METU Dept. of Business Administration

MARC Seminar Series

FAMILY CONTROL AND RAISING EXTERNAL CAPITAL
An Analysis of Large European Firms

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Abstract

We examine the propensity to raise outside capital, both equity and debt, by family firms and compare it to that of non-family firms. We use a comprehensive sample of 777 large European firms in the period from 1998 to 2002. We find that family firms are, indeed, reluctant to make equity issues compared to non-family firms. However, all other things equal, family firms tend to make new equity issues following period in which stock prices substantially increased. Family control does not affect the decision to issue debt, unless the founder is still in the company (positive impact). Finally, family firms are as likely as non-family firms to use rights offerings. Our evidence presents interesting implications for family control firms in emerging countries to understand their long-term aspects of management choices for financing decisions.

JEL Classification: G32

Keywords: Family firms, equity issues, debt issues, shareholder's identity.