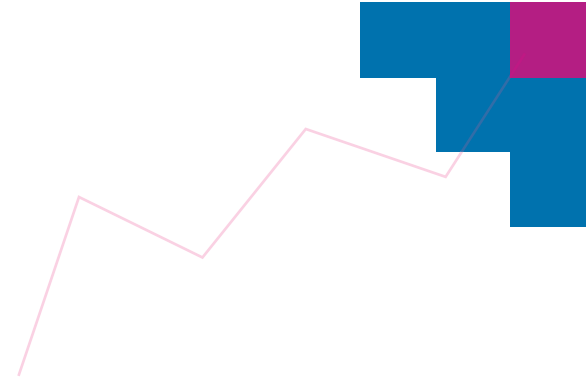


Do not wake sleeping dogs: Pay-out policies in founding family firms

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Abstract

This article examines founding family influence on pay-out policies for Swiss listed firms over the period 2003-2010. We find that founding family firms have higher dividends and total pay-outs than non-family firms. There is no significant difference between stock repurchases for the two types of firms. We show that specific firm characteristics such as active involvement of family members, the presence of only one or multiple family members or the existence of a second blockholder play an important role for pay-out policies in family firms. Firms using control enhancing mechanisms do not have significantly lower pay-outs. We propose three possible explanations for the observed pay-out policies: private benefit extraction, reputation building, and family legacy. Our findings appear to be consistent with the reputation building hypothesis.

JEL Classification: G32, G35

Keywords: founding family firms, dual-class shares, pay-out policy, dividends, share repurchases, minority shareholders, private benefits

1 Introduction

This article examines founding families' influence on pay-out policies of listed companies in Switzerland. It specifically focuses on the difference between founding family firms¹ and widely held companies with respect to the use of different pay-out policies.

Both family control and pay-out practices help to mitigate agency problems between shareholders and managers (agency costs I). Pay-outs restrict managers' access to free cash-flows and as a result their possibilities to waste cash (Jensen (1986)). A large family shareholder has an incentive to control management and to make it act in the best interest of all shareholders. The reduction in agency problems between shareholders and managers may, however, be counteracted by an extraction of private benefits by family members. This will ultimately lead to an increase in agency costs between the large family shareholder and minority shareholders (agency costs II) and be to the detriment of minority shareholders. Evidence on the effects and interaction of these two agency problems in family firms (measured by family firm performance) is mixed with currently no consensus on it (e.g. Anderson and Reeb (2003) or Villalonga and Amit (2006)).

Recent research confirms that companies controlled by large shareholders and especially by families are predominant in most countries.² This suggests that agency problems between large and minority shareholders might be a relevant issue. More importantly, problems are aggravated by the fact that many classic corporate governance mechanisms are rendered ineffective. For example, takeover threats or monitoring by institutional investors may become ineffective. This is further enhanced if the controlling shareholder holds a position as CEO or board member in the company. Controlling family shareholders tend to get involved in their company's activities much deeper than institutional owners. This position of power may result in a tendency of rent extraction, which could influence pay-out policies. Indeed pay-outs or high debt-related payments reduce free cash-flows and as a last consequence means to waste cash. Minority shareholders should therefore ask for higher pay-outs to minimise agency costs with the large shareholder. On the other side, family shareholders may want to voluntarily pay out more in order to attract minority shareholders as investors. Higher

¹ In the following the term founding family and family will be used interchangeable and regardless of how many families or individuals are effectively holding the shares.

² La Porta et al. (1999) in an international study find that 30% of publicly traded firms are family-controlled while 36% are widely-held. Faccio and Lang (2002) show that family firms are the predominant ownership structure in Western Europe except for the UK and Ireland. Claessens et al. (2000) find that in Asian countries approximately 2/3 of firms are owned by families or individuals. Even in the United States where it is widely accepted that companies have a dispersed ownership, Anderson and Reeb (2003) find that some 35% of companies in the S&P 500 are family controlled.

pay-outs will then be seen as a way to compensate investors for ineffective corporate governance mechanisms in the firm.

In this article we use panel data for the period 2003-2010 for a sample of companies listed on the Swiss exchange. The Swiss market is characterised by a high ownership concentration, with owners ranging from founding families to private investors, the State, or other corporations. The law and finance literature relates concentrated ownership to the quality of legal protection of investors provided by the commercial law of a country. As La Porta et al. (1998) point out, German-civil-law countries (including Switzerland) provide only average investor protection, but are very good in enforcing existing laws and display a low level of corruption (Djankov et al., 2008). In this setting, a controlling shareholder may extract private benefits more easily and have an incentive to minimise dividends, as he acts from a position of strength vis-à-vis minority shareholders. Expropriation or simple misuse of company funds may therefore be considered an issue on the Swiss market in this context.

On the other side, Gomes (2000) proposes a model in which managers (who own a controlling stake) want to build a reputation for treating minority shareholders well and not to expropriate them. Otherwise nobody may want to invest in such a firm or the abuse may result in a discounted share price. This will eventually cause damage to the controlling shareholder once he wants to sell part or all of his shares. In this model, dual-class shares are favourable for minority shareholders as they allow the manager-owner to divest more of his shares without losing control and enhance the reputation effect. Especially for family owned companies this model seems relevant and adapted. The link between the reputation of a company and the family itself is strong (in particular if the family name appears in the company name). Family members will not want to tarnish their own reputation by inappropriately exploiting stakeholders or minority shareholders. On the contrary, a good reputation and a fair relation of the family owners with other stakeholders may be beneficial for the company and enhance the firm's valuation. This is often a key contributor to the good functioning of a company and highly important to founding families that want to pass on their company to subsequent generations (e.g. Anderson et al. (2003)).

Moreover, many governance mechanisms are ineffective in the presence of a controlling shareholder. This will further enhance the wish of the family to fairly treat outside shareholders and to build up a good reputation. This might be achieved by paying out more cash to reduce potential conflicts between the family and minority shareholders. The specific structure of the Swiss market consisting of approximately one third of founding family firms, who we posit are concerned by their reputation, but on the other side being a market that

protects investors far less than common law countries, leaves the question open and is an interesting field to study this question empirically.

Literature points to corporate pay-outs as being control mechanisms for mitigating agency costs of both type I and II. However, little is known about the impact of founding family ownership on pay-out policies. Family owners can direct pay-out policies of a company to either mitigate or aggravate agency costs between controlling and minority shareholders. If the family wants to extract private benefits it will favour low pay-outs. This maximises the amount of cash that will remain in the company at their own disposal. On the other side, it will opt for high pay-outs if it wants to develop and maintain a favourable reputation. It signals outside investors that it is not aiming at rent extraction, but that it is ready to compensate minority shareholders for inefficient governance mechanisms.

In view of that, we examine how founding family owners affect the pay-out policies of their firms. In this article we consider different pay-out methods such as dividend pay-outs, share repurchases, and a combination of both. Specific characteristics of family firms are also taken into account. First, a special emphasis is put on active management and generational differences of family members. The presence of family members in the management team or on the board of directors facilitates their influence on pay-out policies. Generational differences might equally impact pay-out decisions with descendants having different priorities. Some will prefer that profits be reinvested in the company to be able to benefit from increased dividends at a later stage. Others might favour immediate pay-outs to fund their own consumption, while still others need dividends to satisfy non-active family members. Founders might also want to reinvest earnings to finance and stimulate business growth. Or they distribute dividends to cover their private consumption habits or to diversify and save for their forthcoming retirement. Furthermore, a closer look is being taken at the relative importance and the identity of second blockholders inside family firms.

The presence of a second blockholder inside a company may considerably influence and subsequently alter the behaviour of the controlling shareholder. It can either serve to enhance expropriation, if a coalition between both large shareholders occurs or to the contrary the second blockholder can reduce agency costs by closely monitoring the controlling shareholder.³ Finally, we examine the impact of dual-class shares being the most widely used

³ Literature on multiple blockholders in general is vast and discusses in depth whether the presence of more than one large shareholder can be positive or negative. Bloch and Hege (2001) develop a model where blockholders compete for control and thus do not create value while Bennedsen and Wolfenzon (2000) and Zwiebel (1995) show how blockholders can form coalitions in a firm to extract benefits. On the other side Bolton and von Thadden (1998), Winton (1993) and Lehmann and Weigand (2000) show the positive effects of multiple

control-enhancing mechanism, particularly in family firms. According to Masulis et al. (2009) this device generally favours expropriation by large shareholders and has significant influence on company policies and wealth creation. Faccio et al. (2001) also show that a discrepancy between ownership and control rights is linked to rent extraction and has an impact on pay-outs.

The results of our empirical analysis show that both dividends and total pay-outs tend to be higher in founding family firms than for non-family firms. In particular, family firms pay out on average 37.5% of earnings as dividends while non-family firms pay out on average 24.5%. As far as repurchases are concerned, they do not differ from other firm types. This finding clearly supports the reputation hypothesis and shows that pay-outs are used to compensate minority shareholders for inefficient governance mechanisms. These high pay-outs further reduce the possibilities for a large shareholder or management to misuse company funds. However, these findings are not common across all types of family firms. Founders who are actively involved as either Chairman or CEO behave differently from other companies. On the other side, firms that are controlled by descendants tend to have higher pay-outs.

Family firms with a second blockholder also show a specific and different behavioural pattern depending on blockholder characteristics. Higher dividend and total pay-outs occur in family firms that have (i) no second blockholder, (ii) a second blockholder with a very large difference in power compared to the first blockholder (40-60%) or are (iii) a corporation. This hints at a possible collusion in case two large shareholders are present in the company. Companies with dual-class shares do not have significantly lower pay-outs. This further confirms that there is no tendency for family firms in the Swiss market to misuse their power, but rather to compensate minority shareholders for corporate governance deficiencies. On balance, our results show that founding family firms have either equal or, in some cases, higher dividend and total pay-outs than non-family firms. These higher pay-outs profit all shareholders. The family can use these funds to diversify their wealth and minority shareholders' concerns of poor governance are somewhat alleviated.

The findings summarised in this article contribute to the existing literature in three important ways. First, it expands knowledge in the field of founding family firms. This field has gained impetus recently with the article by Anderson and Reeb (2003), but has so far mainly focused on the market and accounting performance of such firms. Other financial

blockholders. Finally, Maury and Pajuste (2005) find that the presence of two families in a company destroys even more value while the presence of a second non-family blockholder minimises the possibility of extraction of private benefits.

topics linked to family firms have hardly received academic attention so far. The research of pay-out policies in family firms is, however, important as it helps to draw inferences about agency costs between controlling and minority shareholders and deals with an important monetary issue and source of returns for investors. Moreover, it is closely linked with other company characteristics, such as capital structure or as a substitute for different internal and external governance mechanisms.

Second, it adds to the vast body of literature on dividend pay-outs and share repurchases that can be traced back to seminal papers by Lintner (1956) and Miller and Modigliani (1961). Many papers have tried to explain why companies pay out dividends or repurchase shares. However, according to De Angelo et al. (2008) research on the relation between ownership structure and pay-out decisions is only in its infancy and is an interesting area to pursue.

Third, the article provides additional characteristics and scope of pay-out policies in Switzerland. So far evidence on pay-out policies in this market is very scarce with the exception of articles by Stacescu (2006) on dividend pay-outs and Chung et al. (2007) on share repurchases. Data on pay-outs in other German-civil-law countries is also not widely researched and primarily focuses on the German market. Although similar in many aspects, the Swiss market has the advantage of being very diverse in terms of company characteristics and more interestingly allows control-enhancing mechanisms, such as multiple share classes. Additionally, areas of Switzerland, i.e. the French and Italian speaking parts, though following German-civil-law, might still differ in the perception and enforcement of the law due to cultural differences that take French-civil-law traits.

The remainder of the article is structured as follows. Section 2 reviews the relevant literature. In section 3, data and variables are presented and defined. Section 4 shows the main results while further robustness tests and specifications are analysed in section 5. Section 6 summarises our conclusions.

2 Literature review

Several theoretical and empirical explanations have been proposed as to why companies pay dividends. Among these, clientele theories, in which firms adjust their pay-outs depending on the preferences of their shareholders, take up a central role.⁴ According to De

⁴ Behavioural biases of investors that might lead to diverging pay-out policies can also be categorised as clientele effects. These studies include articles by Shefrin and Statman (1984), Baker and Wurgler (2004), Baker et al. (2007) or Barberis and Thaler (2003).

Angelo et al. (2008) shareholder preferences for dividends can diverge due to (i) differences in taxation, (ii) transaction costs to accommodate for time varying consumption preferences or (iii) regulation, especially for institutional investors. However, neither diminishing transaction costs nor regulatory issues are able to explain major differences evidenced in company pay-outs. The literature on tax clienteles is vast and suggests that some institutional investors prefer dividend paying firms due to favourable taxation of dividends. Individuals ought to prefer investing in companies that do not pay dividends in such jurisdictions that tax dividends more heavily than capital gains (see Elton and Gruber (1970), Black and Scholes (1974) or a review by Allen and Michaely (2003)). Further empirical studies on the subject do not provide clear evidence one way or the other. Only a few authors such as Dhaliwal et al. (1999), Short et al. (2002) or Grinstein and Michaely (2005) find evidence of a relation between changes in institutional ownership and dividend omissions or initiations. On the other side, several studies (see Brav et al. (2005), Graham and Kumar (2006) or Jain (2007)) claim that, following conventional wisdom, individuals prefer dividends over capital gains, in spite of tax considerations. These later findings cast doubt on the existence of a tax-motivated clientele effect as far as dividend payments are concerned.

Although the importance of the classic clientele effect might be questioned, it is still possible that the presence of a controlling shareholder has an influence on pay-out policies in order to satisfy his preferences. Research evidence that small individual shareholders are not influenced by tax considerations in choosing their investments or that institutional investors do not shift their positions as a result of dividend changes does not say anything about the behaviour of large individual shareholders. Studying founding family firms is particularly interesting as it is a widespread form of ownership across the world (Claessens et al. (2000), Faccio and Lang (2002)) and its characteristics a priori do not favour a specific pattern. In the following, we will discuss three possible explanations that link family firms to different pay-out behaviours.

2.1 Agency explanation of pay-out policies

Although agency costs between managers and shareholders should be low in family firms, expropriation of minority shareholders by the controlling owner is a potential issue. Families, especially those who are actively involved in managing the company, are in a position to promote ideas or projects that do not primarily maximise firm value, but rather suit their own

personal preferences. This may ultimately result in misuse of company funds and will harm minority shareholders and reduce pay-outs to a minimum.⁵

In their study on agency problems Setia-Atmaja et al. (2009) point out that Australian family firms pay out higher dividends than other firms, which suggests a use of dividends as a monitoring device and means a rejection of the expropriation hypothesis. They further elaborate that dividends take over the important role of mitigating agency problems in the absence of other important governance mechanisms in Australia. Higher dividends and higher leverage as well as an independent board of directors signal less expropriation risks, which in turn result in higher firm performance. Studying the rent extraction property of dividends, Bertrand et al. (2002) study tunnelling in Indian business groups. They propose evidence that especially insiders from companies using control enhancing mechanisms extract resources. In this case, ownership rights of insiders are low and they will only receive a small fraction of dividends, which makes private benefits extraction even more interesting.

Gugler and Yurtoglu (2003) find evidence of rent extraction in the German market. For the authors high dividends moderate the possibilities of rent extraction. They observe that market reaction is the worst following dividend reduction announcements by companies with a majority shareholder using control enhancing mechanisms. This negative reaction is dampened if a second blockholder monitors the largest shareholder. Dividend pay-outs further display a negative relation to both the voting rights of the controlling shareholder and the wedge between ownership and control rights. Mancinelli and Ozkan (2006) also find this unfavourable relation between ownership concentration and dividend pay-out in their study of the Italian market. In line with Shleifer and Vishny (1997), they suggest that large owners expropriate minority shareholders.

Using a panel of the largest Western European and U.S. / U.K. companies, Thomsen (2005) examines the relation between large shareholders, dividend policy, and firm value. He observes a negative impact of controlling ownership on firm value and dividends in both continental Europe and the two Anglo-Saxon countries. Based on the above evidence, an agency conflict between large blockholders and minority shareholders seems to exist and to be more pronounced in Europe. When dividend pay-outs are low minority shareholders fear expropriation by large blockholders, which consequently results in a discount on firm value. Examining Finnish companies Maury and Pajuste (2002) also find a negative relation between

⁵ Johnson et al. (2000a) and Johnson et al. (2000b) describe this transfer of company resources to insiders (i.e. controlling shareholders) as tunnelling. They illustrate different cases in Asia and Western Europe in their two articles

dividend pay-out and concentration of control. This can be true for several concentration specifications and the presence of multiple large shareholders. They further suggest that blockholders face a trade-off between their tax preferences and private benefits. This trade-off between advantageous tax benefits for dividends existing in Finland and the extraction of private benefits by actively managing the company is particularly pronounced for private investors.

Lybaert et al. (2006) take a closer look on the pay-out policy of private family firms in Belgium. They observe that controlling families (>50% ownership) indeed succeed to extract resources from companies through dividend pay-outs; this is however not the case with non-controlling shareholders at the 50% level. These observations are in line with research done by Chen et al. (2005) and Farinha (2003), who claim that a critical entrenchment level exists in terms of ownership. They further point out that larger CEO power results in lower dividend pay-outs, which leaves CEOs with more resources to manage. Lybaert et al. (2006) conclude that private firms and publicly listed firms as studied by Chen and others show very similar patterns with respect to their pay-out policies.

On balance, no definite and distinctive evidence exists with regard to large blockholders and dividend policies. Ownership concentration may be associated with both high and low pay-outs, depending on the sample and country observed. Furthermore, it is not clear whether large shareholders influence dividend policy in a specific situation. The presence of multiple large shareholders and the use of control-enhancing mechanisms also seem to impact pay-out policies.

2.2 Sleeping dogs, reputation and pay-out policies

Warther (1993) proposes a “sleeping dogs” approach to dividends, which is taken up by Zwiebel (1996) and Myers (2000) and in which managers propose pay-outs just large enough to avoid conflicts with share- or stakeholders. Gomes (2000) further develops this idea and shows that large shareholders may opt to build up a reputation of treating minority shareholders well. Under his model blockholders will commit not to expropriate minority shareholders even if these lack protection by effective governance mechanisms. This reputation effect also renders dissociation between ownership and control rights less problematic. In the context of family firms these effects can take two forms. First, the company might be owned by one or multiple family members and an outside CEO has to find a right balance. He has to satisfy both family members and his personal needs, without conflicting with the family. In their clinical study on the Times Mirror Company, DeAngelo

and DeAngelo (2000) describe exactly this phenomenon. The outside management of the family-owned company adapted its policies, and especially its dividend policy, to suit the cash distribution preferences of its controlling shareholder. Though very circumstantial the study clearly shows that some company managers will adjust their pay-out policy to please family members and hope for less monitoring in return. Second, in a more general setting, family members may try to pay out just enough to minority shareholders to keep them satisfied. The family will build a reputation for treating them well and could misuse the remaining excess cash.

La Porta et al. (2000) investigate the relation between minority shareholders and dividends in 33 countries and test two agency-related models of dividends. According to the so-called “outcome model”, dividends are paid because minority shareholders force corporate managers to do so. The so-called “substitution model” posits that insiders pay dividends only when they are planning a future issuance of equity. Dividend payments serve to improve the reputation of treating minority shareholders fairly and favourably stimulate future SEOs. La Porta et al. results support the “outcome model”. Companies seem to pay dividends for two reasons. When the possibility to expropriate or misinvest is restricted by law, or when minority shareholders have the power to enforce fair pay-outs. However, in countries with weak shareholder protection, in which these conditions fail to hold shareholders suffer from tunnelling.

In a related paper, Faccio et al. (2001) show that European companies have higher dividend pay-outs than East Asian companies. Combined with the fact that ownership is less concentrated in East Asia than in Western Europe, they interpret this pattern as evidence of difficulties of minority shareholders expropriation in companies that are affiliated to a group and using control enhancing mechanisms. The market anticipates the expropriation, such that companies competing for capital make use of dividends to counter the anticipation and enhance reputation. Furthermore, the presence of multiple large blockholders in Western Europe seems is associated with higher dividends, which Faccio et al. (2001) interpret as evidence of them lowering expropriation. However, the opposite is true for multiple large blockholders in East Asia.

Overall, there seems to be a pattern for companies to pay out a certain minimum fraction of earnings to foster their reputation for fair treatment of their minority shareholders and other stakeholders. This behaviour is supposed to facilitate future access to markets and might diminish discounts in firm value by dissatisfied shareholders.

2.3 Family legacy explanation of pay-out policies

Introducing the existence of large individual shareholders into the framework of pay-out policies alters the classic financial approach. Founding families almost always have a significant amount of their wealth invested in one company and tend not to strictly distinguish company from private decisions. Lansberg (1983) illustrates that at the early stage of a company the overlap of family and company is positive. However, at later stages this overlap generates problems as far as goals of the family and the company are concerned. Actions that are optimal for the company might be abandoned if they are not fully satisfactory for the family shareholder. They therefore may lead to non-value-maximising policies for the company, even for families that do not wish to exploit minority shareholders. Especially situations in which the family tries to maintain control at any cost or needs internal financing to pass on the company to future generations lead to different pay-out configurations. Bertrand and Schoar (2006) also show that family legacy is not necessarily positive, if family members are very risk averse or take suboptimal decisions to keep the company in family hands by all means. All these scenarios clearly raise questions about the amount and the form (dividend vs. repurchases) of company pay-outs in the presence of a controlling shareholder.

If a family member is unwilling to give up control over the company, he will be more reluctant to tender shares during repurchase offers than minority shareholders. At the same time family members will not want to pass on income from dividends. Dividends will be used as a means of wealth diversification or to fund consumption. This should obviously create a desire for high dividend payments. The existence and intensity of these two features will strongly depend on family characteristics. In particular the involvement of more than one family member in the company might create conflicts and intensify both effects.

The lifecycle stage of the family shareholder will also play a role. Younger family members may want to reinvest earnings within the company to grow the business and achieve increased pay-out and consumption at later stages. In contrast, older family members may want to consume proceeds now. At the same time, multi-generational companies or single-generation companies with more than one family member might have difficulties in determining pay-out levels and forms that accommodate the preferences of all generations. Tending shares during repurchases will not be a viable option, as it might create an imbalance of power between family members. As voting rights are spread across family members it would further weaken family control of the firm. On the other hand, dividend payments will be very high as the consumption of an increased number of family members has to be catered

for. It is therefore important to distinguish between lone and multiple member family firms or those facing generational concerns.

In widely held companies such questions do not appear, as shareholders can simply buy and sell shares in line with their different consumption preferences. Moreover, these shareholders do not have enough power to alter dividend payments to cater for their needs. Accordingly, it is difficult to predict pay-out policies and patterns of family firms in this framework without using very detailed empirical data.

3 Data and definition of variables

3.1 Data description

The sample includes all companies listed on the Swiss Exchange between 2003 and 2010. First, we consider all companies that are components of the broadest stock index in Switzerland, the Swiss Performance Index. This restriction allows us to eliminate companies with a very low free float, open-end funds, or companies that only have a secondary listing on the Swiss Exchange. The companies must have been part of this index for at least one year to be included in the study. Next, all financials (ICB⁶ 8000) are discarded; a stronger regulation of financial companies complicates the calculation of pay-out variables. The sample period starts in 2003 because the publication of data on corporate governance for Swiss companies was not mandatory before this year. The final sample includes 187 companies (1'228 firm-year observations)⁷.

As the research is focused on founding family firms it is very important to have reliable information on the ownership structure of Swiss companies. This is mostly achieved through hand-collecting information from different sources. First, the data is collected from companies' annual reports and classified by shareholder type such as widely held firms, companies with an individual blockholder, state owned firms, companies with widely held industrial or financial corporations as an ultimate blockholder, and miscellaneous. In a second step, firms that report one or more individuals as blockholders are divided into founding family firms and firms with a private investor⁸. If no clear evidence about the ultimate

⁶ ICB stands for Industry Classification Benchmark and constitutes a system of industry classification issued by FTSE International Ltd.

⁷ Due to missing accounting data in Worldscope sometimes less than 1'228 observations may be used in some regressions.

⁸ A private investor may not necessarily be a corporate raider or short term investor. In fact, most private investors in Swiss companies, though not having founded the company, have been invested in it for several years.

blockholder could be obtained from annual reports, additional information was taken from Swiss stock guides, newspaper articles, corporate homepages or the commercial register. Data on active management or board positions by family members and second blockholders was retrieved in an equivalent procedure.

In concluding the process, all data related to corporate governance and ownership is finally merged with accounting and financial data from Thomson Reuters Worldscope and Datastream. This allows for reliable data and information on a vast array of companies from different industries, of different sizes and age and ownership structures.

3.2 Classification of firms with large shareholders and founding families

Following the extant literature on family firms and blockholders a company is defined as being widely held if no shareholder holds more than 20% of ultimate voting rights (see among others Villalonga and Amit (2006), Sraer and Thesmar (2007) and Favero et al. (2006)). Although a threshold of 20% may seem low there exists a widely accepted view that due to generally low AGM attendance and active representation of blockholders either on the board or in management, in a majority of the companies 20% is sufficient for having an influence on company policies such as pay-out decisions.

A blockholder may have various identities. In the case of Swiss state ownership it may not only refer to the Swiss Federal Government but also regional (cantonal) and municipal government entities. Widely held industrial and financial corporations in this context are companies that themselves do not have a dominant shareholder. Miscellaneous covers blockholders that could not be classified into any other category. It is mostly composed of foundations, cooperatives, or private pension funds. Contrary to these rather straightforward classifications, firms with founding families and private investors as large shareholders need more attention. A private investor is defined as one or more individuals that are not the founders of the company. In case there is more than one private individual it must clearly be stated that such investors have an agreement to vote together in the same way. The term founding family is used for one or more individuals or families that founded a company. Similar to private investors founding family firms may have been founded by more than one individual or family (for example families Hoffmann and Oeri for Roche or the Rihs brothers and Beda Diethelm for Sonova).

[Insert table 1 about here]

Based on these definitions and summarised in Table 1, we have created different dummy variables that take the value one if a company falls in a specific category and zero otherwise. Overall, the sample consists of 187 companies and 1'228 firm year observations that can be divided into 444 founding family firm years and 784 non-founding family firm years.

In a further step, the dummy for founding family firms is divided into several sub-groups. First, a distinction is made between founding families owning the majority of voting rights (i.e. more than 50% of votes) or only holding a controlling stake between 20 and 50%. Several studies have shown that family firm characteristics, and especially the active involvement of a family member or generational differences, may have an important impact on firm performance and policies (e.g. Pérez-González (2006), Villalonga and Amit (2006), and Bennedsen et al. (2007)). In consideration of these findings, we divide founding family firms into groups depending on the active position and generation of a family member. We create dummies relating to the fact that the CEO or Chairman of the board is a family member or an outsider, and in case it is a family member, if it is the founder himself or a descendant. Other studies have found that the number of family members involved in the company may have an effect on corporate policies or performance (e.g. Andres (2008), Combs et al. (2010), and Miller et al. (2011)). We, therefore, separate founding family firms in companies in which only one founder or family member is involved and those in which multiple founders or family members hold a stake and sometimes are active. Finally, the founding family dummy has been substituted by two categories depending on second blockholder characteristics: (i) the difference in ultimate voting rights between the founding family and the second blockholder and (ii) the identity of the second blockholder. This allows us to examine to what extent the presence of a second blockholder has an influence on corporate policies.

3.3 Definition of pay-out variables

A company has different possibilities to pay out earnings or excess cash to its shareholders. In this article three pay-out methods are analysed: dividends, the reduction of the nominal value⁹ of shares, and stock repurchases. Following Julio and Ikenberry (2005) and Von Eije and Megginson (2008) pay-out ratios are set to 100% if they turn negative due to negative earnings. Pay-out ratios are also set to 100% if firms pay more than 100% of their earnings.¹⁰

⁹ In the following the reduction of nominal value will be considered a special dividend and accounted for as regular dividends.

¹⁰ As a robustness test the dividend yield is used instead of pay-out ratios to perform calculations. Results remain qualitatively similar. However, the main focus of this article being on the use of earnings by companies

Dividends constitute the most frequent form of distribution for most companies. For the vast majority of companies they take the form of cash payments and unlike US companies, which pay dividends on a quarterly basis, Swiss companies usually pay dividends once a year. In line with several other countries, dividends and capital gains are taxed differently. In practice, dividends are taxed twice, i.e. a first time at a company level on the net income the company generated and a second time as income tax for the investor receiving dividends. Moreover, a withholding tax of 35% is being retained at source upon dividend payment and only the net of 65% is being paid to shareholders. When investors declare their dividend and interest revenues the 35% deduction is offset with annual income- and wealth tax thus making sure that the Government effectively obtains taxes on these dividends. On the other side, capital gains are mostly tax exempt for private investors. This dichotomy clearly leads to a system in which dividends become unattractive, especially in the case of family firms in which the family owner will bear tax payments directly through double taxation (company and personal). Entrepreneurs often have a choice on how to use their company's earnings. Consequently, it becomes evident that family members will prefer to either extract private benefits from the company or to pay themselves higher compensation in the form of bonuses, if they are actively managing their company, to at least alleviate the tax burden of their company. The payment of dividends would thus become the solution of last resort from a pure tax point of view.

The reduction in nominal value of shares and consequently of the share capital of the firm is a new phenomenon in Switzerland. It has gained in popularity from 2000 onwards after the Swiss regulator allowed the reduction of the minimal nominal value of a share from 10 to 0.01 CHF. It may be considered and classified as a special dividend as every shareholder gets a specific amount of money from the company.¹¹ The advantage, however, lies in the tax-exemption of the reimbursement. In practical terms the nominal value reduction is a one-time measure for a firm and its shareholders and not a continuous pay-out method.

Over the last few years, share repurchases have gained importance as a pay-out method throughout the world. Switzerland is no exception. Starting from scratch in the middle of the 1990s it has become an interesting alternative for many firms. In line with this trend, the Swiss legislator has issued several principles that led to the acceptance of different forms of

to satisfy investors, pay-out ratios are deemed to be more relevant and will therefore be used throughout this article.

¹¹ See Ammann et al. (2006) for the performance and announcement effect of companies with nominal value reductions on the Swiss market.

share repurchases on the Swiss market. The concept of equal treatment of all shareholders being paramount, it does not favour repurchases through fixed offers or Dutch auctions.

[Insert table 2 about here]

Therefore companies generally choose between three other methods: classic open market repurchases, fixed offers with the distribution of puts to all shareholders and second trading lines.¹² Table 2 illustrates that repurchases via a second trading line are the most favoured technique on the Swiss market. This method allows companies to open a separate trading line at the Swiss Exchange on which only the firm is permitted to acquire its own shares. Its flexibility and transparency makes it an ideal technique for both investors and companies. The open market buyback is the most widely internationally used method (Vermaelen, 2005) but it is far less popular in Switzerland. In this case firms repurchase their stocks on the market at the current market price. The distribution of puts to shareholders on the other hand works similar to subscription rights during SEOs as it offers the holder a preferential selling right.

The sum of these three methods (dividends, repurchases, nominal value reductions) reflects the total pay-out for every company and year.

[Insert figure 1 about here]

Figure 1 shows that dividends rise steadily in aggregate terms, which can be attributed to the favourable economic conditions during the sample period. Only in 2008 at the start of the financial crisis did companies reduce dividend pay-outs. Buybacks have in general seen their importance rise, but repurchasing amounts vary strongly from year to year. Analyses indicate a reluctance to reduce dividends and rather a preference to repurchase shares only as a method of giving back excess liquidity to shareholders.

3.4 Descriptive statistics

On the basis of these definitions founding family firms account for 36% of the firms in the sample for the period 2003 to 2010, while 11% of companies have a private investor as a large shareholder. 37% are widely held companies, while 8% are owned by either industrial or

¹² For more information on share repurchases in Switzerland see Dumont and Isakov (2009) and for second trading lines Chung et al. (2007).

financial companies, 5% are state owned, and 3% are categorised as miscellaneous.¹³ These numbers remain very stable over the sample period with only very few companies changing categories.

Table 3 shows summary statistics for different variables. The average pay-out ratio is 28% of earnings for dividends, 6% for repurchases and 31% for both pay-out methods combined. Firms in the sample have an average size of 3.50 billion Swiss francs, an average annual sales growth of 8.41% and an average leverage of 27%.

[Insert table 3 about here]

Average Tobin's Q is 1.72, while average ROIC is 6.99%.¹⁴ 20% of firms resort to a capital structure composed of more than one share-class, which can either be listed or unlisted. A closer look at founding family firms shows that 34% of these family firms have a CEO from within the family, while 53% have a family Chairman. Most second blockholders hold between 20-40% less voting rights compared to the family firm owner. The majority of these second blockholders are either an individual that is not part of the family or a financial institution.

Table 4 shows results of the univariate analysis of the sample by testing difference of means and performing a Wilcoxon rank-sum test between non-family and family firms.

[Insert table 4 about here]

Founding family firms have significantly higher dividend and total pay-outs. As far as repurchases are concerned however, pay-outs are similar across all companies. The distortion (wedge) between cash-flow and voting rights through multiple share classes is 1.55 for founding family firms but only 1.04 for non-family firms, a clear sign of family firms trying to preserve ultimate control in their companies. (Kunz, 2002) outlines that the number of companies with dual-class shares has dramatically decreased in the last 20 years in Switzerland. This shows that families and companies are now more inclined to follow the one

¹³ The proportion of family firms is comparable to findings in the study by Faccio and Lang (2002) who find 56% of family firms, while widely-held companies only account for 26%. Explanations may be found in the distinction between founding and non-founding family firms, a more rigorous definition of family firms and the different period examined.

¹⁴ To mitigate potential problems with outliers some control variables (i.e. 5-year sales growth, leverage, beta, ROIC and Tobin's Q) are winsorised at the 1% and 99% level before the descriptive statistics are calculated.

share one vote principle. However, pressure from shareholders to change the voting structure has been less successful for companies in which a family is present. Both types of companies have a comparable size with about 3.5 billion CHF in assets and generating similar annual sales growth of some 8%. We observe that family firms have a significantly lower leverage and therefore use more equity to avoid depending on financial institutions or debtholders who may want to interfere in firm business. Although family firms perform significantly better as measured by ROIC, it is only translated by an insignificantly higher market performance measured as Tobin's Q.

4 Regression results

Following the results from a Hausman test, a random effect model is used to assess the relation between a firm's pay-out policy on the one side and founding family control on the other side. The data for this article is structured as an unbalanced panel of 187 companies for the period 2003-2010. The amount paid out by a company is analysed using a random effect Tobit model taking on the following general form.

$$Pay - out\ ratio_{j,t} = \alpha + \beta family\ firm_{j,t} + \eta control\ variables + \delta industry + \gamma year + \varepsilon_{j,t} \quad (4)$$

where j denotes a company and t a year. Family firm is a dummy variable, which takes account of the different founding family firm characteristics. Control variables include firm size, firm age, leverage, sales growth, ROIC, Tobin's Q, beta and the wedge. Industry and year are dummy variables equalling 1 for the respective industry and year observed, and zero otherwise.

4.1 Ownership structures and pay-out decisions

Table 5 provides a detailed insight into the pay-out policy of founding family firms. Observations with regard to the actual amount being paid out as illustrated in Table 5 indicate that companies with a blockholder do not differ from widely held companies in their pay-out policy. Differences are insignificant, which implies that companies either behave similarly irrespective of their ownership structure or that the given type of a blockholder may have an effect and should therefore be further analysed. Looking at founding families as being a specific type of blockholder, we find that both dividend and total pay-out is significantly higher than for non-family firms while repurchases remain insignificant.

[Insert table 5 about here]

The previous analysis suggests that founding family firms have higher pay-outs than non-family firms. This observation supports the sleeping dog hypothesis in which shareholders pay out dividends to compensate minority shareholders for other inefficient governance mechanisms. It also prevents controlling shareholders or management from extracting private benefits by reducing available cash reserves. It remains, however, to be seen if this is true for all firms irrespective of their ownership structure or if widely-held firms follow different patterns, while other kinds of blockholders behave similarly to family firms. In a more detailed study we break down the data of non-family firms into different categories of ownership: widely-held, owned by a governmental entity, an industrial corporation, a financial corporation, or miscellaneous. For family firms and any other blockholder, a threshold of 20% is used. In a second step, we also analyse any given differences within founding family firms. It may be expected that a family will behave differently depending on the ownership stake it holds. In the following we therefore distinguish between founding family firms in which the family is a large shareholder (owning 20-50% of voting rights) and firms in which the family is a majority shareholder (more than 50% of voting rights) and consequently controls decisions.

Results in Table 6 suggest that the ownership type has an impact on pay-out policies. The coefficient for the founding families is positive and significant for dividend and total pay-out, but the coefficient on private investors is negative. This actually means that firms with an individual blockholder pay out less than founding families. It may be the case that private investors are primarily individual investors and therefore do not have to deal with other parties involved as opposed to a founding family, which may be composed of more than one person. The insignificant dividend pay-out for state owned companies is due to the kind of business these companies are in. A vast majority is in the utilities sector, which is renowned for paying high dividends. The negative amounts for firms owned by financial corporations may be linked to the fact that these institutions have more complex and multiple ties with the firm being not only shareholders but also debtholders and therefore preferring to receive interest than dividends. Financial institutions frequently take stakes in companies that are already in financial difficulties and that are consequently not able to pay dividends.

[Insert table 6 about here]

Results for different size of ownership stakes of the founding family are similar. Family firms with a 20-50% ownership and majority owned family firms distribute higher amounts. Majority owned companies pay out even more, which reinforces the reputation hypothesis. These shareholders, due to their high stake, could easily sell off some of their shares or extract private benefits more easily and therefore decide not to pay too many dividends. This is, however, not the case. It rather seems that these owners pay out more to alleviate concerns that they might misuse company funds. At the same time they also pay out more to themselves, which leads to a win-win situation for both the large and minority shareholders

4.2 The effect of active management and generational issues

Earlier studies on different financial aspects of family firms show that it would be wrong to judge family firms as such without further differentiation. Evidence was found that a variety of other characteristics and here especially on the involvement of family members in the company can drive results (see Villalonga and Amit (2006)). Table 7 shows findings for founding family firms in which either the founder or descendants take an active management position in the company as CEO or Chairman, and where on the other hand only a passive approach as an investor is being used.

Table 7 shows evidence that both family firms at the founder and descendant stage distribute higher dividends.

[Insert table 7 about here]

Table 7 reports more detailed results on the generational distinction, but also on the distinction between CEO and Chairman and effective pay-outs. Evidence suggests that founder, descendant and non-family Chairmen pay out more in dividends and in total. For descendants it can be argued that in many cases several family members might hold shares and must be compensated in an appropriate way, especially since they do not receive a compensation for a board membership. This has the effect of keeping both passive family members and, as a positive side-effect, minority shareholders satisfied. As mentioned before, it is equally possible that descendants simply do not identify with their company as much as the founder and therefore are more interested in short-term pay-outs. The same reasoning might be true for non-family Chairmen that are not completely independent of the founding family and basically act on their behalf. Analysis of the CEO position shows evidence that

dividend and total pay-out are significantly higher for descendant and non-family CEO. Non-family CEOs lead to higher dividend and total payments, but not to higher share repurchases. This is rather astonishing as repurchases are used to grant managers shares they are owed after the conversion of their stock options. It is, however, possible that founding family firms use less advanced compensation instruments and therefore resort less to stock option grants and more to cash bonuses. Surprisingly, repurchases drive the results for descendants. This finding suggests that families are effectively monitoring external managers by restricting their access to cash and therefore minimising the possibility of managers to extract private benefits or to invest in projects that are not adding or maximising value. Minority shareholders therefore benefit from both higher dividends and a highly efficient company. Founder CEOs do not pay out significantly more. This may be due to internal investment requirements for firm growth, strong identification paired with risk aversion or simply difficult access to capital markets for younger, less mature companies.

4.3 Lone versus multiple family members

Based on previous literature it may be concluded that family members want compensation for their involvement or stake in the company. Although, this seems quite understandable, the compensation method can vary considerably. Minority shareholders are only in a position to ask for higher dividends or gains from capital appreciation. Large shareholders, and here especially families, may in addition benefit from their position of power and extract private benefits in numerous ways. This can result in a cash constraint limiting legitimate pay-out possibilities. The situation might even be more accentuated if one family member is actively involved in the company and draws an extraordinary high salary. Second, family firms may have to pay out much more in terms of dividends if multiple family members are involved and need to be compensated. Any of such private considerations obviously will invalidate reputation theory as pay-out policies would only be geared towards family shareholders completely neglecting any other shareholder.

[Insert table 8 about here]

Table 8 looks at the above arguments in more detail. In this article, family firms are divided into companies that only have one family member holding a stake in the company versus companies in which multiple founders or family members have a stake and/or are actively involved. The study shows that companies with multiple family members indeed

have higher dividends or total pay-outs. However, even if the amount is lower, lone family member firms are still distributing much more than companies with other ownership structures. This finding suggests that family firms prefer the legitimate way to receive compensation over expropriation.

Both dividends and total pay-outs are higher in absolute terms for companies with multiple family members. This would indeed suggest that family members have to be compensated for their stake. However, reputation theory is very much supported as companies that have a single individual involved and therefore would not need to pay out as much, distribute only marginally less than those with multiple family members; they, however, still pay out much higher amounts than other types of companies. It, therefore, appears that other than the wish to compensate family members, the reputation of treating minority shareholders fairly is another key driver.

4.4 Multiple blockholders and pay-out decisions

In the previous analyses it has been established that founding family firms pay out more of their earnings in dividends and in total. It may therefore be concluded that founding families are concerned about their good reputation or at least make an effort to compensate minority shareholders for inefficient governance mechanisms. This would be equivalent to a decrease in agency costs. Both managers are better monitored and minority shareholders treated correctly by large shareholders. However, what happens if a company is controlled by more than one large shareholder? In the following section we investigate this question. Bennedsen and Wolfenzon (2000) in their model indicate that multiple blockholders will only work together and expropriate minority shareholders under certain conditions. They need enough power to push through decisions (high voting rights) and enough incentives (low ownership rights)¹⁵. Two scenarios seem appropriate to be investigated. Attig et al. (2008) suggest that an effect of the presence of multiple blockholders strongly depends on their comparative size. Similar stake sizes should lead to higher contestability and thus increase information quality. This will result in a reduction of agency costs and possibilities to expropriate. We, thus, look at the relative power between the largest and second largest blockholder. Obviously, a second blockholder that has a similar stake as the largest shareholder will have more power and incentives to monitor. On the other side, companies with no second blockholder or a second blockholder, which is relatively similar, will not be able to do much. Second, the identity of

¹⁵ This effectively means that the large shareholders will want to take corporate decisions, but not or only partially bear the pecuniary consequences.

the second blockholder might play an important role. Laeven and Levine (2008) show that firms with multiple large shareholders are less inclined to coalesce if they are of different identity (e.g. a family and a financial institution). Consequently, minority shareholders should profit from such a situation. However, the same as in the case of the largest shareholder, only individuals that have their personal wealth and utility at stake might have a maximal incentive to exercise control over others. A blockholder, who is representing the state or another corporation, will have a much lower incentive to control as he is not personally affected by poor results.

Findings on the importance of the presence and characteristics of a second blockholder are further evaluated in Table 9. Evidence clearly indicates that companies without a second blockholder, or with a second blockholder substantially differing in size to a first blockholder, lead to higher pay-outs than in non-family firms. In all these cases pay-out, especially of dividends, is high. In the other cases results are still positive, but less so, which suggests that some sort of equilibrium between blockholders is reached. As far as the identity of the second blockholder is concerned, it is interesting to notice that having a corporation as second blockholder is best; this indicates that family firms strive to convince capital market participants that they put the interest of all stakeholders before their own individual interest. Concerning those with a corporation as second large shareholder, it could point to the fact that these companies have other links to the firm such as being supplier, client and therefore do not want situations in which expropriation can lead to problems. These results are only partially in line with those found by Faccio et al. (2001). They show that in East Asia dividends are low for companies with multiple blockholders, but higher in Europe. Our results indicate that there is no collusion with the family shareholder in extracting company funds. On the other side, the presence of a second blockholder does not increase pay-outs. This additional control of the family seems to substitute itself to pay-outs.

[Insert table 9 about here]

4.5 Dual-class shares and pay-out decisions

Results in all tables presented so far take the wedge between ownership and control rights into account. Dual-class shares are especially used in family firms and serve to preserve family control in the company. It could therefore be presumed that firms using dual-class shares have lower pay-out ratios as (i) it facilitates expropriation of minority shareholders and

(ii) the blockholder gets a smaller fraction of dividends compared to other investors. The wedge variable in the different model specifications is never significantly negative, but either significantly positive or not significantly different. This confirms the theory that the primary goal of dual-class shares in family firms is staying in control of the company, but not expropriating minority shareholders. Alternatively, outside shareholders might ask for higher than average pay-outs to compensate potential expropriation. Dual-class shares therefore are not necessarily negative for investors. It could also be argued that family owners using dual-class shares need to distribute less. Due to the dual-class structure they could sell shares if they need cash and still retain control. However, this is not confirmed, which further indicates that the primary goal of high pay-outs is to keep minority shareholders satisfied.

5 Robustness tests

Endogeneity might pose a potential problem when looking at family firm pay-outs. One can argue that it is not the ownership structure that yields higher pay-outs, but that on the contrary high pay-out influences the decision of a family to stay as a shareholder in the company. During the sample period very few companies changed their ownership structure from family firm to non-family firm. Thus it is difficult to argue that families departed due to poor pay-outs of the company. It seems much easier for a family to increase pay-outs to a level that is deemed satisfactory than to go through the long and uncertain process of selling the whole company. It is equally significant that family firms have an average age of 68 years and are as old as non-family firms. It thus is difficult to believe that families sell their shares following poor pay-outs or inversely are able to predict the future in a correct way over such a long period of time.

This section, however, looks at other specifications that might result in biased main results. In these robustness tests we focus on dividend pay-outs as they are the most used form of pay-out in Switzerland. However, robustness checks on total pay-out yield very similar results.

First we re-estimate the main results using different econometric techniques. Some studies such as Maury and Pajuste (2002) use OLS instead of tobit regressions for estimating dividend pay-outs. We therefore conduct a classic OLS regression with time and industry dummies which qualitatively yields similar results. In a further step, we also estimate pooled average regressions, random effect OLS regressions (with GLS and ML estimators) and in between regressions and all result in comparable findings to the initial case.

A second bias concerns the misspecification of variables. We test scaling pay-out variables by cash-flows or firm market value instead of earnings, as in the initial case, but results stay similar. We also use 1 year sales growth instead of 5 year sales growth, debt/equity instead of debt/capital as leverage, $\ln(\text{sales})$ instead of $\ln(\text{total assets})$ as size proxy. More importantly we use a dummy for firms with multiple share classes instead of the wedge between ownership and voting rights. In this case firms are considered having multiple share classes even if they do not create an effective wedge. The main results are stable, when using these alternative control and pay-out variables. In addition, we re-estimate the regressions without winsorising control variables or winsorising them at a 2.5% and 97.5%, instead of the 1% and 99% level. Results also remain qualitatively similar.

We further explore the sensitivity of results to the use of utilities. For this, we exclude utilities as these companies may be argued to be regulated and not be entirely free in setting their company policies, especially with regard to capital structure and pay-outs. Discarding these companies from the sample does however not alter main results.

Finally, the challenge may be raised that the use of an unbalanced sample might distort results. Companies that fall out of the sample during the period, either due to bankruptcies or takeovers, might have different pay-outs just before their disappearance. Similarly, companies that appear on the market during the examined period might not be able to pay out dividends yet and might bias results as most of these young companies should have a blockholder. We, therefore, run panel data regressions for a balanced panel of firms that comprises 968 firm-year observations for 121 companies. Results indicate that firms dropping out or appearing in the sample do not affect findings.

6 Conclusion

This article provides new evidence on the financial decisions of family firms. It also contributes to the more mature literature on dividend policies. The paper examines the pay-out policies of founding family firms and offers new insights on the relation between controlling and minority shareholders. Using a unique dataset on the Swiss market, the article supports the hypothesis that, over the period 2003-2010, family firms pay out dividends to compensate minority shareholders for inefficient governance mechanisms and to retain a good reputation on the fair treatment of shareholders. The results of our empirical analysis show that both dividends and total pay-outs are higher in founding family firms than in non-family firms. More specifically, family firms pay out on average 37.5% of earnings as dividends

while non-family firms pay out on average 24.5%. As far as repurchases are concerned, there are no differences between the two types of firms.

We compare the pay-out policies of family firms with those of firms with another controlling blockholder and find that family firms pay out more dividends. This indicates that among firms with concentrated ownership, family firms follow a different pay-out policy. We also investigate the impact of specific family firm characteristics on pay-out policies. Our evidence shows that firms where a family has an absolute majority of votes pay higher dividends than firms where the family has less than 50% of voting rights. We further examine the effect of the presence of a second blockholder or the use of control-enhancing mechanisms have on pay-outs. We find that pay-outs are the highest when family control is not contestable by another blockholder, and that the use of dual-class shares does not influence dividend levels. In all these circumstances families are in a favourable position to extract private benefits of control at the expense of minority shareholders by paying lower dividends. Since pay-outs appear to be higher in family firms, we conclude that our results are consistent with the sleeping dog (reputation) hypothesis for pay-out policies in Swiss family firms..

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Table 1
Sample composition

The table shows the number of publicly traded Swiss companies for each ownership category and year. Widely held firms do not have an ultimate owner holding more than 20% voting rights. Companies with a large shareholder owning more than 20% voting rights are divided into founding family members, private investors, the state, a widely held industrial or financial corporation, or categorised as miscellaneous.

Year	Widely held	Blockholder	Founding Family	Private Investor	State	WH industrial	WH financial	Miscellaneous	Total
2003	57	96	59	17	6	9	2	3	153
2004	60	96	61	15	6	8	2	4	156
2005	60	97	60	16	7	7	2	5	157
2006	54	99	57	16	8	6	6	6	153
2007	56	101	55	18	8	6	9	5	157
2008	57	98	55	19	8	5	6	5	155
2009	55	94	51	18	9	3	8	5	149
2010	58	90	46	19	9	4	7	5	148
Total	457	771	444	138	61	48	42	38	1228

Table 2**Repurchase methods on the Swiss market**

The table shows the number of buyback programs on the Swiss market for the years 2003-2010. It is further subdivided according to the buyback method: second trading lines, open market repurchases, and the distribution of puts.

Year	Second line	Open market	Put distribution	Total
2003	7	1	1	9
2004	10	2	4	16
2005	16	3	1	20
2006	21	3	2	26
2007	19	6	1	26
2008	26	6	3	35
2009	13	1	0	14
2010	13	2	0	15
Total	125	24	12	161

Figure 1

Aggregate pay-out of Swiss companies

The graph shows different pay-out types of Swiss companies in billion Swiss Francs. The left axis shows the pay-out amount in form of dividends (including nominal value reductions) and repurchases. The right axis shows total pay-out for each year in the sample.

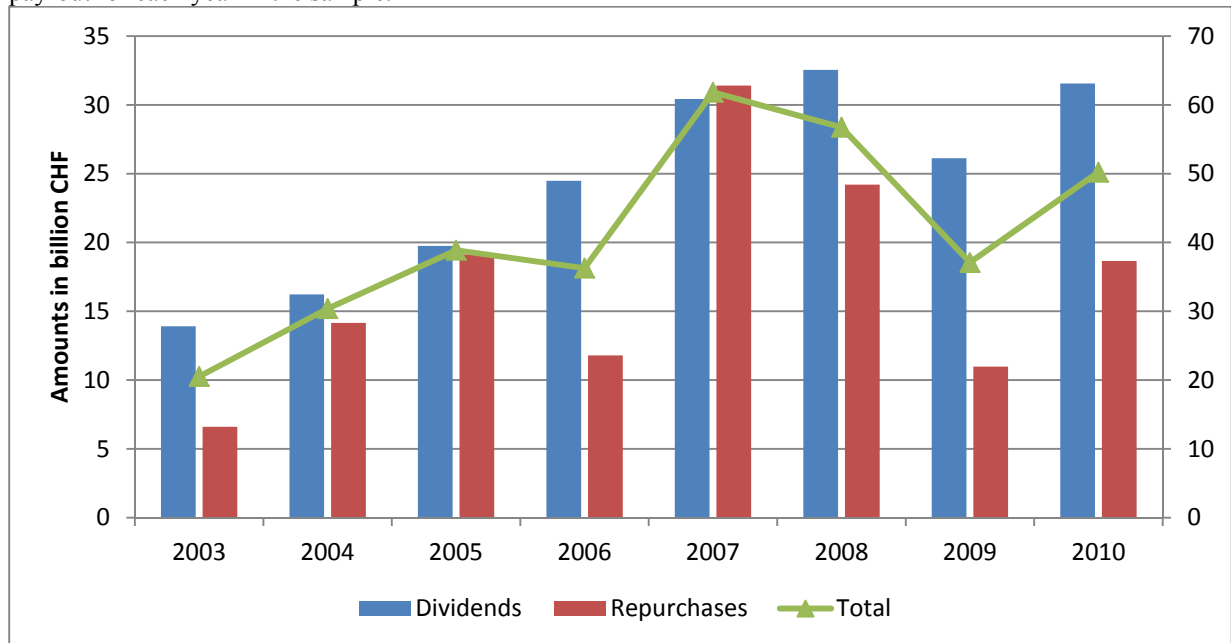


Table 3
Descriptive Statistics

The pay-out variables for the analysed sample of 187 firms and 1'228 firm-year observations includes dividend that represents dividend pay-out (dividend/earnings), repurchases (repurchases/earnings) and pay-out (the sum of dividend and repurchases/earnings). Ownership variables show the identity of a blockholder holding more than 20% while companies without a blockholder with more than 20% ultimate voting rights are labelled widely held. CEO and Chairman positions in founding family firms can either be held by the founder, a descendant or an outsider. Second blockholder variables include three specifications and are represented by dummies. Firstly, the difference in voting rights between the first and second blockholder, secondly the absolute control in ultimate voting rights by the second blockholder and third the identity of the second blockholder. Control variables consist of the wedge which shows the ratio of voting rights over ownership rights, firm size (total assets in CHF 000), firm age, 5-year sales growth (in CAGR form), leverage (total debt/(debt and equity), beta of the company, ROIC and Tobin's Q.

	Mean	Median	Maximum	Minimum	Standard Deviation
Pay-out variable					
Dividend/earnings (in %)	27.83	26.38	100.00	0	26.75
Repurchase/earnings (in %)	5.54	0.00	100.00	0	20.01
Pay-out/earnings (in %)	31.90	28.44	100.00	0	30.54
Ownership variables					
Widely held company	0.37	0.00	1.00	0.00	0.48
Blockholder	0.62	1.00	1.00	0.00	0.48
Founding Family Firm	0.36	0.00	1.00	0.00	0.48
Family owning 20-50%	0.14	0.00	1.00	0.00	0.35
Family owning >50%	0.21	0.00	1.00	0.00	0.41
Private Investor	0.11	0.00	1.00	0.00	0.31
State	0.04	0.00	1.00	0.00	0.21
Industrial Corporation	0.03	0.00	1.00	0.00	0.19
Financial Corporation	0.03	0.00	1.00	0.00	0.18
Miscellaneous	0.03	0.00	1.00	0.00	0.17
Active management variables					
Founder Chairman	0.08	0.00	1.00	0.00	0.28
Descendant Chairman	0.10	0.00	1.00	0.00	0.30
Outsider Chairman	0.16	0.00	1.00	0.00	0.37
Founder CEO	0.04	0.00	1.00	0.00	0.19
Descendant CEO	0.08	0.00	1.00	0.00	0.27
Outsider CEO	0.23	0.00	1.00	0.00	0.42
2nd blockholder variables					
No 2 nd blockholder	0.19	0.00	1.00	0.00	0.39
Blockholder diff <20%	0.04	0.00	1.00	0.00	0.21
Blockholder diff 20-40%	0.05	0.00	1.00	0.00	0.23
Blockholder diff 40-60%	0.04	0.00	1.00	0.00	0.21
Blockholder diff >60%	0.01	0.00	1.00	0.00	0.12
2 nd blockholder individual	0.07	0.00	1.00	0.00	0.26
2 nd blockholder industrial corp.	0.01	0.00	1.00	0.00	0.13
2 nd blockholder financial corp.	0.06	0.00	1.00	0.00	0.24
2 nd blockholder Misc.	0.00	0.00	1.00	0.00	0.05
Control variables					
Wedge	1.22	1.00	5.54	0.78	0.69
Firm age (in years)	69.05	54.00	492.00	1.00	60.93
Firm size (in CHF 000)	3'502'904	468'864	122'360'689	12'483	12'486'915
Sales growth (in %)	8.41	4.82	143.60	-34.49	22.10
Leverage (in %)	26.71	25.55	85.32	0.00	20.71
Beta	1.02	0.91	2.95	-0.30	0.65
ROIC (in %)	6.99	8.24	41.30	-64.65	15.03
Tobin's Q	1.72	1.35	8.03	0.57	1.17

Table 4
Univariate tests

The variables for the analysed sample of 187 firms and 1'228 firm-year observations from 2003-2010 include a dummy that take the value 1 if the company pays out dividends only, repurchases shares only or one of both. Dividend represents dividend pay-out (dividend/earnings), repurchases (repurchases/earnings) and pay-out (the sum of dividend and repurchases/earnings). Control variables consist of dual-class shares designating a dummy with the value 1 if a company has more than one share class, the wedge which shows the ratio of voting rights over ownership rights, firm age in years, firm size (total assets in CHF 000), 5-year sales growth (in CAGR form), leverage (total debt/(debt and equity), beta, ROIC and Tobin's Q.

***, **, * shows significance at the 1%, 5%, 10% level respectively.

	All firms		Family Firms		Non-Family firms		t-stat	Wilcoxon rank-sum
	Mean	Median	Mean	Median	Mean	Median		
Pay-out variables								
Dividend (in %)	27.83	26.38	33.73	29.92	24.48	22.58	-5.89***	-5.89***
Repurchase (in %)	5.54	0.00	4.77	0.00	5.98	0.00	1.02	0.38
Pay-out (in %)	31.91	28.44	37.49	31.21	28.74	24.31	-4.86***	-5.65***
Control variables								
Wedge	1.22	1.00	1.55	1.00	1.04	1.00	-13.16***	-14.57***
Firm age (in years)	69.02	54	68.22	67	69.55	47	0.36	1.14
Firm size (in CHF 000)	3'505'788	468'879	3'708'043	528'264	3'148'197	448'830	0.75	1.08
Sales growth (in %)	8.34	4.75	7.02	4.95	9.08	4.52	1.58	0.40
Leverage (in %)	26.74	24.85	25.43	21.19	27.49	26.42	1.67*	2.30**
Beta	1.02	0.91	0.97	0.90	1.04	0.91	1.75*	0.63
ROIC (in %)	7.01	8.07	8.68	9.16	6.06	7.32	-2.94***	-3.38***
Tobin's Q	1.72	1.34	1.77	1.39	1.70	1.32	-1.09	-1.34

Table 5**Pay-outs for blockholders and founding family firms**

This table contains results of random effects tobit regressions of pay-out variables measures on ownership characteristics. Dividend is the ratio of total dividends over earnings. The same ratio applies to a company which repurchased shares (repurchased amount over earnings) or if it paid out dividend or repurchased shares (dividend plus repurchase over earnings) in any given period. Blockholder is a dummy variable that equals one if a blockholder holds more than 20% of ultimate voting rights. Founding family is a dummy variable that equals one if members of the founding-family hold at least 20% of the voting rights. Wedge is measured as the ratio of voting rights divided by ownership rights held by a blockholder. Size is defined as the natural logarithm of total assets, age as the natural logarithm of years since foundation, leverage as total debt divided by total capital and systematic risk as beta calculated with returns over the past 60 months. ROIC equals net income over total capital, while Tobin's q is measured as the ratio of the firm's market value to total assets. All regressions include dummy variables for each ICB industry code. The sample comprises 187 companies and 1'228 firm-year observations. ***, **, * shows significance at the 1%, 5%, 10% level respectively.

	Dividend		Repurchase		Payout	
	(1)	(2)	(1)	(2)	(1)	(2)
Blockholder	5.083 (1.49)		-12.975 (-0.89)		4.051 (1.10)	
Founding Family		18.600*** (4.66)		4.456 (0.26)		17.815*** (4.17)
Wedge	0.307 (0.09)	-2.860 (-0.93)	-11.658 (-0.96)	-15.001 (-1.20)	-1.106 (-0.32)	-4.337 (-1.30)
Tobin's Q	-1.447 (-0.96)	-1.306 (-0.87)	11.608** (1.96)	11.908** (2.00)	0.150 (0.09)	0.361 (0.22)
ROIC	0.325*** (2.88)	0.325*** (2.90)	1.068** (2.07)	1.079** (2.07)	0.380*** (3.13)	0.386*** (3.20)
Ln (firm age)	4.204** (2.03)	3.801* (1.91)	-15.771* (-1.87)	-16.758** (-1.98)	3.393 (1.52)	3.000 (1.39)
Ln (firm size)	6.762*** (5.03)	6.671*** (5.16)	29.367*** (4.78)	30.160*** (4.89)	9.027*** (6.23)	8.989*** (6.46)
Leverage	-0.182** (-2.39)	-0.163** (-2.18)	-0.921*** (-2.60)	-0.911** (-2.56)	-0.236*** (-2.87)	-0.211*** (-2.61)
Sales growth	-0.244*** (-3.09)	-0.261*** (-3.32)	0.100 (0.36)	0.076 (0.27)	-0.178** (-2.20)	-0.196** (-2.43)
Beta	-7.193*** (-3.07)	-6.919*** (-2.99)	-0.646 (-0.06)	-0.548 (-0.05)	-6.869*** (-2.74)	-6.624*** (-2.67)
Intercept	-64.589* (-1.82)	-60.564* (-1.77)	-909.458 (-0.03)	-900.156 (-0.04)	-102.086*** (-2.65)	-99.160*** (-2.67)
Industry dummies	YES	YES	YES	YES	YES	YES
Year dummies	YES	YES	YES	YES	YES	YES
Observations	1'212	1'212	1'213	1'213	1'213	1'213
Number of firms	187	187	187	187	187	187

Table 6
Pay-outs by ownership types

This table contains results of random effects tobit regressions of percentage pay-out variables measures on ownership characteristics. Dividend is the ratio of total dividends over earnings. The same ratio applies to a company which repurchased shares (repurchased amount over earnings) or if it paid out dividend or repurchased shares (dividend plus repurchase over earnings) in any given period. Founding family, Private Investor, State, Industrial Corporation, Financial Corporation and Miscellaneous are dummy variables that equal one if a company has a blockholder of any of these categories that holds more than 20% of ultimate voting rights. Founding family 20-50% and 50% or more is a dummy variable that equals one if members of the founding-family hold between 20% and 50% or more than 50% of the voting rights respectively. Wedge is measured as the ratio of voting rights divided by ownership rights held by a blockholder. Size is defined as the natural logarithm of total assets, age as the natural logarithm of years since foundation, leverage as total debt divided by total capital and systematic risk as beta calculated with returns over the past 60 months. ROIC equals net income over total capital, while Tobin's q is measured as the ratio of the firm's market value to total assets. All regressions include dummy variables for each ICB industry code. The sample comprises 187 companies and 1'228 firm-year observations.

***, **, * shows significance at the 1%, 5%, 10% level respectively.

	Dividend		Repurchase		Pay-out	
	(1)	(2)	(1)	(2)	(1)	(2)
Founding Family 20-50%	16.038*** (3.37)		15.584 (0.81)		15.851*** (3.11)	
Founding Family 50% or more	21.903*** (4.19)		-14.261 (-0.60)		20.431*** (3.61)	
Founding Family		17.306*** (4.07)		-2.587 (-0.15)		16.217*** (3.57)
Private Investor		-5.103 (-1.03)		1.405 (0.06)		-4.680 (-0.86)
State		2.621 (0.24)		-426.620 (-0.02)		-2.225 (-0.19)
Industrial Corporation		12.404 (1.42)		-413.130 (-0.01)		11.428 (1.20)
Financial Corporation		-16.126** (-2.03)		-399.069 (-0.01)		-20.877** (-2.38)
Miscellaneous		4.304 (0.42)		-49.488 (-0.99)		0.090 (0.00)
Wedge	-3.635 (-1.14)	-2.398 (-0.79)	-11.080 (-0.87)	-15.840 (-1.30)	-4.947 (-1.44)	-4.013 (-1.23)
Tobin's Q	-1.195 (-0.80)	-1.152 (-0.78)	11.536* (1.95)	12.497** (2.12)	0.436 (0.27)	0.584 (0.37)
ROIC	0.321*** (2.86)	0.315*** (2.82)	1.089** (2.11)	1.018** (2.00)	0.381*** (3.16)	0.374*** (3.12)
Ln (firm age)	3.802* (1.90)	4.072** (2.07)	-16.292* (-1.94)	-18.688** (-2.16)	3.001 (1.39)	3.184 (1.50)
Ln (firm size)	6.756*** (5.20)	6.524*** (5.09)	29.730*** (4.88)	29.125*** (4.84)	9.061*** (6.47)	8.882*** (6.44)
Leverage	-0.165** (-2.20)	-0.164** (-2.20)	-0.888** (-2.51)	-0.838** (-2.36)	-0.213*** (-2.63)	-0.211*** (-2.63)
Sales growth	-0.257*** (-3.27)	-0.249*** (-3.22)	0.060 (0.21)	0.061 (0.22)	-0.193** (-2.39)	-0.187** (-2.35)
Beta	-6.695*** (-2.88)	-6.819*** (-2.94)	-1.778 (-0.17)	-1.984 (-0.18)	-6.438*** (-2.58)	-6.661*** (-2.68)
Intercept	-61.694* (-1.80)	-60.533* (-1.80)	-878.625 (-0.06)	-898.363 (-0.02)	-100.078*** (-2.69)	-99.240*** (-2.73)
Industry dummies	YES	YES	YES	YES	YES	YES
Year dummies	YES	YES	YES	YES	YES	YES
Observations	1'212	1'212	1'213	1'213	1'213	1'213
Number of firms	187	187	187	187	187	187

Table 7**Pay-outs in founding family firms with different management types**

This table contains results of random effects tobit regressions of pay-out variables measures on ownership characteristics. Dividend is the ratio of total dividends over earnings measured as a percentage. The same ratio applies to a company which repurchased shares (repurchased amount over earnings) or if it paid out dividend or repurchased shares (dividend plus repurchase over earnings) in any given period. Founder (Chairman or CEO) equals one if the Chairman or CEO is the founder of the firm, Descendant (Chairman and CEO) equals one if the Chairman or CEO is a founders' descendant. Outsider (Chairman or CEO) equals one if the Chairman or CEO of a family firm is not a member of the family. Wedge is measured as the ratio of voting rights divided by ownership rights held by a blockholder. Size is defined as the natural logarithm of total assets, age as the natural logarithm of years since foundation, leverage as total debt divided by total capital and systematic risk as beta calculated with returns over the past 60 months. ROIC equals net income over total capital, while Tobin's q is measured as the ratio of the firm's market value to total assets. All regressions include dummy variables for each ICB industry code. The sample comprises 187 companies and 1'228 firm-year observations.

***, **, * shows significance at the 1%, 5%, 10% level respectively.

	Dividend			Repurchase			Pay-out		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Founder stage	14.075*** (2.59)			-0.539 (-0.02)			12.914** (2.24)		
Descendant stage	21.801*** (4.56)			9.674 (0.45)			21.539*** (4.15)		
Founder Chairman		19.862*** (2.97)			-20.516 (-0.72)			16.054** (2.30)	
Descendant Chairman		15.597*** (2.64)			9.252 (0.32)			14.821** (2.31)	
Outsider Chairman		19.767*** (4.25)			14.049 (0.69)			20.149*** (4.03)	
Founder CEO			9.970 (1.25)			35.178 (1.18)			13.435 (1.57)
Descendant CEO			16.804*** (2.78)			56.091** (2.39)			18.167*** (2.76)
Outsider CEO			20.234*** (4.80)			-23.708 (-1.26)			18.354*** (4.05)
Wedge	-3.275 (-1.06)	-2.979 (-0.96)	-2.851 (-0.93)	-15.605 (-1.24)	-15.178 (-1.21)	-12.597 (-1.08)	-4.835 (-1.45)	-4.531 (-1.36)	-4.383 (-1.32)
Tobin's Q	-1.243 (-0.83)	-1.287 (-0.86)	-1.197 (-0.80)	12.021** (2.02)	12.194** (2.05)	12.618** (2.17)	0.424 (0.26)	0.390 (0.24)	0.411 (0.26)
ROIC	0.324*** (2.90)	0.322*** (2.86)	0.323*** (2.89)	1.077** (2.07)	1.099** (2.11)	1.087** (2.15)	0.383*** (3.19)	0.387*** (3.20)	0.384*** (3.19)
Ln (firm age)	2.986 (1.43)	4.008** (1.96)	3.324* (1.65)	-17.827** (-2.00)	-18.311** (-2.09)	-15.513* (-1.88)	2.090 (0.92)	3.046 (1.38)	2.746 (1.25)
Ln (firm size)	6.672*** (5.19)	6.688*** (5.14)	6.474*** (5.01)	30.185*** (4.89)	30.238*** (4.86)	30.768*** (5.20)	8.995*** (6.48)	8.998*** (6.45)	8.904*** (6.38)
Leverage	-0.164** (-2.19)	-0.164** (-2.18)	-0.160** (-2.14)	-0.918*** (-2.58)	-0.912** (-2.56)	-1.003*** (-2.81)	-0.214*** (-2.64)	-0.210*** (-2.60)	-0.210*** (-2.60)
Sales growth	-0.256*** (-3.28)	-0.263*** (-3.34)	-0.264*** (-3.37)	0.081 (0.28)	0.054 (0.19)	0.128 (0.46)	-0.192** (-2.39)	-0.200** (-2.48)	-0.198** (-2.45)
Beta	-6.886*** (-2.98)	-6.920*** (-2.98)	-6.845*** (-2.96)	-0.329 (-0.03)	1.294 (0.12)	-0.846 (-0.08)	-6.549*** (-2.65)	-6.527*** (-2.63)	-6.589*** (-2.66)
Intercept	-58.091* (-1.70)	-61.156* (-1.78)	-56.349* (-1.65)	-904.188 (-0.03)	-940.911 (-0.01)	-947.200 (-0.01)	-96.361*** (-2.60)	-99.285*** (-2.67)	-97.1004** (-2.61)
Industry dummies	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year dummies	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	1'212	1'212	1'212	1'213	1'213	1'213	1'213	1'213	1'213
Number of firms	187	187	187	187	187	187	187	187	187

Table 8**Pay-outs for founding family firms lone and multiple family members**

This table contains results of random effects tobit regressions of pay-out variables measures on ownership characteristics. Dividend is the ratio of total dividends over earnings. The same ratio applies to a company which repurchased shares (repurchased amount over earnings) or if it paid out dividend or repurchased shares (dividend plus repurchase over earnings) in any given period. Lone family member is a dummy variable that equals one if only one family member is active or holds more than 20% of ultimate voting rights. Multiple family members is a dummy variable that equals one if more than one family member is active in the company or hold at least 20% of the voting rights. Wedge is measured as the ratio of voting rights divided by ownership rights held by a blockholder. Size is defined as the natural logarithm of total assets, age as the natural logarithm of years since foundation, leverage as total debt divided by total capital and systematic risk as beta calculated with returns over the past 60 months. ROIC equals net income over total capital, while Tobin's q is measured as the ratio of the firm's market value to total assets. All regressions include dummy variables for each ICB industry code. The sample comprises 187 companies and 1'228 firm-year observations.

***, **, * shows significance at the 1%, 5%, 10% level respectively.

	Dividend	Repurchase	Pay-out
	(1)	(2)	(3)
Lone family member	18.098*** (2.87)	-19.746 (-0.75)	15.669** (2.34)
Multiple family members	19.043*** (4.36)	14.372 (0.80)	18.881*** (4.03)
Wedge	-2.961 (-0.96)	-14.952 (-1.25)	-4.483 (-1.35)
Tobin's Q	-1.121 (-0.75)	12.046** (2.03)	0.539 (0.34)
ROIC	0.321*** (2.87)	1.130** (2.18)	0.382*** (3.18)
Ln (firm age)	3.781* (1.89)	-17.020** (-2.08)	2.950 (1.37)
Ln (firm size)	6.746*** (5.18)	29.991*** (4.98)	9.067*** (6.48)
Leverage	-0.164** (-2.18)	-0.916*** (-2.60)	-0.211*** (-2.62)
Sales growth	-0.261*** (-3.31)	0.111 (0.39)	-0.195** (-2.42)
Beta	-6.969*** (-3.01)	0.129 (0.01)	-6.650*** (-2.68)
Intercept	-61.771* (-1.80)	-889.372 (-0.04)	-100.216*** (-2.69)
Industry dummies	YES	YES	YES
Year dummies	YES	YES	YES
Observations	1'213	1'213	1'213
Number of firms	187	187	187

Table 9

Pay-outs for founding family firms with second blockholders

This table contains results of random effects tobit regressions of pay-out variables measures. Dividend is the ratio of total dividends over earnings. The same ratio applies to a company which repurchased shares (repurchased amount over earnings) or if it paid out dividend or repurchased shares (dividend plus repurchase over earnings) in any given period. 2nd bh diff represents a dummy if in a family firm the difference between the first and second blockholder falls into the respective category. The remaining categories are dummies that equal one if the identity of the second blockholder in a family firm falls in the category. Wedge is measured as the ratio of voting rights divided by ownership rights held by a blockholder. Size is defined as the logarithm of total assets, age as the logarithm of years since foundation, leverage as total debt divided by total capital and systematic risk as beta calculated. ROIC equals net income over total capital, while Tobin's q is measured as the ratio of the firm's market value to total assets.

***, **, * shows significance at the 1%, 5%, 10% level respectively.

	Dividend		Repurchase		Pay-out	
	(1)	(2)	(1)	(2)	(1)	(2)
no 2nd bh	22.351*** (4.71)		-0.379 (-0.18)		22.632*** (4.46)	
2nd bh is an individual	11.026* (1.89)		-2.882 (-1.05)		7.584 (1.21)	
2nd bh is an industrial corp.	26.964** (2.54)		-2.674 (-0.51)		14.764 (1.29)	
2nd bh is a financial corp.	18.480*** (3.26)		2.642 (0.94)		20.971*** (3.45)	
2nd bh is miscellaneous	39.372 (1.41)		-4.789 (-0.38)		37.228 (1.23)	
no 2nd bh		22.286*** (4.72)		-0.761 (-0.36)		22.260*** (4.40)
2nd bh diff 0-20%		12.014* (1.86)		-1.019 (-0.31)		11.296* (1.64)
2nd bh diff 20-40%		14.664** (2.49)		2.158 (0.73)		13.162** (2.06)
2nd bh diff 40-60%		21.254*** (3.33)		-2.228 (-0.68)		20.136*** (2.90)
2nd bh diff 60% or more		19.249* (1.75)		-4.836 (-0.85)		15.658 (1.30)
Wedge	-3.835 (-1.20)	-3.067 (-0.99)	-1.991 (-1.45)	-1.764 (-1.32)	-4.957 (-1.45)	-4.629 (-1.38)
Tobin's Q	-1.156 (-0.77)	-1.188 (-0.79)	1.922*** (2.83)	1.849*** (2.73)	0.520 (0.32)	0.485 (0.30)
ROIC	0.318*** (2.84)	0.312*** (2.78)	0.068 (1.55)	0.067 (1.52)	0.381*** (3.17)	0.373*** (3.09)
Ln (firm age)	3.977** (1.97)	3.865* (1.93)	-1.313 (-1.55)	-1.289 (-1.53)	3.126 (1.44)	3.092 (1.43)
Ln (firm size)	6.664*** (5.10)	6.773*** (5.20)	1.973*** (3.68)	2.016*** (3.79)	8.935*** (6.37)	9.080*** (6.48)
Leverage	-0.168** (-2.23)	-0.166** (-2.20)	-0.033 (-0.97)	-0.034 (-1.02)	-0.211*** (-2.61)	-0.215*** (-2.65)
Sales growth	-0.256*** (-3.25)	-0.255*** (-3.24)	-0.005 (-0.18)	-0.006 (-0.20)	-0.191** (-2.37)	-0.189** (-2.34)
Beta	-6.617*** (-2.85)	-6.834*** (-2.94)	-0.062 (-0.05)	0.082 (0.07)	-6.338** (-2.55)	-6.489*** (-2.61)
Intercept	-60.646* (-1.75)	-62.319* (-1.81)	-26.847* (-1.80)	-27.945* (-1.89)	-99.032*** (-2.65)	-100.798*** (-2.70)
Industry dummies	YES	YES	YES	YES	YES	YES
Year dummies	YES	YES	YES	YES	YES	YES
Observations	1'212	1'212	1'213	1'213	1'213	1'213

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Abstract

This article examines founding family influence on pay-out policies for Swiss listed firms over the period 2003-2010. We find that founding family firms have higher dividends and total pay-outs than non-family firms. There is no significant difference between stock repurchases for the two types of firms. We show that specific firm characteristics such as active involvement of family members, the presence of only one or multiple family members or the existence of a second blockholder play an important role for pay-out policies in family firms. Firms using control enhancing mechanisms do not have significantly lower pay-outs. We propose three possible explanations for the observed pay-out policies: private benefit extraction, reputation building, and family legacy. Our findings appear to be consistent with the reputation building hypothesis.

Keywords

Founding family firms, dual-class shares, pay-out policy, dividends, share repurchases, minority shareholders, private benefits

JEL Classification

G32, G35

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