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Bachelor Thesis

Family versus Non-Family Enterprises – Evidence from Latvia

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Abstract

Family firms are one of the main pillars of the global economy, contributing to more than 70% of the global GDP. Although significant research has been dedicated to family businesses around the world, family firm research in Eastern Europe is scarce. This paper adds to the literature by examining family firms in Latvia and comparing their performance and other financial metrics to non-family firms. The results show that family firms constitute more than 30% of all the firms (excluding micro-enterprises) and they are associated with significantly higher performance (return on assets and return on equity) than non-family firms during the time period 2012-2020. To our knowledge, this is the first comprehensive study documenting the prevalence and performance of family firms in Latvia.

1. Introduction

Family enterprises account for around 66% of all companies worldwide and contribute between 70% to 90% of annual global GDP (Family Firm Institute, 2017). In Europe, family ownership and control can be observed at an even higher frequency, for example, in Germany 91% of all companies are classified as family enterprises, and most jobs are provided by family enterprises (Family Firm Institute, 2017; Stiftung Familienunternehmen, n.d.). More importantly, family enterprises have a stabilizing effect in times of crisis, for example, during the global financial and euro crisis in the year 2008, 500 of the largest family enterprises in Germany increased the number of people employed by 19%, however, non-family enterprises only increased the employment rate by 2% (Stiftung Familienunternehmen, n.d.).

While large enterprises focus their operations in major urban centres, family businesses are more common in rural areas and remain loyal to their home locations even when expanding globally. Hence, family firms usually provide more employment opportunities in rural areas. Furthermore, according to Berrone, Cruz, Gomez-Mejia, Larraza-Kintana, (2010), family businesses pay more in taxes and pollute less. Overall, family enterprises are the backbone of the economy.

Although family-owned firms are among the most widespread forms of businesses around the world (Massis, Frattini, Majocchi, & Piscitello, 2018), they exhibit some specific characteristics and differences compared to other types of enterprises, such as a focus on long-term results and values, family conflicts that are affecting the firm, bigger investments to preserve growth, and higher employee loyalty, among others (Mandl, 2008). Much of the previous research focuses on large and publicly listed family enterprises in developed economies, while research on relatively smaller family enterprises in Eastern Europe is scarce. Considering that companies in transition countries are relatively young, mainly led by a founder with no experience of family succession issues, it is plausible that such family firms might have different performance results and overall characteristics than firms in developed markets (Duh, Tominc & Rebernik, 2007).

To our knowledge, the only research on family enterprises in transition countries is made by Duh, Tominc, and Rebernik (2007). The authors have studied various aspects of family enterprises in Slovenia, for example, differences in management, overall statistics (generation, age, number of companies), generation succession, and a relatively small comparison of financial performance. However, a comprehensive study of family firm financial and non-financial characteristics has not been done. Considering that family firms

are crucial to transition countries as important job, product, and service providers, it is important to shed more light on family firm performance and differences, compared to such enterprises in developed economies as well as to non-family companies (McKibbin & Pistrui, 1997; Poutziouris et al., 1997).

In the next sections, we present a more in-depth description of existing literature and examine whether family firms differ from non-family owned firms in Latvia. As the possible dissimilarity scope is fairly large, we primarily focus on the following dimensions: financial performance, leverage, growth rate, and such intangible differences as family effect on a firm's operations, and family member effort in business operations. Thus, the following research questions are formed:

1) **How does family firms' financial performance differ from that of non-family enterprises in Latvia?**
2) **How do family firm governance differences affect their profitability?**
3) **How do family firms in Latvia differ from non-family firms in terms of leverage, sales growth, and social aspects?**

2. Literature review

2.1. The 3-Circle Model

Many authors have used different definitions of family firms. Definitions applied are dependent on the subject of the paper or discussion, either political debate, legal regulations, or academic research. It is argued that the academic understanding of family firms is heterogeneous (Mandl, 2008). Although previous literature struggles to present a single definition of family firms, the debate revolves around one common ground, namely that a definition of the family firm should incorporate three elements: Ownership, Business, and Family, presented as the 3-Circle model by Tagiuri & Davis (1982) (see Figure 1). The model shows 3 inter-dependent and overlapping groups in a company. Each sector among the 3 overlapping groups is occupied by some individual which is present in a family business structure. All the family members will be located at the very top of the model. Owners or employees, which are not part of the family occupy the left and right lower circles respectively. If an individual has more roles, e.g., an employee, who does not own any stake in the company but is among the family members controlling the firm, will be located in overlapping sectors, in this case, the right-centre sector. In the middle are family members who work in the company and own some part of the company. Citing Davis (2018), "the model explains where key people and roles are located and entirely consist of 7 distinct interest groups" (See appendix A).

Furthermore, the model is a useful tool to analyse family businesses. Firstly, as the subsystems are interconnected, the actions and events in one part correspondingly affect other circles. E.g., if the family is in a conflict, it can affect other parts of the business or worsen the performance of the entire enterprise. On the contrary, if the enterprise is successful, it creates a more bonding and unitized family and ownership (Davis, 2018). Secondly, the model acknowledges the several groups with their own legitimate interest in the enterprise. All groups should be integrated and respected in the

Figure 1

"3-Circle" model of family business. Created by authors.

enterprise to perform at the most excellent level (Davis 2018). Thirdly, the three circles are always in motion and evolve over time. Families and owners not only need to face their
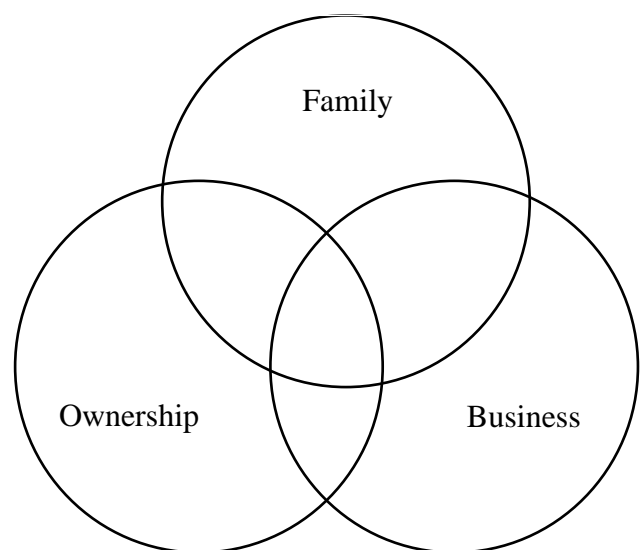
current challenges but also prepare for the future that they will most likely face, e.g., a succession of the business to future generations.

As Davis (2018) puts it, after 40 years of coming upon with the model, it is still relevant today, because of its simplicity and efficiency. The model in its unaltered form is adaptable over time. The definition of family has changed in society and the model allows for such changes. Divorced, blended, adopted, in-laws, and whoever else within the "business family"- all roles are consistent within the model (Davis, 2018). In like manner, the ownership sector can allow for many possible scenarios - private, public with voting or non-voting stock, with or without private equity partner. As globalization and technological advancements continue to shape and alter the businesses in today's world, the 3-Circle model accommodates the change. Hence, the authors use the model to constitute and build upon the definition of the family firm, which is used to research the performance differences among family and non-family firms.

2.2. Defining family firms

To discuss and further analyse the possible performance differences between family firms and non-family firms, the core of a family business should be defined. Scholars have used many different definitions depending on the type of family firms they have observed. Among academics who have researched publicly listed family firms, which are included in popular market indexes (such as S&P500), the most popular definition used is the one developed by Anderson and Reeb (2003). The firm is a family business if the founding family still owns a fraction of the company and those family members, or their descendants are on the board of directors. Additionally, some scholars have introduced a specific threshold for family company ownership to companies that have gone public. For example, Berrone, Cruz, Gomez-Mejia & Larraza-Kintana (2010) introduced a 5% ownership barrier, Villalonga & Amit (2009) – a 20% threshold. In the latter case, more specific definitions were used since the data sample consisted of companies that were included in the S&P500, meaning that those are large companies (with at least 11.8 USD billion market cap (S&P Global, n.d.)) with more detailed information available about the owners and their families, descendants, as well as very large base of shareholders, thus, big dilution of equity across various agents. As the definition is quite dependent on the specific sample used and regions researched, it varies from paper to paper, but one thing is common for all - each and every definition revolves around the previously mentioned 3 circle model, capturing the ownership, family, and business circles.

For this paper, a family firm is an enterprise that is owned by the family or its members (more than 50% share of equity owned by the family), and one, or more, family members are among the board of directors (at the same year). The root of the definition is still derived from the one proposed by Anderson & Reeb (2003), and European Commission (n.d.). Also, the definition is in line with the 3-Circle model and it covers each of the 3 dimensions that should be used in favor of a relevant and successful definition of a family firm.

2.3. Transition countries

Almost all scholars who have researched family enterprises, base their research on companies located in countries like the USA, Italy, Germany, Canada, and many others that can be classified as innovation-driven economies (World Economic Forum, n.d.). These countries have many years of independence and market economy behind them. In transition countries and more specifically in Eastern European post-soviet countries, the situation is different. Firstly, during the Soviet times, private businesses were forbidden, thus, the family business landscape differs, as the maximum age of privately owned business cannot exceed 30 years as of now. However, in the developed economies, depending on the definition, the age of a family business can be even 60 years (USA) (Zellweger, Nason, Nordqvist, 2012). Additionally, the environment in which the company is operating must be considered. Respectively, family enterprise pioneers in post-soviet countries started in undeveloped economies with different opportunities and challenges at the time. Thus, socio-culturally these enterprises are quite different from their peers in developed countries (Rees & Miazhevich, 2009). Also, the enterprises are mostly controlled by the founding generation, meaning that they have no succession experience, thus in the current decade, approximately 25%-40% of businesses in the European Union (share depends on the member country) will face the problem of passing the business to current owner descendants (Duh, Tominc & Rebernik, 2007). Considering that in the developed nations only 30% of enterprises survive till the second generation and most of the companies fail quite soon after the takeover, transition country firms that are facing these problems now or in the upcoming years face a risk of going bankrupt and experience worse financial performance (Duh, Tominc, Rebernik, 2006). Considering that in transition countries exactly the family companies were the ones who led and supported the countries' growth and development during the first decades after gaining independence (because back then the multinational or other types of companies were still not present, and family businesses provided jobs, products, services and many other

benefits to society) (McKibbin & Pistrui, 1997; Poutziouris et al., 1997), it is important to research how the changing economic environment have impacted family enterprises and their performance, moreover, to see if there is a difference in the performance of family firms. Therefore, this paper attempts to shed more light on the financial performance of family enterprises in a transition country - Latvia.

2.4. Why family firms are different?

Previous literature does not assess the differences between family and non-family firms as one having more advantageous traits than the other. The characteristic differences can be observed from two dimensions - tangible elements such as measurable figures and hard facts, and the second dimension being intangible, such as risk assessment and long-term strategy.

2.4.1 Intangible differences

Family ownership

One important difference of family ownership is the strong relationship between the family and business. Family and business structures are interconnected and can influence the business either by formal (co-ownership, employment) or informal (provide advising) forms. (Mandl, 2008). The consequence of this close relationship has several effects. For example, the company has to handle the events of different life situations in a family (such as marriage, death, birth of a child), which can impact firm performance and management (Zody et al. 2006). Additionally, conflicts might arise when multiple persons are involved in roles that are not fully in agreement with other family members (in case of a business transfer to descendants, others must obey the new authority). This may lead to dramatic conflicts that affect both business and family. According to PriceWaterhouseCoopers (2007), most issues arise from the following actions of business: inheritance and future plans; choice of managers and directors; not consulting among all family members when making a business decision; remuneration questions; distribution of profits vs. reinvesting.

Long-term perspective

Some argue that the main driver of motivation and differentiation from non-family firms is the intention not to sell the business. This thought process influences everything that is related to business activity, starting from the core production processes to the treatment of employees and the local community. It is discussed that the majority of family business owners think of themselves as the momentary caretakers who bear the duty to maintain and

foster the enterprise to transfer the business to the next generation. On the other hand, non-family entrepreneurs focus on sustaining the business as long as their lifetime lasts and choose to sell it at some point in time. For example, family businesses are more focused on the long-term continuance of the enterprise, rather than withdrawing quick, short-term profits. Hence, the intention to prolong the life of the company and then transfer the business when generational changes happen plays an important role as a success factor. Such firms can run more efficiently as the enterprise already possesses experienced workers, an established network of cooperation partners, and an existing customer base, which often is lacking in newly founded companies. (Mandl, 2008).

Social Capital

If the company is run under the family name or is the main/only source of income, then a particular emphasis is put on personal involvement and engagement to foster the business. Family members are often willing to commit to working longer hours and sacrifice their own personal interests in the name for of the business than compared to normal firms. This might be advantageous from the performance point of view; however, it can serve a toll on the family members and their relationship. (Mandl 2008).

In the study by Kenyon-Rouvinez and Ward (2005), it is observed that social relations and shared beliefs are a specific strength of family businesses because in tough times close network and social capital support the survival of the enterprise by allowing breaches to contract and offering more flexible terms. Employees who are not part of the family and management feel higher loyalty and commitment towards the business than non-family enterprises. Thus, they are willing to temporarily accept lower and delayed wages in a time of recession. Furthermore, the presence of social capital within the firm reduces possible principal-agent costs (the costs arising from asymmetrical information between different levels of the enterprise). Namely, it limits the possibility of managers and employees to follow different objectives and goals than the firm has set (Mandl, 2008).

Social responsibility

The employment provided and high commitments towards the local community serve as an intention to preserve the good reputation, hence also Corporate Social Responsibility is of the essence. Even more, family firm leaders perceiving themselves as the momentary caretakers, cannot look away from investing in CSR activities or doing other activities that might leave a degrading effect on the firm's reputation, because the local engagement serves as a base for

customers, employees, and even potential investors. Déniz and Suárez (2005) find that family firms not only act in their best interest but also consider the community. It has been shown that larger family firms invest more in CSR activities than non-family firms, however, it is the other way around for smaller businesses. Smaller family firm owners tend to think of CSR engagement as an additional cost they cannot afford (Ahmed, Montagno, and Flenze, 1998, cited in Déniz and Suárez, 2005). Also, family firms invest more in product quality, since it is associated with the family name (Mandl & Dorr, 2007).

2.5.2 Tangible differences
Financing activities
When the risk behaviour is not carefully assessed, the stake of business failure can dramatically impact the family by reducing the family's budget and preventing succession. Even more, family firms are often anchored to the local community, which results in more local business partnerships, cooperation, meaning that family firms consider downsizing or even termination of the enterprise more cautiously than non-family firms (Mandl, 2008). Also, most of family firms are founded by their own funds, savings, and loans from friends or family members, and the profits are reinvested and kept within the company since the owners are willing to wait longer to realize the gains, which is less typical for non-family businesses (Anderson & Reeb, 2003a). Within the family, the external financing opportunities from a bank or other institutions are less attractive, because it bears the additional risk (Evans, 2005). Therefore, the authors form the following hypothesis: **Family firms on average have smaller leverage than non-family enterprises.**

Business growth
Some believe that with the previously mentioned more careful risk assessment, the profit realization for family firms is more moderate in the short-term because family businesses are considered to be more reluctant to welcome external investors in order not to share the control and to stay committed to the long-term vision (Anderson & Reeb, 2003a). Nevertheless, thanks to the long-term perspective, when the family business is in the mature stage, the economic performance is more profitable and also sustainable (Mandl, 2008). Additionally, Carlock & Ward (2001) argue that for family firms it is more important to endure stable growth and development than a realization of profits in the short term because it presents an opportunity to generate added value for owners' descendants. Lee (2006) also have found that family firms generate a higher revenue than non-family firms over the 1992-

2002 period. Hence, the following hypothesis is developed: **Family firms experience higher growth measures over the long term.**

Financial performance

Most of the scholars have found a positive relationship between family firm status and financial performance, but some present evidence of the opposite. The main reason behind these contradicting results is the sample and specifics of the family firm sample since not all family enterprises are the same. Family firms vary by their nature, for example, the family's ownership share, and such aspects can improve or worsen the performance.

One of the most popular papers in the family firm performance area by Anderson & Reeb (2003) finds that family enterprises included in the S&P500 index perform the same or better than their peers from the same index. They measure performance by return on assets, as well as Tobin's q, and both measures show a positive and statistically significant relationship between family firm status and performance. Moreover, family firms on average enjoy as high as 10% greater Tobin's q. However, it is quite interesting that the enhanced performance is not present across all degrees of family ownership. Anderson & Reeb (2003) find that to a certain level of family ownership, firm performance increases, however, afterward opposite effect can be observed. Meaning that with a higher level of family ownership, the possibility of entrenchment is increased and financial performance – reduced. Overall, Anderson & Reeb conclude that family firms do perform better, but this performance depends on the regulatory level of the country.

A paper by Lee (2006), shows that family firms are more profitable with higher revenue growth and better employment stability during the crisis. In Lee's research data from S&P500 companies was used. In the paper, the author doesn't go deeper and try to explain this mechanism and states that it should be a focus of further research. Lee also states that the increased employment stability could be due to the higher level of commitment, loyalty, and trust from the family members that are involved in the business.

A quite interesting method of comparing family enterprises is used by Anderson, Mansi & Reeb (2003). In order to examine the difference, they observe the cost of debt for family versus non-family businesses. Authors find that bondholders perceive family enterprises as a safer investment since they have incentive structures that decrease agency conflicts between two main parties: equity and debt holders. Therefore, their results are parallel to Anderson & Reeb (2003) – family firms are better performers. According to Stubner, Blarr, Brands & Wulf (2012), better financial performance by family firms arises from the fact that family

enterprises have a higher degree of organizational ambidexterity – meaning that they manage their business more efficiently thanks to cultural alignments. The firm and family interests are more interlinked in family firms compared to other non-family businesses.

An additional study that finds a positive correlation between family firms and their performance is from Zellweger, Kellermanns, Eddleston, and Memili (2012). In this paper, the authors argue that family firms perform better due to the fact that these firms effectively capitalize on the fact that they are family-owned. Family firms are keen to build the family image within the firm that further positively boosts revenues. This image increases social ties with the community and shows the long-term orientation and family pride.

Allouche, Amann, Jaussaud & Kurashina (2008) find similar results in Japan. They also observe a positive relationship between family enterprise status and financial performance. Moreover, they conclude that similarly to the USA, the degree of family control influences the company's profitability. In the paper from Erbetta, Menozzi, Corbetta, Fraquelli (2013) about the manufacturing industry family firm performance in Italy, the results are very similar – they find that family firms are more profitable, however, in this case, they also find that these enterprises tend to show lower efficiency due to the overuse of labour and capital, that might arise from the specific sample group used. In the research from Sraer & Thesmar (2007) about family firms that are listed on France stock exchange, authors also find family firms as being more profitable. Most of the papers find that family firms who are in the 2nd succession usually underperform other enterprises (for example, in the research from Bennedsen, Nielsen, Pérez-González, Wolfenzon (2007), where they find that such firms in Denmark underperform a lot), in this case – Sraer & Thesmar (2007) find the opposite. In France also 2nd generation family firms outperform the market.

There are significantly fewer papers that claim the opposite, that family firms have worse performance. In most cases, such an effect is observed in very specific regions or firm subsets. One example of such results is the paper from Saidat, Silva, Seaman (2018) where they explore Jordanian family firm performance that are listed on Amman Stock Exchange (ASE). In this case, one needs to point out that the region is not as developed as the one used in the studies authors described previously, thus, this could be a potential reason for such results.

Similarly to Villalonga & Amit (2009), Miller, Le Breton-Miller, Lester & Cannella (2007) who not only measure family firm performance but also specify which particular types of family firms outperform others, for example, the involvement of family members is researched (whether more than a single family member's involvement affect the firm

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performance). They find that firms that are truly family businesses with more than one family member involved never outperform the market, even if it is within the first generation. Moreover, they find that neither lone founder firms nor true family businesses show better performance. For this research, the authors in their sample have also used companies included in the Fortune 1000 index, as done also in other research.

Also, a large impact is caused by the company's CEO – whether it is the company's founder or the founding family's descendant (Bennedsen, Nielsen, Pérez-González, Wolfenzon, 2007; Bloom & Van Reenen, 2007). In order to better understand the mechanisms behind the family firm value differences owing to a varying degree of family control or ownership, Villalonga & Amit (2009) researched how the main 4 mechanisms of control – 1. Dual-class shares 2. Unbalanced independent director board representation, 3. Pyramidal control (through trusts, foundations, etc), 4. Voting agreements - each affect business value. They find that only a dual-class share structure and unbalanced board representation negatively impact the family firm returns.

In sum, as previous literature suggests that the financial performance of family companies should be superior compared to non-family businesses (Anderson & Reeb, 2003; Allouche, Amann, Jaussaud & Kurashina, 2008; Anderson, Mansi & Reeb, 2003) and considering that founder-led enterprises enjoy larger returns (Miller, Le Breton-Miller, Lester & Cannella, 2007), we form the following hypothesis: **Family firms have better financial performance compared to other types of ownership** & **The more involved is the family in the management, the greater are the returns for family firms.**

3. Methodology

3.1. Data

The data sample is obtained from Orbis database by excluding companies that are classified as micro-enterprises by European Commission Standards (European Commission, n.d.) meaning that firms are filtered by the following rules:

1. Company is incorporated in Latvia

2. In at least one of the reporting years, the company had revenue or balance sheet amount larger than 2 million EUR in today's values (inflation-adjusted).

3. In one of the reporting years the company employed over 10 persons (if the data about the employment is missing, we still proceed with the company)

4. Company is/was alive for 5 years or longer (in order to observe their performance growth and other measures).

5. Excluding NACE 64 and 65 industries, that are banks and insurance companies

The EU Small & Medium Enterprise classification is used as sometimes firms are made only to serve a single person, thus, it is not consistent with our initial model of the family firm (not all 3 circles are present), i.e., an individual provides consulting services, thus, other employees are not involved. Furthermore, banks and other financial institutions are excluded, primarily because assets and debts are perceived differently for such enterprises. As well, these industries are heavily regulated, hence affecting financial performance.

Our sample includes 4'961 companies satisfying the above-mentioned criteria and represents a comprehensive list of firms during the years 2012-2020. As such, the sample cover all business cycles (Eurostat, n.d.). Note that at the time of this writing the financial data for the year 2021 are not available for most firms.

In the next step, we manually review the data and build a sample of family firms. Family firms must follow the previously stated definition: 1. The controlling owner is an individual from Latvia, 2. The controlling owner or his/her family members are in the management board (by surnames), 3. The controlling owner together with his/her family members own the majority stake in a company (family owns more than 50%+1 share of the equity, assuming that individuals are related if their surnames are the same). If a firm does not follow the family definition criteria, it is assumed to be a non-family enterprise.

3.2. Analysis mechanism

To research tangible differences and financial performance, authors are employing methodology derived from some of the most prominent papers in this field, more specifically: Anderson & Reeb (2003) and Lee (2006), however, some additional changes are made to fit the research question more precisely. To review the possible intangible differences in firms' behaviour mentioned in Section 2.4.1, the authors perform semi-structured interviews accompanied by an interview guide that was formed based on the author's findings in the literature review (See appendix B for some question examples). In total interviews were performed with 2 different size and industry non-family enterprises and 5 family enterprises. All the respondents are operating in different industries and regions, hence broader spectre has been covered, even if the number of interviews is minimal. All of the companies were included in our data sample that was used for quantitative analysis. In most of the cases, interview was performed with the CEO of the company, however, there also were cases when due to the CEO's lack of time, interviews were performed with a very close family member also involved in the business.

3.2.1. Overall group differences

The authors look at differences in financial performance between the two main sample groups – family and non-family companies, which are classified as binary variables (1 if a family enterprise, 0 if non-family, in each year). Similarly, to Anderson & Reeb (2003), the panel data model regression on multiple explanatory variables is run, where the proposed performance measure acts as an independent variable and standard errors are clustered on firm and year level.

$$Y_{i,t} = \beta_0 + \beta_1 D_{1,i,t} + \beta_2 C_{2,i,t} + \beta_3 D_{3,i,t} + \beta_4 D_{4,i,t} + \mathfrak{z}_{i,t}$$

Where:

- Y: proposed performance measures (ROA and ROE)
- D_1: Dummy variable for the family firm (1 if family firm, 0 otherwise)
- C_2: Firm-specific control variables (size, age, leverage).
- D_3: Dummy variable for each year of our sample period.
- D_4: Dummy variable for NACE section letter.

The main measure of performance comparison is the return on assets (ROA = net income divided by total assets) and return on equity (ROE = net income divided by total equity). The reason for such a choice is based on the following: 1. ROA is not as vulnerable as other

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measures to short-term changes in the company's balance sheet or income statements, since assets like equipment, properties, plants, and intangibles can't be easily manipulated in the short-term on the contrary other metrics (Deloitte, 2013). 2. ROA shows how effectively the company can harness business opportunities compared to the assets that they have (Deloitte, 2013). 3. Most of the papers about private companies use ROA or ROE as the performance measure, meaning that it is widely popular and established measure of performance (Amit & Villalonga, 2014). 4. Considering that these 2 measures are widely used, authors can easily compare results with results obtained by other academics in this field.

We control for both firm size, leverage, and firms' age since these measures can impact profitability. Size is expressed as the natural logarithm of the book value of total assets, age as the number of years since the incorporation date, leverage ratio as the long-term debt plus the current portion of debt all divided by total assets. Also, we control for years and the industry in which the company operates.

3.2.2. Differences between family firms

As discussed previously, family enterprises are not one homogenous sample. These enterprises can be differentiated into smaller subgroups that can have different financial performance metrics. Also, it is not enough to just state how these firms differ compared to non-family enterprises, more attention should be paid to various mechanisms that impact the difference of performance and explain the underlying theoretical framework. According to the literature review, the main differences that might impact the financial performance are the following two: 1. Share of family ownership, 2. The number of family members on board. Therefore, in this step, we use only the family firm sample group in a cross-sectional data regression in the year 2020, hence no time dependant variable is clustered.

$$Y_i = \beta_0 + \beta_1 X_{1,i} + \beta_2 X_{2,i} + \beta_3 X_{3,i} + \beta_4 C_{4,i} + \beta_5 D_{5,i} + \Э_i$$

Where:

- Y: proposed performance measures (ROA and ROE)
- X_1: Number of family members on board (according to the definition, the minimum is 1).
- X_2: Number of total board members.
- X_3: Variable for a share of family ownership of equity (from 50.01% to 100%).
- C_4: Firm-specific variables (total board members, size, age, leverage).
- D_5: Dummy variable for NACE section letter.

Comparing to the model used by Anderson & Reeb (2003) and Lee (2006), small modifications are introduced, namely the three additional variables (X_1; X_2; X_3). As in Anderson & Reeb (2003), the percent of equity owned by the family to determine the share of family ownership. The main determinant of whether a person is a member of a family is the surname because there is no other distinguishable information available about owners, contrary to large enterprises included in the S&P500 index. Thus, if two individuals have identical surnames, they are family members. Similarly, to Miller, Le Breton-Miller, Lester & Cannella (2007) authors additionally have a variable of the number of family members involved in the business as board members and total number of all board members.

3.2.3. Overall characteristics

In order to better understand other underlying differences between family firms and non-family firms, we test whether the tangible differences described in the literature review are also present in the case of Latvia. The regressions are constructed in a similar way as described in 3.2.1. section, with the same explanatory and controlling variables.

Growth

As described in the literature review, family firms present more stable growth in the long term compared to non-family enterprises. In order to find out if it also applies to Latvia, growth is measured the same way as in Lee (2006). Short-term growth year-on-year basis:

$$Revenue\ growth = \frac{Revenue_t - Revenue_{t-1}}{Revenue_{t-1}}$$

Also, as it is widely popular in the financial sector, authors use CAGR progression on a 5-year basis, to compare the growth on longer time periods.

$$CAGR = (\frac{Ending\ Revenue}{Starting\ Revenue})^{1/t} - 1$$

Leverage

To find out the differentiated leverage and financing activities of family firms authors use the leverage ratio to determine the use of external financing among the two groups. Just as in Anderson & Reeb (2003), the independent variable is acquired as follows:

$$Leverage\ ratio = \frac{Long\ term\ debt + Current\ portion\ of\ debt}{Total\ book\ value\ of\ assets}$$

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4. Results

4.1. Analysis of quantitative results

4.1.1. Descriptive statistics

Our data sample has 41,294 firm-year observations and 4'961 unique companies. From these companies, 1'486 can be defined as family enterprises and 3'475 as non-family in the beginning of 2021. The average mean return on assets for the whole data set is 9.2%, return on equity: 16.7%, in all the years from 2012 to 2021. Average sales have grown by 12.9% year-on-year basis (Table 1). However, it should be mentioned that as of doing the research, most companies have not yet submitted their financial data for Y2021, hence in some regressions this year is omitted. (See Appendix C to observe the correlation matrix of variables).

Table 1

Descriptive statistics of variables. Created by the authors.

Statistic	N	Mean	St. Dev.	Min	Median	Max
Family	41,286	0.312	0.463	0	0	1
Age	41,286	15.202	7.637	0.000	15.558	31.000
ROE	36,528	0.167	0.604	-1.272	0.113	1.603
ROA	36,489	0.092	0.173	-0.212	0.052	0.540
Leverage	41,282	0.185	0.222	0.000	0.092	0.739
Sales.Growth	36,255	0.129	0.435	-0.518	0.046	1.421
CAGR.5y	21,652	0.057	0.167	-0.244	0.036	0.492

Already from the first comparison of the two groups: family and non-family enterprises, noteworthy differences can be observed. More specifically: mean and median values of ROE, ROA, leverage, and age are different, and the differences are statistically significant. The statistical significance of the difference between these 2 groups was tested by the Wilcoxon test (Table 2). Return on equity and return on assets for family enterprises are higher: Return on equity mean is by 9.4 percentage points higher, and median by 6 p.p. Return on assets mean is higher by 2.5 p.p. and median by 2.1 p.p.; indicating the first sign that family firms are superior in terms of financial performance (Also, See appendix D for illustrative graphs).

Sales measures of both CAGR and annual sales growth for non-family businesses are higher when compared the means and medians of the two groups. Regarding age, family enterprises are older, the mean is higher by 2.53 years, and the median by 3.37 years. Looking at the companies' book value of assets, the family enterprises are smaller in

comparison to non-family enterprises. As the Wilcoxon test p-values indicate , all of the differences are significant.

Table 2

Univariate difference tests. Created by the authors.

	Mean		Median		p-value of difference
	Family	Non-Family	Family	Non-Family	
ROE	0.231	0.137	0.154	0.094	0.000
ROA	0.109	0.084	0.066	0.045	0.000
Leverage	0.209	0.174	0.144	0.065	0.000
Sales.Growth	0.104	0.140	0.365	0.050	0.000
CAGR.5y	0.047	0.062	0.030	0.039	0.000
Age	16.94	14.41	17.83	14.46	0.000
Total Assets	2,465,080	10,464,376	1,067,855	1,875,026	0.000

Table 3

Family enterprise breakdown by industries. Created by the authors.

Industry (As of Dec. 2020)	Non-Family Count	Family Count	Non-Family	Family
Accomodation and food service activities	78	22	78%	22%
Adminstrative and support service activities	135	33	80%	20%
Agriculture, forestry and fishing	164	96	63%	37%
Arts, entertainment and recreation	48	7	87%	13%
Construction	338	262	56%	44%
Education	16	2	89%	11%
Electicity, gas, steam and air conditioning supply	77	1	99%	1%
Humanhealth and social work activities	75	15	83%	17%
Information and communication	175	28	86%	14%
Manufacturing	616	260	70%	30%
Mining and quarrying	35	9	80%	20%
Other service activities	9	7	56%	44%
Profesional, scientific and technical activities	163	27	86%	14%
Public administration and defence	4		100%	0%
Real estate activities	170	48	78%	22%
Transportation and storage	348	211	62%	38%
Watersupply; sewerage, waste management	71	10	88%	12%
Wholeale and retail trade	953	448	68%	32%
Grand Total	**3475**	**1486**	**70%**	**30%**

Regarding the industries (Table 3), the smallest share of family companies can be observed in the following industries: 1) Education; 2) Electricity, gas, stream, and air conditioning; 3) Public administration and defence; 4) Water supply, sewerage, waste management. Some of the differences can be explained by the fact that these industries require large capital investments and, thus, are usually founded/managed by government or

large organizations, for example, electricity, gas, stream and air conditioning, and water supply, sewerage, waste management require large capital investments in order to build and manage the infrastructure. The largest share of family companies is in the following industries: 1) Construction; 2) Transportation and storage; 3) Agriculture, forestry, and fishing and 4) Other service activities.

4.1.2. Profitability measure

Table 5

Pooled OLS regression on panel data, ROA dependant on Family status and controlling variables, including years and industry. Created by the authors.

	Dependent variable:								
					ROA				
	All years	2013	2014	2015	2016	2017	2018	2019	2020
Family	0.039***	0.043***	0.043***	0.038***	0.035***	0.025***	0.048***	0.037***	0.040***
	(0.002)	(0.006)	(0.006)	(0.005)	(0.005)	(0.005)	(0.006)	(0.006)	(0.006)
log(TA)	0.001*	-0.004**	0.0003	-0.001	-0.001	0.002	0.001	0.003	0.008***
	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Age	-0.003***	-0.003***	-0.004***	-0.003***	-0.003***	-0.003***	-0.004***	-0.002***	-0.002***
	(0.0001)	(0.0004)	(0.0004)	(0.0004)	(0.0003)	(0.0003)	(0.0004)	(0.0003)	(0.0003)
Leverage	-0.194***	-0.187***	-0.202***	-0.189***	-0.171***	-0.189***	-0.233***	-0.205***	-0.170***
	(0.004)	(0.012)	(0.011)	(0.011)	(0.011)	(0.011)	(0.012)	(0.012)	(0.012)
Year fixed effect	Yes								
Industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.130***	0.219***	0.121***	0.167***	0.159***	0.134***	0.190***	0.078**	-0.066**
	(0.011)	(0.029)	(0.029)	(0.029)	(0.027)	(0.028)	(0.031)	(0.030)	(0.029)
Observations	36,485	4,188	4,358	4,491	4,627	4,751	4,838	4,688	4,500
R^2	0.100	0.110	0.112	0.097	0.091	0.093	0.127	0.101	0.089
Adjusted R^2	0.099	0.105	0.108	0.093	0.087	0.089	0.124	0.097	0.085
F Statistic	139.712*** (df = 29; 36455)	24.420*** (df = 21; 4166)	26.096*** (df = 21; 4336)	22.881*** (df = 21; 4469)	22.016*** (df = 21; 4605)	22.983*** (df = 21; 4729)	33.507*** (df = 21; 4816)	25.062*** (df = 21; 4666)	20.874*** (df = 21; 4478)

Note: Pooled Ordinary Least Square regressions, SE clustered on firm and year level. ROA = return of assets. Family is a binary variable that equals one when the firm is considered to be a family firm. Log(TA) is a natural logarithm computed from book value of Total Assets, which represents the firm's size. Industry classification and year dummy variables are included in the regression. *p**p***p<0.01

Table 5 (return on assets) and Table 6 (return on equity) show our main results. The family dummy variable is the key variable of interest. Furthermore, industry and year dummies are not shown in any of the regression tables in order to save space and stay relevant. The presence of a family in an enterprise signals for higher profitability, as the ROA is statistically significant and positive. The difference between family and non-family varies between 2.5 percentage points and 4.8 percentage points of ROA over any year, but overall family firms on average display 3.9 pp. higher ROA than non-family firms. Regarding other variables, age and leverage stand out as having a negative effect on profitability, the older the firm or more leveraged the firm is the poorer are its financial performance. All these results go in line with what Lee (2006) found in his research about family firms.

Table 6

Pooled OLS regression on panel data, ROE dependant on Family status and controlling variables, including years and industry. Created by the authors.

	Dependent variable:								
	ROE								
	All years	2013	2014	2015	2016	2017	2018	2019	2020
Family	0.151***	0.169***	0.180***	0.134***	0.145***	0.099***	0.185***	0.145***	0.151***
	(0.007)	(0.022)	(0.020)	(0.020)	(0.019)	(0.019)	(0.021)	(0.019)	(0.019)
log(TA)	0.042***	0.031***	0.033***	0.032***	0.036***	0.037***	0.054***	0.055***	0.058***
	(0.002)	(0.007)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Age	-0.009***	-0.008***	-0.010***	-0.010***	-0.007***	-0.009***	-0.011***	-0.008***	-0.007***
	(0.0004)	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Leverage	-0.550***	-0.511***	-0.660***	-0.571***	-0.499***	-0.497***	-0.608***	-0.567***	-0.478***
	(0.015)	(0.045)	(0.042)	(0.041)	(0.038)	(0.039)	(0.043)	(0.040)	(0.041)
Year fixed effect	Yes								
Industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.348***	-0.114	-0.205*	-0.107	-0.180*	-0.193*	-0.410***	-0.600***	-0.864***
	(0.102)	(0.113)	(0.105)	(0.104)	(0.098)	(0.099)	(0.109)	(0.101)	(0.097)
Observations	36,524	4,185	4,360	4,490	4,629	4,752	4,837	4,690	4,500
R^2	0.068	0.060	0.085	0.063	0.062	0.057	0.086	0.083	0.080
Adjusted R^2	0.067	0.056	0.081	0.059	0.058	0.053	0.082	0.079	0.076
F Statistic	88.634*** (df = 30; 36493)	12.729*** (df = 21; 4163)	19.209*** (df = 21; 4338)	14.376*** (df = 21; 4468)	14.602*** (df = 21; 4607)	13.730*** (df = 21; 4730)	21.537*** (df = 21; 4815)	20.104*** (df = 21; 4668)	18.579*** (df = 21; 4478)

Note: Pooled Ordinary Least Square regressions, SE clustered on firm and year level. ROE = return of equity. Family is a binary variable that equals one when the firm is considered to be a family firm. Log(TA) is a natural logarithm computed from book value of Total Assets, which represents the firm's size. Industry classification and year dummy variables are included in the regression. *p**p***p<0.01

The situation with return on equity is very similar to return on assets. Here authors can also observe that every year in the sample, family firms show higher ROE with a statistical significance. The difference varies between 9.9 percentage points and 18.5 percentage points, and on average family firms experience by 15.1 percentage points higher return on equity than non-family firms.

In the time span of 2012-2021, 456 companies changed their ownership status: 224 companies acquired the family status, but 232 companies had status change from family firm to non-family. Using this data, we run a fixed effect regression that compares the two enterprise groups with more robustness, indexed on the company and year level (Table 7). The results support the previous regressions and display that family firms experience higher ROE and ROA by 8.2 and 2.7 p.p. accordingly. Hence, the family presence in a company plays a significant and positive role. In the above-mentioned regressions, the multicollinearity issue is also tested using the variance inflation factor. The VIF tests of multicollinearity issue show no significance between the variables (See appendix E).

Table 7
Fixed OLS regression on panel data, ROE and ROA dependant on Family status and controlling variables. Created by the authors.

	Dependent variable:	
	ROE (1)	ROA (2)
Family	0.082^{***}	0.027^{***}
	(0.024)	(0.006)
log(TA)	0.120^{***}	0.029^{***}
	(0.004)	(0.001)
Age	-0.016	-0.004
	(0.022)	(0.006)
Leverage	-0.477^{***}	-0.204^{***}
	(0.025)	(0.007)
Year fixed effect	Yes	Yes
Observations	36,524	36,485
R^2	0.039	0.057
Adjusted R^2	-0.113	-0.092
F Statistic	97.402^{***} (df = 13; 31559)	157.435^{***} (df = 12; 31520)

Note: Fixed Ordinary Least Square regression with SE clustered on firm and year level. ROE = return of equity; ROA = return on assets. Family is a binary variable that equals one when the firm is considered to be a family firm. Log(TA) is a natural logarithm computed from book value of Total Assets, which represents the firm's size. Year dummy variables are included in the regression. $^*p^{**}p^{***}p<0.01$

4.1.3. Family involvement

Looking more closely at the family firm sample, cross-sectional data regression is run, because the family ownership share and board members are obtained only for the year 2020 and are run to obtain the volume of family involvement effect on firms' performance. The two additional variables express that the more family is involved in the business, the greater the returns of both profitability measures, however, the regression results are not stastically significant. Hence, the degree of family importance in a company through share ownership or the number of people involved in management is not a significant factor that changes the profitability.

Table 8
*OLS regression of Family sample on profitability measures. Created
by the authors.*

	Dependent variable:	
	ROE	ROA
	(1)	(2)
F.Board	0.028	0.013
	(0.036)	(0.011)
T.Board	-0.019	-0.008
	(0.023)	(0.007)
log(F.ownership)	0.117	0.025
	(0.080)	(0.024)
log(TA)	0.079***	0.012***
	(0.012)	(0.004)
Age	-0.012***	-0.004***
	(0.002)	(0.001)
Leverage	-0.509***	-0.225***
	(0.074)	(0.022)
Constant	-1.092***	-0.063
	(0.417)	(0.126)
Observations	1,368	1,368
R^2	0.097	0.134
Adjusted R^2	0.082	0.120
F Statistic (df = 22; 1345)	6.557***	9.435***

*Note: Ordinary Least Square regressions. ROE = return of equity; ROA = return on assets. F.Board represents the number of family members who are also board members in the company. T.Board represents the total number of board members. F.ownership expresses the share of equity that is owned by the family. Log(TA) is a natural logarithm computed from book value of Total Assets, which represents the firm's size. Industry classification and year dummy variables are included in the regression.
*p**p***p<0.01*

4.1.4. Overall Characteristics

When obtaining the results of other behavioural firm characteristics, the results are more ambiguous when compared to previous research and theory of literature. Firstly, contrary to univariate results, family firms do experience higher growth measures in terms of 5-year CAGR, which is a statistically significant coefficient. Family firms foresee 1.7 pp. 5-Y annual sales growth. Also, literature exhibits that family firms tend not to borrow excess debt from external parties, as it generates more risk. However, based on regressions, family firms are by 4.6 pp. more leveraged than non-family enterprises.

Table 9

OLS Pooled regression of Family sample on behavioural characteristics. Created by the authors.

	Dependent variable:		
	Sales.Growth	CAGR.5y	Leverage
	(1)	(2)	(3)
Family	0.005	0.017***	0.046***
	(0.005)	(0.002)	(0.002)
log(TA)	0.008***	0.020***	0.007***
	(0.002)	(0.001)	(0.001)
Age	-0.015***	-0.009***	-0.003***
	(0.0003)	(0.0002)	(0.0002)
Leverage	-0.025**	-0.028***	
	(0.010)	(0.005)	
Year fixed effect	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes
Constant	0.193***	-0.130*	0.224***
	(0.027)	(0.070)	(0.013)
Observations	36,251	21,648	41,282
R^2	0.082	0.145	0.085
Adjusted R^2	0.081	0.144	0.084
F Statistic	111.602*** (df = 29; 36221)	131.022*** (df = 28; 21619)	131.389*** (df = 29; 41252)

Note: Ordinary Least Square regressions, SE clustered in firm and year level. Sales.Growth = annual sales growth; CAGR.5y = Compounded Annual Growth Rate of revenues in five years. Family is a binary variable that equals one when the firm is considered to be a family firm. Log(TA) is a natural logarithm computed from book value of Total Assets, which represents the firm's size. Year dummy variables are included in the regression. *p**p***p<0.01

4.2. Analysis of qualitative results

4.2.1. Family ownership

The authors started the interviews with a discussion about family-related events' impact on business performance. Most of the respondents mentioned that in the long-term view they have not experienced any specific events that would detrimentally impact their businesses. However, one of the respondents pointed out that events in the family would impact the company's dividend policy, for example, if a daughter/son or any other family member would plan to build a house or had any other large expenditure, then dividends from the company would be increased to help and cover this payment. Thus, retained earnings and investments in business would decrease. In the short term, most of the respondents agreed that due to events in the family they had to decrease their hours on-site, for example, in the case of celebrations and events i.e., graduations, birthdays. Then again, respondents mentioned that these are just personal things and in a non-family enterprise, the issue would be the same, only due to the higher bureaucracy there wouldn't be such high freedom and flexibility.

4.2.2. Long-term perspective

All respondents revealed that they have plans and willingness to hand over the business to the next generations. Some of the respondents were already the second generation of the family that leads the business, and they admitted their plans to commit on the succession of the family firm even further. Also, an important point raised by some current owners of the business was the successor's willingness to operate it.

"It is in my plans to give the business further to the next generations. However, it all depends on the commitment of my children. If I see that they really have interest, knowledge, and willingness to operate, I will hand over the business to them when the time comes." – CEO and owner of large family enterprise involved in the pharmaceutical industry.

At the same time, one of the family company representatives stated that in his/her opinion, family firms are long-term focused.

"We have encountered situations when some of our partners in the same industry were acquired by large PE funds. These companies were squeezed out like a lemons in order to get the multiple valuation higher. In my opinion, it is very unsustainable and on contrary to these companies, we wouldn't like to be acquired by such funds and are not so focused on the financial targets." – CEO and owner of large family enterprise involved in the pharmaceutical industry.

Also, an important point raised by the family companies was the fact that the enterprise reflects their own family reputation and values since if the enterprise would be involved in some dishonest or unethical operations, the family would be associated with it and reputational damage would be much higher compared to similar but non-family enterprises.

Therefore, the authors can conclude that for family enterprise there are important drivers and reasons why their main focus is the long-term and sustainability of their company – the company is part of the family, part of themselves, it reflects the family values and beliefs.

4.2.3. Social capital

When asked regarding the family member involvement in the business, in terms of hours spent, all respondents said that they or other family members do not necessarily work much longer hours. However, some respondents pointed out that even though hours spent at the job can be less, the job always continues, for example, when discussing possible plans or business ideas at home.

"No, they not necessarily put more hours in, but the difference is that brainstorming process always continues, for example, when we have a dinner at home, we can have even many hour long discussions on possible ideas and plans" – CEO and owner of large family enterprise involved in the pharmaceutical industry.

Therefore, in terms of hours on the workplace, the effort invested by family members possibly does not differ that much, however, even after the working hours, family members are trying to contribute somehow to the success of the business

Regarding employee involvement, during the interview process, all respondents, small and big family enterprises told that they do not have strict rules in place for their employees. Especially smaller sized family enterprises mentioned that in their opinion the employees feel more like a family or friends in the workplace, with a close relationship with higher managers.

"We do not track their hours or some other metrics, everyone knows what their duties and responsibilities are. There is no bureaucracy, no matter what your position or seniority level is, everyone can approach or call everyone. My dad – the CEO, is always available, no matter what time it is. In my opinion, we are kind of a big and very friendly family" – CFO of a mid-sized enterprise involved in the meat production industry.

Therefore, in terms of family management cooperation with their employees, one can conclude that because of the bureaucracy absence, the information symmetry and exchange is more efficient than compared to some international companies or non-family enterprises.

In terms of financing and cooperation with possible partners, most of the respondents said that family firm status does not change anything, it all drills down to the professionalism of the management. If partners see the management as competent persons, there should not be any problems with possible cooperation. In terms of financing, none of the respondents said that they would have received some better terms or other discounts. Therefore, one can conclude that family firm status doesn't really impact the willingness of other companies to cooperate with the enterprise.

4.2.5. Social responsibility

During our interview process, most of the respondents admitted that in the past few years they have donated resources to the local communities. Interesting was the fact that these donations mostly were not in the form of hard cash – in most of the cases companies donated materials or their production or the end products. For example, a textile production company donated textile material to the local technical school, a pharmaceutical company donated masks to various institutions during the Covid-19 pandemic, a meat production company donated sausages for the people in need, as well as on the regular basis gives production out to their employees. Also, as there is the absence of the typical bureaucracy witnessed in large corporate firms, the family firm employees could freely use the companies' resources also for their own needs, e.g., use the company's car for personal travel.

Therefore, it is evident that on contrary to the literature review – both small and large enterprises are actively involved in CSR activities. Due to the specifics of donations, it is hard or almost impossible to quantify these commitments from the companies in order to compare them to non-family firms. Nevertheless, it is clear that family companies of various sizes are actively involved in CSR activities.

5. Discussion of results

At first glance, the authors observe that there are some differences and some similarities of results with the literature reviewed. Already the first difference arrived from the sample group: in our sample, most of the companies are non-family enterprises, contrary to the literature review that states that even up to 91% of companies can be classified as family enterprises (Stiftung Familienunternehmen, n.d.). In the author's opinion, this difference can be easily explained by the fact that the sample used consists of larger size companies in Latvia, therefore, as most of the family companies are classified as micro-enterprises, our sample excludes them.

To continue, the strongest and most crucial differences are observed when looking at the two group profitability measures (author's first research question regarding the financial performance). We have concluded that both ROA and ROE measures are greater exactly for family companies. This is also consistent with the previous empirical findings in larger and more advanced economics (Anderson & Reeb, 2003; Allouche, Amann, Jaussaud & Kurashina, 2008; Anderson, Mansi & Reeb, 2003). Hence our hypothesis cannot be rejected, because the results imply that also in Latvia, which is a transition country, the family presence and family ownership in a company are more beneficial in terms of financial performance than compared to other types of firms. Nevertheless, contrary to Anderson & Reeb (2003) we found no significant results whether a higher family's stake in a company or additional family board members results in higher profitability (author second research question). Therefore, we have to reject our hypothesis that the more family is involved in the management, the greater the profitability.

In the author's opinion, the main reason why the firm performance is better for family enterprises is the differences in the remuneration and incentives of the management. For private non-family companies, most often management is remunerated by a fixed salary and only in rare cases in private companies are introduced additional bonuses for the management for good performance, moreover, good or relatively bad performance of the company won't impact management's families in the long-term (financially and reputationally, since company most often is associated with the owners, not the management) as it would be with family enterprises. Therefore, one can conclude that exactly family enterprises have much higher incentives for the management (family) to do everything in their power to make the company succeed, since their family's prospects, life quality, and reputation depends on the company. As the CEO of a large pharmaceutical company stated: "*The company is part of everyone from us. It's part of our identity and family*". Also, a CMO of a bakery stated *"We*

have a clear sight on investments made or dividends paid out. Although we hardly ever make dividend payouts, the main income source is the salaries we make ourselves.", therefore, in the authors' opinion exactly this factor – the fact that the company is a part of a family's identity and enterprise supports the family financially, plays the biggest role in the superior performance of family enterprises compared to non-family.

Besides the fact that a lot is at stake for the family enterprises (reputation, life quality, family prospects, etc) an important reason for the increased performance is the social capital involved in the company. More specifically: owners/management children most likely are involved in the business already from their first days or first days from the business inception, therefore, they have a lot of experience in this field and they have seen the company's growth starting from its first days, thus, they are much more knowledgable than non-family's management and can lead business much better. Also, as mentioned in the results section – since family members perceive the company as part of themselves, part of their identity, they are willing to put much more hours into the business development and they think and brainstorm about possible business ideas long after the end of their working day. Therefore, their dedication and experience most probably are much bigger than as it is for management in non-family enterprises.

To summarize, in the authors' opinion family enterprises have higher ROA and ROE due to the 2 previously mentioned factors – the fact that incentives for the management of family enterprises are much bigger and family members involved have much bigger experience and knowledge about the company and industry.

By specifics in the data sample, a limitation is created. In the data we use, the family firms are owned by physical persons and not other companies. Even if the ultimate beneficial owner is a physical person, our data sample does not cover such firms as family enterprises. Therefore, in the family firm sample, the ownership structure is clearer and more transparent. The owners have nothing to hide and hence they are more committed to operating with sincere goals with no immoral actions that might worsen the performance of the firm.

Other metrics that might influence the profitability are the following (author research question 3):

Firstly, the sales growth results the authors obtain are in line with the literature review. The 5-year compounded revenue growth has been in line with our proposed hypothesis, that family firms do have higher growth in the longer period. It also goes in line with the long-term vision of managers in family enterprises. However, in terms of yearly sales growth, family firms do not experience greater amounts. Thus, as the average family enterprise is also

older than the average non-family enterprise in Latvia, premature investments yield more returns in the long run. Hence generating more profits for family firms and differentiating them from non-family enterprises.

Secondly, it has been assumed in the literature that family firms tend to be risk-averse to prolong the life of a business. Thus, also do not choose to use external financing options as aggressively compared to non-family businesses. Albeit most family firms are established using their own funds, the results oppose the literature review and our hypothesis, resulting in the authors having to reject their hypothesis that family firms are less leveraged. It can be argued that family companies use more debt since it is used in a more profitable manner or taken only when it is truly necessary. In fact, the regressions show that with increased leverage the overall returns are diminished. Consequently, the management in family companies might be utilizing the debt more efficiently - by increasing the company's worth via purchasing assets that generate more value for the enterprise than is the cost of the debt, which explains why returns are greater for family firms. This might represent the previously mentioned assumption that management in the family enterprises is much more experienced and knowledgeable due to their long history of involvement in the company.

Most of the results are in line with the literature review for the qualitative research method (author research question 3). Nonetheless, two important differences were observed: 1. During literature research authors find out that problems in family (regarding the selection of directors and internal business decisions) should have an impact on family enterprise performance, however, in the interviews, it was not observed. A reason for that is the sensitive nature of such questions about conflicts in the family. Despite the fact that interviews were 100% anonymized, quite possibly interviewees chose not to discuss sensitive topics about their family conflicts. 2. During the literature research authors find out that input from family members and willingness to put much more work into the business should be much larger compared to non-family members. During the interviews, the authors observed that direct hours spent in the workplace by family members do not differ that much. As one of the interviewees mentioned, family enterprise is a part of each person in the family, thus, the brainstorming process continues after work, which frequently generates additional value for the company.

We have concluded our main finding that Latvian family firms present greater profitability in measures of ROA and ROE than non-family enterprises. Although we have tried to explain some part of the superior profitability, there is still a significant gap in the literature that explains how exactly family firms achieve greater performance measures and

what are the concepts that families bring to managing a business that leads to more returns being generated.

Implications of the authors' findings can help various institutional investors - venture capital, private equity funds, and other types. According to the authors' results – they should not buy a majority stake in a family company, since in such a case it would be classified as a non-family enterprise, thus, management incentives and overall company's structure would change, deteriorating the company's profits. Of course, there is also a different side to it – by the acquisition of the fund, e.g. the PE fund would not be able to introduce large bureaucracy in the enterprise, and management's (family's) goals would be aligned due to the majority stake. At the same time, the PE fund would be able to share its knowledge with the family and perform various efficiency measures and other things that would boost the company's performance. Therefore – the company would enjoy the best of both worlds. Of course, there is a risk of misaligned interests between the majority and minority shareholders. The current management (family) may disagree with the new minority shareholder, thus, none of the practices from the PE fund would be introduced.

For individual investors, the authors' results suggest that due to the better performance of family companies, they should pay more attention to these companies due to their management-majority shareholder goal alignment, management incentives, and social capital that is involved in the family enterprises.

6. Conclusion

As family firms are one of the most widespread forms of business, it has some unique features that are different from most privately owned enterprises (Family Firm Institute, 2017). Family firms are known for their trust and long-term perspective, therefore yields higher profitability when compared to businesses that are owned by diverse shareholders. Conversely, family firms can be affected by the potential disagreements among the family members and unprofessionalism in management that can hinder the performance (Mandl, 2008). Hence, the family presence influences a firm performance and is a noteworthy issue to uncover. As most of the previous empirical findings focus on more developed countries, we attempt to fill the gap in a transition country family firm distinction from non-family firms and answer the following research questions: 1) Whether family firm's financial performance is different?; 2) Does family firm's governance differences affect the profitability?; and, 3) How do family firms in Latvia differ from non-family firms in terms of leverage, sales growth, and social aspects?

In conclusion, the Latvian family firms present greater profitability than non-family enterprises which arise from the long-term perspective and social capital that is involved in the family and not the governance structure. On contrary to Anderson & Reeb (2003) findings, family firms' governance differences (number of family members involved as board members and family ownership stake) do not affect the profitability of Latvian family firms. Other dissimilarities are observed and determined on the following factors: family companies are older and with higher leverage than other types of enterprises in Latvia. Besides, family firms experience higher sales growth metrics in comparison to non-family enterprises. Social capital is more involved in the family enterprises, which also present a clearer long-term vision. Thereafter, as family firms tend to be a more successful type of enterprises, the shareholders and potential investors should be informed about the positive effect a family presence has on the firm performance. Thus, families might reflect on the succession of the business to later generations with greater importance. As family involvement has beneficial effects, further studies are needed to research the impacting factors and cases of a successful succession of family firms.

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Appendix A: 3-Circle model of enterprise type and family involvement.

1. Family members not involved in the business, but who are descendants or spouses/partners of owners
2. Family owners not employed in the business
3. Non-family owners who do not work in the business
4. Non-family owners who work in the business
5. Non-family employees
6. Family members who work in the business but are not owners
7. Family owners who work in the business"

Figure 1

"3-Circle" model of family business. Created by authors.

Family

1.

2.   6.

7.

Ownership   4.   Business

3.   5.
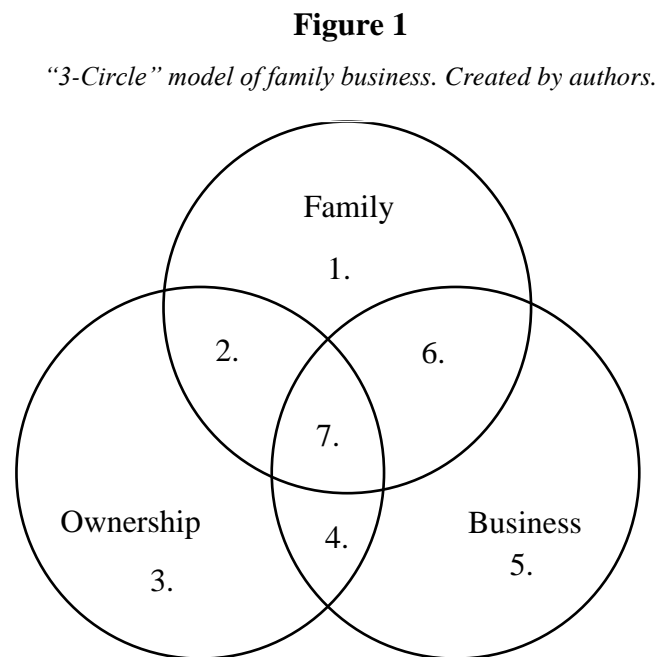
Appendix B: Examples of interview questions

1. Were there any cases when events occurring in your family (for example, any disputes, important family events, etc) have impacted the company in any way?
2. How do you think, what events could take place in your family that could impact your business fundamentally?
3. What do you think about the future of your business – would you like to sell it
4. When you would approach retirement age or would you transfer it to the next generation? Please explain why? What would impact this decision?
5. Are there any other family members involved in the business? Was this their own decision? How it all started?
6. Did your company have contributed funds for any CSR activity? (Donations to local communities, extra-ordinary bonuses for employees, etc). Why did you contribute/why not?
7. Why in your opinion, such activities are important or not important?
8. How would you asses your companies risk appetite? How would you asses the dividend pay-out policy?

Appendix C: Correlation Matrix

Correlation matrix. Created by the authors.

	Age	Family	ROE	ROA	Leverage	Sales.Growth	CAGR.5y
Age	1						
Family	0.154	1					
ROE	-0.056	0.072	1				
ROA	-0.103	0.066	0.629	1			
Leverage	-0.059	0.074	-0.193	-0.247	1		
Sales.Growth	-0.251	-0.039	0.186	0.326	-0.004	1	
CAGR.5y	-0.318	-0.043	0.260	0.313	-0.027	0.447	1

Appendix D: Descriptive graphs, comparing non-family to family firms.

ROE Average

ROA Average

Average Leverage

Average Sales Growth Y-o-Y
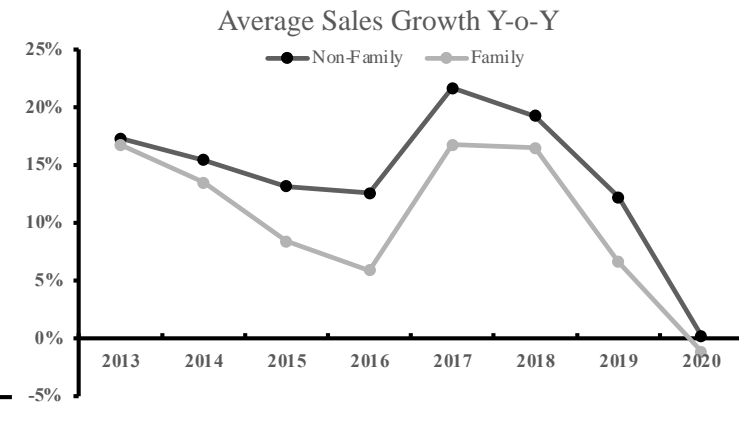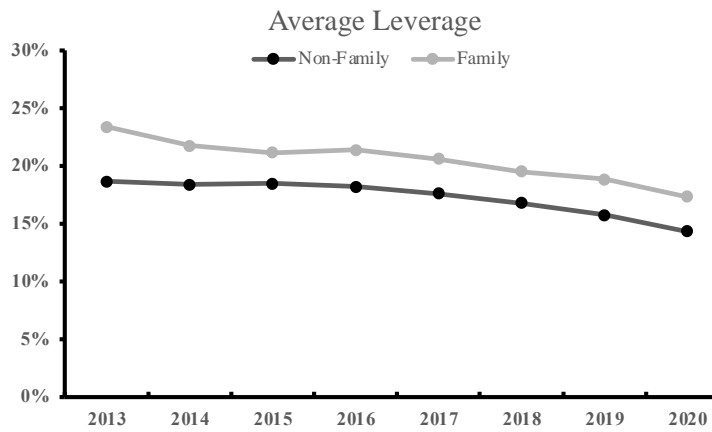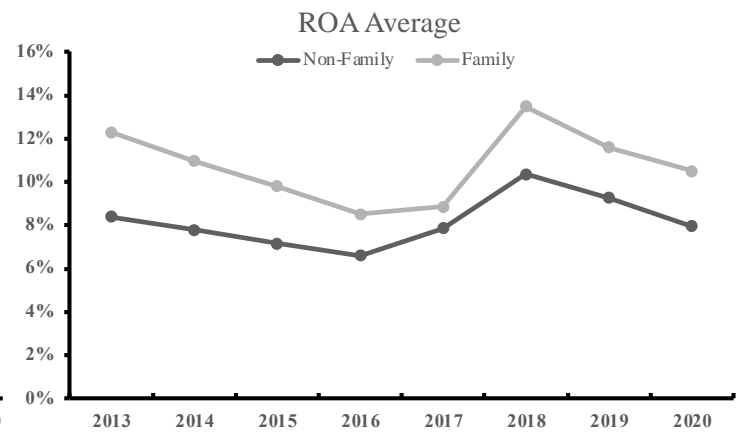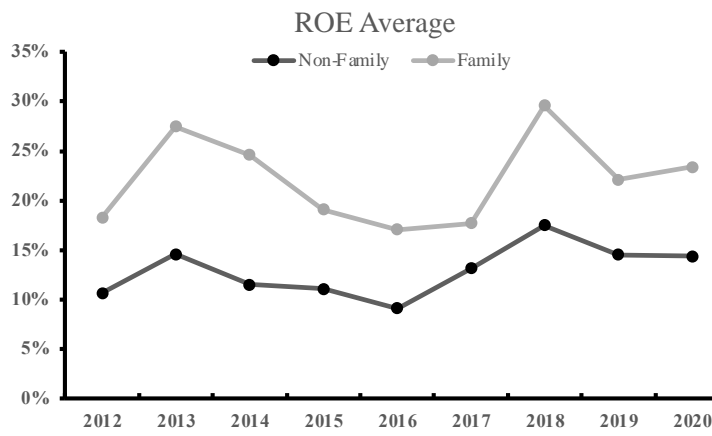
Appendix E: VIF tests

Variance Inflation Factor analysis on ROA and ROE regressions. Also controlled by years and industry. Created by the authors.

ROA Regression

	GVIF	Df	GVIFDf))
Family	1.142	1	1.069
log(TA)	1.226	1	1.107
Age	1.221	1	1.105
Leverage	1.090	1	1.044
Year	1.068	8	1.004
Industry	1.222	17	1.006

ROE Regression

	GVIF	Df	GVIFDf))
Family	1.142	1	1.069
log(TA)	1.226	1	1.107
Age	1.221	1	1.105
Leverage	1.090	1	1.044
Year	1.069	9	1.004
Industry	1.222	17	1.006