STEWARDSHIP OR AGENCY?

A SOCIAL EMBEDDEDNESS RECONCILIATION

OF CONDUCT AND PERFORMANCE IN PUBLIC FAMILY BUSINESSES

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Abstract

Two contradictory perspectives of family business conduct and performance are prominent in the literature. The stewardship perspective argues that family business owners and managers will act as farsighted stewards of their companies, investing generously in the business to maximize its value for all stakeholders. By contrast, the agency and behavioural agency perspectives maintain that major family owners will avoid risk and long-term, uncertain investment to maximize the utility of family members. This paper argues that both these views have application, but under different circumstances, determined in part by the degree to which the firm and its executive actors are embedded within the family and thus identify with its interests. The higher the level of firm embeddedness through the number of family directors, officers, generations, family votes, and ownership dispersion, and the more executives are susceptible to family influence, the more likely is the agency view to hold, and the less likely that of stewardship. These findings are supported among Fortune 1000 firms, as well as among the sub-sample of those firms that are family businesses.

Two distinct perspectives have emerged over the last decade regarding the conduct and performance of family businesses: stewardship and agency. The first has family owners and managers acting as far-sighted stewards of their businesses, willing to sacrifice and invest in order to make the firm healthy and durable and to maximize value for all stakeholders (Arrègle et al., 2007; Bubolz, 2001; James, 1999, 2006; Landes, 2006; Miller & Le Breton-Miller, 2005, 2006; Ward, 2004). The agency and behavioural agency perspective, by contrast, has family owners and managers acting more out of parochial preferences and purposes (Morck, Wolfenzon & Yeung, 2005; Wiseman & Gómez-Mejía, 1998). Family owners are said to use their power and "asymmetric" information to benefit the family. Specifically, family preferences for avoiding risk, maintaining control, and obtaining regular income and security are said to result in a strategies of conservatism and sparse investment – of family utility maximization rather than value maximization for all firm stakeholders (see also Bertrand & Schoar, 2006; Claessens et al., 2002; Gómez-Mejía et al., 2007; Morck, Strangeland & Yeung, 2000; Morck & Yeung, 2003; Wiseman & Gómez-Mejía, 1998). Our thesis is that both these well-argued views of family business may hold, but in different circumstances, largely characterized by the degree to which the business and its top executives are embedded within the family. Using the logic of Granovetter (1973), Uzzi (1996) and Dacin et al. (1999), strong ties to the family may displace weaker the ties to the business, and therefore, we will argue, favour the conduct and performance of the agency model over that of the stewardship model.

This paper first presents these contrasting perspectives of family business conduct, examining the motivations underlying stewardship and agency, and the resulting firm conduct and performance outcomes. Then, based on the literature on social embeddedness, hypotheses are generated regarding the governance conditions under which the stewardship and agency models are most apt to apply. These embeddedness hypotheses are tested on the Fortune 1000 sample of companies and also on the sub-sample of family firms.

The contribution of the research is for the first time to reconcile these two contradictory family business perspectives – one based in psychology, the other in economics. It also is the first attempt to use the sociological perspective of embeddedness in order to better understand family firms. As a result, whereas many other studies suggest that family involvement is an unambiguously positive or negative influence, the interpretive framework proposed by this study significantly conditions both those expectations. Finally, our analysis is based on a more encompassing and rigorous characterization of strategy and governance than prior studies, and on a sample which for the first time is finely partitioned according to dimensions of embeddedness.

Two Perspectives on Family Business Conduct and Performance

The Stewardship / Value Maximization Perspective

Stewardship may be defined as human caring, generosity, loyalty and responsible devotion, usually to a social group or institution (Donaldson, 1990). Stewardship theory suggests that people are motivated not simply by self-interest but by service to others and instincts such as altruism and generosity (Davis, Schoorman & Donaldson, 1997). Moreover, as opposed to acting as homo economicus and being propelled solely by economic considerations and lower level security needs, stewardship proponents view as important motivators higher level needs such as self actualization (Donaldson, 1990). Bourdieu (1986), Nahapiet & Ghoshal (1998) and Putnam (2000) argue that stewardship arises among parties when relationships are stable, where there is significant interdependence and interaction, and when people share a similar social network. These conditions are said to develop within family businesses, where family members identify with and are emotionally attached to the firm, and are willing to make sacrifices to maximize long term value (James, 2006; Miller & Le Breton-Miller, 2005; Ward, 2004).

Certainly attitudes of stewardship may have important implications for managerial conduct. To the extent that major owners and executives embrace a stewardship philosophy, they are most apt to view their organization as a social institution – one whose contribution is to be realized for all stakeholders, not just the owners or people at the top. Preferential treatment of family members is expressly excluded (Arregle, 2007; Miller & Le Breton, 2005; Ward, 2004). The emphasis instead is on creating an unusually capable enterprise and securing the long term health of the organization (Arthurs & Busenitz, 2003).

Stewardship Motivations

According to Arrègle et al., (2007: 84): “Family members are concerned about the firm because it is part of their collective patrimony and is often the main asset of the family”. Indeed, there is said to be a strong socio-emotional aspect to a family’s involvement with its business (Gómez-Mejía et al., 2007). Because the fate and honor of the family are tied up with that of the business, family owners and executives are believed to act for the long run interests of the company – behaving with generosity, devotion, and committed effort to support the business and its employees, customers and investors (James, 2006; Landes, 2006; Lansberg, 1999; Ward, 2004). And as those treated generously may respond in like fashion, stewardship is said to result in solidarity within the firm and with outside stakeholders (Landes, 2006).

Another motive for family members' stewardship is their ability to obtain personal and vocational fulfillment from the business (Gómez-Mejía et al., 2007). In serving the family enterprise, family members may feel a sense of usefulness and belonging (Ashforth & Mael, 1989). Members' self-concepts and self-esteem also can be enhanced by identification with the company in which they make valuable contributions (Westhead, Cowling & Howorth, 2001). Moreover, family owners or managers may benefit from the community status that derives from their position in the business, and this too may enhance their allegiance to the firm (Sirmon & Hitt, 2003).

Finally, a family's concern for *subsequent* generations in the business may lead it to especially far-sighted stewardship of the organization and the stakeholders that might support those generations (Arrègle et al., 2007; Miller & Le Breton-Miller, 2005; Ward, 2004). Such concern, for example, may motivate family owners and managers to cultivate the long run interests and resources of the firm, and enable them to resist the temptation to pursue short-term gains at the expense of the robustness of the business (James, 1999; 2006).

Stewardship Consequences

These family stewardship motivations have multifaceted implications for organizational conduct and performance. Corporate missions, values, and practices as well as systems of shared meanings are typically shaped in the family setting and transferred to the business in which family members play powerful governance and executive roles (Arrègle et al., 2007). Such family impetus is said to manifest as a "long run approach" to the business, one that is anathema to an obsession with current earnings and dividends. According to James (2006), Miller & Le Breton-Miller (2005) and Ward (2004), family stewardship of the business manifests in three aspects: especially profound investment in the future of the business, ample funding of that investment, and a willingness to sacrifice short term gains for long run growth. Investment tends to be most focussed on capital infrastructure to enhance capability, and on innovation (James, 1999; 2006; Miller, Le Breton-Miller & Scholnick, 2008). Funding derives from liquid slack resource build-up and dividend minimization (Dreux, 1990; Kirzner, 1979). Such instances of patient sacrifice also require tolerance of risk – a normal consequence of innovative endeavours, and a pre-requisite to value maximization (Casson, 1990; Knight, 1921). The result is argued to be superior total shareholder returns (Anderson & Reeb, 2003).

The Agency-Utility Maximization Perspective

A very different picture of family business emerges from those who believe that family owners and managers constitute a group that is mostly concerned with family utility, and whose influence and expertise enable them to use the business for parochial purposes (Claessens et al., 2002; Morck, Strangeland & Yeung, 2000). This perspective is based in large part on agency problems peculiar to family businesses, and their manifestation in family preferences such as risk aversion, altruism, and entrenchment (Bertrand & Schoar, 2006; Morck, Wolfenzon & Yeung, 2005; Schulze, Lubatkin & Dino, 2003).

Most of agency theory concerns the costs of exploitation by a managerial-agent of an owner-principal resulting from information asymmetries, divergent motivations, and unequal power between the parties (Alchian & Demsetz, 1972; Jensen & Meckling, 1976). However, there has also been considerable discussion of the exploitation of minority owners by majority owners, again as a result of the divergences in the information or expertise, motivations, and influence among the parties (Demsetz, 1988; Morck, Strangeland & Yeung, 2000; Morck, Wolfenzon & Yeung, 2005; Shleifer & Vishny, 1997). Although family firms, like any business with concentrated ownership, may resist owner-agent agency problems, they are argued to be especially susceptible to owner-owner agency issues. Cressy (2001) and Villalonga & Amit (2006) have termed the latter “type 2” agency costs.

Utility Maximization Motivations

According to the proponents of the agency view, family owners and managers act to maximize utility for themselves or their immediate family at the cost of maximizing value for the business (Bertrand & Schoar, 2006; Morck & Yeung, 2003). Their primary loyalties are said to be to the family, not the firm, and they try to control and operate the business for parochial benefit, in the process avoiding risk and investment. There are a variety of explanations for such utility maximization behaviour, some from classical agency theory and others from behavioural agency theory (Wiseman & Gómez-Mejía, 1998).

A core family motivation identified by agency, behavioural agency, and family business scholars concerns attitudes towards risk. These theorists contend that risk aversion represents a direct agency cost to the firm's shareholders as it prevents profitable investments. Whereas Amihud & Lev (1981) believe that managers, whose interests are concentrated in one firm, will be more apt than diversified shareholders to reduce a firm's unsystematic risk, Lane, Cannella & Lubatkin (1998) argue that *large owners* may have the same risk reduction incentive. Indeed, according to the behavioural agency theory of Wiseman & Gómez-Mejía (1998), those who are already wealthy and have that wealth focused on a single enterprise are risk averse for two reasons. First, consistent with prospect theory (Tversky & Kahneman, 1986), their significant wealth as owners of Fortune 1000 companies puts them in the "realm of gains": they have much to lose and so are more reluctant to take risks with their investment. Second, they are "risk bearers" as they typically have most of their assets tied up in their business (Beatty & Zajac. 1994) – a commitment especially important to family members wishing to retain control of their firm (Gómez-Mejía et al., 2007). Family owners also may be conservative because they desire regular income from the business, and wish to enhance the prospect of passing on the firm to the next generation (Bertrand & Schoar, 2006).

Other stated motives for utility maximization relate to altruism towards offspring – a direct contrast to stewardship over the business. Family owners and managers may exhibit generosity towards their children, giving them as undeserved "gifts" secure positions in the company, and abundant compensation and collateral benefits (Lubatkin, Ling & Schulze, 2007). They may also use business resources as bargaining chips to "buy off" or silence troublesome kin or avoid strife (Schulze et al., 2001; 2003).

Finally, families, rather than hiring the best managers, may entrench themselves or their cronies in key governance positions to exert control, dispense parochial favors, and access resources (Claessens et al., 2002; Morck, Strangeland & Yeung, 2000; Shleifer & Visnhy, 1997). One consequent cost to the business may be managerial incompetence from selecting key executives from too limited a pool (Volpin, 2002). This too may limit the firm to low risk strategies that do no tax managerial competencies.

Utility Maximization Consequences

Risk aversion, altruism, and entrenchment are all examples of potentially limiting family business practices (Bertrand & Schoar, 2006). If family owners are risk averse and deploy significant resources for parochial purposes, they cannot invest adequately in the firm or in renewing its products and processes, physical plant, or capabilities (Bloom & Van Reenen, 2006; Zahra, 2005). Thus, the business outcomes discussed by proponents of an agency/utility maximization perspective are in many ways opposite to those suggested by the proponents of stewardship/ value maximization, again in the areas of investment, funding the investment, and patient attitudes towards returns. Specifically, the former anticipate inferior investment in the infrastructure and future of the business (Bloom & Van Reenen, 2006; Chandler, 1990; Landes, 1949; Lazonick, 1986); few liquid slack resources due to unusually abundant dividends[1] or other expenses (Claessens et al., 1999; 2002; Morck, Wolfenzon & Yeung, 2005); and an insistence on-lock step earnings stability to cater to family risk aversion and financial needs (Gómez-Mejía et al., 2007). The result is claimed to be inferior long run returns to shareholders (Bennedsen et al., 2007; Holderness & Sheehan, 1988; Pérez-González, 2006).

RECONCILIATION HYPOTHESES: EMBEDDEDNESS OF A BUSINESS WITHIN A SOCIAL GROUP

The stewardship and agency perspectives are contradictory in their views of family business conduct and performance. We will argue that each has truth, but its applicability will depend on the degree and manner in which the business and its key executives are embedded in the family. Here we will apply the notion of social embeddedness to primary kinship groups and the economic organizations they control (Dacin et al., 1999; Granovetter, 1973, 1985; Putnam, 2000; Uzzi, 1996). This requires characterizing, for the first time, the nature of different types of embeddedness relationships between the family and its business.

According to Uzzi (1996: 674) “economic action is embedded in social relations which sometimes facilitate and at other times derail exchange”. Individuals are said to be most loyal to and supportive of the group to which

[1] Some suggest that low dividends signal agency abuses such as overinvestment by managers in personal perquisites that may hobble returns (Jensen, 1986; Miller & Modigliani, 1961). A very different problem, however, exists in firms in which powerful family owners can monitor managers effectively, but may extract dividends for personal ends (Shleifer & Vishny, 1997). Here abundant dividends may result in under-investment in growth and capability-building initiatives.

they are most closely tied and thus identify with, especially in the absence of balancing influences from other groups (Ashforth & Johnson, 2002). Thus close family ties and loyalties among firm owners or top managers may take precedence over ties with other organizational stakeholders such as such as employees, public shareholders, customers, suppliers and competitors (Granovetter, 1973, 1985; Uzzi, 1996). In these cases the firm is more apt to serve as an instrument for family utility at the expense of its economic robustness, and the agency view is more likely to hold. By contrast where family owners or top managers are less embedded in and less susceptible to family relationships, they will be freer to have more robust connections with other business stakeholders and thus the stewardship position is more likely to find support.

Social Embeddedness

Social embeddedness refers to the social ties of an actor that may shape perceptions, motivations and hence action (Granovetter, 1985). People live in a cluster of others with whom they have relationships. Each person shares information, emotions, values and ideas with those close to them. Identification with the related social group often follows (Tajfel & Turner, 1979). Therefore a homogenization of opinion and priorities may arise from strong social ties within a group, especially a primary group (Homans, 1950). By contrast, the spread of information on new ideas and priorities typically comes from weaker and "non-redundant" ties with those from outside the group – ties that connect people to stakeholders with whom they are in less frequent contact (Dacin et al., 1999; Granovetter, 1973). An excessive preoccupation with strong, exclusive ties, sometimes called "bonding ties" might interfere with weaker "bridging" ties that are essential to the flow of information and values that integrate social clusters into broader society (Burt, 1995, Putnam, 2000). [2]

Embeddedness of Economic Action in Kinship Relationships

Although the embeddedness literature has focused on cultural, political and economic affiliations, it has not paid much attention to the primary social group – the family (Putnam, 2000). Strong social ties are characterized by high frequency, long duration, and intense communication of information and emotion (Granovetter, 1973). These

[2] Such logic suggests that businesses in which there are close kinship connections among major owners and a few managers may neglect "weaker" ties with other stakeholders, and thus favor a mindset in which family interests dominate those of the organization. Where owners and top managers are less embedded in such family ties, either because their business is outside the family context, or because their roles or experiences connect actors to a wider set of stakeholders, they will be more open to new information and ideas, and be better able to attend to the needs of the organization.

are the ties that are common among family members who have spent most of their lives together (Homans, 1950). This research examines the structural and political aspects of embeddedness inherent in such ties, while also recognizing their impact on the identities, values, and priorities of the actors (Stryker, 1987; Zukin & DiMaggio, 1991).

To the extent that family-related owners and managers of a business are *numerous*, in *frequent contact*, and *emotionally linked*, their associations will have a strong influence on their behavior, and that of their social institutions. Such an influence may favor family-centric, parochial and utility-maximizing conduct over corporate stewardship and business initiative (Bertrand & Schoar, 2006; Morck, Wolfenzon & Yeung, 2005). This may well be the case in family businesses having multiple family members serving as significant owners and / or officers, as there, key economic exchange relationships of the business, in effect, take place within the social context of the family. Indeed, the strong structural ties among family members in the business may make it more likely that *family* identities, values, interests and conflicts will shape business conduct and performance (Stryker, 1987; Tajfel & Turner, 1978; Tajfel, 1981). These ties may be especially influential when the family holds significant political power via its ownership, control or managerial roles in the firm. Where they are parochial to the family, these ties may compromise the business. They may also make it less possible for family actors in the firm to be influenced by weaker ties with other company stakeholders – employees, clients, and public shareholders among them. It is those weaker associations that may evoke broader loyalties and signal to managers important opportunities and challenges confronting the business. It is such ties that may be necessary to inform intelligent stewardship of the enterprise (Burt, 1995; Granovetter, 1973, 1985; Uzzi, 1996).

We will argue that different governance conditions suggest different degrees of family business embeddedness, that is different degrees to which business conduct is embedded within and thus influenced by a family agenda. There are two complementary facets to such embeddedness: the influence of the family on the business, and the susceptibility of top executives to that family influence. *Family influence* may be a function of such things as family presence, need for interaction, conflict and emotional content. These may respectively be driven by conditions such as the number and power of family members involved in the business, the distribution of their ownership, and the simultaneous participation of multiple generations that include parental and in-law as well as sibling relationships. All might favour a family over a business agenda as loyalty to the family – and having the business *serve* the family – may become a high priority among significant actors. That could lead to utility maximization behaviour (Miller et al., 2007; Pérez-González, 2006).

We also believe that an executive's *susceptibility to family influence* will be mitigated by the power and status of that individual and his or her exposure to influences outside the family. For example, where a family founder is still in charge, his or her power and status within the family, and strong attachment to the business and its stakeholders, may moderate family influence, thereby attenuating utility maximization tendencies and providing latitude for stewardship conduct.

Embeddedness of the Business within the Family

We shall argue that the embeddedness of the business within a family is characterized by the *presence* of family members, by their *incentive for interaction*, by the *emotional context* of their interaction, and by their *power*. On average, the more family members there are in the business, the more they will be required to interact; moreover, the more the family ties are subject to conflict and emotional exchanges, the higher the level of family embeddedness, and the more likely it is that a family utility maximization agenda will dominate one of business stewardship.

Presence: Number of Family Officers and Directors

The most important consideration in assessing the embeddedness of a business within a family is the extent to which family and non-family interactions will be influenced by family members involved in the business. The scope for interaction among family members in the business may be influenced by a number of things. First is the number of family members working in the business. The greater this number, the more scope there is for interaction among them and non-family managers. This is most true when family members occupy important positions. Thus family impact and the family agenda are expected to be determined in part by the number of directors on the board who are family members, and the number of executives who are family members. On balance, the more such family members there are in the business, the more apt they are to identify with the family rather than the business, and the more likely it is that family parochial aims and considerations will trump those relating purely to business matters (Gersick et al., 1997; Tajfel & Turner, 1979).

Interaction: Dispersion of Family Control

The potential for interaction among family members may also be influenced by the degree of dispersion of family control or votes. Where control is concentrated in the hands of a single family member, that person is able to pay attention to the business if he or she chooses, and has the power to act without consulting other family members. By contrast, where vote control is spread across different family members, it is more likely that these parties will have to consult one another and agree to get things done. Such family owners will normally occupy different roles and have different incentives and interests. Some may be only owners whose primary objective is to draw dividends or perquisites from the business. Others may serve as active executives and be deeply concerned with the well-being of the firm. Others still may wish to pass the firm on to their children. These different motivations imply different preferences for how the firm is to be run, causing conflicts that force family concerns, politics and compromises onto the business agenda (Pratt & Foreman, 2000). Family executives, for example, may have to reward family owners with dividends or positions for their offspring simply in order to obtain their cooperation (Gersick et al., 1997; Schulze, Lubatkin & Dino, 2003). Thus stewardship becomes less possible, and utility maximization more likely as family vote control dispersion increases.

Emotion: Multi-generational Involvement

A third factor that may influence the prevalence of family utility maximization vs. stewardship is the involvement of multiple family generations in the business. Generational involvement tends not only to increase the number of family members participating in the business, more importantly, it signals the presence of *emotionally charged* and profound personal relationships among the parties. Parent-offspring relationships, for example, may motivate altruistic and undeserved nepotism and trigger jealously among siblings involved in the company (Schulze et al., 2001). In family councils, boards of directors and shareholders' meetings, family concerns may come to displace or color business issues (Gersick et al., 1997; Kets de Vries, 1996).

When at least two generations are involved in the business there is yet another factor at work – a potential shift or bifurcation of identities and policies (Ashforth & Johnson, 2002; Pratt & Foreman, 2000). Later generations may be less solicitous of the family business than first generations: it is the latter, likely, who have founded and built the business, who take pride in it, and who are motivated to nurture it. It is they who have taken the initiative, assumed the greatest risks, and made the most profound sacrifices (Lansberg, 1999). Second generations, although sometimes sharing in this pride and legacy, are often less attached emotionally to the business, especially those members not playing active managerial roles (Bennedsen et al., 2007; Perez-Gonzalez, 2006; Gersick et al,; 1997; Ward, 2004). Indeed, later generations may be motivated more by dividends, perquisites, or advantageous employment (Lansberg, 1999). Such owners, moreover, may have strong ties to family members with whom they are in frequent contact, and far weaker ties to other stakeholders of the business such as public shareholders or employees. Hence, again, their family identity may be stronger, and their attachment to the business weaker than for the founder generation, and later generation owners may see the business not as a trust but a sinecure. Utility maximization therefore may become more common than stewardship.

Power: Family Control

A political aspect of embeddedness that may influence the balance between a utility maximization and stewardship is the level of family control. Where a family controls only a very small fraction of the business its influence is less apt to be evidenced by either stewardship or utility seeking as it hasn't the power to shape strategy. By contrast, where family control is overwhelming, there is more incentive to care for the business and less incentive for the family to "exploit their personal property". The greatest motivation for utility maximization might exist in the mid-range of family control. Here, family owners may be able to use their influence to direct the resources of public shareholders to private family advantage – reaping a disproportionately high share of the benefits for a disproportionately low share of the investments and costs (Demsetz, 1983). The finance literature thus has argued that utility maximization behaviour has an inverse-U-shaped relationship to concentration of control (Morck, Shleifer & Vishny, 1988; Shleifer & Vishny, 1997).

In none of the above instances, do we assume that family members will necessarily embrace a parochial agenda of utility maximization as opposed to one of stewardship in all of the investment, funding, and risk taking manifestations described above. As we will argue in the next section, this will very much depend on the roles, statuses and experiences of those family members. What can be said however is that on average, the presence, emotional ties, and power of family members each open up the *possibility* that there will be some incentive and interest in utility maximization for family purposes. This is less apt to be the case where family involvement, need for interaction, emotional linkages, and power are minimal.

> *Hypothesis 1: Stewardship behaviour will decrease (and utility maximization behaviour increase) with a) the number of family directors b) the number of family officers, c) breadth of vote dispersion across the family, d) the involvement of later family generations in the business, and e) the level of family control (where a U-shaped relationship is expected).*

Embeddedness of Owner-Executives within the Family

So far we have discussed only the first component of embeddedness – the embeddedness of the business within the family. However, not all family executives are equally susceptible to family influence: that is, they are not embedded in relations of loyalty that tie them to the family or promote a family identity, or they play simultaneous roles that create ties with non-family organizational stakeholders or divergent identities that counterbalance the family influence and reduce their susceptibility to family appeals, sentiments, and pressures (Tajfel & Turner, 1979). In Granovetter's (1973) terms, the weaker ties with outsiders may mitigate the insular influence of the few strong ties to family.

Agency scholars have argued that family firms perform worse during later generations (e.g. Claessens et al., 2003; Villalonga & Amit, 2006), and have suggested reasons ranging from misplaced altruism to executive incompetence (Schulze et al., 2003). Stewardship proponents make a similar prediction using a different rationale – that family involvement is salutary and decreases with new generations. By contrast, we will argue that it is an *increase* in family involvement in later generations and the *strategic* changes wrought by the greater embeddedness of executives in the family that erode performance.

The roles played by family executives, their exposure to the business, their influence, status, and knowledge, and their career experience and relationships all may influence their identities and their susceptibility to the family and its agenda (Pratt, 2002). We shall argue that the more an executive is susceptible to family influence, the greater will be the likelihood that a family agenda of utility maximization will be favored over one of long term stewardship of the business.

Founder CEOs with no Other Family Officers or Major Family Owners Present

Founders of a business are the least susceptible to family influence, especially where there are no other family members present as major owners or officers of the firm. Founders, particularly in large, publicly traded companies, typically have a great deal of status because they have built the business out of nothing. It is natural then that they should be devoted to the enterprise which constitutes one of their primary lifetime achievements (Covin & Slevin, 2002; Daily et al., 2002). Founders also have a good deal of knowledge of the business and its needs and are less apt therefore to be seduced into utility maximization compromises that are beneficial to their family at the expense of the business. Inevitably, moreover, they will have built up ties with numerous business stakeholders – investors, employees, clients, etc. – further expanding their horizons, and making them more acutely aware of the needs of the business. Finally, the influence and independence of such founders frees them to enact their instincts of stewardship if they so chose.

Family Founder CEOs with other Family Officers or Major Owners Present

Family founder CEOs too are apt to be somewhat resistant to family pressures to compromise the business. Their personal investments in building the business and in forming relationships with its stakeholders are apt to generate significant impulses towards corporate stewardship. Also, they typically have the status, connections, power and prestige to fend off parochial family demands, and are in regular contact with the sobering influences of non-family interests. Indeed the ties they have built up with non-family stakeholders in the business may reinforce corporate as opposed to family identities (Tajfel & Turner, 1979) and thus render them less susceptible to family appeals (Granovetter, 1973; Uzzi, 1996). Moreover, their emotional attachment to the business they have built makes it likely that they will not wish to weaken their creation with harmful utility maximization initiatives.

Nonetheless, the stewardship motivations of the founder may be mitigated by the presence of other family members who have significant influence in the firm, but little day-to-day association with or attachment to it. Given their remoteness from the firm, the latter may identify more with family interests than those of the business – and evoke in the family founder a dual corporate *and* family identity (Ashforth & Johnson, 2002; Pratt, 2002). Influential family owners with only marginal involvement in managing the business, for example, might argue against any long term or risky expenditures that would compromise future cash flow, share prices, or dividend payments. Founder (non-CEO)-chairmen may be still more subject to family influence than founder-CEOs, especially if they are less active in the business and in closer touch with family owners (Ashforth & Johnson, 2002). That would provide them with fewer "weak ties" to other stakeholders in the business (employees, investors, customers), leaving room for influence from the strong family ties.

Second and Later Generation Family CEOs

The parties most susceptible to family influence are those who owe their jobs to the family, are close personally to other family owners, and are there at the sufferance of the family. Second and later family generation CEOs often fit that description. They tend to have less status and power than those who have built the business, and may occupy their positions as a result of nepotism or birthright. In other words, they owe their jobs and their loyalty to family members who are frequently still present in the business. Usually, those members are significant others in the person's life, often parents, who exhibit moral authority as well as legal oversight. Moreover, on the business side, second generation family CEOs may be less devoted to the business and its stakeholders than founders. Their identity bias therefore might be towards the family rather than the business, and thus a family rather than a business agenda (Ashforth & Johnson, 2002; Pratt, 2002). Certainly, later generation CEOs may build ties with non-family stakeholders. But such ties may not be as important as those formed by founders who had to build enduring relationships with non-family employees, clients, investors and vendors in order to create a major business.

In summary, and in decreasing order of executive embeddedness in the family and thus decreasing proclivity to maximize family utility, lone founders are immune from family influence, family founder-CEOs and founder-chairmen are resistant, and later generation family CEOs are quite susceptible.

> *Hypothesis 2: a) Stewardship behavior will be more prevalent than at other firms (and utility maximization behavior less prevalent) where there is a founder CEO without other family members in the business. b) Stewardship behavior will be less prevalent (and utility maximization behavior will be more prevalent) than at other firms where there are family CEOs or chairmen of second or later generation. c) Stewardship will be no different than at other firms where the founder presides as CEO or chairman with other family members in the business.*

Tables 1 and 2 summarize the stewardship and utility maximization models and our hypotheses.

INSERT TABLES 1 AND 2 HERE

Method

Sample

Our sample consisted of the *Fortune* 1000: 500 industrials and 500 service firms. We analyzed data on the 898 companies with complete publicly accessible data for the years 1996 to 2000. Among these, we identified 404 family firms: 141 were founder firms with no family members serving as officers or *major* (5%+) owners, 263 had *multiple* family members in the business serving as officers or major owners (of which 81 were first-generation), and 492 were "other" public firms. In order to establish the robustness, we ran all analyses on both the total sample, and also on the subsample of 404 family businesses.

Data

Variables were measured at two levels and in two phases. We first compiled data on individual officers and directors, 5% blockholders, and large institutional investors. Information on vote control, family positions as officers and board members, etc. was obtained from at least three sources for each company: Compact Disclosure, individual proxies (which were the primary and definitive source of data), Hoover's, and company web-sites. Where the proxies contained insufficient information on the familial relationships between board members and managers, or officers' relationships with the founder, companies were approached directly. Data gathering from proxies was conducted by a team of five research assistants and the authors who worked on gathering the data for almost two years. Because some families controlled firms via their ownership of banks or other organizations, and because of the name changes brought about by marriage, two weeks of training were required to render each research assistant proficient in coding the proxies, and constant supervision was needed to ensure accuracy. Typically, it took over four hours to code a single business.

Consistent with Anderson & Reeb (2003), Maury (2006) and Villalonga & Amit (2006), we designated as the focal family the one with the most votes. In totalling family votes, we included shares of co-trustees of family trusts who were directly employed by the family.

Data on individuals were aggregated to the firm level, at which we could also collect information on strategy, governance and market performance. Accounting data were drawn from COMPUSTAT, and market performance data were obtained from the Center for Research on Security Prices (CRSP).

Variables and Models

Dependent Variables

Stewardship and utility maximization strategies were defined based on notions in the literature on stewardship and agency theory. As argued, we expected that stewardship and utility maximization would manifest in three closely interdependent facets of strategic behavior: investment, funding and risk tolerance. Specifically, stewardship requires that a business be kept in fine condition and be renewed on a regular basis to sharpen and adapt its capabilities. That requires far-sighted investments in infrastructure and product and process research and development (Miller, Le Breton-Miller & Scholnick, 2008). Flexible funding for these investments was argued to demand ample liquid assets and hence a restriction of dividend payments. All of these behaviors were expected to require that owners tolerate a higher level of risk, as reflected in idiosyncratic fluctuation in earnings and hence stock prices. Indeed, if stewardship has as its object value maximization for the business, then risk tolerance is required to earn those superior returns (Knight, 1921). The *reverse* tendencies were argued to be reflective of utility maximization. Specifically, as discussed, family risk aversion and demands for resources limit the amount of investment in the business, as well as the consequent needs for financing, and the incurrence of risk (Bloom & Van Reenen, 2007; Morck, Wolfenson & Yeung, 2005). Thus for purposes of our analyses, utility maximization was assessed as the negative of stewardship. (Table 1 summarizes the expected consequences derived from the utility maximization and stewardship perspectives).

Based on the above rationales, the investment aspect of stewardship (vs. utility maximization) was gauged by the R&D to sales ratio and by the capital expenditures to property, plant and equipment ratio. Funding was assessed as cash holdings (cash plus short-term investments to property, plant and equipment), and as 1 minus the dividend payout ratio (dividends to earnings). "Unsystematic" risk was assessed as idiosyncratic market risk for the firm's shares. There were few missing values for all variables, except for R&D, where missing values were coded as 0 since firms were required by law to report these expenditures wherever they were significant. All variables were assessed for skewness and kurtosis, and where necessary were either log transformed or outliers converted to their respective variable's 99th or 1st percentile, as appropriate. All five stewardship variables were then standardized and summed to create the composite stewardship / utility maximization index [3].

Although the index was derived based on the literature on stewardship and agency in family firms, it was important to assess its measurement properties. The Cronbach alpha for reliability was 0.60, which was most acceptable given the multidimensional nature of the index (Van de Ven & Ferry, 1981: pp.79-81). As our index is summative rather than an indicator of a single underlying construct, we display results for each of its components.

Performance was assessed as total shareholder returns (TSR), a measure that reflects both growth and profitability and provides the most complete picture of how well shareholders have done with their investment (Weber et al., 2003).

Embeddedness Independent Variables

We argued that two sides of social embeddedness – family influence and executive susceptibility to such influence – could shape owner priorities and determine whether stewardship or utility maximization hypotheses would apply. Thus we distinguished firms and actors according to the following. For family influence we assessed family presence according to the number of family directors and the number of family officers. For incentive for interaction / dispersion of family control, we measured vote dispersion among family members using the Herfindahl index with the polarities reversed. For emotion / multigenerational involvement we assessed whether two or more generations were present in the business. And for power/ family control we measured the percentage of votes controlled by the family.

To gauge executive susceptibility to family influence we employed dummy variables indicating the presence of a lone founder CEO, a family founder CEO, a family founder-chairman, a second-plus generation family CEO, and a second-plus generation family chairman (Bennedsen et al., 2007; Pérez-González, 2006).

[3] One aspect of funding and risk taking, namely financial leverage, does not fit neatly into the category of either stewardship or utility maximization. For example, debt can fund competency building and renewal – aspects of stewardship. But it also can help a family control its business without issuing more shares – growing the gap between ownership and control and exacerbating agency problems. Moreover, the correlations of leverage with the other items in our stewardship index were very weak and unsystematic. Thus for conceptual and empirical reasons, it is not included in our index. To determine the impact of this deletion on our findings, we did compute indexes with leverage included and re-ran all of the analyses of Tables 5 and 6. All of the significant results were preserved at the same levels of significance.

Control Variables

Where previous studies suggested influences on our dependent variables, these were incorporated as controls into our models. It was especially important to control for age, size, industry membership[4], and market volatility, as each of these variables might affect both firm conduct and performance (Anderson & Reeb, 2003; Cronqvist & Nilsson, 2003; Maury, 2006; Miller et al., 2007; Villalonga & Amit, 2006). Thus our models control for firm age, the natural log of sales, industry membership at the 2-digit SIC level, and the beta measure of market volatility (Bennedsen et al., 2007; Bertrand & Schoar, 2003; Maury, 2006). Numerous governance conditions may mitigate family influence. These include significant (5%) ownership by outside bloc-holders, as well as the presence (%) of outside directors (c.f. Anderson & Reeb, 2003, 2004; Miller et al., 2007; Pérez-González, 2006; and Villalonga & Amit, 2006). The variables are listed and defined in Table 3, along with their sources. Descriptive statistics are presented in Table 4.

INSERT TABLES 3 AND 4 HERE

Analyses, Robustness and Endogeneity

Tables 5 and 6 present our OLS regressions (with Huber-White robust errors) using five- year averages of all our variables, and analyzing only those companies whose ownership status did not change during the period 1996 to 2001. All models were significant at beyond the 0.001 level. Coefficients for 2-digit SIC codes were suppressed from the tables. Coefficients for dummy predictor variables reflect comparisons with the complement of Fortune 1000 firms that do not share the attribute (e.g. family founder CEO firms vs. all other firms in the sample).

Findings from five-year averages are reported instead of those for annual cross-sectional time series data as this was a more conservative course for several reasons. First, for the vast majority of our firms, most of our governance predictor variables changed very little, rendering fixed effects models inappropriate (Greene, 2003).

[4] We also controlled for industry by subtracting industry medians for all variables based on the entire Compustat database rather than the Fortune 1000, and using difference scores as our dependent variables. All predicted significant results were replicated at beyond the 0.05 level or better, except for number of family officers, where significance fell to the 0.06 level. Given the vast range in variable values between large and small Compustat firms, and the statistical instabilities associated with difference scores, we have chosen to report results using 2-digit industry dummies based on the Fortune 1000 sample.

Thus random effects models were shown to be suspect by the Hausman test. When we ran random effects models simply to check the robustness of the OLS results, these confirmed the findings reported on Tables 5 and 6, but with higher levels of significance. Thus the OLS and treatment regression results we present in the paper are the most conservative.

A number of additional measures were employed to establish the robustness of our results. To assess family embeddedness, five indicators for family influence were reported, and five indicators of executive susceptibility. We systematically varied our sets of control variables: specifically, firm age, firm size, and beta individually were added to /deleted from our models with no material change in results. When in assessing performance we substituted Tobin's q (a firm's market to book value) for total shareholder returns, we obtained similar results. We also included a variable indicating the presence of family super-voting shares. Again this had no material influence on the results.

In order to establish the robustness of our findings concerning the component variables of our composite stewardship / utility maximization dimension we report summary results for the individual components of that dimension (on Tables 7a and 7b).

To ascertain the robustness of our comparisons, we reran all analyses using only the sub-sample of 404 family businesses. In every instance, the results of Tables 5a, 5b, 6a and 6b were confirmed. Specifically, wherever results were significant for our embeddedness variables, they were also significant at beyond the 0.05 level and in the same direction in the sub-sample analysis. Similarly, when the results were non-significant on the tables they were also non-significant in the sub-sample analysis. In short, the findings are consistent whether the basis for comparison is all Fortune 1000 firms, or whether that basis for comparison is only other family firms.

Endogeneity issues may arise in examining the relationships between governance and performance. For example, not only may governance influence performance, good or poor performance might also cause a change in family involvement or executive susceptibility – the sale by a family of the business, for example (Demsetz & Lehn, 1985). Thus, following Greene (2003: pp. 787-790 and personal communication), for all dummy variable predictors, we controlled for endogeneity in all our analyses using Heckman two-step treatment effect regressions. The first stage of the procedure is a probit analysis that regresses the family influence / executive susceptibility indicator dummies (for family ownership or management) against variables that predict family involvement and executive susceptibility. Following Anderson & Reeb (2003), Miller et al. (2007), and Villalonga & Amit (2006), these predictor variables include a supershares dummy, firm age, sales growth, firm status, and the average age of directors. The second stage of the Heckman procedure regresses our dependent variables on the predicted values from the first stage, adjusting all errors for the two stage process.

Whereas Heckman two-step regressions corrected for endogeneity in analyses incorporating binary predictors (e.g. presence of a family founder CEO), instrumental variable regressions were run where predictors were interval in nature (e.g. % of votes held by family owners). We employed as instruments the variables used in the probit stage of the Heckman analyses.

The results were highly convergent between the OLS analyses presented on Tables 5 and 6 and the treatment effects and instrumental variable regressions. Specifically, all of the significant predictors of Tables 5 and 6 were significant in the same directions at or beyond the levels of significance in the Heckman treatment regression and instrumental variable analyses. Moreover where significance was not reached in the regressions of Tables 5 and 6, nor was it attained in the Heckman treatment effects or instrumental variables analysis. There were two exceptions to this convergence: in predicting total shareholder returns, the Herfindahl index of family votes and the multiple generation variables were significant in the predicted direction for the treatment effect and instrumental variable analyses, but not in Table 6. All treatment effects and instrumental variable analyses are available from the author.

A final concern with Fortune 1000 data is that it is unrepresentative. Specifically, it has been suggested that Fortune firms, particularly those run by their founders, had to have done well to make the list, and thus are more apt than non-Fortune 1000 firms to score highly on our stewardship and total shareholder returns variables (Maury, 2006). We tested this by gathering data from a random sample of 100 smaller, non-Fortune 1000 companies. The random sample was taken from the Compustat database for the year 2000 from a universe of almost 5000 publicly traded firms. Random numbers were used to select 100 of these companies. Means were calculated for the strategy and shareholder returns variables for lone founder firms, other family firms, and other businesses, and means comparisons were run against the corresponding categories of the Fortune 1000 (the exact findings are available from the authors). We found no significant differences between the Random 100 sample and the Fortune 1000 in performance and strategy means for lone founder, family and other categories. Specifically, the lone founder, family and other categories do not differ significantly between these samples along total shareholder returns, nor stewardship strategy in any of the 6 comparisons.

In summary, the great majority our findings were consistent across different comparison samples, sets of control variables, family influence predictors, and types of analyses (OLS regressions, treatment regressions and instrumental variable regressions). Any material differences are reported in our results and discussed.

FINDINGS AND DISCUSSION

Tables 5a and 5b suggest that the embeddedness of a business within a family often is indeed negatively related to stewardship and positively associated with utility maximization. This is true both for indicators of family influence and for indicators of executive susceptibility to family influence.

Family Influence and Stewardship

Hypothesis 1 is largely supported as the indicators of family influence on Table 5a show significant negative relationships with stewardship and hence positive relationships with utility maximization behavior (again, a negative coefficient indicates utility maximization and a positive one indicates stewardship). Specifically, the number of family directors, number of family officers, inverse Herfindahl index of family votes, and presence of two or more generations all relate negatively at beyond the 0.001 level to stewardship. Family control bears a curvilinear U-shaped relationship with stewardship: as it increases, stewardship at first decreases, and then increases beyond a 28% control inflection point. At low levels of control, the family lacks the power to command resources; at higher levels, the family does have the ability to use the firm to help the family, perhaps at the expense of the firm's other shareholders. However, because there is a strong association between ownership and vote control (r=0.92), beyond a certain point a family's financial interests are so closely tied to those of the firm, that it may have more of a stewardship incentive.

The summary results on Table 7a confirm this finding for most components of the stewardship / utility maximization composite (i.e. dividends, cash, R&D, and unsystematic risk). The exception is investment. It may be that investments in plant and equipment constitute routine and necessary costs of doing business rather than uncertain, far-sighted investments in the future (such as R&D). Thus they may not be true indicators of assiduous stewardship but more of required maintenance norms.

Family Executive Susceptibility and Stewardship

Table 5b examines results for Hypothesis 2: that stewardship will decrease with executive susceptibility to family pressures. Again the results support this hypothesis: lone founder presence is associated positively with stewardship, family founder CEOs and family founder chairmen are neither positively nor negatively associated with stewardship, and second generation family CEOs and family chairmen are significantly and negatively associated with stewardship. This was in line with our arguments that lone founders would be invested emotionally in the business, without family encumbrance, second generation family executives would be most indebted to and embedded in the family, and family founder executives would lie somewhere in between. Table 7b confirms these findings for most of the individual components of the stewardship / utility maximization composite dimension. But once again, investment in capital equipment does not relate to stewardship. Nor is R&D superior, even for lone founders. Overall, however, as executive susceptibility to family influence rises, the likelihood of utility maximization increases and the tendency towards stewardship falls.

INSERT TABLES 5a AND 5b HERE

Family Influence and Performance

The results of Table 6a indicate that several of our indicators of family influence are inversely correlated with total shareholder returns. As expected, these indicators include number of family directors, number of family officers, and the percentage of family ownership. Coefficients for multi-generational involvement and the distribution of votes within the family, while negative, did not attain statistical significance in the analyses reported, although they did do so in treatment regression and instrumental variable analyses that control for endogeneity (see below).

Family Executive Susceptibility and Performance

We had predicted that executive susceptibility to family influence would be negatively related to performance, and that susceptibility would be low for lone founders, high for later generation family executives, and somewhere in between for family founder executives. This was borne out by our findings on Table 6b which show a positive and significant relationship with performance for the presence of a lone founder, a negative and significant relationship for a second generation family CEO, and no relationship for family founder executives.

Embeddedness, Stewardship and Performance

We wished to probe further into why the associations between family involvement and business performance were sometimes weak. We suspected that this was because there was only an indirect link between family embeddedness and performance – specifically, that embeddedness influenced strategic conduct (i.e. stewardship or utility maximization) which *in turn* influenced performance. To establish this we conducted two additional sets of analyses. First, we reran all the analyses of Tables 6a and 6b, this time controlling for stewardship. In every instance, family influence and executive susceptibility coefficients now fell to non-significance (these analyses are available from the author). Secondly, as reported in Table 8, column 1, we regressed performance against stewardship. The coefficient for stewardship was positive and significant at beyond the 0.001 level.

INSERT TABLES 6 TO 8 HERE

To avoid the biased estimates inherent in sequential models, we also conducted two-stage least squares analysis incorporating instrumental variables for stewardship. The first structural equation regresses stewardship against the same controls as in Tables 5 and 6 as well as the variables of family influence and executive susceptibility. The second structural equation then regresses performance against the predicted values of stewardship derived from the first structural equation. Again the results for stewardship were positive and significant (Table 8, column 2).

In short, family influence and executive susceptibility to family influence both bear significantly negative relationships to stewardship (i.e. positive relationships with utility maximization). Stewardship, however, bears a positive relationship to performance. These links account for whatever negative associations exist between performance and embeddedness shown on Table 6. Thus any discussion of family business performance must take into account not only the fine-grained nature of family business governance and the embeddedness of the business within the family, but also the conduct of the business as it decides between stewardship vs. utility maximization behavior.[5]

CONCLUSION

The most striking finding of the study is that stewardship behavior wanes and utility maximization behavior waxes as the embeddedness of a business and its top executives within its owning family increase. Specifically, as the number of family directors, officers, and generations grow, and as family voting control and vote dispersion increases, stewardship declines. That is, there is less of a tendency to invest in long term initiatives such as research and development, to fund such investment, and to bear the associated risks. The susceptibility of an executive to family influence is also inversely associated with stewardship behavior: lone founders embrace stewardship while second generation CEOs favor utility maximization. The consequence of that behavior appears to be worse than average total shareholder returns. Thus our thesis is supported: stewardship behavior decreases and utility maximization behavior increases with family influence and executive susceptibility to that influence. Despite the utility maximizing proclivities of some types of family firms, they are hardly alone in that tendency. Volumes of literature decry the short-termism of corporate America that issues from the narrow opportunism of greedy CEOs and hedge funds alike. Their corporate victims may be bested by even the most challenged family firms.

This research, on balance, shows stronger confirmation for the agency and behavioral agency views of family business than the stewardship view (Bertrand & Schoar, 2006; Schulze et al., 2001). However, it demonstrates even more decisively how important is the notion of business embeddedness in the family as a factor that determines which of these views prevails. It may well be that profound embeddedness – strong ties of actors to the family may encourage utility maximization – that is utility maximization for the family rather than value maximization for the business. By contrast, where family executives have direct and ample exposure to the business

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[5] Age and size control variables were negatively related to stewardship conduct, perhaps because the owners and executives of younger, smaller firms have had a personal hand in building the business and forming closer and more personal ties to its stakeholders (Covin & Slevin, 2001). Stewardship was also associated with higher share price betas, likely due to the risk taking that far-sighted investment and its funding entail (Covin & Slevin, 1998). The ratio of inside to outside directors correlated with stewardship as well, perhaps because insiders who are key stakeholders care more than outsiders about and the health of their firms. As expected, controls also related to performance. Age was negatively linked to performance as it is associated with more mature, slower growing periods of the corporate life cycle. Beta bore a positive relationship, showing the well-known tie between risk and returns. Finally, large (5%) outside blockholders (e.g. pension funds and banks) appeared to dampen returns, perhaps because of the conservative restrictions they often impose on uncertain growth initiatives (Yafeh & Yosha, 2003).

and its many stakeholders, and less susceptibility to family pressure, they may be more apt to act in a stewardly manner and avoid the utility maximization behaviors criticized by Morck et al. (2005) and Schulze et al. (2001, 2003).

This research extends to a new sphere the notion that it is useful to view economic exchange as being embedded within an influential context of social relations (Dacin et al., 1999; Granovetter, 1973; 1985). Economic behavior has been shown in many studies to be shaped by social and inter-organizational affiliations within broad social networks (Burt, 1995), and to be driven by macro-institutional influences (DiMaggio & Powell, 1983). This research takes a more micro-oriented focus on embeddedness, showing that even at the level of the individual organization, the embeddedness of the firm and its key actors within a primary social group can shape economic conduct. Moreover, it suggests that this influence is driven not simply by the presence of a connection but by the intensity, conflict-potential, and emotional content of the interactions, and well as the susceptibility of human actors to those pressures given their roles, histories and statuses.

The utility of this embeddedness perspective as applied to the domain of family business is that it reconciles and conditions for the first time the application of the two major yet contradictory perspectives of such businesses: those of stewardship and agency /behavioral agency. Both perspectives are shown to have application, but under different governance conditions characterized by embeddedness of the business and its executives within a controlling family.

Our findings also suggest that future research should focus not on the direct links between governance and performance, as does so vast and conflicting a body of literature, but rather should examine the conduct implications of different governance arrangements – which in turn might influence performance.

Future Research

We must caution that our family firms are all publicly traded. This characteristic may make them behave and perform differently than private family businesses. It might be, for example, that among the latter, stewardship behavior is far more common as the family can only “appropriate from itself”. There are no outside owners to be taken advantage of (Miller et al., 2007). It would be useful, therefore, to extend this research to the realm of smaller family businesses as the intimate and personal nature of such companies may make them ideal venues for stewardship. This is apt to be especially the case where the businesses are private, so that all of the reputation and accomplishment of the business accrues to the family and its later generations. That may constitute a powerful incentive. The U.S. equity markets are highly developed and said to assure a more adequate level of shareholder protection than other countries with less mature and less liquid stock markets. If evidence of family exploitation is significant in this Fortune 1000 sample, might it be that much more so the case in younger, smaller, less protected markets (Claessens et al., 1999; Morck et al., 2000). Certainly, such questions merit investigation.

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Table 1: Stewardship vs. Utility maximization Perspectives of Family Business

	Stewardship	Utility maximization
Owner Priorities	*Running the business for the benefit of all stakeholders*	*Using the business to serve the family and its needs*
Investment in the Business	Invest deeply in longer-term initiatives such as capital expenditures, research and development and market development	De-emphasize long-term investment to reduce uncertainty and to preserve resources for use by the family
Funding	Low dividends to keep money in the business; build up liquid slack resources to have liquidity available for investment	Slack resources, dividends included, are extracted for family use
Risk Taking	Long term, uncertain investments in infrastructure and renewal demand that earnings fluctuations be tolerated	Risk is avoided to preserve family assets and allow a constant flow of dividends
Performance	Superior total shareholder returns	Inferior total shareholder returns
Hypothesis 1	Stewardship behaviour will decrease (and utility maximization behaviour increase) with a) the number of family directors b) the number of family officers, c) breadth of vote dispersion across the family, d) the involvement of later family generations in the business, and e) the level of family control (where a U-shaped relationship is expected).	
Hypothesis 2	a) Stewardship behavior will be more prevalent than at other firms (and utility maximization behavior less prevalent) where there is a founder CEO without other family members in the business. b) Stewardship behavior will be less prevalent (and utility maximization behavior will be more prevalent) than at other firms where there are family CEOs or chairmen of second or later generation. c) Stewardship will be no different than at other firms where the founder presides as CEO or chairman with other family members in the business.	

Table 2: Drivers of Embeddedness and Conduct

H1: Family Influence	Stewardship (vs. Utility maximization) Conduct
Many family directors	Lower (Higher)
Many family officers	Lower (Higher)
Broad family vote dispersion	Lower (Higher)
Multiple family generations present	Lower (Higher)
Family vote control	U (inverse U) effects
H2: Owner-Executive Susceptibility to Family Influence	**Stewardship (vs. Utility maximization) Conduct**
Lone Founder CEO	Higher (Lower)
Family founder CEO or Chairman	Average (Average)
Second or later generation CEO or Chairman	Lower (Higher)

Table 3: Variable Definitions

Variable	Definition
Number of Family Directors	This numeric variable specifies the number of family members serving on the board of directors. Source: Firm Proxy, biographies, Hoovers, firm webs.
Number of Family Officers	This numeric variable specifies the number of family members listed as executives on the proxy or as Vice Presidents or higher on company publications Source: Firm Proxy, biographies, Hoovers, firm webs.
Family Vote Dispersion (Herfindahl)	Family voted dispersion is the Herfindahl index of dispersion of votes across members of the controlling family. Source: Firm Proxy.
Multiple Generations Present	A binary variable, 1 indicates a family firm with family members present from multiple generations. Family firms in this category have multiple family members present beyond the first generation. Source: Firm Proxy, biographies, Hoovers, firm webs.
Family Vote Control	Family vote control is the percentage of votes controlled by all family members in the business. Source: Firm Proxy, biographies, Hoovers, firm webs.
Lone Founder-CEO	A binary variable, 1 indicates that a founder with no other kin associated with the business currently holds the title of chief executive officer (CEO). Source: Compact Disclosure; Firm Proxy.
Family Founder-CEO	A binary variable, 1 indicates that a family member is the business founder and currently holds the title of chief executive officer (CEO). Source: Compact Disclosure; Firm Proxy.
Family Founder-Chairman	A binary variable, 1 indicates that a family member is the business founder and currently holds the title of chairman of the board. Source: Compact Disclosure; Firm Proxy.
Family CEO-Later Gen (CEO2+)	A binary variable, 1 indicates that a family member beyond the first generation holds the title of chief executive officer (CEO). Source: Compact Disclosure; Firm Proxy.
Family Chairman-Later Gen (CH2+)	A binary variable, 1 indicates that a family member beyond the first generation holds the title of chairman (CH). Source: Compact Disclosure; Firm Proxy.
Stewardship / Utility maximization Index	A composite index of the sum of the standardized values of the variables for research and development, investment, cash holdings, and unsystematic risk, minus the standardized value of the dividends to earnings ratio. Sources below.
Research & Development	Research and development expenses divided by total sales. Source: Compustat.
Investment	Capital expenditures divided by plant property and equipment. Source: Compustat.
Cash holdings	Cash plus short term investments divided by plant, property, and equipment. Source: Compustat.
Unsystematic risk	Unsystematic risk is defined as the risk of a price change in a firm's market value due to firm-specific and unique circumstances. The value is derived by regressing firm-specific return on a value weighted return of the market as a whole and retaining the root mean square error from that regression. Source: CRSP.
Dividends to Earnings Ratio	The sum of common and preferred dividends divided by operating income before depreciation: Source Compustat.

Total shareholder returns	TSR represents a firm level market performance measure obtained by compounding each firm’s daily market returns in its respective fiscal year. Source: CRSP.
Beta (Market Risk)	The average value weighted returns in which the firm's daily returns are regressed against the returns of the overall market. Source: CRSP.
5% Owners	The ownership percentage of all non-family blockholders who hold a 5% or greater ownership stake. Created by summing the non-family 5% or greater ownership stakes and dividing this by the firm's total shares outstanding. Source: Compact Disclosure; Compustat; Firm Proxy.
Inside Directors Ratio	The ratio of inside directors to outside directors. Source: Firm proxy.
Log Sales	The natural log of annual net sales. Source: Compustat.
Firm Age	The difference between the year 2000 and the firm's founding year. Source: Firm Proxy; Firm website; Lexus-Nexis; Hoovers.

Table 4: Descriptive Statistics *

	Variable	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
				Pearson Correlations																				
1	# family directors	0.58	1.10	1.00																				
2	# family officers	0.44	0.95	0.77	1.00																			
3	Family vote Herfindahl	0.21	0.36	0.62	0.56	1.00																		
4	Multiple generations	0.26	0.44	0.79	0.65	0.82	1.00																	
5	Family votes %	0.07	0.17	0.68	0.59	0.47	0.55	1.00																
6	Lone founder CEO	0.10	0.30	-0.18	-0.15	-0.19	-0.20	-0.13	1.00															
7	Family founder CEO	0.04	0.21	0.32	0.35	0.29	0.16	0.28	-0.07	1.00														
8	Family founder CH	0.07	0.25	0.43	0.48	0.38	0.24	0.36	-0.09	0.78	1.00													
9	Family CEO2+	0.10	0.30	0.52	0.59	0.44	0.53	0.42	-0.11	-0.07	0.07	1.00												
10	Family CH2+	0.13	0.33	0.56	0.61	0.49	0.60	0.44	-0.13	-0.08	-0.10	0.72	1.00											
11	Stewardship index	0.03	3.06	-0.07	-0.03	-0.06	-0.11	-0.03	0.27	0.09	0.11	-0.10	-0.10	1.00										
12	Total sh. returns	0.21	0.31	-0.03	-0.01	0.00	-0.02	-0.01	0.20	0.11	0.09	-0.06	-0.05	0.35	1.00									
13	Unsystematic risk	0.11	0.04	-0.07	0.00	-0.05	-0.10	-0.03	0.25	0.14	0.12	-0.11	-0.09	0.72	0.17	1.00								
14	R&D	0.02	0.04	-0.08	-0.11	-0.04	-0.07	-0.06	-0.08	-0.03	-0.07	-0.10	-0.08	0.43	0.10	0.07	1.00							
15	Investment	0.22	0.18	0.05	0.06	0.02	0.02	0.06	0.21	0.06	0.15	0.02	-0.03	0.69	0.28	0.38	0.14	1.00						
16	Cash	1.50	5.89	-0.02	0.00	-0.03	-0.04	-0.01	0.17	0.03	0.04	-0.01	-0.02	0.56	0.26	0.22	0.05	0.30	1.00					
17	Dividends	0.10	0.11	0.09	0.03	0.07	0.15	0.05	-0.27	-0.09	-0.09	0.11	0.07	-0.66	-0.26	-0.54	-0.04	-0.31	-0.16	1.00				
18	Beta	0.81	0.76	-0.01	0.03	0.01	-0.01	-0.02	0.15	0.07	0.07	-0.04	-0.04	0.43	0.25	0.37	0.19	0.25	0.26	-0.25	1.00			
19	5% owners	0.22	0.22	-0.12	-0.09	-0.10	-0.14	-0.12	0.00	-0.01	-0.02	-0.06	-0.09	0.05	-0.16	0.21	-0.01	-0.02	-0.11	-0.10	-0.01	1.00		
20	Inside directors	0.24	0.15	0.20	0.27	0.16	0.13	0.21	0.15	0.19	0.25	0.11	0.10	0.25	0.07	0.25	-0.07	0.20	0.15	-0.24	0.12	-0.06	1.00	
21	Firm size	8.32	1.03	-0.06	-0.06	-0.05	-0.04	-0.10	-0.11	-0.07	-0.07	-0.04	-0.03	-0.18	0.03	-0.29	0.05	-0.09	-0.04	0.18	-0.04	-0.14	-0.22	1.00
22	Firm age	63.53	44.21	0.04	-0.05	0.04	0.09	0.02	-0.29	-0.15	-0.18	0.04	0.06	-0.38	-0.19	-0.44	0.10	-0.27	-0.16	0.41	-0.14	-0.10	-0.26	0.22

* Correlations of more than 0.07 or less than -0.07 are significant at beyond the 0.05 level.

Table 5a: OLS Regressions of Stewardship Index on Family Embeddedness: Family Influence

Stewardship	Coef.		SE	Coef.		SE	Coef.		SE	Coef.		SE	Coef.		SE
# family directors	-0.23	***	0.07												
# family officers				-0.26	***	0.07									
Family vote Herfindahl							-0.78	***	0.20						
Multiple generations										-0.81	***	0.17			
Family votes %													-2.95	***	0.92
Family votes % sq.													2.59	*	1.12
Beta	0.76	**	0.29	0.77	**	0.29	0.77	**	0.29	0.76	**	0.29	0.76	**	0.29
5% owners	-0.39		0.34	-0.34		0.34	-0.39		0.34	-0.49		0.34	-0.39		0.34
Inside directors	1.98	***	0.54	2.09	***	0.55	1.97	***	0.55	1.97	***	0.54	1.96	***	0.55
Firm size	-0.16	*	0.07	-0.15	*	0.07	-0.16	*	0.07	-0.16	*	0.07	-0.17	*	0.07
Firm age	-0.02	***	0.00	-0.02	***	0.00	-0.01	***	0.00	-0.01	***	0.00	-0.02	***	0.00
# of observations	863			863			863			863			863		
F	36.07			25.64			27.63			28.92			21.97		
Adusted R-squared	0.6023			0.6023			0.6041			0.6085			0.6012		

*, **, *** indicate significance at beyond the .05, .01 and .001 levels, respectively. SIC codes are not displayed.

Table 5b: OLS Regressions of Stewardship Index on Family Embeddedness: Executive Susceptibility

Stewardship	Coef.		SE	Coef.		SE	Coef.		SE	Coef.		SE	Coef.		SE
Lone founder CEO	0.88	**	0.30												
Family founder CEO				0.24		0.42									
Family founder CH							0.10		0.34						
Family CEO2+										-1.01	***	0.21			
Family CH2+													-0.82	***	0.20
Beta	0.73	**	0.29	0.77	**	0.29	0.77	**	0.29	0.75	**	0.29	0.76	**	0.29
5% owners	-0.17		0.34	-0.24		0.35	-0.24		0.34	-0.33		0.34	-0.37		0.34
Inside directors	1.58	**	0.54	1.65	**	0.54	1.66	**	0.54	1.89	***	0.54	1.87	***	0.54
Firm size	-0.14	*	0.07	-0.14	*	0.07	-0.14	*	0.07	-0.16	*	0.07	-0.16	*	0.07
Firm age	-0.01	***	0.00	-0.02	***	0.00	-0.02	***	0.00	-0.02	***	0.00	-0.02	***	0.00
# of observations	863			863			863			863			863		
F	26.29			24.03			24.02			27.61			26.46		
Adusted R-squared	0.6020			0.5966			0.5964			0.6061			0.6039		

*, **, *** indicate significance at beyond the .05, .01 and .001 levels, respectively. SIC codes are not displayed

Table 6a: Regressions of Total Shareholder Returns on Family Embeddedness: Family Influence

Stewardship	Coef.		SE	Coef.		SE	Coef.		SE	Coef.		SE	Coef.		SE
# family directors	-0.02	*	0.01												
# family officers				-0.02	*	0.01									
Family vote Herfindahl							-0.00		0.03						
Multiple generations										-0.02		0.02			
Family votes %													-0.23	*	0.12
Family votes % sq.													0.23		0.17
Beta	0.07	*	0.03	0.07	*	0.03	0.07	*	0.03	0.07	*	0.03	0.07	*	0.03
5% owners	-0.17	**	0.07	-0.17	**	0.06	-0.16	**	0.06	-0.16	**	0.07	-0.17	**	0.07
Inside directors	0.00		0.08	0.01		0.08	-0.02		0.08	-0.02		0.08	-0.00		0.08
Firm size	0.02	+	0.01	0.02	+	0.01	0.02	+	0.01	0.02	+	0.01	0.02	+	0.01
Firm age	-0.00	***	0.00	-0.00	***	0.00	-0.00	***	0.00	-0.00	***	0.00	-0.00	***	0.00
# of observations	862			862			862			862			862		
F	5.62			5.63			5.02			5.16			4.77		
Adusted R-squared	0.1703			0.1707			0.1673			0.1678			0.1690		

*, **, *** indicate significance at beyond the .05, .01 and .001 levels, respectively. SIC codes are not displayed.

Table 6b: Regressions of Total Shareholder Returns on Family Embeddedness: Executive Susceptibility

Stewardship	Coef.		SE	Coef.		SE	Coef.		SE	Coef.		SE	Coef.		SE
Lone founder CEO	0.16	**	0.06												
Family founder CEO				0.05		0.06									
Family founder CH							0.01		0.05						
Family CEO2+										-0.05	**	0.02			
Family CH2+													-0.03		0.03
Beta	0.07	*	0.03	0.07	*	0.03	0.07	*	0.03	0.07	*	0.03	0.07	*	0.03
5% owners	-0.15	*	0.06	-0.16	**	0.06	-0.16	**	0.06	-0.17	**	0.06	-0.16	**	0.06
Inside directors	-0.04		0.08	-0.03		0.08	-0.02		0.08	-0.01		0.08	-0.01		0.08
Firm size	0.02	*	0.01	0.02	+	0.01	0.02	+	0.01	0.02	+	0.01	0.02	+	0.01
Firm age	-0.00	**	0.00	-0.00	***	0.00	-0.00	***	0.00	-0.00	***	0.00	-0.00	***	0.00
# of observations	862			862			862			862			862		
F	5.75			5.15			5.03			5.81			5.23		
Adusted R-squared	0.1871			0.1684			0.1673			0.1700			0.1684		

*, **, *** indicate significance at beyond the .05, .01 and .001 levels, respectively. SIC codes are not displayed.

Table 7a: Robustness Checks: OLS Regressions of Stewardship Component Variables on Family Influence

Below are presented the t statistics from 50 separate OLS models. One coefficient per model is reported (2 for family ownership). For every model control variables included: log of revenues, firm age, ratio of inside to outside directors, 5% owners, beta, and 2 digit industry SICs. All models were significant at beyond the 0.001 level (N=-862).

Dependent Variables	Number of family directors	Number of family officers	Family vote dispersion (Herfindahl)	Multiple generations present	Family control & family control squared	
Dividends (reversed)	-4.41 ***	-3.57 ***	-3.12 ***	-5.37 ***	-3.04 **	2.08 *
Cash	-1.74 +	-2.33 *	-3.07 ***	-2.37 *	-2.66 **	2.82 **
Investment	1.07	0.47	0.30	0.58	1.02	-1.33
R&D	-1.93 *	-2.85 **	-1.70 +	-3.15 ***	-3.11 ***	2.72 **
Unsystematic Risk	-2.77 **	-2.37 *	-2.64 **	-3.51 ***	-1.56	0.65

+, *, **, and *** represent significance levels at beyond 0.10, 0.05, 0.01 and 0.001 respectively.

Table 7b: Robustness Checks: OLS Regressions of Stewardship Component Variables on Executive Susceptibility to Family Influence

Dependent Variables	Lone Founder CEO	Family Founder CEO	Family Founder Chairman	Family CEO Later Generation	Family Chairman Later Generation
Dividends (reversed)	3.40 ***	-0.03	-0.71	-4.03 ***	-2.24 *
Cash	3.45 ***	0.11	-0.06	-1.85 +	-2.16 *
Investment	1.91 +	0.03	1.51	-0.38	-0.89
R&D	-1.32	0.24	-0.17	-3.10 ***	-3.26 ***
Unsystematic Risk	2.52 **	0.95	-0.31	-3.76 ***	-2.52 **

+, *, **, and *** represent significance levels at beyond 0.10, 0.05, 0.01 and 0.001 respectively.

Table 8: Regression of Total Shareholder Returns on Stewardship Index

	OLS			Two stage least squares		
Total Shareholder Returns	Coef.		SE	Coef.		SE
Stewardship index	0.05	***	0.01			
Stewardship - instrument				0.09	***	0.02
Beta	0.03		0.02	0.01		0.02
5% owners	-0.16	**	0.06	-0.16	**	0.06
Inside directors	-0.10		0.08	-0.16	*	0.08
Firm size	0.02	**	0.01	0.03	**	0.01
Firm age	-0.00		0.00	-0.00		0.00
# of obs	862			862		
F	8.76			4.08		
Adj R-squared	0.2650			0.2120		

*, **, *** indicate significance at beyond the .05, .01 and .001 levels, respectively. SIC codes are not displayed.