ABSTRACT

Previous studies have shown the existence of a relationship between the ownership structure of a company and its operational performance. In this context, the empirical evidence reveals that after an initial public offering (IPO), companies experience a decline in their operational performance. In this research, the authors investigate whether the characteristics of Spanish family firms led to a different operating behavior with respect to non-family companies when they go public through an IPO. The results show that the particularities of the family firm do not turn into significant differences in operational performance after the listing process.

INTRODUCTION

Ever since the work of Berle & Means (1932), various studies have attempted to explain the effects of ownership on a firm’s results and value. The ownership structure of a firm is not a static feature; rather, it changes over the lifespan of the firm as a result of various operations that must be undertaken to ensure its survival or to respond to demands stemming from the complexity of the environment. These include mergers, Initial Public Offerings (IPOs), takeover bids and capital increases, among others. Of all these, the decision to go public through an IPO represents an important step in the trajectory of a firm, entail-
ing substantial changes to the nature of the firm and in the operational relationships with the different actors involved in its activity. In particular, the IPO produces a change in the ownership structure, which leads to greater dispersion and separation between ownership and managerial control. This may in turn reduce the incentives for the owners to exercise a supervisory role over the managers. Consequently, such a change of ownership may have a significant impact on the functioning and performance of the firm.

Empirical evidence shows that companies suffer a decline in their operating performance levels after they begin trading on the stock market through an IPO (Jain & Kini, 1994; Pagano et al., 1998; Michaelson et al., 1997; Cai & Wei, 1997; Kim et al., 2004; Álvarez & González, 2005). Some of these studies report that the decline in firms’ post-IPO operating performance is accompanied by increased sales and capital investments, so the drop cannot be explained by a lack of investment opportunities or problems of demand. Therefore, related research has focused on analysing the greater dispersion of ownership resulting from going public as the root cause of this decline in firms’ efficiency. As discussed in the next section, empirical evidence relating to this phenomenon is inconclusive.

According to Galve & Salas (1993), compared to shareholder dispersion in US firms, European firms—particularly Spanish firms—are essentially characterized as having very concentrated control, even in large companies. This leads to the controlling group exercising greater vigilance over management’s behaviour and decisions. Given this feature of Spanish companies, studies of their ownership and control should primarily focus on examining the implications for firm’s efficiency of the nature of the controlling group (families, banks, other companies...), rather than on analysing the effects of separation between ownership and control stemming from a dispersed shareholding without taking into account the nature of the controlling group. In particular, it is worth noting the key role played by family businesses in the Spanish economy, where they account for 85% of total firms. Furthermore, in line with agency theory (Berle & Means, 1932; Jensen & Meckling, 1976; Fama & Jensen, 1983a, 1983b), the characteristics of family firm’s objectives and relationships could be seen as contributing to the reduction of certain agency costs, but these same features may give rise to others.1

Within this area, there is little previous research on the Spanish market, and existing studies do not analyse the possible differences between family and non-family firms. In this regard, the aim of this study is to provide new evidence of the post-IPO operating performance behaviour for samples of family and non-family firms in the period 1994-2012.

Thus, this chapter is organized as follows. Section 1 outlines the theoretical foundations provided by agency theory, which can explain the decline observed in firms’ operating performance after listing the firm on the stock exchange, the previous empirical evidence and the hypotheses to be tested. Section 2 details the methodology. Section 3 sets out the results of the analysis of the levels and changes in the operating performance of all Spanish IPO firms in the period 1994-2012, distinguishing between family and non-family firm sub-samples. Lastly, the main conclusions of the study are presented.

OWNERSHIP STRUCTURE AND POST-IPO OPERATING PERFORMANCE. HYPOTHESES TO BE TESTED

The theoretical foundations underpinning existing research on how a firm’s ownership affects its performance come from the contributions of the Organization Theory and, in particular, from one of its key branches, Agency Theory. According to the Organization Theory, the productive efficiency of a company depends on, among other factors, the firm’s ownership structure and control and its internal
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