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WHY INVEST GLOBALLY IN FAMILY FIRMS?

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ABSTRACT

Purpose- Family firms have a significant economic role in many countries around the world. Family firms make a significant contribution to World GDP and employ a significant part of the global workforce. The scope of this study covers the top 25 largest and publicly owned family firms announced by Ernst & Young's 2021 Report for Family Businesses. These 25 family firms generated more than 2 trillion USD and employed 6.5 million in 2021. This empirical study aims to investigate the excess stock returns of family firms over the related country stock market indexes and the risks (betas) for the period between 2002 and 2021. Therefore, this study explores the question of "why invest globally in family firms and whether this investment pays off with higher returns and less risk".
Methodology- The World's Largest Family Companies" list is published every other two years by Ernst & Young and the last issue was published in 2021. The world's largest family companies list includes both private and publicly owned family firms. This study employs 25 world's largest family firms after the exclusion of privately held family firms. The monthly stock prices of family firms, related country stock market index values, and global stock market index values are obtained from Refinitiv Eikon (Reuters) database for the period between 2002 and 2021 (20 years). Therefore, a total of 9120 observations are extracted for this empirical study. Eviews-10 is utilized for all econometric analysis.
Findings- This study investigates whether an individual or intuitional investor can earn more than the average return of the stock markets by investing in publicly traded family firms meanwhile exposing less risk. The empricial results reveal that Maersek shows 354% (beta of 1.18) excess return over the 20 year period and followed by Hanwha with a 335% (beta of 0.69) excess return. Later, all family firms are grouped based on country of headquartered and 7 country portfolios are formed. The highest excess returns are provided by South Koean portfolio (an excess return of 189% with a beta of 0.83) and it is followed by Indian portfolio (an excess return of 174% with a beta of 1.0). Finaly, a best performer portfolio is formed by the 10 family firms with highest excess returns. This portfolio provides a 131% excess return with a beta of 1.18 over 20-year peirod.
Conclusion- The empirical results show that the individual firm returns and portfolio returns of family firms are higher than the returns of the stock market indexes. Those who invest in family businesses get higher returns with less risk. Investments in publicly traded family firms pay off.

Keywords: Family firms, global investment, return, risk, stock markets.
JEL Codes: G10, G11, G15

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