Research on distinctness of cost of equity capital in family firms – description for the general public

The primary aim of the project is to examine the link between family control and the cost of equity capital based on the large sample of companies from different countries worldwide.

Main research question is: does cost of equity capital in family firms differ from cost of equity capital in non-family firms? And if so, what factors affect the difference between family and non-family firms in terms of cost of equity capital?

The scientific problem places the proposed project within the framework of the debate on corporate governance, focusing on the specific issue of the link between family control and the cost of equity capital.

Based on relevant literature on agency theory, corporate governance and capital structure theory analyzed in the project, whether family firms have higher or lower cost of equity capital remains an open question. Reasons for both positive and negative relation between family control and the cost of equity capital give rise to inferences about the factors that affect this relation.

Analysis of relevant literature leads to three additional questions that constitute detail research objectives:

- Does impact of family control on the cost of equity capital change over time, in different sub-periods depending on the phase of the business cycle?
- Does impact of family control on the cost of equity capital differ in certain countries depending on the level of shareholder rights protection?
- How do the financial decisions of family firms affect the cost of equity capital depending on financial architecture of different countries?

We will conduct our analysis on the link between family control and the cost of equity capital using different methods. Main group of methods that will be used during the research include methods of micro-econometrics used in empirical corporate finance. Primary method that will be used is linear regression analysis. When necessary other regression models will be applied. In the proposed research we choose implied cost of equity as proxy for expected return. During the project different data downloaded from two databases i.e. Orbis BvD and Thomson Reuters EIKON will be used.

Reasons for choosing the research topic refer on the one hand to significance of family firms to economies around the world, on the other to significance of cost of equity capital to both theory and practice of finance. In longer perspective better knowledge of factors affecting the cost of equity capital will enable family firms to make better investment and financing decisions, evaluate performance, and structure rewards for performance.