Family Firms, *Contestability* of Control, and Financial Constraints: *Evidence from Latin America*

ABSTRACT:

Purpose: the purpose of this article is to analyze the influence of family shareholders and contestability -the presence of multiple large shareholders- on the financial constraints of family firms in emerging Latin-American economies.

Design/methodology/approach: we collected data from a sample of 595 firms (family and non-family owned) listed in the capital markets of Argentina, Brazil, Chile, Colombia, Mexico, and Peru between 2001 and 2015.

Findings: our results suggest that the largest family shareholder (controller) reduces financial constraints, and that this effect is more significant in countries with poor investor protection, such as low regulatory quality and legal enforcement. In addition, we obtain evidence consistent with a relationship between contestability and financial constraints, and a negative moderating role of the family effect on financial constraints.

Originality/value: this paper contributes to the literature on family business financing decisions by examining the effects of family firm heterogeneity -in terms of different contestability (corporate governance characteristics) and financial decisions. It also provides empirical evidence for this literature from different cultural and legal contexts, thereby contributing to the generalizability of finance & family business theory and development.

Keywords: investment cash flow sensitivity; family firms; ownership structure; corporate governance; multiple large shareholders; Latin America.

JEL Classification: G10, G30

1. INTRODUCTION

A large and growing body of family business literature has investigated the relationship between corporate governance and financial decisions (Michiels and Molly 2017; Gallo and Vilaseca 1996; Aldamen et al.). In this paper, we focus on the relationship between family firms, multiple large shareholders and investment cash flow sensitivity as a measure of financial constraints. A classical view suggests that, in perfect capital markets, the only determinant of firms' investment decisions are growth opportunities from industry. However, the existence of market imperfections in financial markets means that investment decisions are not only explained by investment opportunities but also by financial features, such as the internal cash flow generated (Fazzari et al. 2000, 1988). Financial frictions lead managers to depend more on internal generated cash flow resources due to increases in the cost of external financing (e.g. debt issuance and equity offerings).

Although the relationship between family firms' investment decisions and financial constraints has not been closely examined in emerging markets, there are some specific characteristics of family firms that may mitigate the agency problems to emerge from financial market imperfections (Anderson et al. 2003; Bonilla et al. 2010). For example, long-term investment orientation and less divergence between ownership and control (Torres et al. 2017; Silva and Majluf 2008; Martinez et al. 2007; Villalonga and Amit 2006; Anderson and Reeb 2003) leads family firms to promote a convergence of interests between insiders and outsiders by prioritizing optimal resource allocation in long-term growth opportunities (Jaskiewicz and Klein 2007; Pieper et al. 2008). However, other theoretical views suggest certain drawbacks related to family economic (e.g. tunneling and/or inefficient diversification strategies) and non-economic motivations (family preferences) which may deviate from optimal financial policies (Basco 2013; Gomez-

Mejia et al. 2010; Gomez-Mejia et al. 2007). When corporate control is concentrated amongst family members (Torres et al. 2017; Miller et al. 2007), these firms may be reluctant to finance investment with external financial resources in order to avoid external monitoring, thus leading to suboptimal investment policies such as underinvestment (Díaz-Díaz et al. 2016; González et al. 2013; Jara-Bertin et al. 2018).

In this context, we hypothesize that the existence of multiple large shareholders (hereafter, contestability) might act as an internal corporate governance mechanism that provides the firm with an alternative mechanism for monitoring investment decisions[1]. Although there is no evidence that the relationship between contestability and financial constraints in family business exists, an emerging body of financial literature has shown that contestability proves relevant for a number of different corporate finance outcomes, such as firm value (Maury and Pajuste 2005; Jara-Bertin et al. 2008) and cost of equity (Cai et al. 2016). As regards the investment decision, Jiang et al. (2018) argue that the relationship between multiple large shareholders and investment may be viewed as the first stage in analyzing the relationship between investment and firm value.

This research extends our knowledge of family business by showing that power distribution between large and non-related shareholders reduces financial constraints by monitoring in family firms located in five Latin-American countries. Our results show that the family has a significant effect on reducing the expropriation risk in institutional settings with poor outside investor protection, such as countries with lower regulatory

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[1] Following previous studies (Maury and Pajuste 2005; Nagar et al. 2011; Jara-Bertin et al. 2008), we compute *contestability* as the voting power of the largest secondary shareholders (second, third, and fourth largest shareholders) over the voting power of the first largest shareholder. Given the ownership features of the Latin American corporate environment (e.g., pyramidal ownership, dual class shares, business groups, blockholders from the same family, among others), it is crucial to know the identity of each shareholder in order to correctly compute their effective voting power. For instance, in a firm the first, second and third shareholder may be the same (shareholder) since the largest shareholder may control the firm indirectly through pyramidal control or may belong to the same family group. We take great care when dealing with these problems.

quality and legal enforcement. However, contestability reduces the beneficial role of families in curbing financial constraints. Family shareholders can create coalitions that either collude with the dominant shareholder or undermine their ability to make strategic decisions (Edmans 2014). In fact, given that *contestability* implies monitoring, family shareholders can entrench their control position to avoid monitoring by maintaining higher levels of asymmetric information and by investing sub-optimally. Finally, another contribution is to show that the counterbalance effect of *contestability* in family firms is more prominent when secondary large shareholders are also unrelated families. These results are in line with the idea that families may have the incentive to form a coalition and to act as a single large blockholder, which exacerbates the potential expropriation of minority shareholders (Duran and Ortiz 2019; Attig et al. 2008).

The remainder of the paper is organized as follows. Section 2 explains the theory and hypothesis development. Section 3 covers the methodology, data sources and variables used in the empirical analysis. Section 4 presents the estimation results of the models. Finally, section 5 includes the discussion and implications for future research.

2. THEORY AND HYPOTHESIS DEVELOPMENT

Financial constraints in family firms

Family business literature suggests two opposing views to explain families' incentives in moderating financial constraints. First, family firms are less likely than their non-family counterparts to undertake certain investment decisions, such as divestitures, especially when these companies are managed by family- rather than by non-family CEOs (Feldman et al. 2016). Although this finding indicates that family firms may fail to fully exploit the available economic opportunities, family shareholders can pursue multiple objectives beyond the maximization of the firm's value. Hence, a family firm's investment decisions are closely related to shareholder orientation, their portfolio composition, ownership

4

structure and the characteristics of both the voting and cash flow rights (Torres et al. 2017; Silva and Majluf 2008; Martinez et al. 2007; Villalonga and Amit 2006; Anderson and Reeb 2003). From an agency perspective, family directors can perform a monitoring function of the top management team not only to align incentives but also to prioritize optimal investment decisions (Jaskiewicz and Klein 2007; Pieper et al. 2008).

While agency theory suggests that formal control mechanisms help to align shareholders' expectations and managers' decisions when making financial and investment decisions, other theoretical perspectives such as the socioemotional wealth (SEW) view, and the resources based view (RBV), stewardship and planned behavior theories, provide alternative explanations for investment and financing decisions in family firms. All of these alternative theories consider specific family characteristics - needs, resources, members' intrinsic motivations and family attitudes, values and norms-for explaining the behavior and choices of family firms.

In particular, SEW suggests that families may wish to preserve family identity, dynasty or reputation and social capital (Gomez-Mejia et al. 2010; Gomez-Mejia et al. 2007). In line with this, the RBV view suggests that family firms have a particular resource – familiness, the unique bundle of resources of a particular firm resulting from the interaction between the family, its individual members, and the business (Habbershohn and Williams 1999) – that may or may not help, promoting optimal management and financial policies (Pearson et al. 2008; Habbershon et al. 2003; Habbershon 2006). Although these approaches also serve to explain to families' non-financial decisions (Berrone et al. 2012), financial decisions such as optimal investment are also important vis-à-vis preserving socioemotional wealth, because firms need to be efficient and competitive enough in the long term. As a result, they need to make value maximizing decisions such as optimal investment policies (Naldi et al. 2013). Hence,

Hypothesis 1: Financial constraints measured by investment-cash flow sensitivity are lower in family firms than in non-family firms.

The effect of contestability on financial constraints

Corporate governance literature has recognized certain advantages of the existence of secondary large shareholders who interact with one another and with the dominant shareholder to create a specific dynamic inside the firm (Nagar et al. 2011; Santos et al. 2015; Pombo and Taborda 2017; Jara-Bertin et al. 2008; Maury and Pajuste 2005; Jara et al. 2018). One natural way to measure the relative balance between large shareholders is through *contestability*, which is defined as the probability that non-dominant large shareholders engage in monitoring or challenging the largest shareholder's power (Attig et al. 2009; Attig et al. 2008) .

Some theoretical arguments suggest that secondary large shareholders serve a monitoring purpose by using mechanisms such as the "voice" and the threat of "exit", or by directly challenging the controlling shareholder's power (when the largest shareholder does not have the undisputed control of the firm)(Adjaoud and Ben-Amar 2010; Bae et al. 2012). Jara-Bertin et al. (2008) and Pombo and Taborda (2017) have demonstrated the beneficial monitoring role of *contestability,* showing that the existence of other large shareholders has a positive impact on firm value. Similarly, Jara et al. (2018) show that contesting control acts as an internal corporate governance mechanism which provides an alternative to the external legal setting, and which positively impacts a firm's value. Other studies evidence the benefits of multiple large shareholders by reducing their financing costs (Attig et al. 2008) and the cost of capital (Cai et al. 2016). As regards investment decisions, Jiang et al. (2018) use a sample of Chinese firms to show that, consistent with the monitoring view, the presence of multiple large shareholders increases investment

6

efficiency, and improves corporate governance by alleviating agency costs and information asymmetry problems. If *contestability* serves to improve monitoring, then the presence of multiple large shareholders is expected to reduce investment-cash flow sensitivity.

On the other hand, multiple large shareholders might have incentives to form control coalitions, and to act as a single large shareholder in order to strengthen their "*entrenchment*" position. If multiple large shareholders collude, they will engage in wealth expropriation and diversion of corporate resources for private benefits at the expense of minority shareholders (Edmans 2014). Should multiple large shareholders collude, an increase in financial constraints is to be expected.

Hypothesis 2. Firms with multiple large shareholders (contestability) have lower investment-cash flow sensitivity.

Family firm contestability and financial constraints

With regard to the effect of balanced ownership structures in family firms, to the best of our knowledge there is no evidence analyzing the moderating role of *contestability* on the relationship between family firms and financial constraints. Previous studies have mainly focused on the impact on a firm's value, with the results being mixed depending on the nature of the secondary large shareholder (Jara-Bertin et al. 2008; Duran and Ortiz 2019; Attig et al. 2009). Several arguments can explain the moderating role of *contestability* on the relationship between family firms and financial constraints.

First, previous evidence shows a positive impact of contestability on family firm value (Jara-Bertin et al. 2008) and financing costs (Attig et al. 2008). These results indicate the presence of a monitoring role of multiple large shareholders that will lead to

efficient investment decisions which would reduce financial constraints in family firms even further.

On the other hand, *contestability* could reduce the positive role of families in restricting financial constraints. First, the existence of multiple large shareholders can generate conditions in which shareholders "dispute the control" of the largest family shareholder, such that the latter may enhance their control position (entrenchment) by depending more on internal resources generated for investment in order to maintain higher levels of asymmetric information (Espinosa et al. 2017; Torres et al. 2017; González et al. 2014, 2012). Second, at higher levels of *contestability* (monitoring), family firm controllers might seek to avoid external monitoring in order to enjoy their private benefits of control by depending less on external sources of funds (due to risk exposure and the informational content of debt) and more on internal cash flow generation (Jara-Bertin et al. 2018; González et al. 2013). Third, colluding arguments might prove more prominent when secondary large shareholders are also families (Maury and Pajuste 2005). The distribution of ownership among several large family shareholders increases family incentives to collude with the largest family shareholder for controlling purposes (Duran and Ortiz 2019; Jara-Bertin et al. 2008). Following this reasoning, we suggest that family influence in overcoming financial constraints is reduced by *contestability*, and that this effect is more prominent when secondary large shareholders are also families:

Hypothesis 3a: the greater the *contestability* in the ownership structure of a family firm the greater the reduction of the positive effect of the family on the investment-cash flow sensitivity relationship.

Hypothesis 3b: the negative moderating effect of *contestability* on the family firm-investment cash flow sensitivity relationship is more prominent when secondary large shareholders are also representing families.

The Latin American context provides an interesting framework to analyze this effect due to the high levels of ownership concentration and control in family firms (Pombo and Taborda 2017).

3. METHODOLOGY

Data sources and variables

Our data set is composed of firm-level information from Thomson Reuters Eikon and country-level data from the World Bank. Our raw data sample consists of 504 firms and 5,416 observations of annual financial information from 2001 to 2015. We exclude all non-financial firms and firms with less than three years' coverage, as well as firms with missing values for capital expenditures, sales, assets, debt, cash flow, and stock prices. Finally, we drop outliers in the top and bottom 1% of each variable. Our final sample is composed of 4,034 firm-year observations from 449 non-financial firms from Argentina, Brazil, Chile, Colombia, Mexico, and Peru between 2000 and 2015[2]. Table 1 presents the definition of each variable in our empirical analysis. Table 2 provides descriptive statistics of the sample together with the interest variables, such as investment, cash flow, *family,* and *contestability*.

Family identification of the controlling shareholder is crucial to our study. In the Latin-American context, firms may be controlled by the same family through different

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[2] In order to correctly analyze the database, we excluded all financial firms, companies with negative equity, and those which are state-owned.

family members or through closed companies (non-listed firms). We check ownership structure and shareholder identity year by year and firm by firm. This process allows us to identify owners who control the firm through voting power. We identify family firms by using the following procedure. First, we check the identity of each shareholder, and establish the family nature of these shareholders. Second, we also categorize a firm when the largest shareholder is an individual who maintains family ties with other relevant shareholders (groups of individuals from the same family). We consider a group of individuals who own at least 10% of the voting rights in the company to be family shareholders (Almeida and Wolfenzon 2006; Ampenberger et al. 2013).[3]

The *Contestability* measure is an index reflecting the power of the other large shareholders who are not the controlling shareholder. We compute *contestability* as the voting power of the secondary largest shareholders (second, third, and fourth largest shareholders) over the voting power of the first largest shareholder (Maury and Pajuste 2005; Pombo and Taborda 2017). Given the ownership features of the Latin American corporate environment, it is crucial to know the identity of each shareholder in order to correctly compute their effective voting power. For instance, the first, second and third shareholder in a firm may be the same (shareholder) because the largest shareholder may control the firm indirectly through pyramidal control or may belong to the same family group. We take great care when dealing with these problems. We also include two additional variables of power distribution among family shareholders: *no.FamB* represents the natural logarithm of one plus the number of family blockholders (where blockholders are considered to have over 5% of ownership participation); and *ContBfam*

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[3] We only check the identity of each shareholder and who is behind the closed company. One disadvantage of this study is that we do not identify business group affiliation, and pyramidal ownership.

is the contestability measure which only considers family secondary blockholder participation.

Additionally, we use a number of control variables to avoid problems of under-specification of our models and to enhance the comparability of our analysis with prior literature (Attig et al. 2008; Harris and Raviv 1988; Gutiérrez and Pombo 2009). These control variables are as follows: (1) *Tobin's Q* is defined as the market value of equity plus the book value of debt over the book value of total assets. (2) *Ln*(*Assets*) is a proxy for firm size, measured as the natural logarithm of the firm's total assets. (3) *Debt/Assets* measures financial leverage (total debt over total assets). (4) *LT Debt* is the long term debt to total asset ratio. (5) *Divpay* represents the dividend paid over total equity. (6) *Age* is the natural logarithm of the company's age. Finally, we include firm and interacted country-time and, when appropriate, country, industry and time dummy variables.

[INSERT TABLE 1 ABOUT HERE]

[INSERT TABLE 2 ABOUT HERE]

Model

To test whether family firms and contestability attenuates or increases financial constraints, we extend the investment-cash flow sensitivity model proposed by Fazzari et al. (1988). In perfect capital markets, firms' investment decisions are independent of their financial structure (Modigliani and Miller 1958) and the only determinant of corporate investment is the existence of growth opportunities. However, when market imperfections occur, investment decisions depend on internal and external financial conditions. In such a context, if firms face financial frictions, there is a wedge between the costs of internally generated resources (which become very cheap) and costs of external financial sources such as debt issuance and equity offerings. Thus, the model suggests that the higher the

11

wedge between the costs of external and internal financial sources, the more financially constrained firms are because they are more dependent on internal sources of funds such as operating cash flow to satisfy their investment opportunities. As a result, excessive dependence on internal funds may lead firms to invest sub-optimally[4].

Following Pindado et al. (2011), in order to show the differential effect of family nature on financial constraints (investment-cash flow sensitivity parameter), the cash flow variable is interacted with the family dummy and contestability. This interaction reflects whether family nature and contestability relaxes or increases financial constraints. The empirical model is

$$Inv_{i,t} = \beta_0 + \beta_1 \cdot CF_{i,t} + \beta_2 \cdot CF_{i,t} \cdot \text{Fam}_{i,t} + \beta_3 \cdot CF_{i,t} \cdot \text{Cont x}_{i,t} + \beta_4 \cdot CF_{i,t} \cdot \text{Fam}_{i,t} \cdot$$

$$\text{Cont x}_{i,t} + \beta_5 \cdot \text{Fam}_{i,t} \cdot \text{Cont x}_{i,t} + \beta_6 \cdot \text{Fam}_{i,t} + \beta_7 \cdot \text{Cont x}_{i,t} + CV_{i,t-1} + f_i +$$

$$yc_t + u_{i,t} \tag{1}$$

where Inv_{it} is the capital investment of firm i in year t; CF_{it} is the cash flow of firm i in year t; $Fam_{i,t}$ takes the value 1 when the main shareholder is a family, and zero otherwise; Cont $\text{x}_{i,t}$ is a power distribution measure and represents $no.FamB$ (number of family blockholders), Contest (contestability) and ConBfam (family blockholder contestability); and $CV_{i,t-1}$ is a set of control variables in t-1, as defined in Table 1. In addition, we introduce Country-Year Fixed Effect (y_{ct}) and firm level Fixed Effect (f_i) as control variables. Including the Country-Year Fixed Effect captures country time-variant variables, such as GDP growth and inflation, whilst the firm fixed effect captures time-invariant variables.

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[4] For instance, the overinvestment problem described by Jensen (1986) or the underinvestment problem described by Myers (1977) and (Myers and Majluf 1984).

In line with prior literature, CF (β_1) is expected to be positive. In the presence of financial constraints, a positive shock of cash flow should increase investment. Our Hypothesis 1 suggests that the *family* nature of the largest shareholders reduces financial constraints, such that we introduce an interaction between cash flow and the family dummy. In Equation 1, the parameter β_2 captures the differential effect of family firms on financial constraints and is expected to be negative. Hypothesis 2 proposes that contestability reduces the investment-cash flow sensitivity relationship, such that we expect parameter β_3 to be negative. Moreover, Hypotheses 3a and 3b suggest that the beneficial role of the family in attenuating financial constraints is reduced by contestability and by the number of family blockholders due to monitoring and colluding arguments, respectively. In both hypotheses, we expect a positive sign of the parameter β_4.

4. RESULTS

Family firms and Financial Constraints

The analysis begins by testing whether family nature influences firms' financial constraints for the whole sample, as well as sub-samples of family and non-family firms, respectively. Columns 1 and 2 in Table 3 show the results of introducing the interacted term between *CF* and *Fam* and different sets of control variables. It should be noted that in order to deal with possible attrition problems all the estimations only consider surviving firms; that is, only those that remain in the sample up to 2015. Columns 4 and 6 show the results for the estimations using subsamples of non-family and family firms, respectively.

[TABLE 3 ABOUT HERE]

Table 3 shows that cash flow (*CF*) is positively associated with investment, which is consistent with the existence of financial constraints. The results are robust to the inclusion of several control variables.

13

Columns 1 and 2 show that the coefficient for the interaction $Cash\ Flow_{i,t} *$ $Family_{i,t}$ is negative and statistically significant (-0.089, *s.e.*= 0.026 and -0.082, *s.e.*= 0.027, respectively). The quantitative effect of families is large. For instance, using the estimation in column 2, the marginal effect of cash flow on investment is 0.110 – 0.082 * *Family*. Evaluated at *Family* = 1, this implies a marginal effect of 0.028. This result indicates that the investment-cash flow sensitivity relationship is lower in family firms.

Columns 4 and 6 in Table 3 show a heterogeneous response of investment-cash flow sensitivity in non-family and family firms, respectively. Specifically, we split the sample into family and non-family firms and compare the *CF* coefficient of each estimation. As expected, our result shows that the *CF* parameter is lower in family firms (the Cash Flow parameter for the Family subsample is 0.041 whilst for the Non-family one it is 0.077), which means that families are less dependent on internal cash flow generation to invest. Results from columns 1 and 6 support our Hypothesis 1 which indicates that family shareholders alleviate financial constraints and improve investment decisions in high-ownership concentration contexts such as in Latin American firms.

Robustness Check

Due to endogeneity problems in dynamic panel data, ordinary least squares estimators might provide biased coefficients. We therefore use Blundell and Bond's (1998) generalized method of moments (GMM) as a robustness check. The GMM system estimator deals with endogeneity issues in the relation between investment and cash flow, among others. GMM controls for the endogeneity of all firm-level variables by introducing lagged variables of the right hand-side as instruments. Specifically, we introduce all right-hand side variables lagged from *t*–2 to *t*–4 in equation (1) (this is because we introduce lagged variables in the right-hand side in control variables of equation 1). In this way, the GMM system estimator evidences certain advantages over

other dynamic panel models that are commonly used in corporate finance research (Flannery and Hankins 2013). The consistency of the estimates depends on the absence of second-order serial autocorrelation in the residuals and on the validity of the instruments (Arellano and Bond 1991). Accordingly, we report *p*-values from the first- and second-order autocorrelation test. To test the validity of the instruments, we use the Hansen test of overidentifying constraints, which tests for the absence of correlation between the instruments and the error term and, therefore, checks the validity of the selected instruments.

[TABLE 4 ABOUT HERE]

Table 4 provides a robustness check of the results of the interaction terms between cash flow and family by using GMM estimations. The results reveal a negative parameter for the interaction between *CF* and *Fam* in columns 1 and 2, showing that family firms reduce financial constraints. In general, the findings are consistent with the results presented in Table 3.

Contestability and Financial Constraints

Table 5 reports the estimated results of the relationship between contestability and the investment-cash flow sensitivity relationship. Column 1 shows estimates of the *Contest* effect, which includes all types of secondary blockholders. Column 3 introduces *ContBfam*, which includes the effect of secondary family blockholders, and Column 5 includes the effect of secondary institutional investor blockholders (*ContIOwn*).

[TABLE 5 ABOUT HERE]

Column 1 in Table 5 shows that power distribution among several large shareholders reduces financial constraints. The *CF* coefficient is positive and statistically significant at the 1% level, with values of 0.105. Moreover, the parameter for the $Cash\ Flow_{i,t} *$

15

$Contestability_{i,t}$ interaction is negative and statistically significant (-0.069, *s.e.*= 0.020 and -0.060, *s.e.*= 0.019, respectively). For instance, using the estimation in Column 1, the marginal effect of cash flow on investment is 0.105 – 0.061 * *Contestability*. Evaluated at the sample average of *Contestability* (0.81), this implies a marginal effect of 0.055. This result validates Hypothesis 2, where contestability reduces financial constraints. Our results also point to the incentives of secondary large shareholders in monitoring activities and the efficient role they play in corporate governance. In fact, we distinguish which blockholders have greater incentives in monitoring activities that alleviate financial constraints (secondary family blockholders and institutional investor blockholders).

Family Firms, Contestability and Financial Constraints

Columns 2, 4 and 6 in Table 5 show estimations that include the moderating role of contestability on the relationship between family firms and financial constraints. Column 2 reveals how the parameter for the interaction $CF_{i,t} * Fam_{i,t} * Contest_{i,t}$ is positive and statistically significant 0.131, *s.e.*= 0.044 and 0.105, *s.e.*= 0.044, respectively. This result means that the beneficial role of family firms in overcoming financial constraints is reduced by the existence of higher levels of contestability, and supports the arguments suggesting that families can either entrench their control position when control may be disputed (and avoid the costs of risk exposure), or can collude with other secondary large shareholders. This result lends support to Hypothesis 3a.

However, when we analyze the identity of secondary large shareholders (columns 4 and 6), we observe that the positive parameter $CF_{i,t} * Fam_{i,t} * Cont\ x_{i,t}$ is only significant when the contestability measure includes only family secondary large shareholders. This result validates Hypothesis 3b, which states that family secondary large shareholders attenuate the beneficial role of families in reducing financial constraints. Moreover, similar results are observed in Tables 3 and 4 when replacing

16

ContBfam by the number of family block holders ($no. FamB_{i,t}$). Column 3 in Table 3 and Column 2 in Table 5 show that the interacted term $CF_{i,t} * Fam_{i,t} * no. FamB_{i,t}$ is positive and statistically significant. Finally, Column 7 in Table 3 and Column 4 in Table 4 show that the interacted term $CF_{i,t} * no. FamB_{i,t}$ is only positive for subsamples of family firms. These results also indicate that multiple large family blockholders reduce the beneficial role of families on financial constraints.

Heterogeneity

Our average evidence indicates that family owners play a key role in corporate governance by alleviating financial constraints. As a result, we follow previous studies in financial constraints (Alvarez et al. 2018; Love 2003) by exploiting the heterogeneous response of families to different subsamples of firms. Specifically, we expect a family's largest shareholders to have a greater effect in firms that face agency problems and/or are more prone to being financially constrained. Financial literature has identified some factors that explain how firms engage in overinvestment/underinvestment problems or maintain higher levels of asymmetric information (Myers and Majluf 1984; Almeida and Campello 2007). Some studies following the Fazzari et al. (1988) model focus on identifying restricted firms by using subsamples depending on firm size (Devereux and Schiantarelli 1990; Kadapakkam et al. 1998; Arslan et al. 2006) or leverage (Leland 1994; Morgado and Pindado 2003; Dirk et al. 2007), among others.[5]

Table 6 shows the results of the cross-sectional test that splits the sample according to a firm's size and leverage. Our results lend support to the notion related to the beneficial role families play in alleviating financial constraints in firms that are more prone to facing financial frictions. Column 1 in Table 6 shows that the interaction

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[5] Specifically, we estimate the historical average at firm level for the size criteria and leverage. We split the sample into two using the sample median of each criterion.

$Cash\ Flow_{i,t} * Family_{i,t}$ is negative and statistically significant for the subsample of constrained firms (low-size), whereas in column (2) the interaction for the subsample of high-size is not significant.

Moreover, with regard to the leverage splitting criteria, both parameters for the interaction are negative and significant in columns 3 and 4. However, looking at the marginal effect of column 4, we see that the impact of families in overcoming financial constraints is more pronounced in the subsample of restricted firms (high leverage).

5. CONCLUDING REMARKS

The main goal of the current study was to determine the effect of *family* control on financial constraints for a sample of listed firms from Argentina, Brazil, Chile, Colombia, Mexico, and Peru. This study has shown that Latin American countries offer an interesting environment to study the interaction between *family* largest shareholders, given the weaker legal setting and the importance of families in terms of reputation and company control.

Our results support the idea that families play an important role in reducing financial constraints for two reasons. First, families are characterized by a long-term investment orientation with non-diversified portfolios (Dow and McGuire 2016), where a firm's control plays a key role, which can result in reducing agency conflicts. Second, features such as social capital, reputation, and socioemotional wealth help to explain a family's commitment to engaging in creating long-term value investment decisions, which might possibly reduce financial constraints. Our results are in line with the beneficial role of *Family* shareholders in relaxing financial constraints. This result is robust and heterogeneous to different estimation methods and to the inclusion of several

additional covariates. Our results show that families act as a complementary corporate governance mechanism, since their effect on financial constraints is more pronounced in legal environments that are characterized by lower levels of investor protection, or when reducing financial constraints in firms that are assumed to be financially constrained.

In addition, we test the effect of power distribution on financial constraints and explore this moderating role in attenuating/increasing financial constraints in family firms. Our results highlight the relevance of *contestability* as a corporate governance mechanism. Greater power distribution among several reference shareholders alleviates financial constraints. Although *contestability* is important in reducing financial constraints throughout the whole sample, contestability reduces the beneficial role of families in curbing financial constraints. Given the complex relations among shareholders in family-owned firms, our results highlight family reluctance to be monitored. Our results also suggest that families will attempt to avoid monitoring by engaging in activities that reduce information disclosure. As a result, family firms will be more financially constrained at higher levels of contestability. We also show that the counterbalanced effect of *contestability* in family firms is more pronounced when secondary large shareholders are also unrelated families. These results are in line with the idea that families may have the incentive to form a coalition and to act as a single large blockholder, which exacerbates the potential expropriation of minority shareholders.

Our results have some policy implications for regulators and supervisory authorities alike. We identify certain advantages of family owners in overcoming financial constraints, since they act as a complementary corporate governance mechanism in institutional environments that offer weaker legal protection. Moreover, we identify certain ownership structure issues that raise concerns regarding the interests of minority shareholders, especially in situations in which several large secondary shareholders

engage in monitoring. In Latin America, the existence of balanced ownership structures with several large shareholders constitutes an important corporate governance mechanism since it helps to overcome certain financial frictions. Thus, the good governance codes implemented in several countries might be advised to consider this suggestion. Our research also encourages policymakers to continue improving the institutional environment to achieve enhanced protection of investors' rights.

The findings in this report are subject to at least two limitations. First, we only include listed firms from six Latin American countries. Future research should explore and compare whether listed firms located in other emerging economies beyond Latin America report similar findings. Second, we limit our analysis to testing whether contestability, as a control mechanism, has an effect on financial constraints in family firms. Future research should focus on exploring the heterogeneous response of financial constraints to control enhancing mechanisms (i.e., shareholder coalitions, pyramidal structures, dual-class shares, etc.) that allow shareholders to secure control with lower fractions of shares. Jointly studying such mechanisms might provide valuable insights. Additionally, examining dominant shareholder identity and what role institutional investors play in financial constraints might also shed further light.

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<div align="center">**Table 1.** Definition of variables</div>

Variable	Variable name	Definition
Inv.	Investment Ratio	Capital expenditure over lagged total assets
$CF_{i,t}$	Cash flow	Operating Cash Flow of year t over total assets at the beginning of period (t–1)
Fam	Family firm	1 if the largest shareholder is a family, and zero otherwise.
$no.FamB$	No. of Family Blockholders	Natural logarithm of one plus the number of family blockholders.
Contest	Contesting the power of the largest shareholder	(P2 + P3 + P4)/P1
ContBfam	Family Blockholders Contestability	(Sum of non-controlling family blockholders)/P1
ContBIO	Institutional Investor Blockholder Contestability	(Sum of non-controlling institutional investor blockholders)/P1
$Tobin's\ Q$	Tobin's q	(Equity market value + Debt book value)/(Equity book value + Debt book value)
P1	Largest Shareholder Ownership	In the case of families, ownership held by the largest shareholder is the ownership held by all the family members.
Ln(Assets)	Size of the firm	Ln of total assets
Debt/Assets	Financial leverage	Debt book value/total assets
$LT\ Debt$	Long-term debt	Long-term debt to total debt
$Divpay$	Dividend ratio	Dividends paid over total equity
$Sales/Assets$	Asset turnover ratio	Sales over total Assets
Age	Age	Natural logarithm of the company's age
Firm FE	Firm-level dummies	A set of firms' dummies.
Industry FE	Industry-level dummies	A set of industry dummies, according to the Thomson Eikon Business Category (TRBC).
Country FE	Country-level dummies	A set of country dummies.
Year Fixed Effect	Year-level dummies	A set of year dummies.
Country-Year Fixed Effect	Country-Year dummies	A set of interacted country-year dummies.

Table 2: Descriptive statistics across countries

	Argentina		Brasil		Chile		Colombia		Mexico		Peru		Total	
Inv.	0.064	(0.062)	0.063	(0.059)	0.061	(0.055)	0.057	(0.056)	0.061	(0.049)	0.064	(0.061)	0.062	(0.056)
$CF_{i,t}$	0.096	(0.104)	0.081	(0.091)	0.075	(0.082)	0.066	(0.084)	0.094	(0.077)	0.093	(0.102)	0.084	(0.088)
Fam	0.367	(0.483)	0.564	(0.496)	0.763	(0.425)	0.601	(0.491)	0.405	(0.491)	0.780	(0.415)	0.602	(0.490)
Contest	0.521	(0.786)	1.000	(0.705)	0.770	(0.608)	1.003	(0.758)	0.710	(0.678)	0.743	(0.714)	0.813	(0.698)
ContBfam	0.057	(0.300)	0.420	(0.573)	0.497	(0.556)	0.769	(0.754)	0.222	(0.480)	0.543	(0.635)	0.405	(0.575)
$no.FamB$	0.042	(0.194)	0.421	(0.532)	0.683	(0.581)	0.761	(0.585)	0.212	(0.423)	0.613	(0.583)	0.462	(0.561)
ContIOwn	0.186	(0.538)	0.409	(0.508)	0.159	(0.252)	0.094	(0.211)	0.232	(0.377)	0.116	(0.353)	0.239	(0.413)
$Tobin's\ Q$	1.219	(0.449)	1.328	(0.669)	1.194	(0.511)	1.046	(0.624)	1.434	(0.710)	1.079	(0.819)	1.263	(0.658)
Ln(Assets)	19.426	(1.895)	20.760	(1.749)	19.883	(1.739)	20.333	(2.036)	21.139	(1.537)	19.358	(1.522)	20.312	(1.817)
Debt/Assets	0.228	(0.180)	0.292	(0.175)	0.235	(0.139)	0.142	(0.129)	0.236	(0.173)	0.193	(0.154)	0.242	(0.166)
P1	0.377	(0.370)	0.317	(0.228)	0.443	(0.209)	0.374	(0.273)	0.271	(0.263)	0.445	(0.309)	0.364	(0.265)
$Divpay$	0.047	(0.191)	0.060	(0.142)	0.055	(0.082)	0.026	(0.038)	0.038	(0.076)	0.052	(0.108)	0.051	(0.114)
Age	3.849	(0.631)	3.377	(1.145)	3.271	(1.197)	3.138	(0.902)	1.833	(1.628)	2.950	(1.333)	2.999	(1.409)
$LT\ Debt$	0.441	(0.320)	0.573	(0.281)	0.576	(0.323)	0.536	(0.319)	0.654	(0.343)	0.472	(0.331)	0.567	(0.323)
$Sales/Assets$	1.093	(0.654)	0.739	(0.484)	0.655	(0.458)	0.485	(0.297)	0.840	(0.468)	0.634	(0.436)	0.737	(0.492)
Obs.	270		1,185		1,098		158		835		488		4,034	

Notes: this table displays the mean (standard deviation) of all the variables included in baseline
regressions from Eq.1 by country. See Table 1 for the definition of the variables.

Table 3. Investment Cash Flow Sensitivity, Family Firms and Family Blockholders
(OLS Regressions)

		Total sample			Non-family		Family	
VARIABLES		(1)	(2)	(3)	(4)	(5)	(6)	(7)
$CF_{i,t}$	β_1	0.115***	0.110***	0.143***	0.077***	0.085***	0.041**	0.106***
		(0.022)	(0.024)	(0.031)	(0.027)	(0.029)	(0.019)	(0.030)
$CF_{i,t} * Fam_{i,t}$	β_2	-0.089***	-0.082***	-0.104***				
		(0.026)	(0.027)	(0.024)				
$CF_{i,t} * no.FamB_{i,t}$	β_3			-0.114		-0.100		0.075***
				(0.082)		(0.073)		(0.025)
$CF_{i,t} * Fam_{i,t} * n°FamB_{i,t}$	β_4			0.197**				
				(0.086)				
$Fam_{i,t}$	β_5	0.004	0.003	0.007				
		(0.004)	(0.004)	(0.005)				
$Fam_{i,t} * n°FamB_{i,t}$	β_6			-0.020**				
				(0.008)				
$no.FamB_{i,t}$	β_7			0.015*	0.003	0.011	-0.005	0.021*
				(0.008)	(0.007)	(0.008)	(0.004)	(0.011)
$Tobin's\ Q_{i,t-1}$	β_8	0.014***	0.012***	0.012***	0.007*	0.008*	0.018***	0.017***
		(0.003)	(0.003)	(0.003)	(0.004)	(0.004)	(0.003)	(0.003)
$Ln(Assets)_{i,t-1}$	β_9		-0.011**	-0.010**	-0.007	-0.006	-0.028***	-0.029***
			(0.005)	(0.005)	(0.006)	(0.007)	(0.006)	(0.006)
$Debt/Assets_{i,t-1}$	β_{10}		-0.056***	-0.056***	-0.059**	-0.059**	-0.037**	-0.034**
			(0.014)	(0.014)	(0.024)	(0.025)	(0.017)	(0.016)
$P1_{i,t-1}$	β_{11}		0.004	0.004	0.015	0.015	-0.012	-0.014
			(0.007)	(0.007)	(0.010)	(0.010)	(0.011)	(0.010)
$Divpay_{i,t-1}$	β_{12}		-0.015	-0.015	0.005	0.006	-0.011	-0.016*
			(0.011)	(0.010)	(0.013)	(0.013)	(0.010)	(0.010)
$Age_{i,t-1}$	β_{13}		-0.006	-0.006	0.002	0.003	-0.011	-0.014
			(0.006)	(0.006)	(0.008)	(0.008)	(0.010)	(0.010)
$LT\ Debt_{i,t-1}$	β_{14}		0.014***	0.014***	0.009	0.009	0.010*	0.010*
			(0.005)	(0.005)	(0.009)	(0.009)	(0.006)	(0.006)
$Sales/Assets_{i,t-1}$	β_{15}		0.010**	0.010**	0.019***	0.020***	0.000	0.000
			(0.004)	(0.004)	(0.006)	(0.006)	(0.005)	(0.005)
Obs.		4,034	4,034	4,034	1,586	1,586	2,448	2,448
R-squared		0.579	0.594	0.597	0.637	0.638	0.629	0.634
adj. R-sq.		0.505	0.521	0.524	0.541	0.541	0.545	0.550
Country-Year FE		YES	YES	YES	YES	YES	YES	YES
Firm FE		YES	YES	YES	YES	YES	YES	YES
Hausman Test		135.24***	183.7***	193.1***	63.0***	63.12***	175.58***	176.49***
Marginal Effect								
$\beta_1 + \beta_2$		0.026*	0.028*	0.039*	-	-	-	-
		(0.015)	(0.016)	(0.024)	-	-	-	-
$\beta_1 + \beta_2 + \beta_4 * n°FamB_{i,t}$		-	-	0.130***	-	-	-	-
		-	-	(0.050)	-	-	-	-
$\beta_1 + \beta_3 * n°FamB_{i,t}$		-	-	-	-	0.070***	-	0.147***
		-	-	-	-	(0.026)	-	(0.042)

Notes: this table provides estimated coefficients (robust standard errors) from the OLS regressions. The dependent variable is Investment ($Inv_{i,t}$). See Table 1 for the definition of the variables. We include fixed effects at the country-year level (ys_k). Standard errors clustered at firm level are in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

Table 4. Robustness Check: Investment Cash Flow Sensitivity, Family Firms and Family Blockholders (GMM Regressions)

		Total sample		Non-family	Family
		Dep. Var.: $Inv_{i,t} = \frac{Investment_t}{Assets_{t-1}}$			
VARIABLES		(1)	(2)	(3)	(4)
$Inv_{i,t-1}$	β_0	0.405***	0.398***	0.415***	0.397***
		(0.017)	(0.018)	(0.022)	(0.014)
$CF_{i,t}$	β_1	0.193***	0.172***	0.057***	0.102***
		(0.023)	(0.024)	(0.019)	(0.012)
$CF_{i,t} * Fam_{i,t}$	β_2	-0.073**	-0.088**		
		(0.034)	(0.037)		
$CF_{i,t} * n°FamB_{i,t}$	β_3		-0.185*	-0.012***	0.004***
			(0.109)	(0.003)	(0.001)
$CF_{i,t} * Fam_{i,t} * n°FamB_{i,t}$	β_4		0.239**		
			(0.118)		
$Fam_{i,t}$	β_5		0.009		
			(0.013)		
$Fam_{i,t} * n°FamB_{i,t}$	β_6	-0.002	-0.011**		
		(0.004)	(0.005)		
$no.FamB_{i,t}$	β_7		-0.005	0.027	0.020*
			(0.011)	(0.066)	(0.010)
$Tobin's\ Q_{i,t-1}$	β_8	0.002*	0.003*	0.002*	0.007***
		(0.001)	(0.001)	(0.001)	(0.001)
$Ln(Assets)_{i,t-1}$	β_9	-0.003***	-0.002**	-0.001	-0.002**
		(0.001)	(0.001)	(0.001)	(0.001)
$Debt/Assets_{i,t-1}$	β_{10}	-0.026***	-0.030***	-0.061***	-0.024***
		(0.006)	(0.006)	(0.008)	(0.006)
$P1_{i,t-1}$	β_{11}	0.004	0.014*	0.000	-0.017
		(0.006)	(0.007)	(0.008)	(0.015)
$Divpay_{i,t-1}$	β_{12}	-0.046**	-0.056***	-0.027	-0.052***
		(0.018)	(0.019)	(0.020)	(0.008)
$Age_{i,t-1}$	β_{13}	-0.002	-0.000	0.003	-0.004***
		(0.001)	(0.001)	(0.003)	(0.001)
$LT\ Debt_{i,t-1}$	β_{14}	0.018***	0.024***	0.044***	0.018***
		(0.005)	(0.005)	(0.006)	(0.004)
$Sales/Assets_{i,t-1}$	β_{15}	0.009***	0.006***	0.024***	0.005***
		(0.002)	(0.002)	(0.004)	(0.001)
Obs.		4,034	4,034	1,586	2,448
F-Test		54.1	72.96	31.2	59.2
Auto(2) p-value		0.284	0.268	0.205	0.956
Hansen Test: χ^2 (d.f)		191.5 (170)	182.8 (166)	95.34 (108)	177.8 (170)
Hansen p-value		0.124	0.176	0.803	0.326
Year FE		YES	YES	YES	YES
Industry FE		YES	YES	YES	YES
Country FE		YES	YES	YES	YES
Marginal Effect					
$\beta_1 + \beta_2$		0.120***	0.084**	-	-
		(0.021)	(0.033)	-	-
$\beta_1 + \beta_2 + \beta_4 * n°FamB_{i,t}$			0.195***	-	-
			(0.053)	-	-
$\beta_1 + \beta_3 * n°FamB_{i,t}$		-	-	0.061***	0.115***
		-	-	(0.018)	(0.017)

Notes: this table provides estimated coefficients (robust standard errors) from the GMM-IV regressions. The dependent variable is Investment ($Inv_{i,t}$). See Table 1 for the definition of the variables. We include fixed effects at industry-level, fixed effect at year-level, and fixed effect at country-level. Standard errors clustered at firm level are in parentheses. The Hansen test is a test for over-identifying restrictions (validity of the instruments), and Auto(2) p-value is the p-value of a test of the absence of second order serial correlation. The F test is a test of the joint significance of coefficients. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

Table 5. *Contestability*, family firms, and Investment Cash Flow Sensitivity (OLS Regressions)

VARIABLES		Cont x = Contest		Cont x = ContBfam		Cont x = ContIOwn	
		(1)	(2)	(3)	(4)	(5)	(6)
$CF_{i,t}$	β_1	0.105***	0.189***	0.054***	0.116***	0.081***	0.146***
		(0.022)	(0.033)	(0.018)	(0.026)	(0.018)	(0.028)
$CF_{i,t} * Cont\ x_{i,t}$	β_2	-0.061***	-0.115***	0.011	-0.078	-0.078***	-0.114***
		(0.019)	(0.024)	(0.029)	(0.055)	(0.027)	(0.031)
$CF_{i,t} * Fam_{i,t}$	β_3		-0.184***		-0.109***		-0.118***
			(0.039)		(0.031)		(0.031)
$CF_{i,t} * Fam_{i,t} * Cont\ x_{i,t}$	β_4		0.131***		0.103*		0.068
			(0.037)		(0.060)		(0.051)
$Fam_{i,t} * Cont\ x_{i,t}$	β_5		-0.009*		-0.005		-0.005
			(0.005)		(0.004)		(0.008)
$Fam_{i,t}$	β_6	-0.004	0.009	-0.004	0.006	-0.005	0.005
		(0.004)	(0.006)	(0.004)	(0.005)	(0.004)	(0.005)
$Cont\ x_{i,t}$	β_7	0.007**	0.010***	0.004	0.009**	0.002	0.005
		(0.003)	(0.004)	(0.003)	(0.004)	(0.004)	(0.004)
$Tobin's\ Q_{i,t-1}$	β_8	0.013***	0.013***	0.013***	0.013***	0.012***	0.012***
		(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
$Ln(Assets)_{i,t-1}$	β_9	-0.011**	-0.010**	-0.011**	-0.011**	-0.011**	-0.011**
		(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
$Debt/Assets_{i,t-1}$	β_{10}	-0.055***	-0.053***	-0.057***	-0.057***	-0.052***	-0.050***
		(0.014)	(0.014)	(0.014)	(0.014)	(0.013)	(0.012)
$Divpay_{i,t-1}$	β_{11}	-0.015	-0.016	-0.014	-0.016	-0.016	-0.016
		(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
$Age_{i,t-1}$	β_{12}	-0.006	-0.007	-0.005	-0.006	-0.006	-0.007
		(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
$LT\ Debt_{i,t-1}$	β_{13}	0.014***	0.014***	0.014***	0.015***	0.014***	0.015***
		(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
$Sales/Assets_{i,t-1}$	β_{14}	0.010**	0.010**	0.011**	0.010**	0.010**	0.010**
		(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Obs.		4,034	4,034	4,034	4,034	4,034	4,034
R-squared		0.594	0.599	0.592	0.595	0.599	0.602
adj. R-sq.		0.520	0.526	0.518	0.521	0.526	0.530
Country-Year FE		YES	YES	YES	YES	YES	YES
Firm FE		YES	YES	YES	YES	YES	YES
Hausman Test		184.35***	175.99***	183.35***	180.89***	161.19***	151.99***
Marginal Effect							
$\beta_1 + \beta_2 * Cont\ x_{i,t}$		0.055***	0.096***	0.059***	0.084***	0.062***	0.119***
		(0.016)	(0.023)	(0.016)	(0.027)	(0.016)	(0.025)
$\beta_1 + \beta_2 * Cont\ x_{i,t} + \beta_4$			0.227***		0.187***		0.187***
			(0.047)		(0.056)		(0.060)
$\beta_1 + \beta_3 + \beta_4 * Cont\ x_{i,t}$			0.111***		0.049*		0.044**
			(0.028)		(0.028)		(0.019)

Dep. Var.: $Inv_{i,t} = \dfrac{Investment_t}{Assets_{t-1}}$

Notes: this table provides estimated coefficients (robust standard errors) from the OLS regressions. The dependent variable is Investment (Inv$_{i,t}$). See Table 1 for the definition of the variables. We include fixed effects at the country-year level (ys_k). Standard errors clustered at firm level are in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

Table 6. Family firms, and Investment Cash Flow Sensitivity – Cross-sectional Analysis (OLS Regressions)

VARIABLES		Dep. Var.: $Inv_{i,t} = \frac{Investment_t}{Assets_{t-1}}$			
		LN (Assets)		Debt/Assets	
		Low	High	Low	High
		(1)	(2)	(3)	(4)
$Cash\ Flow_{i,t}$	β_1	0.080**	0.080***	0.137***	0.083***
		(0.033)	(0.028)	(0.032)	(0.024)
$Cash\ Flow_{i,t} * Family_{i,t}$	β_2	-0.071*	-0.039	-0.106***	-0.070**
		(0.041)	(0.029)	(0.034)	(0.031)
$Family_{i,t}$	β_3	0.012*	-0.006	0.011	-0.003
		(0.006)	(0.005)	(0.007)	(0.005)
$Tobin's\ Q_{i,t-1}$	β_4	0.009**	0.016***	0.010***	0.019***
		(0.003)	(0.004)	(0.003)	(0.004)
$Ln(Assets)_{i,t-1}$	β_5	-0.003	-0.012**	-0.006	-0.022***
		(0.006)	(0.005)	(0.007)	(0.004)
$Debt/Assets_{i,t-1}$	β_6	-0.048**	-0.075***	-0.046	-0.068***
		(0.022)	(0.016)	(0.027)	(0.018)
$P1_{i,t-1}$	β_7	-0.005	0.011	0.004	0.010
		(0.013)	(0.008)	(0.009)	(0.010)
Observations		1,851	2,178	1,955	2,075
R-squared		0.640	0.686	0.641	0.623
adj. R-sq.		0.488	0.620	0.551	0.550
Country-Year FE		YES	YES	YES	YES
Firm FE		YES	YES	YES	YES
Marginal Effect					
$\beta_1 + \beta_2$		0.009	0.041*	0.031*	0.013
		(0.030)	(0.022)	(0.018)	(0.025)

Notes: this table provides estimated coefficients (robust standard errors) from the OLS regressions. The dependent variable is Investment (Invi,t). See Table 1 for the definition of the variables. We include fixed effects at the country-year level (ys_k). Standard errors clustered at firm level are in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.