as not to restrict the full implications of the investment policy, we chose to not only consider FFs, but the whole sample (i.e., both FFs and NFFs). For this reason, the scope of this further investigation was to identify other differences between:

1. FFs and NFFs
2. large FFs and medium-sized FFs (always considering the *presence of the family* and the *size* as relevant variables).

So, our new hypothesis (H2) was that in FFs, the family was interested in a continuously increasing investments policy over a period of time, with the aim of growing and developing the company. On the other hand, the NFFs were more involved in a reduction of investments, preserving the liquidity and the correlated possibility to attract both new and long-standing shareholders. This last consideration was expected to be more evident in medium-sized companies (STAR index) than in the large ones. We also hypothesised that medium-sized FFs could have a weaker investments policy than large FFs, considering the size as a relevant variable in receiving money from banks in this period of liquidity contraction.

H2 FFs and especially medium-sized FFs, have a stronger investments policy than NFFs.

We classed the investments policy in terms of it being either:

- a so-called 'weaker' investments policy
- a so-called 'stronger' investments policy.

Increasing or decreasing weakly over time characterises the 'weaker' investments policy. A 'stronger' investments policy usually increases strongly over time, especially in relative terms between companies. In order to measure the investments policy of a company, we analysed the average increasing investments rate in the period 2006–2011 (that is, considering a period characterised by the presence of a global crisis, especially starting with 2008), comparing firstly FFs with NFFs (considering FTSE MIB and STAR indexes) and, secondly, medium-sized FFs with large FFs.

4 Findings

4.1 Dividends policy

Referring to dividends policy, the aim of our study was to strengthen our assumption about the existence of two categories of FFs, in particular observing what their typical features are and if it is possible to affirm that large FFs are more similar to large NFFs than medium-sized FFs. The results are shown in Table 3.

Table 3 Dividends policy comparison

	FFs	*NFFs*	*FTSE MIB FFs*	*FTSE MIB NFFs*	*STAR FFs*	*STAR NFFs*
Average dividends per share 2011 €	0.2113	0.1868	0.4136	0.2840	0.1471	0.062
Dividend policy – increase rate (mean 2007–2011) %	–1.077	–0.038	–2.807	–0.943	–0.290	0.297
Average dividends per share 2007 €	0.2136	0.1869	0.4253	0.2867	0.1475	0.0618

Source: Own elaboration on AIDA database

Comparing large and medium-sized FFs, it showed that:

- the average dividends per share in 2011 of large FFs (0.414 €/share) was higher than medium-sized FFs (0.147 €/share)

- the rate of increase of dividends for the period 2007–2011 is negative both for large FFs (–2.81%) and medium-sized FFs (–0.29%), due to the global economy crisis, but with a higher negative rate in large FFs than in medium-sized FFs
- the average dividends per share in 2007 was higher in large FFs (0.425 €/share) than in medium-sized FFs (0.148 €/share).

Considering large FFs on the one hand and large NFFs and medium-sized FFs on the other, it revealed that:

- large FFs had a higher average dividends per share in 2011 (0.4136 €/share), if compared with large NFFs (0.2840 €/share) and medium-sized FFs (0.1471 €/share)
- the rate of increase of dividends for the period 2007–2011 is negative both for large FFs (–2.807%), large NFFs (–0.943%) and medium-sized FFs (–0.290%), with a higher negative rate in large FFs than in large NFFs and medium-sized FFs
- the average dividends per share in 2007 was higher in large FFs (0.425 €/share) than in large NFFs (0.2867 €/share) and medium-sized FFs (0.1475 €/share).

In analysing the above findings, we can deduce that medium-sized FFs have a weaker dividend distribution policy than large FFs. Indeed *even if* the rate of decline of dividends for the period 2007–2011 is lower in medium-sized FFs than in large FFs, the average dividends per share (in 2011 and 2007) is higher in large FFs than in medium-sized FFs.

Furthermore, even if large FFs have a higher dividends distribution policy than large NFFs, they are more similar to large NFFs than medium-sized FFs, confirming our assumption.

- H1 was confirmed.

It emerged that in medium-sized FFs the family is usually interested in saving liquidity in order to finance attractive investment opportunities, which can lead to them not paying out dividends (Black, 1996) and, consequently, it is not considered as important to attract new shareholders and to reward existing shareholders by dividends. Indeed, the main goal of the family is to improve the ROI. The financial strategy is oriented to maintain a good level of self-financing, adopting a weaker dividends policy. Instead, large FFs are interested in a stronger dividends policy, in order to attract new shareholders and reward the old ones, even more than with large NFFs. With capital stock, the large FFs can finance the relevant investments required by the diversification strategy (both operating and non-operating investments) and improve the ROE, especially using the non-operating income and the debts ratio as leverage.

Due to the fact that dividends policy might influence the investment policy, we decided to analyse the investment policies of the sample companies as well, aware that the Italian financial climate has been shaped by the global economic crisis in recent years.

4.2 Investments policy

Regarding investments policy, the aim of our research was to verify:

- the relevance of the *family* presence in the business, in terms of efforts spent for the growth and development of the company (investments policy)

- the relevance of the *size* of FFs, in terms of effects on the investments policy, influenced especially by the access to support from the banking system.

The results are shown in Table 4.

Table 4 Assets – increasing rate

Increasing rate assets FFs (mean 2006–2011)%	*Increasing rate assets NFFs (mean 2006–2011)%*	*Increasing rate assets FTSE MIB FFs (mean 2006–2011)%*	*Increasing rate assets FTSE MIB NFFs (mean 2006–2011)%*	*Increasing rate assets STAR FFs (mean 2006–2011)%*	*Increasing rate assets STAR NFFs (mean 2006–2011)%*
4.41	–2.03	11.53	8.50	3.18	–14.17

Source: own elaboration on AIDA database

We discovered that FF's rate of increase was 4.41%, as opposed to NFFs, which had a negative increasing rate of 2.03%. Considering only large companies, FFs and NFFs both had a positive average investments rate, but FFs had a higher rate than NFFs (11.53% and 8.50% respectively). Instead, considering medium-sized companies, FFs had a positive average investments rate equal to 3.18%, while NFFs had a negative average investments rate equal to –14.17%. Comparing FFs in terms of size, it emerged that large FFs are involved in a stronger investments policy (11.53%) than medium-sized FFs (3.18%).

Analysing the findings, we can deduce that:

- FFs are involved in a more positive, increasing and stronger investments policy than NFFs, independent of the size of the companies
- in medium-sized companies this difference is more evident and shows a decreasing rate for NFFs and an increasing rate for FFs. It is possible to observe the same is true of large companies to a lesser degree, in which both the rates are positive
- large FFs prefer a stronger investments policy than medium-sized FFs (+362%), demonstrating that the size is again a relevant variable in distinguishing FFs into two main groups.

In conclusions, the presence of the family, as already affirmed, constitutes an important variable that influences the investments policy of the companies. This is more accentuated in medium-sized companies, given that medium-sized NFFs have a decreasing investments rate, as the absence of the family, combined with the crisis, have forced them to reduce their investments policy. The medium-sized FFs on the other hand, even if they have suffered the same crisis and a restriction in liquidity, can take advantage of the power of the family to continue to maintain a good level of investment. Indeed, the family is interested in a continuous growth and development of the business. Conversely, the absence of family limits the interest of the management in making investments during the economic crisis. In other words, the presence of family in a firm represents a kind of power that enables them to continue to make investments, even when liquidity is restricted.

Furthermore, we observed that medium-sized FFs have a weaker investments policy than large FFs, due to:

1 different opportunities in obtaining money from financial institutions in this period of restricted liquidity (considering the size as a relevant variable in obtaining monetary capital)

2 the strategy in business diversification, which requires higher investments.

This confirms our assumptions that there are two main kinds of categories of FFs, which are influenced by the size of the company and in terms of investments policy.

- H2 was confirmed.

5 Conclusions, implications and limitations

In order to reinforce the findings of our previous research concerning the differences between FFs and NFFs and the existence of two categories of FFs in terms of performance, we decided to analyse the dividends and the investments policies of the sample to obtain further information concerning the behaviour of FFs compared with NFFs and within FFs.

We observed that medium-sized FFs have a weaker dividends distribution policy than large FFs:

- even if the dividends decreasing rate 2007–2011 is higher in large FFs than in medium-sized FFs
- the average dividends per share (in 2011 and 2007) are higher in large FFs than in medium-sized FFs.

Furthermore, large FFs have a stronger dividends policy than large NFFs, because they are interested in attracting new shareholders and reward long-standing shareholders. This confirms our assumption about the different nature of FFs under the criterion of size and makes our hypothesis plausible: in large FFs, the family is not a relevant variable. In addition, medium-sized FFs have a weaker dividends policy than large-sized FFs, as the family is usually interested in saving liquidity in order to finance attractive investment opportunities. By following a moderate level of self-financing policy, the attraction of new shareholders and the rewarding of existing shareholders by dividends is not the main goal of the family. *H1 is confirmed:* the large FFs have a stronger dividends policy than medium-sized FFs and, consequently, their behaviours are more similar to large NFFs than medium-sized FFs.

About investments policy, it emerged that:

- FFs have a stronger investments policy compared with NFFs;
- in medium-sized companies this difference is more evident;
- large FFs have a stronger investments policy than medium-sized FFs.

Independent of the size, the presence of *family* is a relevant variable in helping overcome the period of crisis, keeping a strong investments policy oriented to the growth and development of the business. The family represents a sort of power that impacts the investments policy, even when liquidity is restricted. On the contrary, in NFFs the absence of family limits the interest to invest during a crisis period. Therefore, within FFs, medium-sized FFs can take advantage of the presence of the family to continue to maintain a good level of investment, even if they have suffered the crisis and a restriction in liquidity, differently than medium-sized NFFs. The weaker investments policy of medium-sized FFs than large-sized FFs is probably due to different opportunities in obtaining money from the bank (which is affected by the company size) during a period of restricted liquidity and to a different business diversification strategy, which requires higher investments. *H2 is confirmed,* because there are two main configurations of FFs, which are influenced by the size of the company, in terms of investments policy: indeed, FFs (especially medium-sized FFs) have a stronger investments policy than NFFs.

The *theoretical implications* of our study are linked to the presence of two main configurations of FFs in terms of dividends and investments policies, which are influenced by the size of the company: indeed, we can observe a connection between the dividends and the investments policies within FFs, which permits us to distinguish large FFs (FTSE MIB) and medium-sized FFs (STAR). We can finally consider that, a weaker dividends policy might save the liquidity to finance the attractive investment opportunities, how we could verify in medium-sized FFs.

The *practical implications* of our study are pertinent both for FFs owners, regulatory bodies and investors:

- The research is relevant for FFs owners: indeed, it is useful for them to understand and manage the effects that a specific choice in terms of size and of corporate governance could have on the company financial and operative structure, both in the long and short term. In particular, they could formulate more conscious and rational strategic intentions and initiatives in terms of risk and performance, especially regarding of business diversification and growth, influencing management and investors' decision-making process. This is due to the fact that FFs owners should evaluate their choices about the company growth in terms of size and complexity, especially considering the risks associated with their decisions in terms of dividends and investments policy.
- This study is also relevant for regulatory bodies to practically define secure policies for listed companies, especially by considering the need for integration between risks, strategic planning and control. Firms to map and monitor risks associated with growth and diversification, especially considering the corporate governance of the company itself, should effectively adopt risk management systems. In particular, regulatory bodies should define how better to evaluate the corporate governance of listed companies (in particular FFs versus NFFs) in their value creation process, especially looking at the need to strike a balance between risk and performance that is, considering the long-term value creation as a priority.
- Lastly, the implications of our article can also influence the investors' decision-making process, in order to identify the long-term outperformers Italian listed companies in terms of dividends policy.

Despite the implications, this research presents some limitations, as follows:

- Regarding the *definition of the sample*, we focused our attention only on the industrial sector; we did not consider the effects of belonging to a particular industrial sub-sector and we did not include financial and insurance companies. This is a limitation because dividends and investments policies could be influenced by external and internal variables typical of each sector. In addition, only listed companies are considered in the sample to reach a homogeneity in terms of strategic and organisational characteristics.

- Regarding the *adopted method*, it could be completed with some econometrical models, because the statistical measures that we used can have some limitations.
- Regarding the *dividends policy*, we did not consider that it could differ during the lifecycle of the company, according to fluctuating cash flow availability and investment opportunities; in particular, during the start-up phase, dividend distribution is not on the agenda, while during the growth phase it is low. Dividend distribution may increase during the maturity phase and remain high during the decline.
- Regarding the *investments policy*, we did not evaluate the correlation between the increasing investments rate with the long-term value creation of the companies, expressed in terms of increasing rate of economic value and, at the same time, we had to accept the increasing investments rate as a proxy of the research and development increasing rate of investment, which is probably more relevant in evaluating the growth strategy of a company.

Further research will aim to eliminate these limitations, in particular analysing a wider sample of FFs and using more sophisticated econometrical models.

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