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DO FAMILY FIRMS OUTPERFORM NON-FAMILY FIRMS IN JAPAN? FURTHER EVIDENCE USING FOREIGN OWNERSHIP AS A MODERATOR

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ABSTRACT

Using a sample of 1384 manufacturing firms, comprising 546 family and 838 non-family firms listed on the Tokyo, Osaka, and Nagoya Stock Exchanges, we examine the performance difference between family and non-family firms in Japan. In addition, we check whether foreign ownership moderates the performance of family firms. We retrieve the necessary data from Bloomberg and Osiris databases covering the period 2014-2018. We apply the pooled OLS regression model with two-way clustering and obtain consistent results that family firms outperform non-family firms in Japan in terms of both accounting and market-based measures of financial performance, such as ROA and Tobin's Q. We also find that foreign shareholders do not play any significant role in improving the profitability of Japanese manufacturing firms. However, they appear to be critical for enhancing the performance of family firms, suggesting that foreign shareholders can mitigate much of the principal-principal conflicts of family firms by improving the monitoring functions.

INTRODUCTION

Extant literature unfolds that family firms hold nearly 40% of the listed firms in Japan (Kojima et al., 2020; Saito, 2008), 60% of the listed firms in France, Italy, and Germany (Faccio and Lang, 2002), 24% in the top 500 private firms in Australia (Glassop, 2009), and 35% in the US (Anderson and Reeb, 2003), implying that the performance of family firms largely influence the stability of stock markets. However, empirical evidence on the performance of family firms is inconclusive. For example, a plethora of empirical research indicates that family firms outperform non-family firms (Anderson and Reeb, 2003; Sharma, 2004; Allouche et al., 2008; Saito, 2008; Chu, 2011; Hansen and Block, 2020; Srivastava and Bhatia, 2020), while some others reveal the dismal performance of family firms (Bennedsen et al., 2006; Bloom and Venren, 2006). Another group of studies finds no significant performance difference between family and non-family firms (Filatotchev et al., 2005; McConaughy and Phillips, 1999; Yoshikawa and Rasheed, 2010). In this respect, scholars note that the performance difference between family and non-family firms lies in factors such as the corporate governance mechanisms, corporate cultures, and management style of the firms across countries (Allouche et

al., 2008; Srivastava and Bhatia, 2020). Thus, more studies are warranted to accumulate knowledge across countries.

Given the above, we study the performance of family and non-family firms in Japan. In addition, we incorporate foreign ownership in the analysis to test whether foreign ownership moderates the performance of family firms. We study manufacturing firms listed on the Tokyo, Osaka, and Nagoya stock exchanges and collect necessary data from Bloomberg and Osiris databases covering the period 2014-2018. We limit our analysis until 2018 to avoid the impact of the Covid-19 pandemic on our results. We base our study on the premise that Japan left the previously adopted main bank-based monitoring and governance system in favor of the US-style governance system, undertaking a "big bang financial and accounting reform in 1997" to ensure better governance of the firm. Although such a reform program encouraged foreign share ownerships in Japan, Japanese firms are still seen to have a board of directors promoted from within the firms (Arikawa et al., 2019), relatively fewer independent directors (two or more as per the Corporate Governance Code, 2015), insider CEOs, and a higher percentage of family ownership. Thus, Japan expects to provide new insights for policy-making.

Notably, different countries may have different corporate governance styles, especially among firms in Japan and the USA. Foreign investors from Western countries can view corporate governance differently than in Japan. For example, firms in countries like the US and the UK apply the shareholder-oriented style of corporate governance in which maximizing shareholder value is the priority, and firm growth is driven mainly by institutional investors and an independent board of directors (Lazonick and O'Sullivan, 2000). In contrast, firms in Japan adopt a stakeholder-oriented style in which long-term relationships with various stakeholders are valued, especially the business ties among corporations or cross-shareholding (Scher, 2001). In addition, factors such as shareholding structure, main bank relationship, keiretsu financing, corporate acquisition, and internally promoted board of directors make the corporate governance of Japanese firms distinct from firms in other countries (Kang and Shivdasani, 1995). This implies that the interests of foreign investors may not be aligned with the objective of Japanese management. Unfortunately, we have scant empirical evidence on the role of foreign ownership in the performance of Japanese family firms, which account for a significant portion of the TSE-listed firms. We fill this void.

The contribution of this paper is twofold. First, it provides an understanding of Japanese family firms' performance in recent years of major legal transitions in corporate governance, which can be comparable to other countries that also share the same trend. Notably, the proportion of family firms listed in the stock market in Japan is comparable to that of the USA (Kubota and Takehara, 2019). Second, it unearths the role of foreign investors in family firms in Japan to improve the corporate governance guidelines for Japanese family firms.

The remainder of this paper is organized as follows. Section 2 discusses extant literature and formulates hypotheses. Section 3 describes data and outlines the econometric model. Section 4 reports regression results. Finally, section 5 concludes the paper with some avenues for future research.

EXTANT LITERATURE AND HYPOTHESES

The fundamental agency theory can be used as a focal point to discuss the performance difference between family and non-family firms (Jensen and Meckling, 1976; Dalton et al., 1998). According to the agency theory, family firms can reduce agency costs because the involvement of family members in both ownership and management minimizes agency conflicts between outside managers and owners (Type 1 agency problem). Also, family firms want to preserve firm value for successive generations, which, in turn, creates sufficient incentives for them to improve firms' operations by investing in longer horizons (Achleitner et al., 2014; Hasso and Duncan, 2013). Further, long-term tenure in management positions allows family members to accumulate the necessary knowledge, expertise, discretion, and resources to make prudent investment decisions supportive of the growth of the business (Miller and Le Breton-Miller, 2006). This implies that the higher the involvement of the family members in the management and governance, the higher the potential for sustainable firm performance in the long run (Poutziouris et al., 2015). Several empirical works also support this premise. For example, Kojima et al. (2020) reveal that family ownership positively influences the performance of Japanese manufacturing firms. Chen et al. (2005) demonstrate that family ownership is positively associated with firm performance in Japan. Saito (2008) concludes that family control motivates Tobin's Q. Chen and Yu (2017), who contend that Japanese and Taiwanese firms run by founders are traded at a higher value in the stock market.

However, firms managed by founders' descendants may have inferior performance. In the USA, the management by descendants negatively affects the firm's value (Villalonga & Amit, 2006). There is some evidence that explains this relationship. The quality of corporate governance is insufficient in family firms, as outside shareholders are the minority. Therefore, it is likely that family members may seek private benefits. Morck and Yeung (2003) explain that, due to insufficient market control, the imbalance of ownership between family members and outside owners can be in the form of managerial entrenchment, tunneling, and the "other people's money" view. This further indicates that family firms may have a Type II agency problem (principal–principal conflict) because the interest of family members may not necessarily be in line with the interest of minority shareholders (Muttakin et al., 2014). Besides, family firms usually hire executives from close relatives, ignoring outside talents, resulting in suboptimal financial performance (Anderson and Reeb, 2003).

Moreover, the level of risk-taking behavior between family firms and non-family firms may differ. Investors or outside owners usually diversify their portfolios to achieve their desired return, encouraging firms to seek investments with higher returns. Also, family members do not always have a risk appetite as outside owners because their wealth depends on firm performance (Yoshikawa and Rasheed, 2010). This indicates that the annual growth rate of family firms is likely to be affected by family members' concern for firm survival. Morikawa (2013) shows that the annual productivity of family firms is approximately 2% lower than non-family firms. Still, the probability of survival of family firms is 5-10% more than that of non-family firms. Kubota and Takehara (2019) find that compared to non-family firms, the innovation output of family

firms is lower as descendant CEOs are not likely to allocate their resources to creating innovations. Poutziouris et al. (2015) note that the performance of family firms decreases after family members' shareholding reaches 31%.

It is worth noting that researchers do not present a monolithic picture of the link between family involvement and firm performance across countries. For instance, in the case of the USA, Chua et al. (1999) and Anderson and Reeb (2003) find that family firms tend to exhibit superior long-term financial performance due to their conservative financial policies and longer investment horizons. However, in another study, Anderson and Reeb (2003a) reveal that a cutoff level of 12% family equity ownership impacts lowering the cost of debt financing for family firms, thereby aiding business returns. This means that above this point, family ownership has no incremental effect on lowering the cost of debt financing and increasing business returns. Similarly, Chrisman et al. (2012) argue that family firms tend to excel in incremental innovations driven by their strong values, traditions, and long-term orientation. Still, they face difficulties in radical innovations due to a conservative risk-taking approach and resistance to change (Astrachan et al., 2014). Moreover, research suggests that well-structured succession plans positively impact the performance and continuity of US family firms (De Massis et al., 2018). However, challenges arise in managing the transition process, including issues related to nepotism, competence, and conflicts among family members (Hess et al., 2007).

By the same token, research on family-owned firms in European economies yields varying findings regarding their financial performance compared to non-family counterparts. For instance, a study by Villalonga and Amit (2006) suggests that European family-controlled firms tend to perform at par or better than non-family firms due to longer investment horizons and lower agency costs. Colli (2018) noted that European family firms tend to face challenges related to succession planning and potential expropriation by controlling families. Zellweger et al. (2012) argue that European family firms often excel in niche markets and are more inclined to sustain existing competitive advantages rather than pursue radical innovations. Conversely, Claessens et al. (2000) argue that family firms may face challenges related to agency problems and weaker external monitoring. However, effective governance structures, including independent boards and professional management, can mitigate agency conflicts and enhance performance (Bennedsen et al., 2005).

Similarly, in a study on Chinese family firms, Chen et al. (2009) find that family ownership positively influences profitability due to long-term orientations and lower agency costs. Chen (2001) unveils that culturally embedded practices and Confucian values play a significant role in contributing to the continuity and performance of Chinese family firms. In contrast, research by Claessens et al. (2000) in Malaysia suggests that family-controlled firms may face challenges due to agency problems and lack of transparency. Chua et al. (2018) argue that Asian family firms may excel in incremental innovations driven by strong intergenerational ties and a sense of duty toward preserving legacies. Some others indicated that Asian family firms face unique challenges, including weak shareholder protection and potential expropriation by controlling families. However, effective governance structures can mitigate agency conflicts and enhance performance (Wang and Kim, 2015; La Porta et al., 1999).

From the above discussion, we would like to note that family firms have stronger incentives to adopt long-run investment strategies to create wealth for future generations. In the case of Japan, family members are likely to show more respect to seniors, and they share tacit knowledge accumulated from long years of business operation. The formation of such intangible capital is crucial to long-term stable firm performance. Therefore, Japanese family firms tend to reduce agency costs by reducing managerial myopia, moral hazards, and agency conflicts and increasing human capital, producing stable returns for the shareholders. Given the above, we formulate hypothesis 1 as follows:

H_1: Family firms outperform non-family firms in terms of financial performance.

As previously mentioned, family firms may expropriate profits at the expense of minority shareholders. In such a case, foreign ownership is viewed as a vital instrument to align the interests of diverse shareholders and reduce the Type II agency problem. Foreign shareholders have the necessary skills and knowledge to improve the decision-making quality of a firm. Also, foreign investors tend to be more active in trading than local investors. Such frequent trading activities enhance stock price valuation (David et al., 2006).

Regarding cross-country evidence, scholars tend to reach somewhat equivocal conclusions on the role of foreign ownership in promoting firm performance. Many scholars reveal that foreign institutional ownership positively influences the financial performance of a firm (Fan and Wong, 2005; Choi and Park, 2019 for Korea; Rebérioux and Roudaut., 2018 for Franch; Colli et al., 2018 for Italy; Moez et al., 2015 for Tunisia; Villalonga and Amit, 2006 for the USA; Ramachandran and Rai, 2019; Ramasamy and Li, 2014 for India; Tan and Cheah, 2019; Lim, 2017 for Malaysia; Andres, 2008 for Germany; Tasfack and Guo, 2021 for China). Among the many underlying reasons, the above studies outline that foreign investors do not collude with the management. Instead, they bring in new technologies, managerial practices, and access to global networks, advocating for strategies aligning with global market trends and best practices. Also, the presence of foreign shareholders increases corporate transparency and financial reporting, thereby enhancing the firm's higher market reputation and value (Subramanian, 2011). However, some studies highlight potential conflicts of interest and differences in strategic priorities between family members and foreign shareholders in making long-term investment decisions and preserving the firm value for future generations, which may hinder the implementation of innovative initiatives and generate sub-optimal returns for the shareholders (Sahoo and Sarkar, 2018; Subramanian, 2011; Claessens et al., 2000).

As for Japanese firms, Fukuda et al. (2018) find a positive relationship between foreign shareholding and Tobin's Q. Although Sueyoshi et al. (2010) find a similar result, they note that foreign shareholding above a threshold level of 19.49% promotes firm performance. Yoshikawa and Rasheed (2010) study the interaction effect of foreign ownership and ROE for the OTC market-listed manufacturing firms and reveal that foreign investors influence family owners to improve firm performance. Hideaki et al. (2015) unearth a significant positive association between foreign shareholding and Tobin's Q for Japanese firms even after controlling various factors that may affect firm performance. Kojima et al. (2017) find a negative relationship

between foreign shareholdings and earnings quality. In fact, foreign shareholders may ruin a firm's value if they leave during an economic slowdown.Another negative point is that foreigners may be biased in making investment decisions by choosing the firms based on their preferences, not by looking and carefully examining the firm's performance. In that case, the higher stock returns or more top market-based indicators do not reflect the firm's actual performance. Instead, it only shows the investors' biased preferences (Hideaki et al., 2015). Yet, in previous literature, foreign investors are generally reported to affect firm performance positively.

It is worth noting that after the bubble burst, Japanese policymakers encouraged foreign institutional shareholding to monitor firm activities by externals and to increase the price-earnings ratio. This policy was taken on the presumption that foreign institutional shareholders can play a disciplinary role in Japanese firms, as independent outside directors had no significant influence on enhancing turnover sensitivity to ROE (Miyajima et al., 2018; Hideaki et al., 2015). In addition, Yoshikawa and Rasheed (2010) note that the interaction effect of foreign shareholding with family control increases firms' profitability but lowers the dividend payout ratio.

In summary, we note that foreign investors can improve the performance of family firms in the following ways. First, foreign ownership does not simply mean financial contribution but the transfer of knowledge, technology, innovations, and management expertise from foreign firms, which are essential to the growth of family firms. Second, foreign shareholders are often perceived as a catalyst for growth and change. If the domestic firm's performance goes downhill, foreign firms can lay out necessary efforts to adopt various strategies to improve the firm's value. Third, foreign investors can play an essential role in disciplining managers of family firms, mainly recruited from family members, without considering market talents. This particularly applies to family firms because they lack outside talents on the board. Based on the above discussion, we take the following hypothesis.

H_2: Foreign ownership improves the performance of family firms.

RESEARCH METHODS

Definition of Family Firms

We consider a firm to be a family firm if it satisfies any of the five criteria: (a) run by a founder; (b) run by family members who hold important positions inside the company (such as Chairman, Vice Chairman, Chief Executive Officer); (c) controlled by family members who own at least 10% of total shares; (d) controlled by family members who account for 50% of the number of board members; and (e) owned by a privately held company. We implement these criteria following previous studies on Japanese family firms (Yoshikawa and Rasheed, 2010; Saito, 2008; Morikawa, 2013; Arikawa et al., 2019; Miyajima et al., 2018).

Sample

We retrieve necessary data from Bloomberg and OSIRIS databases (software version 213, a database managed by Bureau Van Dijk, BvD). We first check all the listed manufacturing firms in Japan on Osiris following the North American Industry Classification System (NAICS). After the initial search, we obtained 1601 publicly listed Japanese companies in the manufacturing sector. We group them into 21 different sub-industry codes, depending on the nature of their business. These companies are then screened to see if they have sufficient data for analysis. We left 251 companies that lacked necessary data in the study period 2014-2108. Accordingly, our sample firm reduces to 1384, giving a sample size of $1384 \times 5 = 6920$ observations (N $\times$ T). We collect foreign ownership data from Bloomberg. The sample comprises listed firms in the Stock Exchange of Tokyo, Osaka, and Nagoya.

Description of Variables

We use accounting and market-based firm performance measures for the dependent variable. We consider Return on Assets (ROA) as an accounting measure for firm performance and Tobin's Q as an indicator of market-based performance. ROA represents the historical accounting performance of the firm in terms of profitability, while Tobin's Q represents the forward-looking performance of firms as it takes the market valuation of the firm into account. Tobin's Q reflects the risk of a firm as estimated from the market data. Tobin's Q measures whether a firm or an aggregate market is relatively over- or undervalued. Also, Tobin's Q serves as a performance benchmark to perk up firms' internal management or corporate strategy against their competitors. Conversely, ROA measures managerial efficiency to allocate capital and establishes parameters to control costs and expenses. However, the numerator of ROA is "net income," calculated under the accrual basis of accounting that considers both cash and credit transactions. Thus, ROA varies by a firm's credit, inventory, receivables, depreciation and amortization policies. Similarly, Tobin's Q varies by stock market efficiency and company corporate strategy. So, there is no consensus that ROA is superior to Tobin's Q because these two ratios explain firm performance from different angles— ROA focuses on managerial efficiency in allocating capital and generating profits. In contrast, Tobin's Q reflects investors' perception of the company's risk. Thus, we plan to apply ROA and Tobin's Q to meter firms' performance from market and historical accounting perspectives.

We apply a binary variable (Family) to identify family firms from non-family ones. Our moderator variable is foreign ownership, representing the firm's foreign shareholding percentage. We conjecture that foreign shareholders can influence the governance practices of a firm by demanding more financial and non-financial disclosures, leading to higher investment and efficiency. We consider firm-specific variables such as firm size, firm age, and leverage ratio to control their effects on our estimates. For firm size (SIZE), large firms tend to have an international reputation as they sell their goods in the global market following international standards. Therefore, large firms can attract foreign investment more quickly than small firms. In

addition, large firms have more trading liquidity as they may issue American Depository Receipts (ADRs) (Kang and Stulz, 1997). For firm age (AGE), a well-established firm run by generations of family owners conveys a positive signal to international investors to commit investment. For leverage (LEV), foreign ownership can mitigate agency conflicts by alleviating unnecessary interventions of the creditors on the management (Jensen and Meckling, 1976). Table 1 presents the description of the variables included in the study.

<table>
<tr><td colspan="4" align="center">Table 1
DESCRIPTION OF VARIABLES</td></tr>
<tr><td>Variables</td><td>Abbreviation</td><td>Definition</td><td>Formula</td></tr>
<tr><td colspan="4">Performance Characteristics – Dependent variables</td></tr>
<tr><td>Return on assets</td><td>ROA</td><td>The percentage of net income after paying preferred dividends divided by average total assets for the year</td><td>(Net income / Total assets) $\times$ 100</td></tr>
<tr><td>Tobin's Q</td><td>Tobin's Q</td><td>The market value of a firm divided by its value of total assets</td><td>(Market capitalization / Total assets) $\times$ 100</td></tr>
<tr><td colspan="4">Moderator variable</td></tr>
<tr><td>Foreign Ownership</td><td>FOREIGN</td><td>The percentage of foreign shareholding</td><td>(No. of shares held by foreigners/ Total outstanding shares) $\times$100</td></tr>
<tr><td colspan="4">Firm-specific Characteristics – Control variables</td></tr>
<tr><td>Firm size</td><td>SIZE</td><td>Natural logarithm of market capitalization</td><td>Ln (No. of Outstanding shares $\times$ share price)</td></tr>
<tr><td>Firm age</td><td>AGE</td><td>Natural logarithm of the firm's age</td><td>Ln (financial year – year of incorporation)</td></tr>
<tr><td>Leverage</td><td>LEV</td><td>The percentage of total liability to shareholder equity</td><td>Total liability / Shareholders' equity</td></tr>
</table>

Empirical Model

We use the following pooled OLS (ordinary least square regression) model with two-way clustering to understand the performance difference between family and non-family firms.

$$\text{PERFORM}_{i,t} = \alpha_0 + \alpha_1 \text{SIZE}_{i,t} + \alpha_2 \text{AGE}_{i,t} + \alpha_3 \text{LEV}_{i,t} + \alpha_4 \text{FAMILY}_{i,t} + \zeta_{i,} \text{-----------Eq (1)}$$

Where PERFORM is an indicator of firm performance measured by ROA, and Tobin's Q. FAMILY is a binary variable representing the family firm. The rest of the variables are defined in Table 2.

Next, we invoke the following model to study the moderating role of foreign shareholders.

$PERFORM_{i,t} = \alpha_0 + \alpha_1 FOREIGN_{i,t} + \alpha_2 SIZE_{i,t} + \alpha_3 AGE_{i,t} + \alpha_4 LEV_{i,t} + \alpha_5 FAMILY_{i,t} + \alpha_6$ $FAMILY_{i,t}*FOREIGN_{i,t} + \zeta_{i,}$-------   Eq (2)

Where PERFORM is similar to Eq(1), FAMILY*FOREIGN represents the interaction term. The remaining variables are the same as defined in Table 2.

EMPIRICAL RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 presents descriptive statistics of the variables used in the study. Statistics for year dummies and industry dummies are not shown. As is observed in Table 2, ROA has a mean value of 5.22% and a median value of 5.23%, indicating that the distribution of ROA is symmetrical. For Tobin's Q, the mean value is 0.83%, with a median value of 0.57%, representing that the distribution is left-skewed. Also, the minimum and maximum values for Tobin's Q are more varied than the ROA. On average, foreign shareholding is around 13.52%, with a minimum of 0.00% to 90.80%, indicating that foreign ownership in Japan drastically varies by firm. For controls, the statistical result shows that 42.88% of the total assets of sample firms are financed from debt (LEV). The mean values of firm size (SIZE) and age (AGE) are 2.568 and 1.765, respectively, with a median value of 2.439 and 1.833, indicating that these variables are symmetrical for running the ordinary least square regression.

Table 2 DESCRIPTIVE STATISTICS (N = 6,920)							
Variables	Mean	Std. Dev.	Minimum	Q1/P25	Median	Q3/P75	Maximum
ROA	5.222	5.658	-20.32	2.815	5.23	7.835	20.11
Tobin's Q	0.831	0.823	0.133	0.362	0.574	0.949	4.969
FOREIGN	13.524	13.903	0.000	2.065	9.210	21.090	90.800
SIZE	2.568	0.785	0.905	1.984	2.439	3.047	5.348
AGE	1.765	0.243	0.699	1.690	1.833	1.909	2.532
LEV	42.883	18.148	0.000	28.740	42.070	55.390	94.37

Correlation Matrix

Table 3 presents the correlation between variables. The objective of the correlation matrix is to identify variables with a multicollinearity problem. Table 3 portrays that the variables with a larger correlation are FOREIGN and SIZE (0.635). However, this does not reflect a perfect multicollinearity problem. Imperfect multicollinearity may not be an error but a feature or data characteristic. Therefore, we do not encounter serious multicollinearity problems for running the regression.

Variables	ROA	Tobin's Q	FAMILY	FOREIGN	SIZE	AGE	LEV
ROA	1.000						
Tobin's Q	0.267***	1.000					
FAMILY	0.086***	0.152***	1.000				
FOREIGN	0.207***	0.215***	-0.140***	1.000			
SIZE	0.341***	0.324***	-0.153***	0.635***	1.000		
AGE	0.089***	-0.255***	-0.182***	0.079***	0.157***	1.000	
LEV	-0.287***	-0.361***	-0.100***	-0.117***	-0.147***	0.060**	1.000

Table 3
CORRELATIONS AMONG VARIABLES (N = 6,920)

Superscripts ***,**, and * represent significance at 1%. 5% and 10% levels, respectively.

Univariate Analysis

Table 4 shows the results of the univariate analysis for family and non-family firms. The t-test statistics yield that family and non-family firms differ significantly in terms of ROA, Tobin's Q, SIZE, LEV, AGE, and foreign shareholding. Similarly, the z-statistics confirm significant median differences between family and non-family firms for all the variables included in the study. As is observed in Table 4, family firms show superior performance to non-family firms in terms of both Tobin's Q and ROA. The mean values for family firms' ROA and Tobin's Q are 5.821 and 0.985, respectively, which is higher than those of the non-family firms (4.831 and 0.730, respectively). This finding is consistent with the empirical results of Anderson and Reeb (2003), Allouche et al. (2008), Saito (2008), Morikawa (2013), Hansen and Block (2020), Srivastava and Bhatia (2020), and Kojima et al. (2020), where they find that family firms outperform the non-family firms. This result also supports our underlying hypothesis (H$_1$).

Table 4 UNIVARIATE ANALYSIS						
	Family firms (N = 546)		**Non-family firms (N = 838)**			
Variables	**Mean**	**Median**	**Mean**	**Median**	**Mean diff. (t-Statistics)**	**Median diff. (z-Statistics)**
ROA	5.821	5.565	4.831	5.080	0.990*** (3.19)	0.485*** (3.34)
Tobin's Q	0.985	0.623	0.730	0.545	0.256*** (5.71)	0.078*** (4.32)
FOREIGN	11.108	5.780	15.099	11.825	-3.991*** (-5.27)	-6.045*** (-5.63)
SIZE	2.419	2.344	2.665	2.559	-0.246*** (-5.76)	-0.215*** (-5.82)
AGE	1.710	1.778	1.800	1.845	-0.090*** (-6.90)	-0.067*** (-9.26)
LEV	40.632	39.360	44.349	43.650	-3.717*** (-3.74)	-4.290*** (-3.69)
Superscripts ***,**, and * represent significance at 1%. 5% and 10% levels, respectively. T-statistics are in the parenthesis.						

As for foreign shareholding, we find that family firms have lower foreign shareholding (11.10%) than non-family firms (15.099%). This is plausible because non-family firms tend to have more professional managers than family firms, giving positive signals to foreign investors to undertake more investment. As for controls, family firms show lower average value in SIZE, LEV, and AGE than non-family firms, implying that family firms prefer avoiding financial risk and investing less money in asset acquisition than non-family firms.

Multivariate Analysis

Table 5 presents the regression outputs of the two dependent variables, ROA and Tobin's Q, under the pooled OLS regression method with two-way clustering. In the case of panel data, pooled OLS regression equation with two-way clustering adjusts both the time and firm effects and produces robust estimate than the simple OLS. Sun et al. (2018) state that pooled regression with the two-way cluster-robust standard errors approach corrects both cross-sectional and serial correlation and neutralizes the white heteroscedasticity standard error in panel data. Therefore, pooled regression can be a better approach to dealing with panel data.

Dependent Variables	ROA			Tobin's Q		
Control	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**
SIZE	2.135***	2.265***	2.304***	0.343***	0.362***	0.355***
	(12.82)	(13.51)	(9.19)	(11.84)	(12.28)	(9.99)
AGE	1.335	1.776*	1.835**	-0.977***	-0.911***	-0.898***
	(1.44)	(1.94)	(2.00)	(-7.76)	(-7.47)	(-7.42)
LEV	-0.077***	-0.073***	-0.071***	-0.013***	-0.013***	-0.013***
	(-8.49)	(-8.19)	(-7.80)	(-12.25)	(-11.77)	(-11.38)
Main						
FAMILY		1.438***	0.819**		0.214***	0.109**
		(5.01)	(1.99)		(5.17)	(2.02)
Moderator						
FOREIGN			-0.022			-0.003
			(-1.48)			(-1.22)
Interaction						
FAMILY*FOREIGN			0.050*			0.009**
			(1.83)			(2.13)
Year effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry effect	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.1771	0.1916	0.1950	0.2866	0.3019	0.3066
Number of observations	6920	6920	6920	6920	6920	6920
Family firms	546	546	546	546	546	546
Non-family firms	838	838	838	838	838	838

Table 5
MODERATING ROLE OF FOREIGN OWNERSHIP

Superscripts ***,**, and * represent significance at 1%. 5% and 10% levels, respectively. T-statistics are in the parenthesis.

In Table 5, models 1-3 show the regression output for the ROA, while models 4-6 represent the same for Tobin's Q. Models 1 and 4 separately display the effects of control variables on our dependent variables. Models 2 and 5 study the performance of family firms by including the family dummy, while models 3 and 6 report the moderating role of foreign ownership in the family firm in a collaborative setting by inserting the interaction term (FAMILY*FOREIGN). Model 1 shows that firm size and leverage are significant factors for firm performance. Model 2 and model 5 report that family firms have superior performance to non-family firms in either case of firm performance. The positive and significant coefficient of the family dummy evidences this. This result proves that firms tend to show higher performance when ownership and control are not separated (reduction in agency cost), as seen in family firms in Japan. Also, this finding aligns with the agency theory's prediction that traditional agency cost is minimal in family firms because of less or no scopes for managerial opportunism. Our result supports the previous findings of Saito (2008) and Kojima et al. (2020) for Japan, Choi and Park

(2019) for Korea, Ramachandran and Rai (2019) for India, Lim (2017) for Malaysia, Andres (2008) for Germany, Tasfack and Guo (2021) for China, and Muttakin et al. (2015) for Bangladesh.

As for the impact of foreign shareholding on firm performance, Table 5 (models 3 and 6) reveals that foreign ownership has an insignificant negative effect on the performance of Japanese firms. However, when foreign ownership is injected into the family firms, it positively and significantly influences firm performance. This finding is intriguing because foreign shareholders do not aggravate agency costs for the family firms colluding with the management. Instead, they offer valuable advice and services to family firms to enhance profits. This evidence supports our hypothesis, H_2.

This result draws policy calls because foreign shareholders usually get enough room to exercise their roles and expertise in family firms with fewer non-professional managers than non-family firms. Simultaneously, family firms can benefit from foreign shareholders' new knowledge and management expertise to foster profits (Kojima et al., 2020). As a whole, we conclude that family firms in Japan outperform non-family firms, and foreign shareholders can play an active role in improving the financial performance of Japanese family firms.

Robustness Test

Table 6 presents the robustness of our previous estimates. We apply a similar approach as in Table 5, but we change the family ownership criteria to 20% and 30 % levels (instead of the initial 10%) to define family firms. The objective of changing the criteria is to ensure that our primary results are not sensitive to the definition of family firms.

We find consistent estimates for the 20% and 30% level of family ownership and confirm that family firms outperform non-family firms concerning ROA and Tobin's Q. Concerning the role of foreign ownership, we book similar evidence found in our previous analysis. The coefficients of the interaction term (FAMILY*FOREIGN) in both the 20% and 30% levels of foreign ownership are significant, implying that foreign ownership positively promotes the performance of family firms. Thus, we conclude that our estimates are robust and free from the ownership bias of family firms.

It is worth noting that foreign investment is not merely a financial transaction but a catalyst for transformation and growth in family firms. Collaborating with foreign investors necessitates understanding different cultural norms, business etiquettes, legal frameworks, and global reach. This exposure fosters adaptability, resilience, and cross-cultural competence, which are crucial for booking success in a globalized business environment. However, we left this issue as an avenue for future research.

Table 6 EFFECTS OF FAMILY AND FOREIGN OWNERSHIP ON FIRM PERFORMANCE								
Dependent Variables	**ROA**				**Tobin's Q**			
Control	**Model 7**	**Model 8**	**Model 9**	**Model 10**	**Model 11**	**Model 12**	**Model 13**	**Model 14**
SIZE	2.197*** (13.26)	2.262*** (9.04)	2.185*** (13.20)	2.243*** (8.91)	0.352*** (12.09)	0.349*** (9.81)	0.348*** (11.98)	0.347*** (9.76)
AGE	1.578* (1.72)	1.658* (1.80)	1.519* (1.65)	1.602* (1.73)	- 0.941*** (-7.62)	- 0.925*** (-7.53)	- 0.956*** (-7.61)	- 0.947*** (-7.48)
LEV	- 0.074*** (-8.29)	- 0.073*** (-7.96)	- 0.074*** (-8.24)	- 0.072*** (-7.90)	- 0.013*** (-11.97)	- 0.013*** (-11.63)	- 0.013*** (-12.13)	- 0.013*** (-11.93)
Main								
FAMILY20	1.213*** (3.80)	0.572 (1.29)			0.178*** (4.01)	0.064 (1.12)		
FAMILY30			1.264*** (3.90)	0.365 (0.81)			0.138*** (3.05)	0.047 (0.80)
Moderator								
FOREIGN		-0.023 (-1.48)		-0.028* (-1.74)		-0.003 (-1.29)		-0.002 (-1.00)
Interaction								
FAMILY20* FOREIGN		0.051* (1.81)				0.009** (2.15)		
FAMILY30* FOREIGN				0.071*** (2.63)				0.007* (1.72)
Year effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.1868	0.1903	0.1873	0.1938	0.2965	0.3016	0.2924	0.2956
Number of observations	6920	6920	6920	6920	6920	6920	6920	6920
Superscripts ***,**, and * represent significance at 1%. 5% and 10% levels, respectively. T-statistics are in parenthesis.								

CONCLUSION

This paper examines whether family firms perform better than non-family firms in Japan using the data from Bloomberg and Osiris databases. We also check the moderating role of foreign ownership in the performance of family firms. In doing so, we study 1384 manufacturing firms in Japan (546 family and 838 non-family firms) covering the period 2014–2018.

Our univariate analysis reveals that family firms outperform non-family firms concerning the mean and median values of ROA and Tobin's Q. Besides, the mean and median comparison tests (t-test and z-test) yield that family firms have higher performance than non-family firms in both measures of firm performance. Furthermore, the multivariate regression results support that family firms have superior performance over non-family firms in Japan. Such performance is robust and stable with different levels of family ownership, such as 20% and 30%. Therefore, we confirm that family firms in Japan exhibit better performance than non-family firms. Our results support the findings of previous empirical studies (Anderson and Reeb, 2003; Allouche et al., 2008; Saito, 2008; Chu, 2011; Srivastava and Bhatia, 2020; and Kojima et al., 2022). We argue that this happens because the agency problem in family firms in Japan is minimal compared to that of non-family firms, leading to a prudent investment decision. Also, family firms want to protect their value for future generations by avoiding financial risk and investing in longer horizons, which signals future profits.

As for the role of foreign share ownership, we find that foreign ownership is lower in family firms compared to non-family firms. As a whole, foreign shareholders do not play any significant role in improving the profitability of Japanese manufacturing firms. However, they appear to be critical for enhancing the performance of family firms, implying that they can exercise monitoring functions on the family firms to ensure better governance, leading to an increase in profits. In other words, foreign shareholders in Japan are not likely to collude with the management in expropriating profits. Instead, they help enhance the stewardship function of family board members. These findings have important policy implications for Japanese family firms.

However, our study is not free from certain drawbacks. For example, we did not check the impact of board structure and other ownership variables in the multivariate analysis, which may hurt our results. Also, we did not investigate the performance difference between different generations and types of family firms. Another caveat is that the superior performance of family firms may motivate foreign shareholders to inject more equity into the family firms in Japan and become free riders. We leave all these issues as avenues for future research.

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CONFLICTS OF INTEREST

The authors declare no conflict of interest.

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