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Key Finding

Widely held cultural views shape securities analysts' assessment of family firms.

Business Application

Be aware of analysts' cultural biases and learn how to reduce them.

Family-controlled businesses are prevalent around the world, contributing to 70–90% of global GDP. Many publicly listed firms are also controlled by families, especially in emerging markets. However some securities analysts view family control more negatively than others. In my research, I find that analysts' views on family firms are shaped by the broader corporate governance systems to which they have become accustomed. This has nothing to do with personal prejudice or biased intentions. In countries like the United States, the UK and Canada, it is common to expect public firms to be owned by a large pool of outside investors and managed by professionals for the sake of maximising shareholder value. This is the shareholder-based model. Elsewhere, such as continental Europe and many Asian countries, another system – the stakeholder-based model – prevails: public firms are expected to be owned and controlled by stakeholder groups with a view to enhancing, in a balanced way, the long-term collective gains of stakeholders.

These two distinct governance systems can determine how family firms are perceived by analysts. I found that publicly listed family firms are less likely to be covered by global analyst firms from shareholder-based countries than by those from stakeholder-based countries. A higher percentage of family shareholding, having a family CEO or experiencing transgenerational family succession reduced coverage by shareholder-based analysts, while this effect was almost non-existent for stakeholder-based analysts. These findings stayed robust after controlling for all factors that could potentially influence a firm's quality or the level of investor interest. These findings are shocking, especially given my other research, which shows that family-controlled firms sometimes perform better financially than non-family firms in emerging markets. Investors should not think of analysts as completely neutral and objective intermediaries, and would do well to diversify their sources of information. Family firms that hope to attract investments from the stock market should also be aware of potential analyst bias and prepare for it strategically.

Read more: Luo, Xiaowei Rose, Young-chul Jeong, Chi-Nien Chung. **In the Eye of the Beholder: Global Analysts' Coverageof Family Firms in an Emerging Market. Forthcoming. Journal of Management.**

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Research interests: family business, corporate strategies in emerging markets, business-government relationships.