Dynamism in Adversity: a Comparative Study of Trends in the Performance of Listed Family- and Non-Family-Controlled Companies in Hong Kong, 1997–2014

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Abstract

This paper addresses the long debate over the superiority of the performance of family- vs non-family-controlled companies from the contesting perspectives of entrepreneurial familism and managerial capitalism. Publicly listed family- and non-family-controlled companies in Hong Kong have been selected for a comparison of their overall performance. The focus is on Hang Seng Index constituent companies in general, and on two cases in particular: one non-family-controlled bank (HSBC), and one family-controlled bank (BEA). We found that family-controlled companies were not necessarily less competitive than non-family-controlled companies. Specifically, when HSBC and BEA were compared, the latter showed no clear inferiority in operating profit margin and return on assets, even though the former enjoys unparalleled advantages, such as an overwhelming superiority in size, the privilege of issuing notes, and status as Hong Kong's quasi-central bank. Therefore, we argue that entrepreneurial familism seems to be a resilient source of business dynamism, particularly when family-controlled companies have been repeatedly tested by adverse socioeconomic crises. Based on the finding, it is suggested that governments across the world should provide a favorable institutional set-up to facilitate the development of family businesses.

Keywords Economic dynamism · Entrepreneurial familism · Family firms · Financial performance · Hong Kong · Managerial capitalism

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Introduction

This article contributes to the long debate over the superiority of the performance of family- and non-family-controlled companies. With respect to contributions to the literature, it fills some of the gaps in the literature on the dynamism and efficiency of family businesses. It demonstrates that family businesses are highly resilient during periods of adversity. With respect to theory, it provides new evidence and arguments on the differences in performance between family and non-family firms, i.e., contesting entrepreneurial familism and managerial capitalism in a Chinese cultural context. Furthermore, it shows that family businesses can be as competitive as are professionally managed non-family businesses. With respect to practice, it assesses the dynamism of family businesses from a comparative and longitudinal perspective, with a special focus on publicly listed companies in Hong Kong. Lastly, it highlights the fact that family businesses should be included in investment portfolios to ensure long-term returns.

Theoretical Lens: Entrepreneurial Familism vs. Managerial Capitalism

The recent “financial tsunami” triggered by the dramatic collapse of huge financial firms in the US and many European economies that had been family owned but had become professionally managed has driven many people to reconsider the myth of managerial capitalism and the reality of entrepreneurial familism. In Asia, a common observation is that, in general, the dynamism of most economies is attributable far more to family-controlled businesses than to professionally run large corporations, and even more so in the “four little dragons” (Singapore, Hong Kong, Taiwan, and South Korea) and recently in Greater China in particular [40, 44]. This is despite the fact that this region has been subjected to more than a century of colonialism, war, revolution, political turmoil, and economic uncertainty. As such, family businesses are a worthy focus of research.

From the perspective of economic dynamism, Hong Kong’s economic achievements in the past half century have won international recognition. As the pillar of Hong Kong’s economy, family businesses have attracted much attention. Of particular interest is the fact that family-controlled Chinese businesses have overtaken British conglomerates that were originally family controlled, such as John Swire & Sons Co., Jardine, Matheson & Co., Wheelock Marden & Co., and others, which had been professionally managed since the 1960s. A comparative analytical indicator even shows that Hong Kong had the highest concentration of family ownership of large, local corporations among the world’s 27 richest economies in the late 1990s [26]. The resilience of family businesses in the face of the 1998 Asian financial crisis has attracted some interest from the World Bank. Thus, how family businesses have been able to maintain their vitality and dynamism, and how they have dealt with adversity in the midst of global economic downturns after the financial tsunami, are questions well worth probing.

Since the 1970s, researchers from different disciplines have offered different explanations for the emergence of modern capitalism in the four little dragons. Some have approached the subject from the perspective of the Cold War and geo-politics [12], some from the angle of government intervention [34], and some from the free market [33]. Others have emphasized the role played by Confucian ethics or culture [3].

Although their points of view are diverse, they all agree that firms or business groups have been the locomotives driving economic growth, while the people who run the businesses have attracted most of the attention [16, 35]. Wong went further to argue that “entrepreneurial familism,” a dynamic ethos that involves the family as the basic unit of economic competition, has been the fundamental base for business endeavors [47, 48]. Thus, the contributions made by entrepreneurship and family businesses to Asia’s economic development are seen as crucial in the early stage of the region’s transition to a modern industrial growth model [22].

Indeed, for over five decades, discussions of the Asian economic growth model have mostly centered on Max Weber’s ideas on the relationship between an economy and its culture and society [45]. This priority is understandable, since there is much evidence showing that there is no lack of entrepreneurial spirit in Asian economies [46]. The flourishing small- to medium-scale family firms in the region have not only been proportionally the largest contributors to the region’s gross domestic product (GDP) but have also provided the largest share of job opportunities in the region []. An almost unanimous conclusion is that the prosperity of family businesses in Asia has had a powerful influence on the rate of economic development in the region and has largely determined the living standards of the urban population.

During the period from the 1950s to the 1970s, however, especially following the appearance of the seminal work of Alfred Chandler [6], the argument was put forward that due to remarkable technological advancements and drastic socioeconomic transformations, running a big business was no longer a one-person show. Rather, when a company has grown in size, its management is in fact heavily reliant on well-trained and well-educated professionals (engineers, accountants, legal experts, etc.). Specifically, Chandler argued that big business efficiency and competitiveness is a matter of coordination, organization, and rational calculation, and that only when these are mastered can a company succeed. Because of the unprecedented changes, Chandler considered that the destiny or development of big businesses would fall into the hands of professional managers, not company owners or major shareholders. He even used the term “managerial revolution” or “managerial capitalism” to signify the great contribution of professional managers [7].

After Chandler’s authoritative analyses, professional managers not only became the most sought-after people in the labor market but also one of the most studied subjects in academia. In parallel with the growing popularity of professionalism and managerial capitalism, practices such as the separation of ownership and management, the adoption of a modern organizational structure, corporate governance, and others have generally been considered panaceas for improving a company’s productivity, efficiency, profitability, and corporate image [13, 29]. All of these practices tend to carry the implication that company owners are not suitable persons for running a big business [21]. Some even see company owners as “stumbling blocks” to making progress [11]. Under this philosophy of managerialism, family-run companies are mostly negatively stereotyped, and owner-managers are usually seen as people of no importance, who therefore should relinquish control [32]. As a result, many businesses that were originally family controlled underwent a great deal of restructuring to attract more non-family professionals into the management team. Some non-family professionals were even put at the helm of the businesses.

At the turn of the new millennium, the sudden eruption of the financial tsunami, which led to the downfall of a number of huge, professionally run firms, drove many people to ponder the problem of managerial capitalism. Attention also focused on evaluating the economic dynamism of entrepreneurial familism. Public concern over the issue of professional management has also soared because the CEOs of many large corporations have been receiving astronomical bonuses or salaries each year/term, even when the company's performance falls below expectations [37, 42]. There is also increasing criticism that non-family professionally managed big companies involve higher agency costs []. This is because many non-family CEOs who manage big companies either lack entrepreneurial drive or tend to pursue short-term benefits or performance instead of long-term interests [10].

An empirical study on the American stock market even indicated that family firms often outperform non-family ones [30]. Drawing on a sample of 380 studies from 41 countries, the meta-analysis of Wagner et al. also confirmed that family firms, especially public and large firms and when an ownership definition of family firms is used, show superior performance over non-family firms [43]. One reason for this is that family-controlled businesses can offer a way out of the principal-agent problem. Admittedly, the downfall during the financial tsunami in the US of Bear, Stearns & Co. Inc., Lehman Brothers Holdings Inc., and many other enterprises that had originally been under family control but had come under non-family professional CEO-type leadership has further driven many people around the globe to reconsider the philosophy of the separation of ownership and management and the idea of managerial capitalism [15]. Attention is also being paid to the relationship between entrepreneurial activities and the taking of risks [31]. More substantial empirical research on family businesses seems to be badly needed to better address the issues of risk-taking and business dynamism, particularly at a time when the global economy is in a state of stagnation.

Although there is undeniably a “dark side” to family businesses, its full gearing between profit-seeking and risk-bearing shows that it can more effectively avoid irresponsible overexpansion. The conventional wisdom that “a natural mother takes better care of her child's interests than a professional baby-sitter would” is doubtlessly highly relevant here. More importantly, as a basic form of economic organization, the fact that a family business is as dynamic, competitive, and adaptable as well-established non-family-owned businesses should not be underestimated. Its pivotal role in sustaining economic growth is beyond doubt and therefore should be properly highlighted.

The Path of Chinese Family Businesses in Hong Kong

If we narrow the research scope to Hong Kong by examining its transformation from an ordinary trading port to a regional financial hub, we can clearly see the huge contribution made by family businesses not only in boosting the economy and creating jobs for the population but also in acting as a key entrepreneurial agent for social transformation. This is particularly true of the postwar period of industrialization and of the drastic economic restructuring that took place from the 1950s to the 1970s [48].

From the perspective of family control over businesses, Chinese family businesses in Hong Kong seem to have taken a very special path. In the early 1970s, during the

opening up of the stock market, many medium-scale family businesses were prompted to become listed public companies, allowing them to obtain sufficient capital for expansion or even to diversify their investment risk. Thus, many went on to become internationally known multinational firms [49]. However, the management of these companies remained in family control and did not completely fall into the hands of professional managers as predicted by Chandler.

In examining the impact of the stock market on the drastic transformation and development of medium-scale Hong Kong Chinese family enterprises into multinational corporations since the 1970s, Zheng et al. pointed out that since the Chinese culture puts strong emphasis on family control, non-family professionals were barred from assuming full control over the businesses [50]. Nevertheless, since public funds could be raised in the stock market after a company went public, the company could achieve a level of development as impressive as that of a non-family-owned company. Therefore, Zheng et al. argued that given the right environment, Chinese family enterprises would have greater momentum to bring about social advancement, and concluded that Chinese family businesses were in fact as efficient, flexible, and well managed as were other forms of businesses.

Research Question

We expanded the theoretical arguments put forward by, for example, Wong and Zheng et al. to argue in favor of the superior performance of family firms in Chinese societies [48, 50]. Our key research question was how do Hong Kong's family- and non-family-controlled firms perform? To address this question, we compared the overall performance of publicly listed family- and non-family-controlled companies. Specifically, we adopted Claessens et al.'s definition of family businesses and classified listed companies into three types: family controlled, dispersedly held, and state controlled [9]. By using stock market data, we traced and statistically tested the operating profit margin, dividend yield, and return on assets of a panel of 2014 Hang Seng Index (hereafter HSI) listed companies from 1997, the year Hong Kong returned to China, to 2014. In addition, we selected two banks, one family-controlled company (The Bank of East Asia Limited, hereafter BEA) and one non-family-controlled company (The Hongkong and Shanghai Banking Corporation Limited, hereafter HSBC), and compared their performance during the same period.

The results, as expected, confirm that family-controlled companies were not necessarily less competitive than were non-family-controlled companies. Specifically, when HSBC and BEA were compared, the latter showed no clear inferiority in operating profit margin and return on assets even though the former enjoys unparalleled advantages, such as an overwhelming superiority in size, the privilege of issuing notes, and status as Hong Kong's quasi-central bank. Therefore, our empirical work confirms that entrepreneurial familism seems to be a resilient source of business dynamism, particularly when family-controlled companies have been repeatedly tested by adverse socioeconomic crises.

The remainder of this article is organized as follows. The “[Method and Data](#)” section provides information on the operational definitions of family-controlled, dispersedly held, and state-controlled companies, as well as on the sources of data on company

performance. The main empirical and analytical results are described in the “[Results](#)” section. Final remarks and future research directions are presented in the “[Discussion, Recommendation, and Conclusion](#)” section.

Method and Data

Definitions of Family and Non-family Companies

Although there are variations in the definition of what constitutes a family company or business [1, 8, 18, 20, 28], whether a single family can exercise effective control seems to be the key factor for consideration [27]. It goes without saying that for a publicly listed company, the proportion of shares that needs to be held in order to exercise effective control need not exceed 50%. Claessens et al. suggested that a 20% shareholding by a single family be considered the benchmark for the effective control of a publicly listed company by a single shareholder [9].

To operationalize the definition and to follow Claessens et al.’s categorization, non-family-controlled businesses will be subdivided into dispersedly held companies and state-controlled companies. As such, if a single family holds over 20% of the shares of a company, that company is categorized as a family-controlled company; if no single family holds over 20% of the shares of a company, it is a dispersedly held company; if the major shareholder of a company is the state/government, the company is called a government- or state-controlled company.

However, our recent observation is that even if a family declares that it holds less than 20% of the shares of a company, it can effectively control that company through the strategy of interlocking directorships, i.e., a member of the board of directors of one corporation also serves as a member of the board of directors of another corporation [36]. The BEA in Hong Kong is an oft-cited case of such a situation (see below). Using this baseline, Claessens et al. further calculated that at the turn of the twenty-first century, 66.7% of the listed companies in the Hong Kong Stock Market were family controlled, 32.0% were dispersedly held (either by financial corporations or by multinational corporations), and the remaining 1.4% were state- or government-controlled companies [9]. Frequently cited examples of the first category are Cheung Kong (Holdings) Limited, Sun Hung Kai Properties Limited, and New World Development Company Limited; those of the second category are the MTR Corporation, Hong Kong Exchanges and Clearing Limited, AIA Group, and the Link REIT. Examples of the third category are China Mobile Limited, Lenovo, and China National Petroleum Corporation.

Selection of Listed Companies

In 1997, the Hong Kong Stock Market consisted of a total of 658 listed companies in the Main Board (only companies listed in the Main Board were counted; those in the growth market were excluded). In 2014, this number increased to 1548 [23]. A huge, almost unmanageable amount of research work would be involved if we were to evaluate the overall performance of all listed companies from a longitudinal perspective by adopting the 20% shareholding benchmark. Since Hong Kong Exchanges and

Clearing Limited, the company that runs the stock market, uses the HSI to measure the overall performance of the market, we follow this practice by using the constituents of the HSI as a token measurement of company performance and for making in-depth comparative analyses.

The longitudinal data for making comparisons are based on listed companies in 2014. That means that we use 20 family-controlled, 10 dispersedly held, and 20 state-controlled companies in 2014 to track their performance in the preceding 18 years. In order to conduct an in-depth analysis of business dynamism, especially during times of adversity, we focus on the period 1997 to 2014, as during this period, there were a number of serious economic downturns such as the Asian financial crisis, the slump following the outbreak of Severe Acute Respiratory Syndrome (hereafter SARS, a highly infectious and deadly disease), and the financial tsunami. Therefore, those companies that managed to survive these various crises can be supposed to have overcome countless challenges and to be highly competitive. It should be cautioned that our sample is thus subject to a survival bias, which is a limitation we decided to accept in this preliminary study.

Selection of the Banking Sector and Banks

The second part of the performance analysis is a comparison of two local banks: a non-family-controlled bank and a family-controlled bank. The example chosen here of a non-family-controlled bank is the HSBC, while that of the family-controlled bank is the BEA.

There are three reasons for choosing the banking sector when making further comparisons in Hong Kong. First, in the past two decades, two out of three major crises that led to serious economic setbacks arose from the financial industry. How companies in the banking sector dealt with the resulting adversity is a demonstration of the business adaptability and entrepreneurial endeavors of the people who managed those companies. Second, as a global financial center, the banking industry is the backbone of Hong Kong's economy. How banks in Hong Kong responded to the crises is very much a reflection of the development of the industry as well as of the transformation of the Hong Kong economy. Third, there are a large variety of banks in Hong Kong from which cases of institutions with a similar background can be selected for comparison. It is not as easy to find companies of a similar scale or background, but differing in types of control, for comparison in other industries, for example in the telecommunications, property, or public utilities sectors.

Selection of Performance Indicators

When talking about economic dynamism, business vitality and competitiveness are yardsticks, while key performance indicators such as operating profit margin, dividend yield, and return on assets are commonly used to signify or measure the performance of a company []. Although a large number of indicators can be used to evaluate corporate performance, for making simple and sharp comparisons, only three sets of annual performance indicators—average operating profit margin, average dividend yield, and average return on assets—have been selected for analysis in this article. “Average” refers to the figure derived by adding up the operating profit margin, dividend yield, or

return on assets of all of the selected companies, and then dividing this figure by the total number of selected companies.

Operating profit margin is a type of indicator used to check what is left of a company's revenues after paying for the variable costs of production. It is obtained from calculating operating income over sales revenues. Dividend yield is a yardstick for measuring capital gains to the shareholder. It is derived from calculating annual dividends per share over price per share. Return on assets is a ratio to measure earnings generated from total assets (invested capital). It is obtained from calculating net income over total assets. Specifically, these three indicators are used to evaluate the operating efficiency, returns to investors, and longer-term profitability of companies.

Source of Data

In this article, the dataset used for generating the aforementioned statistics for analysis was derived from Thomson Reuters Eikon (formerly known as Thomson Reuters Datastream). This database is a comprehensive online financial database that is maintained and provided by Thomson Reuters. It encompasses a broad range of financial entities and instruments with a global geographical coverage. The data includes daily prices, trading volumes, and other return indexes, which are updated at the end of every trading day, for over 100,000 equities in nearly 200 countries around the world. The terms of the Thomson Reuters Eikon license stipulate that the data may be used only for academic research. Commercial use and republication of the data are prohibited without permission.

Results

Proportion of Family-Controlled Companies

Following the 20% shareholding schema for differentiating between ownership and control, and focusing only on the constituents of the HSI, we can see that in 1997, of the 33 constituent companies, 81.8% were family controlled. Only 9.1% were dispersedly held companies. The percentage was also 9.1% for state-controlled companies. From 1997 to 2005, although the number of constituent companies of the HSI remained unchanged, the proportion of family-controlled companies plunged to 69.7% in 2001 and then to 57.6% in 2005. The percentage of dispersedly held companies rose steadily to 12.1% in 2001 and then to 18.2% in 2005. The percentage of state controlled companies surged to 18.2% in 2001 and then to 24.2% in 2005.

In 2006, the number of constituent companies of the HSI rose to 36 and then to 43 the year after. In 2008 and 2009, the number dropped slightly to 42. But in 2010 and 2011, it again rose to 45 and 48, respectively. From 2012 onwards, the number of constituent companies further increased to 50. Of these, the percentage of family-controlled companies plummeted further to 40.5% in 2008 and then to 40.0% in 2014, while those of dispersedly held and state-controlled companies increased to 16.7% and 42.9%, respectively, in 2008, and then to 20.0% and 40.0%, respectively, in 2014 (Table 1). In short, from 1997 to 2014, the proportion of family-controlled companies contributing to the HSI has seen a tremendous drop, while the proportion of

Table 1 Composition of the Hang Seng Index by types of control, 1997–2014

Year	Family controlled (%)	Dispersedly held (%)	State controlled (%)	Total
1997	27 (81.8)	3 (9.1)	3 (9.1)	33
1998	25 (75.8)	3 (9.1)	5 (15.2)	33
1999	26 (78.8)	3 (9.1)	4 (12.1)	33
2000	26 (78.8)	3 (9.1)	4 (12.1)	33
2001	23 (69.7)	4 (12.1)	6 (18.2)	33
2002	21 (63.6)	6 (18.2)	6 (18.2)	33
2003	20 (60.6)	6 (18.2)	7 (21.2)	33
2004	19 (57.6)	6 (18.2)	8 (24.2)	33
2005	19 (57.6)	6 (18.2)	8 (24.2)	33
2006	20 (55.6)	4 (11.1)	12 (33.3)	36
2007	20 (46.5)	5 (11.6)	18 (41.9)	43
2008	17 (40.5)	7 (16.7)	18 (42.9)	42
2009	16 (38.1)	7 (16.7)	19 (45.2)	42
2010	17 (37.8)	7 (15.6)	21 (46.7)	45
2011	19 (39.6)	8 (16.7)	21 (43.8)	48
2012	19 (38.0)	9 (18.0)	22 (44.0)	50
2013	19 (38.0)	9 (18.0)	22 (44.0)	50
2014	20 (40.0)	10 (20.0)	20 (40.0)	50

From Hang Seng Indexes [17]

state-controlled companies has risen drastically. Although the proportion of dispersedly held companies has also increased significantly, the speed of this increase has been far slower than that of state-controlled companies.

The Trend of Average Operating Profit Margin

Figure 1 shows the average operating profit margin of three types of companies from 1997 to 2014. One can easily find the following two striking features. First, the overall operating profit margin of dispersedly held companies is the highest of the three types of companies, and that of state-controlled companies is the lowest, while family-controlled companies fall in the middle. Calculating the average operating profit margin of the three types of companies in the past 18 years, we can see that for dispersedly held companies, the proportion is 29.43%, and for state-controlled companies, it is 20.77%, while for family-controlled companies, it is 23.05%. In other words, the results of descriptive statistics indicate that family-controlled companies have a higher operating profit margin than do state-controlled companies, but a lower one than do dispersedly held companies.

Second, the level of fluctuation in the average operating profit margin of family-controlled companies falls between that of dispersedly held and state-controlled companies. State-controlled companies show the least fluctuation (Fig. 1). If we use the standard deviation of the average operating profit margin as a yardstick for measuring levels of fluctuation, we can see in the past 18 years that the standard deviations for

Fig. 1 Average operating profit margin of three types of businesses, 1997–2014. From Thomson Reuters Eikon [41]

family-controlled, state-controlled, and dispersedly held companies were 3.55, 2.41, and 5.40, respectively.

When the financial crisis erupted in 1998, family-controlled companies were more responsive than were the other two types of companies, their average profit margin falling rapidly when the crisis began and rebounding quickly when the crisis subsided. In the case of dispersedly held companies, in 2008, when the financial tsunami occurred, although the average operating profit margins of such companies also fluctuated, they recovered at a faster pace than did those of family-controlled and state-controlled companies.

In between the two financial crises, Hong Kong experienced an economic setback in 2002–2003, brought about by the sudden outbreak of an epidemic of SARS. As the Hong Kong economy was at a low ebb, the average operating profit margins of family-controlled and state-controlled companies fell. Later, as the economy gradually recovered, the operating profit margins of family-controlled and state-controlled companies rose by various degrees. However, dispersedly held companies were found to be less responsive to turbulence in the local economy. In short, although family-controlled companies were not the group with the highest operating profit margins in the past 18 years, they were not the lowest. The fluctuation in their operating profit margins also falls in the middle.

The Trend of Average Dividend Yield

Next, we examine the data on the average dividend yield. In Fig. 2, we also note two significant features. First, there is a similar pattern of fluctuation in the average dividend yield for the three types of companies in the past 18 years. Second, the average dividend yield of family-controlled companies was the highest of the three types of companies from 1997 to 2003, but fell in the middle from 2004 to 2014. The average dividend yield of state-controlled companies was the lowest in the past nearly two decades. On the whole, in the period under study, the average dividend yields of family-controlled companies, dispersedly held companies, and state-controlled companies were 3.24%, 2.88%, and 2.22%, respectively, while their respective standard deviations were 1.08, 0.94, and 0.90.

Fig. 2 Average dividend yield of three types of businesses, 1997–2014. From Thomson Reuters Eikon [41]

Unsurprisingly, the fluctuations in average dividend yield were clearly connected with the financial/economic crises. Specifically, when a crisis erupted, the average dividend yield went up significantly. Then, as the economy fell into recession, the average dividend yield dropped steadily until the economy recovered. For instance, in 1998, although the Asian financial crisis was still in full swing, the average dividend yield for the three types of businesses rose sharply. Then, in 2009, when Hong Kong recovered from the financial tsunami, the average dividend yield offered by the three types of businesses also shot up in parallel (Fig. 2).

Two reasons can be cited for raising the average dividend yield during periods of turbulence in the financial and economic environments. First, the major shareholders had a greater need for liquidity to enhance their sound financial/business status. Second, a higher dividend yield is usually used as a strategy to persuade investors to keep holding the company's shares, so as to prevent pressure that might weaken the company's share price and credit rating. Viewed from this angle, before 2004, family-controlled companies used a higher dividend strategy to attract investors. From 2004 onwards, however, such a strategy was mostly pursued by dispersedly held companies. In contrast, state-controlled companies seemed less enthusiastic about using this kind of strategy.

The Trend of Average Return on Assets

The third indicator used to make comparisons is the average return on assets. Again, two features can also be derived from Fig. 3. First, family-controlled companies clearly had the highest average return on assets of the three types of companies in the past nearly two decades. For instance, for family-controlled companies, the average return on assets in the period under study was 8.76%, while for dispersedly held and state-controlled companies, the respective figures were 6.49% and 6.99%. Second, the level of fluctuation of the average return on assets for family-controlled companies ($SD = 1.95$) was between that of state-controlled companies ($SD = 1.78$) and dispersedly held companies ($SD = 2.35$).

Admittedly, it is not difficult to find that the return on assets for dispersedly held companies was lower than that of the other two types of companies from 1997 to 2003. After that, they were able to catch up to the family-controlled and state-controlled

Fig. 3 Average return on assets of three types of businesses, 1997–2014. From Thomson Reuters Eikon [41]

companies. More importantly, the average return on assets for the dispersedly held companies shows a rising trend in the past nearly two decades. The opposite trend is evident for the state-controlled companies since 2000. As for the family-controlled companies, although there was a large short-term fluctuation, no long-term trend of increase or decrease can be identified. A premature conclusion is that family-controlled companies tend to maintain a stable return on assets, probably to attract the support of long-term investors.

An Analysis of Trends in Overall Performance

To examine differences in performance among the three types of companies, we exercised random-effects generalized least squares (GLS) regressions with STATA. Three indicators of company performance are the dependent variable. In model 1, company type is the independent variable. It is coded as two dummy variables: dispersedly held company and state-controlled company (0 = no, 1 = yes). Family-controlled company was chosen as the reference group. The year (0 = 1997, 1 = 1998, ... 17 = 2014) and its square were also added as controlled variables. The two dummies of company type failed to pass the .05 significance level in three regressions, implying that in general, there were no significant differences in company performance according to three indicators between family-controlled companies and the two other types of companies from 1997 to 2014. Family-controlled companies performed as well as did dispersedly held and state-controlled companies. Moreover, with regard to dividend yield, the coefficients of the year and its square were $-.191$ and $.009$ at the .001 significance level. This means that, in general, dividend yield has dropped since 1997.

In model 2, we added the interactions of company type dummies with year to examine whether there were significant differences in trends across the three types of companies. With regard to operating profit margin and return on assets, the interaction terms were not significant. This shows that the fluctuations in operating profit margin and return on assets for the three types of companies were similar. Interestingly, for dividend yield, dummies of dispersedly held companies and state-controlled companies were negative and significant at the .01 and .001 levels. This reflects the fact that the dividend yield of family-controlled companies was higher than that of dispersedly held

and state-controlled companies in the early years. However, the coefficients of the interaction terms of both company-type dummies were .143 and .206 at the .001 significance level, while year was $-.224$ at the .001 level and its square was .006 at the .05 level. In other words, the dividend yield of family-controlled companies has dropped more dramatically than that of the other two types of companies. Finally, family-controlled companies lost their advantage (Table 2).

In sum, although state-controlled companies enjoy monopolistic status in their industry or market, and have also ridden the recent wave of economic vibrancy in Mainland China, their overall performance was not better than that of family-controlled and dispersedly held companies. Moreover, family-controlled companies performed as well as did non-family-controlled companies.

A Comparison of the Development and Performance of HSBC and BEA

After assessing the overall performance of the three types of listed companies in Hong Kong, for a further analysis, we narrowed the focus to two selected banks—one representing dispersedly held companies (HSBC) and one representing family-controlled companies (BEA)—in order to determine which performs better. As a control category, HSI statistics (the average figure for the constituents of the HSI, excluding HSBC and BEA) are also given for reference.

Before making comparisons, it is necessary to clarify the question of whether or not BEA is a family-controlled company. Since the declared shareholding in BEA of the family of David Li was around 14.12% at the end of 2009 [14], which is below the threshold of 20%, it could be argued that BEA should not be categorized as family

Table 2 Random-effects regressions on the three indicators of company performance

	Operating profit margin		Dividend yield		Return on assets	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Type of company						
Dispersedly held	9.709	6.237	-.265	-1.663**	-1.336	-2.194
State controlled	-.824	1.231	-.616	-2.658***	-2.734	-1.555
Year	-.441	-.427	-.191***	-.224***	.138	.148
Year ²	.026	.027	.009***	.006*	-.010	-.009
Interaction with year						
Dispersedly held	—	.328	—	.143***	—	.076
State controlled	—	-.212	—	.206***	—	-.118
Constant	22.356	22.157	3.906	4.535	9.069	8.847
R ² within	.004	.009	.021	.093	.004	.008
R ² between	.057	.057	.082	.077	.051	.071
R ² overall	.032	.035	.047	.094	.018	.028
(n)	(778)	(778)	(742)	(742)	(760)	(760)

Standard errors and variances are not presented

* $p < .05$; ** $p < .01$; *** $p < .001$, two-tailed tests

controlled. However, we argue that since many of the cousins or nephews of the Li family are not required to declare their interest (because they are not on the board), the current controlling proportion is an underestimation. Nevertheless, for two reasons, it is clear that the bank is firmly controlled by the Li family: (1) Both of the leading positions of chairman and CEO have been controlled by the Li family since the late 1980s; (2) the positions, not only of chairman and CEO but of board members, have been passed on from generation to generation within the Li family. As such, it is beyond doubt that BEA is a family-controlled company.

Table 3 outlines some key information and statistics on HSBC and BEA as of 2014. From this table, one can see clearly that in annual total revenue, operating income, operating profit margin, and total number of employees recruited, HSBC is far larger in scale and size than is BEA. Another striking fact is that both the positions of chairman and chief executive of HSBC are held by non-family professionals. However, in BEA, both positions are held by the same person (David K. P. Li), who is a member of the bank's founding family.

In fact, if one takes a closer look at the annual reports of both banks, it is immediately apparent that for HSBC, no more than one member from a single shareholding family is on the board of directors or part of the senior management team [24]. However, for BEA, one can see that more than one member from the founding family is either a member of the board of directors or of senior management. For instance, Arthur K. C. Li (brother of David K. P. Li) is the deputy chairman; Adrian M. K. Li and Brian M. B. Li (two sons of David K. P. Li) are deputy chief executives; and Aubrey K. S. Li, Stephen K. S. Li (cousins of David K. P. Li), and Eric F. C. Li (uncle of David K. P. Li) are directors of the board [2].

In short, from the unusual developmental trajectories of HSBC and BEA, one can sense that although both banks have come a long way and have faced various hurdles at different stages of their development, the leaders of both banks displayed enough

Table 3 Key background information on HSBC and BEA, as of the end of 2014

Particulars	HSBC	BEA
Year founded	1865	1919
Founding families	Western business families	Chinese business families
Chairman	Douglas Flint	David K. P. Li
Chief executive	Stuart Gulliver	David K. P. Li
No. of family members on the board	Nil	7 out of 18
Type	Dispersedly held	Family controlled
Area served	Worldwide	Local
Special status in Hong Kong	Note issuing; quasi-central bank	nil
Revenue (HK\$ billion)	741.02	34.29
Operating income (HK\$ billion)	151.67	7.71
Operating profit margin (%)	20.47	22.48
Total equity (HK\$ billion)	1476.68	68.88
Employees	257,603	13,103

From Sinn [38], Bank of East Asia [2], HSBC Holdings plc [24], and Thomson Reuters Eikon [41]

entrepreneurial or managerial spirit to weather all forms of challenges, ultimately transforming the banks into huge financial institutions. Although both banks operate under the same socioeconomic and political environments, and follow the same banking and company ordinances, their different modes of ownership and control seem to be the most critical factor in the divergence in their developmental paths.

Although HSBC has a longer history, is far larger in scale and size, has a more positive corporate image, and enjoys certain absolute advantages or special privileges such as issuing notes and serving as Hong Kong's quasi-central bank, if we compare its overall performance to that of BEA in the past nearly two decades, we see that it did not greatly exceed that of BEA. Figure 4 shows the operating profit margin of HSBC and BEA from 1997 to 2014. One can see that in the 18 years under study, the operating marginal profit of both banks was lower and showed more fluctuations than the HSI average. For instance, the operating marginal profit in the past 18 years of BEA was 19.46%, and that of HSBC was 17.51%, while the HSI average was 23.44%; the standard deviations of BEA, HSBC, and the HSI average were 8.11, 4.66, and 2.70, respectively.

As such, we discover that both banks were responsive to the financial crises of 1998 and 2008. Specifically, the operating profit margin of the BEA fluctuated greatly during both financial crises and in the SARS epidemic of 2003, in comparison to HSBC and the HSI average. Although the BEA's operating profit margin fell more drastically than that of HSBC during the financial crises, it rose equally rapidly in the respective following years. As such, we can infer that according to operating profit margin, BEA has in fact outperformed HSBC in the past 18 years.

Next, if we examine the dividend yield figures for HSBC and BEA from 1997 to 2014, it is apparent that in most of the years studied, both HSBC and BEA maintained a higher dividend yield than the HSI average. The respective figures were 3.98%, 3.33%, and 2.96%. Of course, if we simply compare the data for HSBC and BEA, we see that during most of the period under study, the dividend yield of HSBC was higher than that of BEA. Another obvious pattern is that in times of crises, both banks significantly increased their average dividend yield (e.g., in 1998–1999, 2002–2003, and 2008–2009) (Fig. 5). As mentioned, they did this probably to enhance liquidity as well as to encourage public investors to keep their shares. If we examine their fluctuations in the past nearly two decades, the standard deviation of BEA was 1.05, and that of HSBC was 0.94, while that of the HSI average was 0.71. Clearly, the fluctuations were greatest for BEA.

Fig. 4 Operating profit margin of HSBC and BEA, 1997–2014. From Thomson Reuters Eikon [41]

Fig. 5 Dividend yield of HSBC and BEA, 1997–2014. From Thomson Reuters Eikon [41]

Figure 6 sketches the return on assets of HSBC and BEA from 1997 to 2014. One can easily identify that in most years, the rate of return on assets of the HSI average (8.04%) remained far higher than that of HSBC (0.99%) and BEA (0.99%). There are two obvious factors accounting for this phenomenon: (1) Banking is no longer a fast-growing industry in Hong Kong; (2) banking is an asset-heavy industry, implying a large denominator. A closer look allows one to determine that the return on assets of HSBC and BEA fluctuated less than the HSI average. Their standard deviations were 0.27, 0.36, and 1.24, respectively.

To sum up, both HSBC and BEA are Hong Kong-bred banks. The latter even took the former as a model when it was first established [38]. They then went on different developmental paths because they adopted different modes of management and control. If judged by their pace of development, HSBC's story of ascent from a local bank to a highly globalized financial giant in one-and-a-half centuries is far more impressive than that of BEA. However, we should bear in mind that such impressive development would probably not have occurred without government backing and political support (such as the conferring of note-issuing and quasi-central bank status).

In fact, after a brief examination of their overall performance in the past nearly two decades, it can be argued that HSBC and BEA have performed equally well. That is, BEA has a better operating profit margin, while HSBC has a higher dividend yield. Their figures on return on assets are more or less the same. Of course, as mentioned,

Fig. 6 Return on assets of HSBC and BEA, 1997–2014. From Thomson Reuters Eikon [41]

since HSBC has been given unparalleled advantages or privileges such as note-issuing and quasi-central bank status in Hong Kong, its comparable performance with BEA can clearly be interpreted as greater business vitality or dynamism on the part of the latter. Some explanations for this greater business vitality are the full gearing between profit-seeking and risk-bearing on the part of family-controlled businesses, and their strong emphasis on the company's long-term interests instead of on the CEO's bonus.

Discussion, Recommendation, and Conclusion

An attempt was made in this article to unravel the myth of managerial capitalism and the reality of entrepreneurial familism by comparing the performance of listed family-controlled- and non-family-controlled companies with a special focus on HSBC and BEA from 1997 to 2014 when Hong Kong's economy experienced repeated periods of economic adversity. Family-controlled companies were found to be not necessarily less competitive than are non-family controlled companies, even though non-family-controlled companies were far larger in size and had more privileges. In his masterpiece, *The Wealth of Nations*, Adam Smith singled out the most important element accounting for the comparative dynamism and resiliency of family-controlled businesses:

The directors of such [joint stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honor, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company [39].

As such, we argue that ownership structure not only determines managerial behavior but also costs levels and risk-bearing patterns, as was suggested by Jensen and Meckling [25]. Specifically, through a comparative analysis of trends relating to listed family and non-family companies in Hong Kong, we see that although state-controlled and dispersedly held companies enjoy tremendous advantages, their overall performance in the past two decades has been quite similar to that of family-controlled companies. Thus, this article enriches our understanding of family businesses by showing that they can be full of dynamism, while professionally managed companies have their own weaknesses.

If we narrow the scope of comparison to HSBC and BEA, we further discover that although HSBC enjoys far more market privileges and advantages than BEA, its operating efficiency and longer-term profitability are, in fact, not superior to those of BEA. Since the ownership structures of these two banks differ, one can argue that since the owner of a company is likely to feel more responsible or concerned about the company's long-term interests, he or she would have a greater incentive than would a non-owner to manage the business better and that this is how entrepreneurial familism works. A reasonable deduction is that family businesses should be regarded as a vital force in driving the economy

forward and not be stereotyped as nepotistic, inefficient, ill-managed, or lacking in vitality. Therefore, during this worldwide economic recession, how best to bring this type of company to the forefront instead of favoring state-controlled and dispersedly held companies should be the direction in which we should be striving to achieve.

Based on our research findings, we come to the following policy implications and recommendations. First, since family businesses have proven to be a force contributing to economic dynamism, governments around the world should provide a favorable institutional set-up to facilitate the development of family businesses. Although culture may affect the patterns and structures of family businesses, the basic logic of being profit-driven and family-centered is the same. As such, if family businesses in Hong Kong can be a driving force for economic growth and job creation, other societies (whether in Asia, the Americas, Africa, or Europe) can benefit equally if an environment that is friendly towards family businesses can be created.

Second, although we contrast entrepreneurial familism with managerial capitalism, this does not necessarily imply that one operates at the expense of the other. Rather, they can complement each other if properly handled. Thus, family owners should absorb the advantages of managerial capitalism, such as by hiring more professionals and introducing more transparent managerial practices to improve corporate governance, while heads of non-family corporations should, like business owners, have an entrepreneurial drive for running the business and should give due concern to business efficiency and long-term benefit.

Third, obtaining a public listing seems to be an ideal path for the development of family businesses, by improving their corporate governance. However, it is well understood that not many family businesses have that option. Nevertheless, they can model the operations and management approach adopted by publicly listed family businesses, to improve their business development, planning, and corporate governance. It is believed that the more they can absorb the good practices of publicly listed family businesses, the more they can improve their business image and competitiveness. More importantly, and as a result, sustainable growth can be enhanced.

Last, but not least, there are some limitations in this article that we have to bear in mind. First, as more and more controlling shares are held by nominee companies, whether a company is controlled by a family becomes less salient. The case of BEA is an oft-cited example. Second, the samples (ranging from 33 firms in 1997 to 50 firms in 2014) selected for analysis in this article are constituents of the HSI. Such small numbers doubtlessly skew the data towards very large-sized firms. Third, the data presented here are largely descriptive in nature. Further investigations could include more advanced measurements of performance (e.g., the use of abnormal returns on assets to control for industry effects) to facilitate statistical inferences. As such, in a future follow-up study, we will try to enlarge the sample to include most of the stocks in the Hong Kong stock market by running more sophisticated tests, so as to be able to conduct a more rigorous and robust analysis.

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