

Founders, Heirs, and Corporate Opacity in the U.S.

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We argue that information about firm activities can vary substantially in the presence of founder or heir ownership, thereby influencing the risks borne by minority investors. We explore two hypotheses with regard to these controlling shareholders and corporate transparency, focusing on their role as monitor in-place and their potential to exploit firm opacity to accrue private benefits of control. To test these notions, we create an opacity index that ranks the relative transparency of the 2,000 largest industrial U.S. firms and find founder and heir ownership in 22% and 25% of these firms, respectively. Our analysis indicates in large, publicly-traded companies that both founder and heir firms are significantly more opaque than diffuse shareholder firms. We also find that founder- and heir-controlled firms exhibit a negative relation to performance in all but the most transparent firms. Surprisingly, additional tests reveal that concerns about divergences in ownership versus control – management type, dual class shares, and board influence – appear to be substantially less important than corporate opacity in explaining the performance impacts of founder and heir control. Finally, we decompose corporate opacity into disclosure and market scrutiny components, finding that the disclosure quality component appears to be of greater importance to investors. However, irrespective of whether these controlling shareholders create and/or stay in the firm because of corporate opacity, our analysis suggests that founders and heirs in large, publicly-traded firms exploit opacity to extract private benefits at the expense of minority investors.

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I. Introduction

Corporate transparency represents an important tool or mechanism for minority investors in protecting their rights against controlling shareholders. Transparency affects the likelihood of investors detecting insider self-dealing and thus their ability to remedy or rectify such actions. Although regulators mandate extensive disclosure for publicly-traded U.S. firms, substantial variation still occurs across firms' information environments, depending on each firm's public disclosures, private information levels, financial analyst coverage, and market pundit following (Easley and O'Hara (2004)). Healey and Palepu (2001) for instance, describe how financial analysts collect information from both private and public sources, develop and disseminate information to investors, and thereby allow investors to make more timely decisions regarding firm activity. Firms, thus maintain different types of information dissemination structures as well as different relationships with information intermediaries; indicating pervasive differences in corporate opacity. In this study, we investigate the impact of founder and heir shareholders on corporate opacity and whether, and how, they use their influence to affect firm performance.

Founders and heirs potentially represent the most persistent and common types of large, undiversified shareholders in the U.S.; in aggregate, controlling about one-third of the S&P 500 and Fortune 500 industrial firms (Shleifer and Vishny (1986); Anderson and Reeb (2003), Villalonga and Amit, 2006)). Founder and heir control is further influenced through disproportionate board control, a long-term affiliation with the firm, management postings, and dual-class share structures (Zingales (1995), Shleifer and Vishny (1997), Anderson and Reeb (2004)). We argue that founders' and heirs' unique and dominant control positions provide particularly strong incentives to diminish corporate transparency. We explore two hypotheses with regard to these controlling shareholders and transparency, focusing on the dominant effect of their role as monitor in-place or their potential to exploit firm opacity to accrue private benefits of control.

Our first hypothesis centers on the notion that founders and heirs affect corporate transparency to entrench themselves and extract private benefits of control. Prior literature emphasizes that corporate transparency acts as a crucial component of investor protection in reducing agency conflicts between large shareholders and minority investors.¹ Founders and heirs may thus possess incentives to restrict information flow on firm activities. Lang, Lins, and Miller (2004) for instance, argue that controlling shareholders often attempt to conceal their wealth entrenchment activities and discourage external intervention by disclosing limited or distorted information. Leuz, Nanda, and Wysocki (2003) observe that controlling shareholders have incentives to restrict corporate transparency to facilitate their private benefits of control. More generally, opacity affects the ability of outside investors and analysts to police controlling-shareholder opportunism (Faccio, Lang, and Young, (2001)). The entrenchment hypotheses thus, indicates that founders and heirs possess strong incentives to foster and exploit firm opacity, granting them greater ease in extracting firm resources at minority shareholder expense. If so, we expect to observe a positive relation between founder and/or heir ownership and corporate opacity.

Yet, a plausible alternative focuses on the extraordinary position of founders and heirs to monitor and discipline managers (Anderson and Reeb, (2003)). Shleifer and Vishny (1986) suggest that large shareholders have the incentive to collect information and the power to monitor managers. Demsetz and Lehn (1985) argue that the undiversified nature of founder or heir ownership provides compelling economic incentives to promote firm welfare and value. Shleifer and Vishny (1997) also note that concentrated ownership acts to leverage-up the legal protection afforded shareholders, concluding that large shareholders can address the agency problems created by the separation of ownership and control. Founders or heirs, acting as committed monitors with relatively undiversified stakes in the firm, may provide control and oversight that substitute for the disciplinary role of

¹ La Porta et al. (1997, 1998), Claessens, Djankov, and Lang (2000), La Porta et al. (2000), Claessens et al. (2002), Dyck and Zingales (2002), and Djankov et al. (2008) indicate that the degree of legal protection afforded outside investors plays an important role in understanding the costs associated with large shareholders. Corporate transparency represents one component of investor protection because disciplinary action against controlling owners depends on both legal enforcement and the capacity to observe opportunistic behavior.

transparency. Further, if these controlling shareholders act as effective monitors, corporate opacity potentially provides competitive and cost advantages to the firm. These benefits arise because firms incur fewer expenses in generating and disclosing information and by reducing the amount of valuable operational information that corporate rivals can acquire. Founder and/or heir presence as such, provides an additional governance layer, mitigating the need for greater transparency relative to diffusely-held firms. In this context, founder or heir interests may be aligned with those of outside shareholders in limiting agency problems and protecting firm welfare. This monitor in-place perspective also suggests a positive relation between founder and heir ownership and corporate opacity.

Our analysis thus far generally indicates that founders and heirs uniquely differ from other investors because of the undiversified nature of their holdings, their historical ties with the firm, and their control of director and management postings within the firm. Prior research indicates that founders, relative to heirs, can exert a differential effect on outside investors (Morck, Shleifer, and Vishny, (1988); Villalonga and Amit, (2006)). Founder firms are likely atypical of heir-controlled firms as suggested by their rise to prominence as a large, publicly-traded company over a relatively short time frame (Johnson et al. (1985); Morck, Strangeland, and Yeung (2000)).² In contrast, heir control potentially arises because of founder or founder-descendant ties rather than merit, with heirs being less able and less committed to the firm than the founder (Morck and Yeung (2003); Perez-Gonzalez (2006)). These potential differences between founder- and heir-controlled firms suggest that the monitoring hypothesis may be more relevant to founders while the entrenchment hypothesis applies more aptly to heirs. However, to the extent that founders and heirs hold similar incentives, the hypotheses may apply uniformly to both types of firms.

Both the monitoring and entrenchment arguments suggest a positive relation between founder and/or heir shareholders and corporate opacity. However, the entrenchment hypothesis suggests

² A potential selection bias arises when examining founder-controlled firms in a sample of large, publicly-traded companies. Specifically, we only observe founder firms that grew rapidly thus excluding those with slower growth or those that failed; suggesting that our sample of founders firms are atypical of the overall population of founder-controlled firms. Similarly, the heir-controlled firms in our sample may not be representative of generic heir ownership.

corporate opacity allows these controlling shareholders to accrue private benefits of control. As firms become progressively less transparent, founders or heirs use their extensive control and influence to extract firm resources with less likelihood of reprisal or interference by outside shareholders or regulators. The entrenchment hypothesis thus suggests a negative relation between founder or heir ownership and firm performance as corporate opacity increases. In contrast, the monitoring argument indicates a positive relation between founder or heir presence and performance as firms become increasingly opaque. Specifically, acting as committed monitors, these controlling shareholders provide beneficial oversight that protects their own interests as well as that of outside shareholders; suggesting valuation premiums relative to diffuse firms as corporate opacity increases. In sum, to differentiate between these non-mutually exclusive arguments, we examine whether the interaction of founder and/or heir ownership and corporate opacity affects outside shareholder wealth.

The monitoring and entrenchment hypotheses imply that corporate opacity flows from founder or heir ownership. However, founder or heir ownership could instead be a function of corporate opacity with greater opacity leading to their continued ownership, suggesting a potential reverse causality concern. If founder or heir ownership flows from opacity, the monitoring hypothesis suggests that these controlling shareholders stay to monitor firm activity, leading to better performance (Anderson and Reeb (2004)). The entrenchment hypothesis also continues to indicate that even if opacity leads to founder or heir ownership, these owners remain in the firm to exploit minority shareholders, leading to poorer performance (La Porta et al (2002), Burkart et al (2003)). Irrespective of whether founders and/or heirs create opacity or remain in the firm because of opacity, our monitor in-place and entrenchment hypotheses predict opposite signs for the relation between these controlling shareholders' ownership stakes and firm performance as opacity increases. Consequently, while we cannot completely determine whether founders or heirs create and/or stay in the firm because of corporate opacity, the monitor in-place and entrenchment hypotheses attempt to distinguish the

dominant effect that these controlling shareholders have as a monitor in-place and/or an extractor of firm resources.

Finally, recent research indicates that founders or heirs use other mechanisms – beyond their cash flow rights – to magnify their power and influence in the firm (Claessens et al. (2002), Cronqvist and Nilsson (2003), Anderson and Reeb (2004), and Villalonga and Amit (2006)). In opaque environments, control-enhancing mechanisms (e.g. board power, dual-class shares, and management positions) provide the founder or heir with additional means or mechanisms to pursue their goals within the firm. In particular, if these controlling shareholders seek to extract firm resources for their private benefit; these mechanisms facilitate the process by magnifying or amplifying their influence relative to outside investors. In contrast, if founders or heirs act as monitors in-place, these mechanisms provide them with an additional layer of power that enhances their monitoring, indicating an increasingly positive relation between these control mechanisms and firm performance.

We test these arguments using the 2,000 largest U.S. firms from 2001 through 2003. Of our total sample, founder-controlled firms constitute 22.3% and heir-controlled firms comprise 25.3% with average equity stakes of approximately 18% and 22%, respectively. The analysis further indicates that founder-controlled firms tend to be smaller, riskier, and more R&D intensive than manager or heir-controlled firms. We develop an opacity index to gauge the relative opaqueness of our sample firms and find that both founder and heir ownership exhibit a significant and positive relation to opacity. Our results indicate that these firms, on average, are about 5% more opaque than their management controlled counterparts. Segregating the controlling shareholder firms into founder-managed, heir-managed or professionally-managed suggests these distinctions do not substantively affect the relation; founder and heir firms exhibit greater opacity than diffusely-owned firms.

The positive links between founder and heir ownership and corporate opacity provides evidence consistent with both the entrenchment and monitoring hypotheses. To determine which effect dominates, we examine whether the interaction of founder or heir ownership and corporate

opacity influences outside shareholder wealth. The results indicate that the reported findings of a positive relation between performance and founder or heir ownership for U.S. firms appears to be limited to those firms with the highest levels of corporate transparency. Restricting our analysis to only those firms in the S&P 500 and the Fortune 500 indicates that founder and heir ownership bears a positive relation to performance. Outside of these highly visible and transparent firms however, we find no evidence of a founder or heir premium. Further examination reveals a negative relation between firm value and founder and/or heir control amongst less transparent firms; indicating a founder or heir discount. Taken together, these results suggest that the entrenchment effect dominates the monitoring effect in publicly-traded U.S. firms; implying that outside investors only value founder or heir presence when it is coupled with a high level of financial transparency.

The analysis further indicates that the concerns over active and passive control, the use of dual class shares, and board power appear to be much less important than corporate opacity in understanding the value impacts of founder or heir ownership amongst U.S. firms. Our results indicate that control enhancing mechanisms in founder and heir firms can either positively or negatively affect minority investors, depending on the level of corporate opacity. We find that in transparent firms, founder-managed, heir-managed, professionally-managed, and dual-class firms exhibit better performance relative to diffuse shareholder firms. In contrast, in firms with greater opacity, founder and/or heir use of control enhancing mechanisms is associated with worse performance than found in diffusely-held firms. The evidence suggests that in transparent founder and/or heir firms, the monitor in-place hypothesis appears to be the dominant effect with control-enhancing mechanisms facilitating the process. Conversely, corporate opacity appears to be associated with severe conflicts of interests between founder and/or heir shareholders and outside investors.

Lastly, we examine the source of opacity and consider the relative value impacts of the major informational components of our opacity measure. Specifically, we decompose our corporate opacity index into an internal opacity component and an external opacity component. Our results suggest that

internal opacity or disclosure quality appears to be the primary extraction channel in founder-controlled firms. However, in heir firms, both components of corporate opacity play important roles in allowing extraction of firm resources. Further analysis suggests that in heir-controlled firms, outside investors place greater valuation discounts on opacity arising from heir control than opacity attributable to lack of market scrutiny. Overall, our findings suggest that irrespective of its source, founder and heir firms are significantly more opaque than diffuse shareholder firms and this opacity is associated with greater conflicts of interest between controlling shareholders (founders or heirs) and outside shareholders.

2. Data and Sample

2.1. The Sample

For our empirical investigation, we use the 2,000 largest industrial firms in the United States as of December 31st, 2001. To collect the sample, we extract all firms from COMPUSTAT and rank these based on total assets as of year-end 2001. We exclude financial firms and public utilities due to the difficulty in calculating a proxy for Tobin's Q and because government regulation potentially affects firm ownership structure, corporate opacity, and performance. We manually collect data from corporate proxy statements from 2001 through 2003 on founder and heir characteristics, including ownership level, dual-class share structures, and CEO classification (founders, heirs, and professional or hired-hand CEOs). The final sample consists of the largest 2,000 industrial U.S. firms from 2001 through 2003, yielding 5,609 firm-year observations.

2.2. Measurement of Main Variables

2.2.1. Founder and Heir Firms

Founder-controlled firms are those where the founder continues to maintain a presence in the firm either as a shareholder, top level manager (CEO, chief technical officer, etc.), director, or as chairman of the board. Heir-controlled firms are those where the founders' heirs maintain an equity

position, serve on the board, or serve as a top level manager. To be classified as founder- or heir-controlled, the founder or heir does not necessarily need to serve as the firm's CEO, rather the classification refers to founders (or heirs) maintaining influence in the firm – primarily through an equity stake. In the empirical analysis, we examine founder-controlled and heir-controlled firms separately, and also as a combined group.

To measure founder or heir presence, similar to McConnell and Servaes (1990), we use the fractional level of founder or heir ownership. Specifically, we determine the total number of shares held by founders and heirs, and divide by total outstanding shares. Our results are robust to using a dummy variable at the 1% level and 5% level to denote founder or heir firms (Anderson and Reeb, (2003); Villalonga and Amit, (2006)). For firms with dual class share structures, we use the controlling shareholders' total voting power as a measure of their influence.³

The analysis also incorporates three devices or tools that controlling shareholders' use to create divergences in ownership and control. Specifically, we investigate the use of dual-class share structures, founder or heir board representation, and founder or heir management. Across our sample of the 2,000 largest U.S. firms, we find dual-class share structures in 143 firms, including tradable and non-tradable classes. We use a continuous variable based on total founder or heir voting power to assess the effect of dual-class shares structures. Founders and heirs can also gain additional control by holding disproportionately more board seats than their ownership would imply. To measure founder or heir board control, we calculate the number of board seats held by the founder, heir, and their relatives and divide by their total voting power. Finally, founders and heirs can gain incrementally more power and influence in the firm relative to other shareholders by holding the CEO post. We delineate

³ Studies using non-U.S. data typically use minimum thresholds for founder or heir ownership (e.g. 10%, 20%, or 50%) to delineate between these controlling shareholders and diffuse shareholder firms (Claessens et al, (2000); Dyck and Zingales, (2002)). Our analysis using U.S. firms places no minimum ownership threshold and instead uses a continuous measure of founder or heir ownership. While we believe this approach is sensible in the U.S. where 20% ownership blocks are relatively rare (La Porta et al, (1999)), it may not be appropriate in countries where larger control stakes are more common. Shleifer and Vishny (1997) indicate that the size of the equity stake needed for firm control depends on the degree of legal protection afforded to shareholders; suggesting that the appropriate threshold for delineating control stakes depends on the specific country or legal system.

three CEO types in founder-controlled and heir-controlled firms: founder CEO, heir CEO, and professional manager or hired-hand CEO.

To ascertain founder or heir ownership and involvement, we examine corporate proxy statements and company histories for each firm in our sample to determine the founder, their subsequent lineage, and their involvement with the firm. Corporate histories for each firm in our sample come from Gale Business Resources, Hoovers, and from individual companies. In our analysis, we compare founder-controlled and heir-controlled firms against diffusely-owned, manager-controlled firms (the omitted variable which we label as diffuse firms). Blockholders such as mutual funds, insurance companies, private equity groups and other investment institutions often maintain stakes in many of the sample firms (Tufano (1996)). In our primary analysis, we include blockholders as part of the atomistic or outside shareholder group for all three of our firm categorizations (diffuse, founder, or heir).⁴

2.2.2. *Firm Performance*

We use Tobin's Q as our measure of firm performance. Following earlier studies, Tobin's Q is calculated as the market value of total assets divided by the book value of total assets. We develop a proxy for the market value of total assets by summing the market value of equity plus the book value of preferred stock plus the book value of debt. For firms with multiple share classes, we calculate the

⁴ An alternative approach is to include a control variable in our multivariate analysis to capture the impact of other large shareholders on corporate opacity and firm performance. The fractional level of equity ownership held by other blockholders is available in the Wharton Research Services Database for 768 of the 2000 firms in our sample. Blockholders maintain equity stakes of 16.5%, 18.0%, and 19.4% in founder, heir, and diffuse firms, respectively. Our subset analysis indicates that these blockholdings appear not to affect the level of firm opacity (positive but insignificant coefficient estimate ($t=1.04$)) or firm value (negative but insignificant coefficient estimate ($t=0.01$)). Further, when including blockholdings, the coefficient estimates for the founder and heir variables continue to exhibit the same signs and general levels of statistical significance as reported in our main tables; suggesting that outside blockholdings do not affect the relation between founders or heirs and opacity, and founders or heirs and firm value.

market value of equity as the total number of shares of all classes by the share price of the tradable class. If a share class does not trade, we use the share price of the trade-able class as a proxy for its price.⁵

2.2.3. *Corporate Opacity*

For our analysis, we develop an index that ranks the relative opacity/transparency of each firm in the sample. To develop the index, we rank or categorize four individual proxies for opacity (trading volume, bid-ask spread, analyst following, and analyst forecast errors) into deciles with the most opaque firms taking a value of 10 and the least opaque firms assuming a value of one. The four rankings are then summed and scaled by a factor of 40 (total possible points) to provide an index that ranges from 0.1 to 1.0; lower values denote more transparent firms and higher values denote more opaque firms. The index provides a relatively robust measure of opaqueness since it averages across multiple measures and includes inputs from market trades and analyst coverage.

The first input into the index, trading volume, provides a proxy for information uncertainty and asymmetry (Leuz and Verrecchia (2000) and Lo et al. (2004)). Trading volume is the natural logarithm of the average daily dollar volume during the fiscal year. Our second input is the bid-ask spread. Diamond and Verrecchia (1991) among others suggest the use of bid-ask spreads as a proxy for information asymmetry among investors. We compute the bid-ask spread as the ask price minus the bid price divided by the average of the bid and the ask prices. To compute a measure of the bid-ask spread, we average all trades for each firm from the third Wednesday of each month and then calculate a yearly average based on these 12 observations. Because of the large number of observations associated with trading data, we limited our analysis to one-trading day per month and then averaged the monthly data across each year. We chose the third Wednesday of each month to eliminate lost data due to holidays and minimize day of the week effects.

⁵ In alternative testing, we eliminate the 143-firms with dual-class share structures and re-run our analysis with only single-class founder and/or heir firms against diffusely-held firms. The results of this analysis are essentially the same as those reported in Tables II through VI. Another approach is to value the superior voting shares with a premium, which empirically has been found to be around 6.5 % (Zingales (1995)). We find similar results using this approach as well.

Our next two inputs into the opacity index are based on equity analyst following and analyst errors in forecast estimates. First, we use the natural logarithm of the number of analysts following each firm to capture the intensity of market scrutiny. Analyst following ranges from zero to 41. Barry and Brown (1985) and Botosan et al. (2004) suggest that errors in stock analyst estimates provide a proxy for firm information availability. We measure analyst forecast error as the square of the difference between the mean analysts' earnings forecast and actual firm earnings scaled by the firm's stock price. The number of analyst following a firm and analysts' forecasts are garnered from I/B/E/S data and taken three quarters before each firm's fiscal year-end.

2.2.4. Major Informational Components of Corporate Opacity

Our opacity measure likely reflects both an internal component (founder, heir or firm) and an external component (market). To gain better insights into this issue and to help address the direction of causality, we decompose the opacity index into two components; a disclosure quality component or internal opacity and a market scrutiny component or external opacity. Specifically, our decomposition takes the form:

$$\text{Opacity Index} = a_0 + \beta_1 (\text{Disclosure Quality Control Proxies}) + \varepsilon$$

In the equation, we employ proxies that capture the level of disclosure and dissemination that firms (and founders or heirs) provide to the market. The residual, ε , then captures the portion of the opacity index attributable to the market while the rest represents internal opacity. We use three proxies for internal disclosure quality; (i) Corporate Governance Quotient (CGQ), (ii) earnings quality and (iii) difference in EPS from year t-1 to year t. Institutional Shareholder Services (ISS) provides a governance ranking system that ranks companies based on 63 different issues relating to boards of directors, audit structure, anti-takeover provisions, and compensation/ownership structure. This information is generated using the firm's annual reports and regulatory filings such as proxy statements and 10-Ks. Because firms control these governance factors and because these factors likely affect

corporate opacity/transparency, we contend that the CGQ provides a robust metric for ascertaining founder, heir, or managerial influence on the opacity index. Our second measure of disclosure quality is based on earnings quality. Following prior accounting literature (e.g., Dechow and Dichev (2002) and Francis et al. (2004)), we measure earnings quality by capturing the mapping of current accruals into last period, current period, and next period cash flows. Because this measure denotes accounting quality, it represents internal opacity controlled by the founder, heir or firm. Finally, our third measure, difference in EPS from year t-1 to year t provides a naïve estimate of earnings quality. Accounting studies (e.g., Burgstahler and Dichev (1997); Degeorge et al. (1999)) suggest that managers may have differing incentives to release information based on increases in EPS or to avoid negative earnings.

We believe that examining the relative value impacts of both major components of corporate opacity provides important insights on the effect of the interaction between founder or heir influence and corporate opacity on firm performance. Yet, as an alternative and separate measure of transparency, we also examine firms included in major market indices or heavily followed by media outlets. Anderson and Reeb (2003) and Villalonga and Amit (2006) investigate the characteristics of founder or heir ownership for firms in the S&P 500 and Fortune 500, respectively. Firms included in these lists receive a great deal of market scrutiny and maintain high levels of information availability. We develop a dummy variable that equals one when firms are included in the S&P 500 or Fortune 500, and zero otherwise.

2.3. Control Variables

Based on prior studies, we control for other factors that potentially affect firm value, founder or heir ownership, and corporate opacity (Bhushan (1989), Lang and Lundholm (1996), Healy et al. (1999), and Barth et al. (2001)). These include variables that control for industry and firm characteristics. We include the natural log of the book value of total assets to control for firm size. Growth opportunities are measured as the ratio of research and development expenses to total assets. Firm risk is calculated

as the standard deviation of monthly stock returns for the prior 36 months. The leverage of the firm is measured by dividing long-term debt by total assets. We also include firm age as the natural log of the number of years since the firm's inception. Prior period performance is calculated as return on assets from t-1, measured as net income scaled by the book value of total assets from the previous year. Finally, we include dummy variables for each 4-digit SIC code and for each year of the sample.

2.4. Summary Statistics

Table I provides three panels of summary statistics for our sample of firms. Panel A shows means, medians, standard deviations, minimum, and maximum values for our variables. Panel B presents differences of means tests between: (i) heir-controlled firms and diffuse shareholder firms, and (ii) founder-controlled firms and diffuse shareholder firms. Panel C provides a correlation matrix for the key variables across the full sample.

The sample comprises the 2,000 largest U.S. firms as of year-end 2001 and spans from 2001 through 2003 yielding 5,609 firm-year observations. Heir-controlled firms account for 1,421 (25.3%) observations, founder-led firms account for 1,251 (22.3%) observations, and diffuse shareholder firms represent the remaining 2,937 (52.4%) observations. Within the heir-controlled firms, heirs hold the CEO post for 728 observations and professional managers or hired-hands serve as CEO in 693 observations – approximately a 50/50 split between heir managers and professional managers. Founder-controlled firms present a somewhat different picture. Founders, founders' children, and professional managers hold the CEO post 80.5%, 1.9%, and 17.6% of founder firm observations. In terms of ownership, heir-controlled firms hold 22.1% of the firm's equity and founder-led firms maintain an average equity stake of 17.7%.

Firm size varies considerably across the full sample of 2,000 firms with average total assets of \$4.2 billion and a corresponding median of \$748 million. Minimum and maximum values for total assets are \$89 million and \$647 billion, respectively. In terms of performance, the average firm in our

sample has a return on assets, based on EBITDA, of 11.4%. Tobin's Q, our measure of market performance, has a mean value of 1.66 with a minimum and maximum value of 0.34 and 7.90. The average firm is 45 years old, indicating that some relatively young firms (minimum of 2.0 years) populate the sample along with older, mainline firms (maximum of 259 years).

Panel B presents differences of means tests between heir-controlled firms and diffuse shareholder firms, and founder-controlled firms and diffuse shareholder firms. Relative to diffuse shareholder firms, heir firms tend to be about the same size and use the same amount of debt. However, heir firms are significantly less risky, less R&D intensive, and better performers (accounting measure) than diffuse shareholder firms. We also present a means test for founder-controlled firms relative to diffuse shareholder firms. Founder firms tend to be relatively small (total asset of \$1.4 billion versus \$5.4 billion), fairly young (20.3 years versus 49.7 years), risky (return volatility of 21.7% versus 17.1%), and highly R&D intensive (R&D to assets ratio of 5.52 versus 4.10). These firms on average, also exhibit higher market valuations than diffuse shareholder firms (Tobin's Q: 1.90 versus 1.62). Overall, the characteristics of founder firms tend to be quite different from either diffuse shareholder firms or heir-controlled firms⁶.

Founder and heir firms appear to be generally more opaque than diffuse shareholder firms. Their shares trade less than those in diffuse shareholder firms and exhibit significantly less analyst following; however, we note that in a univariate setting the analyst forecast errors are somewhat smaller in founder or heir firms relative to diffuse shareholder firms; the difference is not significant at conventional levels. The opacity index, our composite measure, indicates again that founder and heir firms are significantly more opaque than diffuse shareholder firms. Opacity levels for diffuse, heir, and founders firms are 0.56, 0.64, and 0.62, respectively. However, we find no significant difference in opacity, based on the index, between founder and heir firms. Our decomposition of the opacity index

⁶ In analyses not presented, we also conducted t-tests to examine the difference between founder-controlled firms and heir-controlled firms. The results indicated that founder firms are smaller, riskier, and poorer (better) performers based on accounting (market) measures than heir firms. However, we find no significant difference in opacity, based on the index, between founder and descendant firms.

into a disclosure quality component (internal) and a market scrutiny component (external) indicates that irrespective of its source, founder or heir firms appear to be much more opaque than diffuse shareholder firms.

Finally, Panel C shows a correlation matrix for some of the key variables in the sample. Confirming our earlier evidence, founder and heir firms appear to be generally more opaque than diffuse shareholder firms. Specifically, we find a negative relation between founder or heir presence and the number of shares traded and number of analyst following the firms. Founder or heir firms also exhibit a positive relation to bid-ask spreads and our composite measure, the opacity index, shows that founder or heir firms bear a positive association to opacity. Because firm size, age and other attributes likely affect corporate opacity and performance, we examine our main hypotheses using a multivariate framework.

3. Multivariate Analysis

3.1. Founders, Heirs, and Corporate Opacity

The monitoring hypothesis and the entrenchment hypothesis predict that founder and/or heir ownership bears a positive relation to firm opacity. To examine this proposition, we estimate the following regression model:

$$Firm\ Opacity = \beta_0 + \beta_1(Founder\ or\ Heir\ Firm) + \beta_2(Control\ Variables) + \beta_3(Industry\ Controls) + \beta_4(Year\ Controls) + \varepsilon \quad (1)$$

Where;

Firm Opacity = Opacity index comprising four measures of opacity (e.g., trading volume, bid-ask spread, analyst following, and analyst error).

Founder or Heir Firm = The fractional ownership level of heirs, founders, or the aggregate of heirs plus founders.

Control Variables = Natural log of total assets; asset tangibility (R&D expenses divided by total assets); firm risk (stock return volatility); performance_{t-1} (return on assets); debt ratio (long-term debt divided by total assets); natural log of firm age.

Four-Digit SIC Code = one for each four-digit SIC code in our sample.

Year Dummy Variables = one for each year of our sample.

We control for serial correlation and heteroskedasticity using the Huber White Sandwich Estimator (clustered on firm level identifier) for variance.⁷

Table II presents three sets of results. In column 1, we aggregate founder and heir ownership into a single variable. Column 2 examines founder-controlled firms and column 3 investigates heir-controlled firms. For the regressions, diffuse shareholder firms are the omitted variable. Consistent with both the monitoring and entrenchment hypotheses, we find that founder ownership, heir ownership and the aggregate of founder and heir ownership exhibit a positive relation to firm opacity.

Evaluating opacity levels at the 50th percentile of founder and heir ownership (20.1% equity stake) suggests that founder and heir firms are about 5.6% more opaque than diffuse shareholder firms. We calculate this differential as the coefficient estimate on β_1 multiplied by founder plus heir ownership, divided by the average opacity for the sample $((0.155*0.201)/0.56)$. When segregating into founder- and heir-controlled, we find that both categorizations exhibit greater opacity levels than diffuse shareholder firms. In a regression not shown, we include both founder-controlled and heir-controlled firms in the same regression and examine the equality of the coefficient estimates. The results of the F-test (F-value=0.68, p=0.41) indicate that opacity levels do not differ between heir and founder firms. Overall, our analysis indicates that founder and heir firms appear to be significantly more opaque than diffuse shareholder firms; lending support to both the monitoring and entrenchment hypotheses.

3.2. Corporate Opacity, Founder or Heir Ownership and Firm Value

The results thus far indicate that founder and heir firms are more opaque than their diffuse shareholder counterparts. To determine the dominate effect between monitoring or entrenchment, we examine whether the interaction of founder or heir ownership and corporate opacity influences outside shareholder wealth. If the monitoring role dominates the entrenchment effect, then we expect to

⁷ Zhou (2001) notes that because ownership changes slowly from year-to-year, firm level fixed effects are unlikely to detect a relation between performance and ownership even if one exists. Consequently, we used a fixed-effects model with effects at the four-digit SIC code level and year level. In robustness testing, we truncated the variables at the 1% and 5% level and examined median regressions to investigate the possibility that outliers were driving our results. We find results similar to those reported in the tables.

observe a positive relation between founder and/or heir ownership and firm value as corporate opacity increases. Alternatively, if the entrenchment effect is more prominent than the monitoring effect, then we expect a negative relation between founder and/or heir ownership and firm value as corporate opacity increases. To empirically examine these propositions, we estimate the following regression equation:

$$Performance = \beta_0 + \beta_1 (Heir\ Ownership, Founder\ Ownership, or\ the\ Aggregate\ of\ Heir\ and\ Founder\ Ownership) + \beta_2 (Opacity) + \beta_3 (Respective\ Ownership * Opacity) + \beta_4 (Control\ Variables) + \varepsilon \quad (2)$$

Where;

Performance = Tobin's Q
Other variables are as defined earlier.

Table III presents three sets of regression results. Columns 1 and 2 show a specification with founder and heir ownership aggregated into a single variable. Columns 3 and 4 display results for founder-controlled firms and the last two columns, 5 and 6, show results for heir-controlled firms. The coefficient estimate on the stand-alone opacity index (β_4) indicates as expected, that investors place large discounts on corporate opacity. The coefficient estimates on the stand-alone founder plus heir ownership, founder ownership, or heir ownership variables are positive and significant (β_1 , β_2 , and β_3); suggesting that in highly transparent environments (low levels of opacity), founder or heir ownership appears to be associated with improved performance relative to diffuse shareholder firms. The interaction terms between opacity and the founder or heir ownership variables (β_5 , β_6 , and β_7) however, indicate that as corporate opacity increases, founder ownership, heir ownership, or the aggregate of the two exert a negative effect on firm performance. From an economic perspective, our analysis indicates that opaque founder or heir firms suffer discounts of 5.0% relative to diffuse shareholder firms of equal opacity (based on the results in column 2 at the 50th percentile of founder or heir ownership).

Although performance significantly deteriorates in both founder-controlled and heir-controlled firms as opacity increases, the analysis indicates some differences between the two types of firms. Specifically, we note that as opacity increases by 10% in an heir-controlled firm, performance decreases by 5.4% more than would be experienced in a diffuse shareholder firm (column 6). A similar increase

in opacity for a founder firm, results in performance falling by 2.1% more than in a diffuse shareholder firm (column 4); suggesting investors view opacity as more detrimental in heir firms than in founder firms.⁸ In a regression not reported, we combine the variables from columns 4 and 6 (Table III) into a single model and test for the equality of coefficients on β_6 and β_7 . The analysis indicates that as opacity increases, firm performance suffers significantly more under heirs than founders ($F=6.72$, $p=0.01$). In aggregate, the evidence on founders and heirs appears to be inconsistent with the monitoring hypothesis but consistent with the entrenchment argument.

Table IV provides additional evidence on the impact of opacity and its effect on the relation between founder or heir ownership and firm value. Prior research investigating the value effects of founder or heir ownership examined firms in the S&P 500 Index and Fortune 500 listing, (Anderson and Reeb (2003) and Villalonga and Amit (2006)). Firms in both of these rankings tend to be large and highly visible; suggesting that based on our prior results, transparency potentially plays an important role in understanding any valuation premiums. In Table IV, we introduce two binary variables that denote firms in the S&P 500 Index and the firms in the Fortune 500 listing. We then develop interaction terms between both of these variables and founder, heir, and the aggregate ownership. The interaction terms capture valuation differences for founder or heir firms included in these rankings relative to diffuse shareholder firms in the rankings.

We find that founder or heir firms in the S&P 500 and Fortune 500 rankings generally exhibit significantly positive relations to firm performance (β_6 through β_{11}).⁹ Outside of these highly visible, large firms however, founder or heir ownership appears to bear no relation to performance.

⁸ We calculate these changes using Table III, columns 4 and 6 and at the 75th percentile of founder or heir ownership (31.3%). For heir firms: $\Delta Q = \beta_7(\text{Heir Ownership} * \Delta\text{Opacity Index}) / (\text{Average Q for Entire Sample}) = (-2.844 * .313 * 0.10) / (1.66) = -5.36\%$. For founder firms: $\Delta Q = \beta_6(\text{Founder Ownership} * \Delta\text{Opacity Index}) / (\text{Average Q for Entire Sample}) = (-1.096 * .313 * 0.10) / (1.66) = -2.07\%$.

⁹ To assess the total effect of founder or heir ownership for firms in the S&P 500 or Fortune 500 ranking, the relevant test is to examine the joint probability of the specific ownership variable plus the ownership variable multiplied by the respective ranking. F-tests for regressions in column 1 through 6 indicate that all types of founder or heir ownership in both the S&P 500 and Fortune 500 are significantly different from zero; suggesting valuation premiums relative to diffuse shareholder firms out of these rankings.

Specifically, outside of S&P 500 and Fortune 500 firms, the coefficient estimates on founder ownership, heir ownership or the aggregate are insignificant with the exception of founders in column 3. Overall, our analysis indicates that corporate transparency and its disciplining effect appears to play an important role in the relation between founder or heir ownership and firm performance.

3.3. Corporate Opacity and Divergences in Ownership and Control

Beyond their presence or ownership levels, founders and heirs often use other mechanisms to enhance their control or influence within the firm. We consider three such mechanisms – dual class shares, board representation, and founder or heir management – and their interplay between performance and corporate opacity. Table V, Panel A, presents results examining dual class shares. Because only 143 founder or heir firms (42 founder-controlled and 101 heir-controlled) or 414 firm-year observations employ dual-class share structures, we construct a control sub-sample to use as a benchmark to gauge the effect of dual-class shares on performance/opacity. To construct the control sample, we choose two firms with single-class share structures, no founder or heir ownership, and that match within $\pm 10\%$ of total assets of the experimental firm and within the same 2-digit SIC industry code. The total subset sample consists of 1, 230 firm-year observations: 414 dual-class founder or heir firms and 816 single-class diffuse shareholder firms. Arguably, a better test would be to compare dual-class diffuse shareholder firms to dual-class founder or heir firms but we only find five diffuse shareholder firms with dual-class share structures.

Panel A of Table V shows dual-class regressions for the aggregate of founder and heir control, (column 1), founder-controlled firms (column 2) and heir-controlled firms (column 3). We develop interaction terms between the three measures of founder or heir ownership and corporate opacity. Interestingly, regardless of the founder or heir firm categorization, our results indicate that dual-class share structures (by themselves), appear not be associated with poor performance or valuation discounts. The coefficient estimates on Dual-Class Founder plus Heir Ownership (β_1), Dual-Class

Founder Ownership (β_2) and Dual-Class Heir Ownership (β_3) bear significantly positive relations to firm performance. However, as corporate opacity increases, we find that dual-class share structures within founder or heir firms begin to exert a negative or detrimental effect on the firm (β_3). Although both founder and heir use of dual-class share structures exhibit significantly, negative relations to performance as opacity increases (β_6 and β_7), we note that the heir effect tends to be worse than the effect associated with founder-controlled firms. Our analysis suggests that relative to a diffuse shareholder firm, an increase in opacity of 10% for a dual-class founder-controlled firm results in a 5.2% decrease in firm performance. A similar increase in an heir firm leads to a 7.2% decrease in performance (based on columns 2 and 3 and at the 50th percentile of founder or heir voting power in dual-class firms).

Panel B of Table V provides an alternative metric to assess the effect of divergences in ownership and control for founder or heir firms. In particular, we compute a ratio of founder or heir board representation to founder or heir ownership (the fraction of board seats held by founder or heir members divided by fractional voting power of the founder or heir). The ratio within founder plus heir, founder-controlled, and heir-controlled is 2.41, 2.80, and 1.92, respectively; suggesting that these controlling shareholders hold about twice as many board seats as their ownership would imply. For the regressions in Panel B of Table V, we do not report the coefficient estimates on the control variables in order to reduce space requirements.

The results provide evidence similar to that observed for dual-class shares. Specifically, the stand-alone variables for Founder or Heir Board Seats to Founder or Heir Ownership (β_1 , β_2 , and β_3) suggest that in more transparent firms, disproportionate founder or heir board representation bears a positive relation to firm performance. The interaction terms (β_5 , β_6 , and β_7) however, suggest that as corporate opacity increases, greater founder or heir influence bears a strong negative relation to firm value. We note that the effect of disproportionate board representation, similar to dual-class shares, is stronger in

heir-controlled firms than in founder-controlled firms; suggesting that as opacity increases, investors view heir board control as more detrimental to firm performance than founder board control.

Overall, we interpret the evidence from dual-class share structures and founder or heir-board representation to suggest that corporate transparency plays an important role in alleviating agency or moral hazard conflicts between founder or heir shareholders and outside investors. Coupled with the disciplining effect of transparency, these control mechanisms provide benefits to the firm that result in valuation premiums. But, in more opaque settings, mechanisms that grant greater power and influence increase the likelihood or ability of the founder or heir to extract private rents from the firm.

Anderson and Reeb (2003) and Villalonga and Amit (2006) argue that the severity of agency problems associated with founder or heir ownership vary according to the elements of firm management. We consider the effects of management type, and its interaction with corporate opacity on firm performance. Panel C of Table V reports the results. Again, we do not report the control variables in order to reduce space requirements.

Founders, heirs, and professional managers maintain the CEO post for 37.7%, 28.1%, and 34.2% of the aggregated founder-controlled and heir-controlled firms, respectively.¹⁰ The regression results in Panel C also include the level of founder and heir ownership and its interaction with opacity. Similar to the regressions reported in Table III, we find that in transparent firms, founder and heir ownership bears a significant and positive relation to firm performance. As opacity increases, we again note that founder and heir ownership bears an increasingly negative relation to performance relative to diffuse shareholder firms. Generally, founder and heir ownership appears to be value adding in transparent environments and value destroying in opaque environments. The question of managerial relevancy

¹⁰ An alternative test to examine the effects of CEO type on opacity and firm performance is to run separate regressions for founder-controlled firms and heir-controlled firms. In founder-controlled firms, founders, heirs, and professional managers hold the CEO post 80.5%, 1.8%, and 17.7% of the observations. In heir-controlled firms, heirs and professional managers hold the CEO post 51.2% and 48.8% of the observations. Consequently, to provide a robust comparison of the three CEO-types, we aggregate the founder and heir firms into a single sample. However, when running separate regressions for founder-controlled or heir-controlled firms, we continue to find that irrespective of CEO type, transparent (opaque) founder and/or heir firms are more (less) valuable than diffuse firms.

thus becomes whether each CEO type enhances or detracts from the observed, overall performance of founder and heir firms.

The coefficient estimate on the stand-alone founder CEO variable (β_2) indicates that beyond the already existing premium associated with their ownership, founder CEOs appear to add little incremental value to the firm in transparent environments. Similarly, we find that as opacity increases, the presence of a founder CEO tends to detract little from performance; the coefficient estimate on the interaction term of founder CEO and opacity (β_7) is not significant at conventional levels.

We find that professional managers exhibit a significantly positive relation to firm performance in transparent firms. Notably though, we find that as corporate opacity increases, founder and heir firms tend to fare quite poorly with professional CEOs (relative to diffuse shareholder firms). The interaction term between professional CEO and opacity (β_9) has a negative and significant relation to performance.

Heir CEOs tend to detract from performance in transparent firms. Yet, in these transparent heir firms, the net effect of the ownership stake plus heir CEOs indicates these firms perform better than diffuse shareholder firms ($F=5.23$, $p=0.02$). As opacity increases, the total effect of the ownership position and heir CEOs indicates that heir-managed firms exhibit poorer performance relative to diffuse shareholder firms ($\beta_1+\beta_3+\beta_6+\beta_8=0$; $F=4.62$, $p=0.03$).

These results allow us to rank order CEO types. In firms with a controlling shareholder in a transparent environment, professional manager CEOs are the best performers, followed by founder CEOs, and then firms managed by heirs. All three types of controlling shareholder firms perform better than diffuse shareholder firms in transparent environments. The results for opaque firms differ substantially. Specifically, we find in opaque firms, that founder and/or heir firms perform worse than diffuse shareholder firms irrespective of CEO type. Yet, within these poorly performing founder and

heir firms, we again note a rank ordering of CEO types; founder CEOs and heir CEOs tend to detract the least while professional managers detract the most from performance.¹¹

3.5. The Relation between Founder or Heir Ownership and Major Components of Corporate Opacity

In our analysis, we generally contend that firm opacity arises from founder or heir ownership. However, opacity likely reflects the attempts of insiders to limit information and from limited attention or scrutiny from market participants/intermediaries. This suggests that opacity has both an internal component and an external component. From the perspectives of our arguments and the results supporting the entrenchment hypothesis, both components potentially play important roles in permitting founders and heirs to opportunistically exploit minority shareholders. On the one hand, these owners adversely affecting disclosure quality suggests that they intentionally increase opacity so as to extract firm resources. Alternatively, if lack of scrutiny by investors and market intermediaries increases firm opacity, then these controlling shareholders may be exploiting diminished transparency to extract resources. To provide insights into the mechanism by which founder and heir shareholders exploit minority investors, we decompose our opacity index into a disclosure quality component (internal opacity) and a market scrutiny component (external opacity).

Table VI provides regression results based on the two opacity components. Column 1 shows the results for founder-controlled plus heir-controlled firms; column 2 presents the results for founder firms; and column 3 displays the results for heir-controlled firms. The analysis indicates that heir firms appear to extract firm resources through both a disclosure channel and a scrutiny channel while founder firms tend to extract primarily through limited disclosure. Specifically, we note that the

¹¹ To rank-order CEO types, we test for the equality of coefficient estimates on the CEO variables in Table V, Panel C. For transparent firms, the results indicate that the coefficient estimate on professional CEO is significantly different from those on founder CEO and heir CEO. The F-test examining the equality of founder CEOs and heir CEOs in transparent environments also indicates a significant difference. To rank order CEO types in opaque environments, the test takes the form of: (heir CEO) + (heir CEO * opacity index) = (professional CEO) + (professional CEO * opacity index). The F-value for this test is 4.45 and the F-value for a similar test between founder CEOs and professional CEOs is also significant. We find no statistical difference between founder CEOs and heir CEOs in opaque environments.

interaction terms of heir ownership with our two measures of opacity (β_{10} , β_{11}) bear significant and negative associations to firm value; indicating that both opacity channels affect entrenchment in heir-controlled firms. Interestingly, value bears no relation to the market scrutiny component (β_9) in founder firms but does exhibit a statistically strong and negative relation to disclosure quality (β_8); suggesting that founders tend to entrench themselves through limited information flow from the firm (relative to diffuse shareholder firms). Because of their unique contributions, founders often receive more press, industry, and market coverage than diffuse shareholder or heir firms (e.g., Gates at Microsoft); potentially accounting for our market scrutiny result.

Although founder-controlled firms primarily increase opacity by limiting firm disclosures, our results on heir-controlled firms indicate that opacity arises from both limited disclosure and limited market scrutiny. To gauge the influence of internal opacity and external opacity on heir-controlled firm value, we examine the change in Tobin's Q resulting from a one-standard deviation increase in disclosure quality (0.121) and market scrutiny (0.194). A one standard deviation increase in disclosure quality results in Tobin's Q declining by 11.1% more for an heir firm than for a diffuse shareholder firm (we calculate this change using column 3 at the 75th percentile of founder or heir ownership). Similarly, a one standard deviation increase in market scrutiny results in Tobin's Q falling by an additional 7.1% in heir firms relative to a diffuse shareholder firms. Overall, our results suggest that investors place greater valuation discounts on opacity arising from heir control than opacity attributable to lack of market scrutiny.

In this analysis, we attempt to provide insights into the role that founders and heirs play in creating opacity and/or exploiting opacity to their private benefit. We do this by decomposing our total opacity measure into an internal and an external component. However, to the extent that our decomposition technique imprecisely separates these two components, we cannot unambiguously determine the dominant opacity channel by which founder or heir owners exploit minority shareholders. Our analysis indicates though, that founder and heir firms are significantly more opaque than their

diffuse shareholder counterparts and irrespective of its source, founders and heirs exploit this opacity to extract private benefits from the firm at the expense of minority shareholders.

4. Conclusion

We examine the role of corporate opacity on the relation between founder or heir ownership and firm value. Recent research indicates that, on average, founder and/or heir ownership is associated with greater firm performance in S&P 500 and Fortune 500 firms. Our work provides a different perspective and suggests that corporate opacity plays an influential role in understanding the value effects associated with these controlling owners. Using the 2,000 largest U.S. firms from 2001 through 2003, we show that only those founder or heir firms characterized as transparent receive performance or valuation premiums. In contrast, we find as corporate opacity increases, founder or heir ownership bears an increasingly negative relation to firm performance. Our findings support the notion that in opaque environments, these controlling shareholders extract firm resources to their private benefit and thereby negatively affect firm performance.

Previous research shows that the ability of controlling shareholders (founders and/or heirs) to extract resources from the firm depends on the protection afforded outside investors (La Porta et al. (2000); Djankov et al. (2008)). The results in our paper confirm that transparency, an important component of investor protection, provides additional discipline that mitigates the agency conflict between dominant shareholders and minority investors. More importantly, the findings provide support to the view that in less transparent environments, founder- and heir- controlled firms have incentives to extract firm resources to their private benefit, resulting in poor firm performance.

We further explore the role of corporate opacity and its impact on firm performance by examining mechanisms that controlling shareholders use to create divergences in ownership and control. Our results indicate that dual-class share structures and disproportionate founder or heir representation on boards of directors, in and of themselves, appear not to be value-destroying devices.

In transparent founder or heir firms, we find that dual-class shares and board representation appear to be associated with better firm performance. However, in opaque environments, our analysis indicates that controlling shareholders use these mechanisms as a tool to provide additional influence and power in extracting firm resources. The analysis also allows us to rank order the performance of CEOs in founder or heir firms relative to diffuse shareholder firms. In controlling shareholder firms in transparent firms, professional-manager CEOs perform better than founder CEOs, who perform better than heir CEOs; with all types of founder or heir firms performing better than diffuse shareholder firms. Founder or heir firms however, irrespective of CEO type, perform worse than diffuse shareholder firms in opaque environments.

Overall, our analysis suggests that founder or heir ownership can be an effective organizational structure in environments where investors have both robust legal safeguards and high levels of corporate transparency. Yet, the results also indicate that corporate opacity leads to severe conflicts of interests between founder or heir owners and minority shareholders even in markets with well-developed legal protections for investors.

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Table I
Descriptive Data for Corporate Opacity and Firm Attributes

Panels A, B, and C provide summary statistics for the data employed in our analysis. The data set comprises the 2,000 largest U.S. firms (based on total assets) as of December 31st, 2001 and covers 2001, 2002, and 2003. *Founder-Controlled and Heir-Controlled Ownership* are the fractional equity ownership of the founder or heir group. *Founder-Controlled firms* are firms where the founder maintains a presence in the firm as a shareholder, director, and/or manager. *Heir-Controlled* firms are those where heirs continue to hold equity positions, management positions or board seats. *Heir CEO, Founder CEO or Professional Manager CEO* denote the presence of an heir, founder or outside manager serving as CEO. *Total assets* is the year-end book value of total assets and we proxy for firm size with the natural log of total assets ($\ln(\text{Total Assets})$). Performance is *Return on Assets_{t-1}* which we measure as EBITDA divided by total assets from the prior year. We measure *Risk* as the standard deviation of monthly stock returns for the previous 36 months. *Tobin's Q* proxies for firm value and is calculated as the sum of the market value of equity plus the book value of debt plus the book value of preferred stock, all scaled by total assets. The *Debt Ratio* controls for firm leverage and is measured as total long-term debt divided by total assets. *Firm age* is the number of years since firm inception. We proxy for firm growth opportunities using research and development expenses divided by total assets ($\text{R\&D Expenses}/\text{Total Assets}$). *Annual Trading Volume* is the average daily trading volume (in dollars) for each year of the sample. The *Bid-Ask Spread* is the ask price minus the bid price divided by average of the bid and ask prices. Bid-Ask spreads are computed by averaging all trades for each firm from the third Wednesday of each month and then averaging across these 12 observations. *Analyst Following* is the number of analysts providing EPS estimates nine-months prior to the end of the fiscal year-end estimate. *Forecast Error* is the square of the difference between the mean analysts' earnings forecast (9 months prior) and the actual firm earnings scaled by the firm's stock price. *Firms in the S\&P500 Index* is the percent of firms from the full sample that are members of the S\&P 500 Index. The *Opacity Index* provides a composite measure of opacity and is calculated by ranking the four individual proxies for opacity (trading volume, bid-ask spread, analyst following, and analyst forecast error) into deciles with the most opaque firms taking a value of 10. The four rankings are then summed and divided by a factor of 40 (total possible points) to provide the index. *Disclosure Quality* and *Market Scrutiny* are internal and external measures of opacity, respectively.

Panel A: Summary Statistics for Full Sample (n=5,609)					
<i>Variable</i>	<i>Mean</i>	<i>Median</i>	<i>Std. Dev.</i>	<i>Minimum</i>	<i>Maximum</i>
<i>Heir-Controlled Ownership (n=1,421)</i>	22.12	16.40	19.22	1.20	96.77
<i>Heir Holds CEO Post</i>	51.2%	-	-	-	-
<i>Professional Manager Holds CEO Post</i>	48.8%	-	-	-	-
<i>Founder-Controlled Ownership (n=1,251)</i>	17.67	9.97	18.29	1.20	85.00
<i>Founder Holds CEO Post</i>	80.5%	-	-	-	-
<i>Heir Holds CEO Post</i>	1.8%	-	-	-	-
<i>Professional Manager Holds CEO Post</i>	17.7%	-	-	-	-
<i>Total Assets (\$ millions)</i>	4,215	748	20,474	89	647,483
<i>Risk (%)</i>	17.53	15.22	9.22	5.19	47.94
<i>Return on Assets_{t-1}</i>	11.40	12.54	13.79	-87.72	73.56
<i>Tobin's Q</i>	1.66	1.31	1.17	0.34	7.90
<i>Debt Ratio</i>	19.70	16.38	20.22	0.00	84.68
<i>Firm Age</i>	44.75	30.00	38.76	2.00	259.00
<i>R\&D Expense/Total Assets (%)</i>	3.88	0.00	7.17	0.00	33.39
<i>Opacity Measures</i>					
<i>Annual Trading Volume</i>	299.30	74.59	926.24	1.90	16,422.54
<i>Bid-Ask Spread %</i>	1.41	0.95	1.45	0.11	12.25
<i>Analyst Following</i>	6.27	4.00	4.90	0.00	41.00
<i>Forecast Error % (n=3,439)</i>	2.80	0.81	5.97	0.00	55.55
<i>Firms in S\&P500 Index %</i>	19.47	-	-	-	-
<i>Opacity Index</i>	0.59	0.60	0.23	0.10	1.00

Panel B: Difference of Means Tests for Key Variables					
Variable	Mean Values			t-statistics	
	Diffuse shareholder Firms	Heir-Controlled Firms	Founder-Controlled Firms	Heir-Controlled vs. Diffuse shareholder	Founder-Controlled vs. Diffuse shareholder
Number of Observations	2,937	1,421	1,251	-	-
Founder or Heir Ownership	0.00	22.10	17.70	25.63**	19.99**
Total Assets (\$ millions)	5,447	4,145	1,420	1.09	4.84**
Ln (Total Assets)	7.09	6.97	6.22	1.63	12.00**
Risk (%)	17.07	14.81	21.69	5.15**	8.95**
Return on Assets	11.76	13.19	8.55	2.41**	3.94**
Tobin's Q	1.62	1.54	1.90	1.33	4.32**
Debt Ratio	20.50	20.57	16.81	0.13	3.21**
Firm Age	49.68	56.22	20.30	2.78**	20.42**
Ln (Firm Age)	3.52	3.77	2.90	4.84**	15.16**
R&D Expense/Total Assets (%)	4.10	2.00	5.52	6.79**	3.14**
Opacity Measures					
Ln (Annual Trading Volume)	4.63	3.93	4.32	7.92**	3.79**
Bid-Ask Spread %	1.87	2.76	1.84	2.07*	0.09
Analyst Following	7.11	5.41	5.29	5.09**	5.60**
Forecast Error %	4.94	3.93	4.23	1.00	0.74
Opacity Index	0.56	0.64	0.62	6.42**	4.41**
Disclosure Quality	0.57	0.59	0.62	3.51**	7.40**
Market Scrutiny	0.55	0.61	0.55	6.00**	0.01
Firms in S&P500 Index %	25.40	17.8	7.65	3.34**	9.30**
Firms in Fortune 500 List %	24.98	22.8	7.01	1.05	10.19**

Forecast Error based on analyst following of 3 or more. T-statistics corrected for serial correlation.

Panel C: Correlation Matrix of Key Variables							
Founder-Controlled, Heir-Controlled, and Diffuse shareholder Firms (n=5,608)							
	Tobin's Q	Founder-Firm (Binary)	Heir-Firm (Binary)	Opacity Index	Ln (Sbr. Traded)	Bid-Ask Spread	Number Analyst
Tobin's Q	1.000						
Founder-Firm (Binary)	0.104 (0.00)	1.000					
Heir-Firm (Binary)	-0.064 (0.00)	-0.296 (0.00)	1.000				
Opacity	-0.278 (0.00)	0.046 (0.00)	0.115 (0.00)	1.000			
Ln (Shares Traded)	0.254 (0.00)	-0.026 (0.05)	-0.170 (0.00)	-0.751 (0.00)	1.000		
Bid-Ask Spread.	-0.043 (0.00)	0.023 (0.76)	0.043 (0.00)	0.127 (0.00)	-0.116 (0.00)	1.000	
No. Analyst	0.101 (0.00)	-0.128 (0.00)	-0.071 (0.00)	-0.793 (0.00)	0.588 (0.00)	-0.044 (0.00)	1.000
Analyst Error	-0.093 (0.00)	-0.015 (0.32)	-0.012 (0.46)	0.077 (0.00)	0.007 (0.64)	0.009 (0.00)	-0.023 (0.14)

Forecast Error based on analyst following of 3 or more.

Table II
Corporate Opacity and Founder or Heir Ownership

This table reports multivariate regression results of firm performance on corporate opacity and founder or heir ownership. The *Opacity Index* provides a composite measure of opacity. *Founder or Heir Ownership* is the fractional equity ownership of the founder or heir group. We proxy for firm size with the natural log of total assets ($\ln(\text{Total Assets})$). *Performance* is Return on Assets $t-1$ which we measure as EBITDA divided by total assets from the prior year. We measure *Risk* as the standard deviation of monthly stock returns for the previous 36 months. The *Debt Ratio* controls for firm leverage and is measured as total long-term debt divided by total assets. *Firm age* is the number of years since firm inception. We proxy for firm growth opportunities using research and development expenses divided by total assets ($\text{R\&D Expenses}/\text{Total Assets}$). T-values are in parentheses and are corrected for serial correlation and heteroskedasticity. ** (*) - indicates significance at the 1% (5%) level or better.

	Dependent Variable = Opacity Index		
	<i>Founder and Heir vs. Diffuse shareholder</i>	<i>Founder vs. Diffuse shareholder</i>	<i>Heir vs. Diffuse shareholder</i>
	(1)	(2)	(3)
β_0 (Intercept)	1.433** (48.75)	1.399** (42.12)	1.433** (41.47)
β_1 (Founder + Heir Ownership)	0.155** (6.30)	-	-
β_2 (Founder Ownership)	-	0.138** (3.85)	-
β_3 (Heir Ownership)	-	-	0.165** (5.20)
β_6 (\ln (Total Assets))	-0.106** (36.64)	-0.100** (30.07)	-0.104** (32.06)
β_7 (Firm Risk)	-0.368** (6.55)	-0.359** (5.57)	-0.274** (3.90)
β_8 (Performance $_{t-1}$)	-0.390** (11.45)	-0.320** (8.67)	-0.415** (9.74)
β_9 (\ln (Firm Age))	0.011* (2.09)	0.002 (0.28)	0.010 (1.72)
β_{10} (R&D / Total Assets)	-0.480** (5.33)	-0.357** (3.60)	-0.622** (5.69)
β_{11} (Debt Ratio)	0.119** (5.44)	0.125** (4.90)	0.094** (3.74)
Dummies for 4-digit SIC and Years	Yes	Yes	Yes
Observations	5,609	4,188	4,358
Adjusted R ²	0.523	0.509	0.538

Table III
Corporate Opacity, Founder or Heir Ownership, and Firm Performance

This table reports multivariate regression results of firm performance on corporate opacity and founder or heir ownership. *Tobin's Q* proxies for firm value and is calculated as the sum of the market value of equity plus the book value of debt plus the book value of preferred stock, all scaled by total assets. *Founder or Heir Ownership* is the fractional equity ownership of the founder or heir group. The *Opacity Index* provides a composite measure of opacity. We proxy for firm size with the natural log of total assets ($\ln(\text{Total Assets})$). *Performance* is Return on Assets $t-1$ which we measure as EBITDA divided by total assets from the prior year. We measure *Risk* as the standard deviation of monthly stock returns for the previous 36 months. The *Debt Ratio* controls for firm leverage and is measured as total long-term debt divided by total assets. *Firm age* is the number of years since firm inception. We proxy for firm growth opportunities using research and development expenses divided by total assets ($\text{R\&D Expenses}/\text{Total Assets}$). T-values are in parentheses and are corrected for serial correlation and heteroskedasticity. ** (*) - indicates significance at the 1% (5%) level or better.

	Dependent Variable = Tobin's Q					
	Founder and Heir vs. Diffuse shareholder		Founders vs. Diffuse shareholder		Heir vs. Diffuse shareholder	
	(1)	(2)	(3)	(4)	(5)	(6)
β_0 (Intercept)	2.541** (16.36)	4.646** (21.86)	2.284** (15.96)	4.326** (19.80)	2.014** (12.67)	3.917** (17.95)
β_1 (Founder + Heir Ownership)	3.909** (10.01)	1.359** (3.30)	-	-	-	-
β_2 (Founder Ownership)	-	-	3.252** (7.58)	1.341** (2.95)	-	-
β_3 (Heir Ownership)	-	-	-	-	4.180** (8.93)	2.201** (4.55)
β_4 (Opacity Index)	-	-1.668** (16.98)	-	-1.536** (14.04)	-	-1.452** (14.25)
β_5 (Founder + Heir Own.*Opacity Index)	-5.979** (11.60)	-1.772** (3.23)	-	-	-	-
β_6 (Founder Ownership * Opacity Index)	-	-	-4.079** (7.30)	-1.096 (1.85)	-	-
β_7 (Heir Ownership * Opacity Index)	-	-	-	-	-6.197** (10.3)	-2.844** (4.54)
β_8 (\ln (Total Assets))	-0.088** (7.08)	-0.237** (14.37)	-0.087** (6.19)	-0.231** (12.15)	-0.069** (5.40)	-0.204** (11.99)
β_9 (Firm Risk)	-0.742** (2.52)	-1.073** (3.83)	-0.214 (0.81)	-0.590* (2.31)	-0.272 (0.87)	-0.525 (1.79)
β_{10} (Performance_{t-1})	2.010** (6.53)	1.706** (5.82)	2.717** (11.74)	2.354** (10.39)	2.680** (8.33)	2.373** (8.09)
β_{11} (Debt Ratio)	-0.492** (4.53)	-0.326** (3.15)	-0.561** (5.24)	-0.411** (4.09)	-0.352** (2.76)	-0.194 (1.59)
β_{12} (\ln (Firm Age))	-0.082** (5.07)	-0.070** (4.68)	-0.062** (3.37)	-0.057** (3.37)	-0.053** (3.12)	-0.451** (2.89)
β_{13} (R&D /Total Assets)	4.074** (9.65)	3.547** (8.82)	3.572** (8.32)	3.090** (7.46)	4.488** (8.68)	3.949** (8.03)
Dummies for 4-digit SIC and Years	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,609	5,609	4,188	4,188	4,358	4,358
Adjusted R ²	0.383	0.426	0.390	0.429	0.456	0.494
$\beta_1 + \beta_5 = 0$	121.02**	4.63*	-	-	-	-
$\beta_2 + \beta_6 = 0$	-	-	14.63**	1.29	-	-
$\beta_3 + \beta_7 = 0$	-	-	-	-	98.64**	9.59**

Table IV

Inclusion in S&P 500 or Fortune 500, Founder or Heir Ownership, and Firm Performance

Tobin's Q proxies for firm value and is calculated as the sum of the market value of equity plus the book value of debt plus the book value of preferred stock, all scaled by total assets. *Founder* or *Heir Ownership* is the fractional equity ownership of the founder or heir group. S&P 500 (Fortune 500) equal 1.0 when the firm is included in the index (list) and zero otherwise. We proxy for firm size with the natural log of total assets ($\ln(\text{Total Assets})$). *Performance* is Return on Assets $_{t-1}$ which we measure as EBITDA divided by total assets from the prior year. We measure *Risk* as the standard deviation of monthly stock returns for the previous 36 months. The *Debt Ratio* controls for firm leverage and is measured as total long-term debt divided by total assets. *Firm age* is the number of years since firm inception. $\text{R\&D Expenses}/\text{Total Assets}$ proxies for firm growth opportunities. T-values are in parentheses and are corrected for serial correlation and heteroskedasticity. ** (*) - indicates significance at the 1% (5%) level or better.

	Dependent Variable = Tobin's Q					
	<i>Founder and Heir vs. Diffuse shareholder</i>		<i>Founder vs. Diffuse shareholder</i>		<i>Heir vs. Diffuse shareholder</i>	
	(1)	(2)	(3)	(4)	(5)	(6)
β_0 (Intercept)	3.172** (19.27)	2.603** (15.15)	3.271** (16.92)	2.833** (14.40)	2.699** (15.61)	2.155** (11.78)
β_1 (Founder + Heir Ownership)	0.150 (1.57)	0.090 (0.90)	-	-	-	-
β_2 (Founder Ownership)	-	-	0.344* (2.18)	0.232 (1.45)	-	-
β_3 (Heir Ownership)	-	-	-	-	0.150 (1.48)	0.118 (1.05)
β_4 (S&P 500 Firm)	0.735** (13.57)	-	0.689** (10.95)	-	0.658** (12.05)	-
β_5 (Fortune 500 Firm)	-	0.269** (5.01)	-	0.285** (4.59)	-	0.265** (4.81)
β_6 ((Founder + Heir Own.)*(S&P 500))	1.816** (4.88)	-	-	-	-	-
β_7 ((Founder + Heir Own.)*(Fort. 500))	-	0.468* (2.02)	-	-	-	-
β_8 ((Founder Own.) * (S&P 500))	-	-	1.815** (2.52)	-	-	-
β_9 ((Founder Own.) * (Fortune 500))	-	-	-	1.861** (3.27)	-	-
β_{10} ((Heir Own.) * (S&P 500))	-	-	-	-	1.949** (4.85)	-
β_{11} ((Heir Own.) * (Fortune 500))	-	-	-	-	-	0.250 (1.21)
β_{12} (\ln (Total Assets))	-0.212** (13.74)	-0.111** (6.36)	-0.230** (12.04)	-0.150** (7.25)	-0.190** (11.30)	-0.097** (5.12)
β_{13} (Firm Risk)	-0.409 (1.48)	-0.541 (1.89)	-0.412 (1.31)	-0.499 (1.55)	-0.035 (0.12)	-0.217 (0.72)
β_{14} (Performance $_{t-1}$)	2.055** (6.94)	2.217** (7.25)	1.844** (5.50)	1.946** (5.69)	2.643** (8.54)	2.837** (8.76)
β_{15} (Debt Ratio)	-0.324** (3.33)	-0.450** (4.49)	-0.373** (3.35)	-0.516** (4.65)	-0.208 (1.91)	-0.308** (2.70)
β_{16} (\ln (Firm Age))	-0.099** (6.35)	-0.099** (6.19)	-0.062** (3.32)	-0.059** (3.15)	-0.075** (4.63)	-0.074** (4.37)
β_{17} (R&D /Total Assets)	3.684** (8.84)	4.059** (9.55)	3.031** (6.65)	3.244** (7.09)	4.067** (7.95)	4.537** (8.70)
Dummy for 4-digit SIC and Years	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,609	5,609	4,188	4,188	4,358	4,358
Adjusted R ²	0.397	0.365	0.387	0.369	0.472	0.440

Table V
Divergences in Founder or Heir Ownership and Control

This table reports multivariate regression results of firm performance on divergences in ownership and control of founder or heir shareholders. *Tobin's Q* proxies for firm value and is calculated as the sum of the market value of equity plus the book value of debt plus the book value of preferred stock, all scaled by total assets. *Founder or Heir Dual Class Ownership* equals founder or heir voting power in firms with two or more share classes. *Founder Board Seats/Founder Ownership or Heir Board Seats/Heir Ownership* equals the percent of board seats held by the founder or heir group divided by the percent of votes held by the founder or heir group. *Founder CEO* equals one when the founder holds the CEO post. *Heir CEO* equals one when an heir holds the CEO post. *Hired-Hand* equals one when a professional manager holds the CEO post in a founder or heir firm. The *Opacity Index* provides a composite measure of opacity. *CONTROLS* are size, performance, risk, leverage, firm age, and growth. We proxy for firm size with the natural log of total assets ($\ln(\text{Total Assets})$). *Performance* is Return on Assets $_{t-1}$, which we measure as EBITDA divided by total assets from the prior year. We measure *Risk* as the standard deviation of monthly stock returns for the previous 36 months. The *Debt Ratio* controls for firm leverage and is measured as total long-term debt divided by total assets. *Firm age* is the number of years since firm inception. We proxy for firm growth opportunities using research and development expenses divided by total assets ($R\&D\ Expenses/Total\ Assets$). For regressions in Panel A, we use 2-digit SIC controls and for the regressions in Panel B and C, we use 4-digit SIC controls. T-values are in parentheses and are corrected for serial correlation and heteroskedasticity. ** (*) - indicates significance at the 1% (5%) level or better.

Panel A: Dual-Class Shares

	Dependent Variable = Tobin's Q		
	<i>Founder and Heir vs. Diffuse Shareholder</i>	<i>Founder vs. Diffuse shareholder</i>	<i>Heir vs. Diffuse shareholder</i>
	(1)	(2)	(3)
β_0 (Intercept)	3.156** (7.74)	3.306** (9.46)	2.879** (7.89)
β_1 (Founder + Heir Dual Class Ownership)	3.454** (3.22)	-	-
β_2 (Founder Dual Class Ownership)	-	2.564** (2.42)	-
β_3 (Heir Dual Class Ownership)	-	-	3.088 (3.84) **
β_4 (Opacity Index)	-0.811** (3.98)	-0.705** (4.23)	-0.709** (4.13)
β_5 (Founder + Heir Dual Class Own. * Opacity Index)	-4.335** (3.16)	-	-
β_6 (Founder Dual Class Own. * Opacity Index)	-	-2.747 (1.91)	-
β_7 (Heir Dual Class Own. * Opacity Index)	-	-	-3.737** (3.49)
β_8 (\ln (Total Assets))	-0.179** (5.41)	-0.180** (6.17)	-0.153** (5.23)
β_9 (Firm Risk)	-0.129 (0.24)	-0.521 (1.13)	0.061 (0.13)
β_{10} (Performance $_{t-1}$)	2.893** (7.60)	1.986** (7.92)	3.284** (12.30)
β_{11} (Debt Ratio)	-0.968** (4.28)	-0.795** (4.32)	-0.896** (4.92)
β_{12} (\ln (Firm Age))	0.010 (0.28)	-0.028 (0.72)	-0.009 (0.25)
β_{13} (R&D / Total Assets)	2.940** (3.68)	2.675** (4.81)	2.588** (3.92)
Dummy Variables SIC Codes and Years	Yes	Yes	Yes
Observations	1,230	873	1,093
Adjusted R ²	0.537	0.560	0.564

Panel B: Founder or Heir Board Control

	Dependent Variable = Tobin's Q		
	<i>Founder and Heir vs. Diffuse shareholder</i>	<i>Founders vs. Diffuse shareholder</i>	<i>Heir vs. Diffuse shareholder</i>
	(1)	(2)	(3)
β_0 (Intercept)	4.550** (23.07)	4.527** (19.75)	4.019** (18.09)
β_1 (Founder + Heir Board Seats)/(Founder + Heir Ownership)	0.054* (2.29)	-	-
β_2 (Founder Board Seats)/(Founder Ownership)	-	0.044 (1.68)	-
β_3 (Heir Board Seats)/(Heir Ownership)	-	-	0.119** (2.97)
β_4 (Opacity Index)	-1.716** (17.99)	-1.612** (14.61)	-1.533** (14.77)
β_5 ((Founder + Heir Board Seats)/(Founder + Heir Own.)) * Opacity Index	-0.086* (2.21)	-	-0.170** (2.68)
β_6 (Founder Board Seats/Founder Own.)* Opacity Index	-	-0.075 (1.63)	-
β_7 (Heir Board Seats/Heir Own.)* Opacity Index	-	-	-0.170** (2.68)
Controls, Dummy Variables for SIC and Years	Yes	Yes	Yes
Observations	5,058	3,901	3,964
Adjusted R ²	0.430	0.429	0.485

Panel C: CEO Type

	Dependent Variable = Tobin's Q
	<i>Founder and Heir vs. Diffuse shareholder</i>
β_0 (Intercept)	4.106** (19.80)
β_1 (Founder or Heir Ownership)	1.234** (2.70)
β_2 (Founder CEO)	0.086 (0.57)
β_3 (Heir CEO)	-0.287** (2.43)
β_4 (Professional CEO)	0.532** (3.84)
β_5 (Opacity Index)	-1.405** (13.42)
β_6 (Founder or Heir Ownership * Opacity Index)	-1.707** (2.49)
β_7 (Founder CEO * Opacity Index)	-0.054 (0.23)
β_8 (Heir CEO * Opacity Index)	0.388 (1.66)
β_9 (Professional CEO * Opacity Index)	-0.640** (3.14)
Controls, Dummy Variables for SIC and Years	Yes
Observations	5,609
Adjusted R ²	0.395

Table VI
Disclosure Quality, Market Scrutiny, and Firm Performance

This table reports multivariate regression results of firm performance on founder or heir ownership. *Tobin's Q* is calculated as the sum of the market value of equity plus the book values of debt and preferred stock, all scaled by total assets. *Founder* or *Heir Ownership* is the fractional equity ownership of the founder or heir group. *Disclosure Quality* and *Market Scrutiny* are internal and external measures of opacity respectively and are derived from the decomposition of the opacity index. We proxy for firm size with the natural log of total assets ($\ln(\text{Total Assets})$). *Performance* is Return on Assets_{t-1} which is measured as EBITDA divided by total assets from the prior year. *Risk* is the standard deviation of monthly stock returns for the previous 36 months. The *Debt Ratio* is measured as total long-term debt divided by total assets. *Firm age* is the number of years since firm inception. We proxy for firm growth opportunities using research and development expenses divided by total assets ($\text{R\&D Expenses}/\text{Total Assets}$). T-values are in parentheses and are corrected for serial correlation and heteroskedasticity. ** (*) - indicates significance at the 1% (5%) level or better.

	Dependent Variable = Tobin's Q		
	<i>Founder and Heir vs.</i>	<i>Founders vs.</i>	<i>Heir vs.</i>
	<i>Diffuse shareholder</i>	<i>Diffuse shareholder</i>	<i>Diffuse shareholder</i>
	(1)	(2)	(3)
β_0 (Intercept)	6.403** (22.38)	6.369** (18.88)	5.362** (16.86)
β_1 (Founder + Heir Ownership)	3.737** (4.79)	-	-
β_2 (Founder Ownership)	-	4.319* (2.31)	-
β_3 (Heir Ownership)	-	-	4.358** (5.73)
β_4 (Disclosure Quality)	-2.875** (14.90)	-2.833** (12.99)	-2.313** (11.77)
β_5 (Market Scrutiny)	-1.617** (14.96)	-1.549** (12.65)	-1.423** (12.71)
β_6 ((Founder + Heir Ownership) * Disclosure Quality))	-4.467** (3.85)	-	-
β_7 ((Founder + Heir Ownership) * Market Scrutiny))	-1.253** (2.45)	-	-
β_8 (Founder Ownership * Disclosure Quality)	-	-5.994* (2.07)	-
β_9 (Founder Ownership * Market Scrutiny)	-	-0.482 (0.65)	-
β_{10} (Heir Ownership * Disclosure Quality)	-	-	-4.827** (4.57)
β_{11} (Heir Ownership * Market Scrutiny)	-	-	-1.944** (2.96)
β_{12} (\ln (Total Assets))	-0.291** (15.21)	-0.298** (12.84)	-0.242** (11.78)
β_{13} (Firm Risk)	-0.507* (1.98)	-0.257 (0.92)	-0.199 (0.64)
β_{14} (Performance_{t-1})	2.074** (8.76)	2.042** (8.06)	2.489** (7.86)
β_{15} (Debt Ratio)	-0.296** (2.67)	-0.340** (2.73)	-0.177 (1.34)
β_{16} (\ln (Firm Age))	-0.070** (3.92)	-0.058** (2.67)	-0.053** (3.03)
β_{17} (R&D / Total Assets)	3.246** (7.64)	3.041** (6.47)	3.587** (6.48)
Dummies for 4-digit SIC and Years	Yes	Yes	Yes
Observations	5,609	4,188	4,358
Adjusted R ²	0.437	0.429	0.498