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How agency conflict between family managers and family owners affects performance in wholly family-owned firms: A generational perspective

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ABSTRACT

This study analyses the effects of agency conflict between "active family owners" (who participate in firm management) and "passive family owners" (who do not do so) on the performance in unlisted Spanish family firms wholly owned by family members. We employ agency theory to argue that ownership concentration by active family owners and governance mechanisms (direct control by passive family owners, existence of board of directors, and family governance mechanisms) improve the firm performance and that this effect intensifies in later-generation firms. Our findings show that family managers' ownership and family governance mechanisms have a positive influence on the performance in second- and later-generation firms. The results also show a positive effect of direct control by passive family owners over active family owners in second- and later-generation firms. However, the existence of a board of directors is not related to family firms' performance.

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1. Introduction

The literature on family firms has extensively analyzed the effect of family owner management on firm performance. Researchers have employed agency theory arguments to suggest both positive and negative effects (e.g., Basco, 2013; Bennedsen, Nielsen, Pérez-González, & Wolfenzon, 2007; Block, Jaskiewicz, & Miller, 2011; Miller, Le Breton-Miller, Lester, & Cannella, 2007). Proponents of the negative view usually focus on the expropriation by the main shareholder (i.e., the family) of minority shareholders (nonfamily members). The alignment of family managers with family objectives rather than business objectives (Miller, Minichilli, & Corbetta, 2013) may impair family firm performance (Basco, 2013; Schulze, Lubatkin, & Dino, 2002; Schulze, Lubatkin, & Dino, 2003a; Schulze, Lubatkin, & Dino, 2003b; Schulze, Lubatkin, Dino, & Buchholtz, 2001).

But conflicts of interest may also exist between family members who are both owners and managers (henceforth "active family owners") and other family owners who do not participate in firm management ("passive family owners") (Basco, 2013; Lubatkin, Schulze, Ling, & Dino, 2005; Miller et al., 2013; Schulze et al., 2003a; Siebels & zu Knyphausen-Aufseß, 2012). Active family owners may misallocate firm resources for the particular benefit of their own nuclear family at the expense of other family branches. For example, they may hire incompetent relatives from their nuclear family for key positions, pay these family members salaries that are higher than competitive rates, or give them rewards that are not aligned with performance. In turn, these behaviors may impair the firm's performance (Eddleston & Kellermanns, 2007).

Governance mechanisms may control this intra-family agency conflict and improve performance. For instance, passive family owners may discipline the behavior of active family owners by directly controlling them (Chrisman, Chua, Kellermanns, & Chang, 2007) or by having a board of directors monitor them (e.g., Audretsch, Hülsbeck, & Lehmann, 2013). Furthermore, specific family governance mechanisms (succession plans, family protocols, and family councils) may help regulate the economic and family relationships between active and passive family owners (Corbetta & Salvato, 2012; Poza, Hanlon, & Kishida, 2004). However, empirical studies on the role that governance mechanisms play in the agency conflict between active family owners and passive family owners are still rare (Siebels & zu Knyphausen-Aufseß, 2012).

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The family firm literature suggests that agency conflicts are higher for family firms in later generations[1] because family growth at each generational stage accentuates the separation of ownership and control between family firm managers and a larger growing group of family firm owners who perform no management tasks (Miller et al., 2013). Not only is ownership more dispersed but also family bonds tend to be weaker both between family members of the same generation and between those of different generations (Gersick, Davis, McCollom, & Lansberg, 1997; Schulze et al., 2001, 2002). Therefore, even for similar ownership structures, the generational stage may increase agency conflicts between active and passive family owners.

Our paper contributes to the empirical evidence on the role of family involvement in management (e.g., Block et al., 2011; Chrisman et al., 2007; Miller et al., 2013; Sciascia & Mazzola, 2008). In particular, we first analyze whether ownership concentration among active family owners aligns their objectives with those of passive family owners and improves the firm's performance. Whereas previous studies of the effect of family management on the firm performance have usually used samples of large listed firms (Miller et al., 2007) that include shareholders other than family, and therefore have mixed the two types of conflict, we consider only family firms wholly owned by family members to avoid confounding influences on our analyses.

Second, we extend previous evidence on the effect of governance mechanisms on family firm dynamics to conflicts of interest between active family owners and passive family owners. We also analyze whether this influence varies for family firms in different generational stages.

Third, studies show that the relationship between family involvement and firm performance is influenced by the firm size, public versus private status, presence of the founder, country of operation, and generational stage (Block et al., 2011; O'Boyle, Pollack, & Rutherford, 2012; Wagner, Block, Miller, Schwens, & Xi, 2015). In this study, we test for the moderation effect of the generational stage while controlling the other influences through sample selection and control variables.

Finally, our study is based on a questionnaire and database information that includes private family firms in Spain. These data enable us to answer the call for a more contextualized research design in family business research (Miller et al., 2007, 2013).

Our empirical research is mainly based on agency arguments. However, we also combine arguments from stewardship theory (Chrisman, Chua, & Sharma, 2005; Pindado & Requejo, 2014) to enhance the understanding of family firms (Le Breton-Miller & Miller, 2009). Specifically, agency-based models can incorporate certain dimensions that are important in the family business context, such as altruism or the socio-emotional involvement of family members (Karra, Tracey, & Phillips, 2006; Lubatkin et al., 2005; Pindado & Requejo, 2014).

The paper is structured as follows. First, we analyze the relationship between active and passive family owners to develop our hypotheses. In the third section, we describe the data-collection process, information sources, variables, and methods. The fourth section summarizes the results, and the final section includes our analysis, discussion of the results, and conclusions.

[1] By later generations, we mean family firms in second generation compared with first generation and third and following generations compared with second generation.

2. Theory and hypotheses

Over the last few decades, numerous studies have focused on the effects of family involvement on firm performance. Agency theory points out that the separation of ownership and management results in potential agency conflicts between owners and managers, but family relationships between them reduce such conflicts by aligning their objectives and reducing information asymmetries (Fama & Jensen, 1983; Jensen & Meckling, 1976). Under these conditions, family firms should achieve higher performance (Chua, Chrisman, & Steier, 2003). However, while some empirical research has found that family firms outperform nonfamily firms (Anderson & Reeb, 2003), other studies have found family influence to have no effect on the firm performance (Miller et al., 2007), and still others have found that family firms underperform nonfamily firms (Gomez-Mejia, Haynes, Nuñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Morck, Wolfenzon, & Yeung, 2005).

Previous research has defined family involvement as family ownership, family management, or both (López-Delgado & Diéguez-Soto, 2015; Miller et al., 2007). Block et al. (2011) used Bayesian analysis to separate these two dimensions and found a positive impact for family ownership but a neutral impact for family management. This neutral effect suggests that family involvement in management may have negative effects that counterbalance the positive effects (Block et al., 2011).

Regarding the positive influences, the agency theory literature suggests that active and passive family owners share objectives and information (Daily & Dollinger, 1992; Fama & Jensen, 1983; Jensen & Meckling, 1976).

Researchers have also employed stewardship theory arguments (Davis, Schoorman, & Donaldson, 1997) to suggest that family involvement in management improves the performance (Charbel, Bouri, & Georges, 2013; Hoffmann, Wulf, & Stubner, 2016). Family managers act as stewards because they identify with the firm so strongly that they subordinate personal goals to family goals. They are generally highly motivated, their expectations of being in office for a long time reduce potentially hazardous moves (Hoffmann et al., 2016; Sciascia & Mazzola, 2008), and their family bonds with owners can also reduce opportunism (Corbetta & Salvato, 2004). The socio-emotional involvement of family management in the firm (e.g., identity formation and dynastic sensibilities) implies that managers serve the collective good of the company because they are driven by more than economic self-interest (Gomez-Mejia et al., 2007; Hautz, Mayer, & Stadler, 2013).

Still, the literature has also argued that there are disadvantages and agency costs of family involvement in management (Schulze et al., 2001, 2002, 2003a, 2003b). These arguments suggest that problems related to altruism and self-control make it difficult for family managers to reliably represent their own best interests as well as those of the firm and other family members, which negatively affects the firm performance. Altruism can create a sense of entitlement among family members by encouraging family CEOs to use the firm's resources to benefit family members with employment, perquisites, and other privileges, and it can bias CEOs' perceptions of family members' behavior, hampering their ability to monitor and discipline their employed family members.

Research has also employed stewardship arguments to explain a negative effect of family involvement in management: family managers may function as stewards of the family rather than of the business (Miller et al., 2013). In sum, both agency and stewardship arguments suggest that the negative effects on the performance of family involvement in management result not from an explicit intention to expropriate other family owners but from an effort to benefit them at the expense of nonfamily shareholders.

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2.1. The effect of conflicts of interest between active family owners and passive family owners on the firm performance

A less explored issue has been intrafamily group conflicts (Basco, 2013; Siebels & zu Knyphausen-Aufseß, 2012) – that is, possible conflicts of interest between active family owners and passive family owners. Chrisman et al. (2007) showed that family business owners seem to regard family managers as agents and use monitoring mechanisms to control their behavior. Miller et al. (2013) found that firms with family CEOs outperform other firms when family ownership is concentrated among family members and underperform when ownership is dispersed among the extended family. These studies suggest that as in any firm, separation between ownership and control may introduce divergent objectives and information asymmetries between family managers and other family owners (Bammens, Voordeckers, & Van Gils, 2008; Miller & Le Breton-Miller, 2006; Schulze et al., 2003a; Thomas, 2009; Van Den Berghe & Carchon, 2003; Vilaseca, 2002), potentially leading to opportunistic behavior by family managers. However, their empirical analyses do not clarify whether family managers expropriate other family owners or owners outside the family.

Since families are heterogeneous, with members having different objectives and goals (LeBreton-Miller & Miller, 2009; Schulze et al., 2002), the presence of both active and passive family owners may result in opportunism among the former (Siebels & zu Knyphausen-Aufseß, 2012). Active family owners may use the firm to serve personal objectives or those of their immediate family at the expense of other family branches and may also divert firm resources to personal use (Miller et al., 2013; Morck et al., 2005; Schulze et al., 2001). Such behavior is likelier when the family manager owns less stock. Conversely, the higher the ownership of the family managers, the lower is the conflict of interest between them and the shareholders and the higher is the family firm's performance:

Hypothesis 1. In family firms wholly owned by family members, ownership concentration by active family owners is positively related to the firm performance.

2.2. The effect of governance mechanisms on family firm performance

Private ownership may compromise the effectiveness of external control mechanisms (Schulze et al., 2001). Therefore, only internal governance mechanisms developed by passive family owners are likely to ensure proper behavior among active family owners (Bartholomeusz & Tanewski, 2006; Chrisman et al., 2007; Siebels & zu Knyphausen-Aufseß, 2012). Concentrated ownership gives passive family owners an incentive to closely monitor active family owners: by directly observing them, by obtaining information from their managers or subordinates, or by regularly assessing their short-term outputs and evaluating their progress toward long-term goals. Chrisman et al. (2007) showed that family firm owners use monitoring to control behavior of managers and that this monitoring positively affects the family firm performance. Thus, we expect the following:

Hypothesis 2a. In family firms wholly owned by family members, direct control is positively related to the family firm performance.

Boards of directors are central to internal governance by monitoring firm managers (Jensen, 1993). Although most studies have focused on the role of boards in large public firms, several authors have argued that boards may have an even more important role in smaller firms (e.g., Johannisson & Huse, 2000), particularly in disciplining managerial behavior in family firms (Audretsch et al., 2013; Bammens et al., 2008; Brenes, Madrigal, & Requena, 2011; Johannisson & Huse, 2000). We therefore expect the following:

Hypothesis 2b. In family firms wholly owned by family members, the existence of a board of directors is positively related to the firm performance.

Moreover, since active and passive family owners are bound by family ties, governance mechanisms specific to family firms, including written succession plans (Martin, 2001; Poza et al., 2004), family protocols (Brenes et al., 2011), and family councils (Corbetta & Salvato, 2012), may relax the agency conflict between the two groups (Mustakallio, Autio, & Zahra, 2002; Suárez & Santana-Martín, 2004; Suess, 2014). Formal succession plans and family protocols (Corbetta & Salvato, 2012) may improve transparency and regulate the relationship between active and passive family owners; family councils give family members a space to articulate their convictions and feelings concerning the business, helping to resolve conflicts between active and passive family owners (Brenes et al., 2011). Thus, we expect the following:

Hypothesis 2c. In family firms wholly owned by family members, governance mechanisms specific to the family firm (i.e., family councils, written succession plans, and family protocols) are positively related to the firm performance.

2.3. Interactions between family managers' ownership and generational stage

Researchers studying the governance of family firms have become increasingly aware of the role of the generational stage (e.g., Lubatkin et al., 2005; Sciascia, Mazzola, & Kellermanns, 2014; Wagner et al., 2015) and have often employed arguments on family involvement in management to explain the reduction in the firm performance over the generations (Bennedsen et al., 2007; Cucculelli & Micucci, 2008; Morck, Shleifer, & Vishny, 1988; Sciascia et al., 2014). Miller et al. (2013) showed that firms with family CEOs underperform when ownership is dispersed among members of the extended family. Recently, Arosa, Iturralde, and Maseda (2010a); Bammens et al. (2008); Lubatkin et al. (2005); and Sciascia et al. (2014) have not only concentrated on increased ownership dispersion but also on changes in affective bonds with each generational stage. We extend these arguments to the conflicts of interest between active family owners and passive family owners.

Family bonds change with generational stage and influence individual attitudes toward cooperation, divergence in objectives, and information asymmetries. The intense family bonds of first-generation family firms generally make active family owners concerned about how their decisions will affect the rents of family members of present and future generations, while continuous contact between family members minimizes information asymmetries (Harvey, 1999; Karra et al., 2006; Lubatkin et al., 2005). Both factors increase the cooperative efforts of family members who act as stewards for the business (Miller & Le Breton-Miller, 2006; Van Den Berghe & Carchon, 2003). Indeed, family members' efforts in this context are generally greater than the efforts they would put into firms in which they maintained only economic relationships (Gersick et al., 1997).

Family bonds are weaker for family firms in the second generation, as the descendants create their own family units and usually increase their valuation of the current rents that may be enjoyed by these units. Active family owners tend to attach less value to the rents of passive family owners and to future rents that will go to the extended family (Lubatkin et al., 2005). In addition, lessened contact and communication among the different family

branches disperse objectives and increase information asymmetries.

This progressive weakness of family bonds reduces the motivation of active family owners to exert effort in promoting cooperation, while increasing their incentives and abilities to behave opportunistically (Fama & Jensen, 1983; Harris & Ogbonna, 2007; Schulze et al., 2003a). Successive family generations involved in the management of the firm will cater more to their own objectives – for example, by consuming non-pecuniary benefits or using resources to promote unprofitable investments in which they have a special interest (Morck et al., 1988; Siebels & zu Knyphausen-Aufseß, 2012) – than to those of passive family owners or of future family generations. Since the socio-emotional involvement of family members decreases with generational stage (Gomez-Mejia et al., 2007), family members from later generations may be more motivated to pursue personal perks rather than the best interests of the firm (Miller & Le Breton-Miller, 2006). Thus, active family owners may act as stewards only with their nuclear family and as agents with passive family owners. In sum, we hypothesize the following:

Hypothesis 3. In family firms wholly owned by family members, the generational stage positively moderates the influence of ownership concentration by active family owners on the family firm performance. That is, the influence of ownership concentration of family managers on the family firm performance is higher for family firms in later generations.

2.4. Interactions between governance mechanisms and generational stage

The higher conflict of interest between active family owners and passive family owners for firms in later generations calls for governance mechanisms to constrain potential opportunistic behavior. Pieper, Klein, and Jaskiewicz (2008) demonstrated that family firms are likelier to have a board of directors when there is little alignment of objectives between owners and managers. Bammens et al. (2008) showed a positive relationship between the advancing generational stage of the firm and the number of family board members. They argued that this increase indicates that family members need greater control over family managers as the generations advance. This argument is supported by Arosa, Iturralde, and Maseda's (2010b) finding that the influence of the board of directors on the firm performance is stronger in family firms run by later generations. As we have pointed out, the literature on family firms also acknowledges the existence of other mechanisms such as direct monitoring exercised by family firm owners over family managers, succession plans, family councils, and protocols. Although researchers have not analyzed the relationship between these mechanisms and generational stages in family firms, the earlier arguments also suggest that their influence should increase as the generations advance. Therefore, we propose the following:

Hypothesis 4a. In family firms wholly owned by family members, the generational stage positively moderates the influence of direct control on the family firm performance.

Hypothesis 4b. In family firms wholly owned by family members, the generational stage positively moderates the influence of the existence of a board of directors on the family firm performance.

Hypothesis 4c. In family firms wholly owned by family members, the generational stage positively moderates the influence of family governance mechanisms specific to the family firm (i.e., family councils, written succession plans, and family protocols) on the family firm performance.

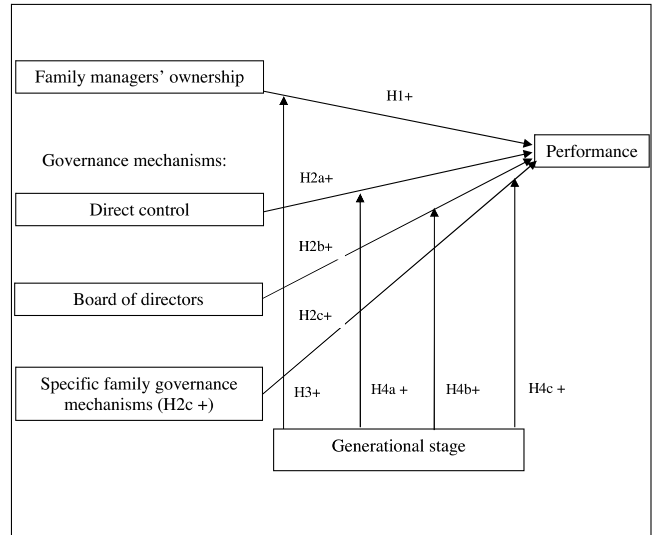

Fig. 1. Research model.

Our research model is shown in Fig. 1.

3. Methods

3.1. Sample and information sources

Our hypotheses were tested on a sample of 207 Spanish family firms wholly owned by family members. Our dataset was based primarily on CEOs' responses to a questionnaire we developed. We also employed the SABI[2] database to obtain the financial information for each family firm. We included only those firms that had more than 10 employees, eliminating companies that fit the European Commission's definition of microfirms (2003/361/EC). We also removed firms below 15 years of age because we believe that after 15 years it is fairly likely that firm founders would have developed the intention to transfer the firm to their successors. These two conditions help exclude firms that were established as a means of family livelihood without the intention of being transferred to future family generations.

Assuming that a generational transfer takes place every 25 years (Gersick et al., 1997), we selected firms between 15 and 25 years old, between 25 and 50 years old, and more than 50 years old. We used random selection to ensure a balanced number of family firms in each generational stage. After confirming family participation in ownership, management, and governance using surnames, we sent questionnaires to 9545 firms. We then confirmed that each firm was a family firm through information provided in the questionnaire responses.

After pilot-testing the questionnaire on four family firms, we mailed the final survey to the CEO of each company in our sample, together with a letter explaining the general purpose of the study, asking the CEO to complete the questionnaire, and promising anonymity. The mailing also included an endorsement letter from the CEO of the association Empresa Familiar Castilla y León (Family Firms of Castilla and León), introducing the researchers and requesting return of the questionnaires. Four weeks after the first mailing, we made follow-up calls to the CEOs who had not

[2] This database is prepared by INFORMA S.A. and provides general and financial information from official registers for more than 190,000 Spanish firms.

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responded in order to explain the general purpose of the study and to encourage their answers.

A total of 1056 questionnaires were returned, which represents a response rate of 11.06%, similar to rates in previous studies of privately held firms (Dennis, 2003; Schulze et al., 2003a; Sciascia & Mazzola, 2008). We attribute this acceptable response rate to the guarantee of anonymity, our guarantee of access to the study's findings, and the brevity of the questionnaire, which was designed to take less than 15 minutes to complete (Baruch & Holtom, 2008). By guaranteeing access to study findings, we also tried to improve the conscientiousness and reliability of responses (Hambrick, Geletkanycz, & Fredrickson, 1993). As the CEOs' answers to the survey were combined with archival data and all the self-reported data are of a "factual type," the common method bias is limited (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003).

To build our dataset, we used a reasonably broad definition of "family firm" (Westhead & Cowling, 1998). According to the family firm literature, a firm is usually considered to be a family firm when more than 50% of its equity is owned by a family[3] and the family has a presence in the firm's management and governance. However, because we were interested in the specific conflict between active family owners and passive family owners, we restricted our analyses to family firms totally owned by family members. More than one-third of the firms in our initial dataset had no board of directors; in these cases, we replaced the criterion of family presence on the board of directors with the requirement that at least one family member should serve as an officer in the firm. Moreover, as the essence differentiating family firms from other firms is cross-generational sustainability (Chua, Chrisman, & Sharma, 1999), we considered family firms to be those that had already undergone one succession or whose founder or founders reported an intention of transferring the firm to the next generation.

According to these criteria, we excluded 275 questionnaires that represented nonfamily firms or were incomplete, leaving a total of 781 usable questionnaires. We found no differences in either performance ($p > 0.10$) or size ($p > 0.10$) between firms included in the sample and those excluded or between early and late respondents, suggesting no response bias. We repeated these analyses for each possible generational subsample, and again, and the results suggest that there was no nonresponse bias.

We eliminated 483 additional questionnaires because the firms had no family owners other than their managers and would therefore not be subject to any conflicts of interest between active family owners and passive family owners (Chrisman et al., 2007). We also excluded firms not totally owned by a family.[4] The literature shows that founders do not behave similarly to other family managers (Jaskiewicz, Block, Miller, & Combs, 2015; López-Delgado & Diéguez-Soto, 2015; Miller et al., 2007): the founders are said to focus on firm goals and performance goals, whereas family managers may pursue goals relating to family objectives (Jaskiewicz et al., 2015). Thus, the agency conflict between active family owners and passive family owners is not the same if the founder is alone in firm management versus if relatives of the founder are involved in firm management. Considering this argument, we excluded eight firms for which the founder was the only manager in firm management. Lastly, we looked at the scatter plots and excluded 10 observations that were far away from the rest of the observations. Our final sample comprised 207 family firms: 42 first-generation family firms, 118 second-generation family firms, and 47 third- and later-generation family firms.

3.2. Variables

We employed return on assets (ROA) and return on equity (ROE) for year $t+1$ as the dependent variables. ROA and ROE have frequently been used to analyze the effect of family involvement on the firm performance (De Massis, Kotlar, Campopiano, & Cassia, 2013; Miller et al., 2013; Wagner et al., 2015). Information was obtained from the SABI database.

Regarding our independent variables, we used information from the questionnaire to calculate family managers' ownership and to identify the firms' governance mechanisms and generational stage.

3.2.1. Family managers' ownership

Given that the propensity of family managers to expropriate owners diminishes as those managers' ownership increases (Bammens et al., 2008; Pieper et al., 2008; Schulze et al., 2003a), we include family managers' ownership as an independent variable. This variable was measured as the percentage of shares in the hands of active family owners. This approach is similar to those of previous researchers exploring agency conflicts between managers and owners (Agrawal & Mandelker, 1990; De Miguel, Pindado, & de la Torre, 2004).

3.2.2. Governance mechanisms

We tested three governance measures: direct control, board of directors, and family governance mechanisms.

We measured *direct control* following Chrisman et al. (2007). Respondents were asked to indicate how often family owners used "personal direct observation," "regular assessment of short-term output," "progress towards long-term goals," "input from other managers," and "input from subordinates" to obtain information on the activities and performance of family managers. All items used a five-point Likert scale ranging from 1 (never) to 5 (very often). We averaged the five items; the factor analysis confirmed that the construct was unidimensional.

Board of directors is a dummy variable that takes the value of 1 when a firm has a board of directors and 0 when the firm has a sole officer. We did not introduce variables relating to the composition and size of the board of directors, as only 58% of firms in the sample had a board[5]; therefore, the number of observations for some of the generational stages was too small to subdivide.

The variable *family governance mechanisms* measures the existence of a family council, written succession plans, and family protocols. We averaged the three items; the factor analysis confirmed that the construct was unidimensional.[6]

3.2.3. Moderator variable: generational stage of the firm

To test the moderation effect of generational stage, we employed dummy variables, using the second generation as the reference category and employing two dummy variables indicating whether the family firm was a first-generation or a third- and later-generation firm. When the CEO was a family member, we assigned the firm to the CEO's generation in the family. If the CEO was not a

[3] Note that our initial dataset is part of a larger research project. Therefore, although our initial dataset contained family firms with at least 50% of the equity owned by a family, our sample contains only family firms completely owned by family members.

[4] The conflict between family managers and family owners may also occur in the case of family firms not totally owned by a family. However, for these firms, two different conflicts may arise that are empirically difficult to disentangle: conflict between family managers and other family owners and conflict between family and nonfamily owners.

[5] In unlisted firms in Spain, only those firms that have various officers are legally obligated to have a board of directors.

[6] The results of the factor analysis can be obtained from the authors.

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family member, we assigned the firm to the generation of the oldest member who participated in its management.

3.2.4. Control variables

We used firm age, size, and ratio of debt to total assets as control variables, since they have been used in previous research on the family firm performance (Anderson & Reeb, 2003; Block et al., 2011; De Massis et al., 2013; Sciascia et al., 2014). *Firm age* is the number of years since the firm's foundation. *Firm size* is the total number of employees. We used the logarithmic values of both variables. As in previous research (Block et al., 2011; Sciascia et al., 2014), *firm debt* was measured as total debt over total assets. To control for potential industry effects, we included eight dummy variables that covered the industry in which the firm operated, using the National Classification of Economic Activities (CNAE-1993 Revisado). We excluded one of the eight dummy variables from the analysis to avoid problems of exact multicollinearity. These variables were taken from the SABI database.

3.3. Analyses

We used a three-step hierarchical multiple regression analysis (Aguinis, 2004; Aiken & West, 1991) to compare the predictive power of the independent and moderator variables over the control variables. We entered only the control variables in the first step. Then, we entered all the independent variables to test our Hypotheses 1, 2a, 2b, and 2c. As the final step, we entered the moderator variables to test our Hypotheses 3, 4a, 4b, and 4c.

We used dummy variables to measure our moderator variable (i.e., generational stage) (Hardy, 1993). We introduced "first generation" and "third and later generations" in the analysis. The reason for this choice is that the coefficient of the interaction terms of the dummy variables that were introduced multiplied by the continuous variable represents the differential effect of this continuous variable on the dependent variable with respect to the effect of the reference category (Aguinis, 2004; Yip & Tsang, 2007). Choosing the second generation as the reference category, we can compare the differential effect of a continuous variable on the dependent variable between firms of the first and second generations and between firms of the second and third and later generations (Aguinis, 2004; Yip & Tsang, 2007).

To minimize the effects of multicollinearity, we performed regression analyses with standardized independent variables (Aiken & West, 1991). The values for the variance inflation factor (VIF) in the moderated models were all below 10 (average 2.93), which was within the acceptable limits (see, e.g., Hair, Anderson, Tatham, & Black, 1995). Because of the numerous firms in the commerce industry, the dummy variable for commerce had the highest VIF (9.17).

Our Durbin–Wu–Hausman test showed no problems of endogeneity, and our regression specification error test indicated that there were no omitted variables. However, our Breusch–Pagan test showed potential heteroscedasticity problems. Therefore, we used regression analyses with White's (1980) procedure to adjust for heteroscedasticity. Standardized normal probability plots showed that the residuals were close to a normal distribution.

4. Results

The coefficients of the correlation matrix (Table 1) again indicate no problems of multicollinearity.

The results for the hierarchical regression analyses with ROA (Models I–III) and ROE (Models IV–VI) as dependent variables are shown in Table 2. Models I and IV cover only the control variables. The results for Model I show a positive and significant coefficient for the size variable and a negative and significant coefficient for the firm debt variable. Model IV shows a positive and significant coefficient only for the firm size.

Models II and V in Table 2 add the six independent variables. The coefficient of family managers' ownership is significant and positive in Model II, which takes ROA as the dependent variable, and in Model V, which takes ROE as the dependent variable. These results support our first hypothesis, indicating that family managers' ownership is positively related to the family firm performance. The existence of a board of directors and direct control exercised by passive over active family owners show no significant effects on the performance, in Models II and V, but the variable of family governance mechanisms shows a significant and positive coefficient in Models II and V. Hence, Hypothesis 2c is supported. The addition of these independent variables significantly improves the coefficient of determination in Models II and V.

Models III and VI in Table 2 include the interaction effects of the independent variables with the generation-stage variables. The significance of R^2 change in these models demonstrates that our moderator effects are relevant (Aguinis, 2004; Hair et al., 1995). The results show that the concentration of family managers' ownership improves the firm performance in the second generation (reference category). The coefficient of the interaction term between family managers' ownership and the first generation is significant and negative, and the sum of the non-standardized

Table 1
Correlation matrix.

Variables	VIF	ROA	ROE	Age	Debt	Size	First generation	Third and later generations	Family managers' ownership	Direct control	Board of directors
ROE		0.768***									
Age	1.23	0.061	−0.032								
Debt	1.24	−0.302***	0.080	−0.147**							
Size	1.38	0.212**	0.252***	0.108	0.140**						
First generation (1 = yes; 0 = no)	3.50	0.064	0.144**	−0.249***	0.120*	0.068					
Third and later generations (1 = yes; 0 = no)	3.40	0.081	0.061	0.291***	−0.113	0.138**	−0.273***				
Family managers' ownership	2.25	0.224***	0.179**	−0.073	−0.035	0.051	0.308***	−0.247***			
Direct control	2.25	0.062	0.044	−0.017	−0.054	0.096	0.072	0.006	−0.151**		
Board of directors (1 = yes; 0 = no)	1.95	0.148**	0.093	0.097	−0.141**	0.230***	−0.048	0.072	−0.006	0.011	
Family governance mechanisms	2.31	0.183**	0.186**	−0.135**	−0.055	0.196**	0.004	−0.020	0.035	0.137**	0.165**

The highest VIF is for one industry dummy (commerce).
* $p < 0.10$.
** $p < 0.05$.
*** $p < 0.01$.

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Table 2
Results of Moderated Hierarchical Regression. Comparison of first, second, and third and later generations.

Variable	ROA			ROE		
	Model I	Model II	Model III	Model IV	Model V	Model VI
Family managers' ownership * First generation			−0.021**			−0.051
			(0.010)			(0.019)
Family managers' ownership * Third and later generations			0.012*			0.017
			(0.006)			(0.012)
Direct control * First generation			−0.010*			−0.018
			(0.006)			(0.012)
Direct control * Third and later generations			0.009			0.015
			(0.006)			(0.011)
Board of directors * First generation			−0.009			−0.020
			(0.014)			(0.028)
Board of directors * Third and later generations			−0.005			0.009
			(0.015)			(0.025)
Family governance mechanisms * First generation			−0.016**			−0.027
			(0.007)			(0.012)
Family governance mechanisms * Third and later generations			−0.005			−0.012
			(0.007)			(0.012)
Family governance mechanisms		0.006**	0.011***		0.013**	0.023
		(0.003)	(0.003)		(0.005)	(0.007)
Board of directors		0.005	0.006		0.008	0.007
		(0.005)	(0.006)		(0.011)	(0.014)
Direct control		0.002	0.003		0.003	0.005
		(0.003)	(0.003)		(0.006)	(0.007)
Family managers' ownership		0.009**	0.009**		0.013**	0.017
		(0.003)	(0.003)		(0.006)	(0.007)
Third and later generations		0.011	0.020		0.028**	0.031
		(0.008)	(0.012)		(0.012)	(0.018)
First generation		0.004	0.023*		0.016	0.058
		(0.010)	(0.012)		(0.017)	(0.026)
Age	−0.001	0.000	0.001	−0.004	−0.002	−0.001
	(0.003)	(0.004)	(0.004)	(0.006)	(0.006)	(0.006)
Debt	−0.016***	−0.014***	−0.013***	0.001	0.005	0.007
	(0.003)	(0.003)	(0.003)	(0.006)	(0.006)	(0.006)
Size	0.013***	0.009**	0.010**	0.020***	0.013**	0.013
	(0.003)	(0.003)	(0.003)	(0.006)	(0.006)	(0.006)
Industry dummies	yes	yes	yes	yes	yes	yes
N	207	207	207	207	207	207
R^2	0.210	0.275	0.362	0.110	0.184	0.288
d.f.	(10, 196)	(16, 190)	(24, 182)	(10, 196)	(16, 190)	(24, 182)
ΔR^2		0.065	0.087		0.074	0.104
F change		2.859**	3.110**		2.857**	3.331
d.f.		(6, 190)	(8, 182)		(6, 190)	(8, 182)

* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.

coefficients of family managers' ownership and the interacted variable (first generation * family managers' ownership) is negative, which suggests that family managers' ownership lessens ROE and ROA for first-generation family firms.[7] The coefficient of the interaction term between family managers' ownership and third and later generations is marginally significant in Model III but not in Model VI. In Model III, the sum of the nonstandardized coefficients of family managers' ownership and the interacted variable (third generation * family managers' ownership) is positive. These results partially suggest that the positive effects of family managers' ownership on the performance are higher for third- and later-generation firms than for second-generation firms and thus partially support the third hypothesis, which suggests that the generational stage positively moderates the influence of family managers' ownership on the family firm performance.

Regarding the Hypotheses 4a, 4b, and 4c, Models III and VI show a non-significant effect of direct control on the performance in second-generation firms (reference category). The coefficient of the interaction between the direct control of passive family owners over active family owners and the first generation is marginally significant in Model III and non-significant in Model VI (see Table 2). In Model III, the sum of the non-standardized coefficients of direct control and the interacted variable (first generation * direct control) is negative. That is, direct control has a negative effect in first-generation family firms, but only in the model taking ROA as the dependent variable. The coefficient of the interaction between direct control and third and later generations is not significant in either model.

In Models III and VI, the coefficient of family governance mechanisms is significant and positive, showing that family governance mechanisms improve the firm performance in second-generation firms (reference category). In contrast, the coefficient of the interaction between family governance mechanisms and the first generation is significant and negative. The sum of the nonstandardized coefficients of family governance mechanisms and the interacted variable (family governance mechanisms * first generation) is negative in both models, suggesting that family governance mechanisms impair the performance of first-generation family firms. The coefficient of the interaction between family governance mechanisms and third and later generations is not significant in either model. Hence, the results suggest that family governance mechanisms have a positive effect in second-

[7] The interaction plots can be obtained from the authors.

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Table 3
Results of Moderated Hierarchical Regression. Comparison of first versus later generations.

Variable	ROA			ROE		
	Model VII	Model VIII	Model IX	Model X	Model XI	Model XII
Family managers' ownership * First generation			−0.024** (0.010)			−0.053** (0.018)
Direct control * First generation			−0.014** (0.006)			−0.024** (0.012)
Board of directors * First generation			−0.007 (0.013)			−0.023 (0.026)
Family governance mechanisms * First generation			−0.014** (0.007)			−0.023** (0.012)
Family governance mechanisms		0.006** (0.003)	0.010** (0.003)		0.013** (0.006)	0.019** (0.006)
Board of directors		0.005 (0.005)	0.003 (0.006)		0.008 (0.011)	0.006 (0.012)
Direct control		0.002 (0.003)	0.006* (0.003)		0.002 (0.006)	0.009 (0.006)
Family managers' ownership		0.008** (0.003)	0.012*** (0.002)		0.010* (0.006)	0.019*** (0.005)
First generation		0.002 (0.010)	0.018 (0.012)		0.012 (0.017)	0.053** (0.025)
Age	−0.001 (0.003)	0.001 (0.004)	0.002 (0.003)	−0.004 (0.006)	0.000 (0.007)	0.001 (0.007)
Debt	−0.016*** (0.003)	−0.015*** (0.003)	−0.013*** (0.003)	0.001 (0.006)	0.004 (0.006)	0.006 (0.006)
Size	0.013*** (0.003)	0.010** (0.003)	0.011*** (0.003)	0.020*** (0.006)	0.015** (0.006)	0.015** (0.006)
Industry dummies	yes	yes	yes	yes	yes	yes
N	207	207	207	207	207	207
R^2	0.210	0.266	0.335	0.110	0.166	0.252
d.f.	(10, 196)	(15, 191)	(19, 187)	(10, 196)	(15, 191)	(19, 187)
ΔR^2		0.057	0.068		0.055	0.087
F change		2.951**	4.810***		2.529**	5.418***
d.f.		(5, 191)	(4, 187)		(5, 191)	(4, 187)

* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.

and later-generation firms. Finally, the interaction of the variable board of directors with the variables relating to the generational stage shows no significant relationship with either ROA or ROE. In sum, these findings support Hypothesis 4c. They also partially support Hypothesis 4a.

4.1. Additional analyses

To compare first-generation firms with later-generation ones, we ran our models with only the first-generation variable (see Table 3).

These results are similar to the results in Table 2. The coefficients for family managers' ownership and family governance mechanisms are significant and positive in Models VIII and XI. However, the direct control exercised by the family owners over the family managers has no significant effect on the ROA or the ROE, nor does the existence of a board of directors.

The results for the interaction terms are shown in Table 3, Models IX and XII. The coefficient of family managers' ownership is significant and positive, showing that family managers' ownership improves the firm performance in second- and later-generation firms (reference category). The coefficient of the interaction term between family managers' ownership and the first generation is significant and negative, and the sum of the nonstandardized coefficients of family owner-management and the interacted variable (first generation * family owner-management) is negative, suggesting that family owner management impairs the ROA and the ROE for first-generation family firms. The coefficient of family governance mechanisms is significant and positive, showing that family governance mechanisms improve the firm performance in second- and later-generation firms (reference category). But the coefficient of the interaction between family governance mechanisms and the first generation is significant and negative, and the sum of the nonstandardized coefficients of the variable of family governance mechanisms and the interaction term between family governance mechanisms and the first generation is negative in both models, suggesting that family governance mechanisms negatively influence the performance in first-generation family firms. These results confirm that family-specific governance mechanisms have a positive effect on the performance for second- and later-generation firms.

The coefficient of direct control is marginally significant and positive in Model IX and non-significant in Model XII. This result shows the positive influence of direct control on the ROA in second- and later-generation firms (reference category). The coefficient of the interaction between direct control and the first generation is significant and negative in Models IX and XII, and the sum of the non-standardized coefficients of direct control and the interacted variable (first generation * direct control) is negative, suggesting a negative influence of direct control on the ROE and the ROA for first-generation family firms. The coefficient of the interaction between the existence of a board of directors and the first generation is not significant in either model, but the R^2 change is significant in both.

5. Conclusions

In the present study, we focused on the conflicts of interests between active family owners and passive family owners in different generational stages. Our findings that family managers'

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ownership concentration and the presence of family governance mechanisms positively influence the firm performance in family firms wholly owned by the family are evidences of this agency conflict. Thus, our findings complement the previous studies on the differences among family firms and their consequences on the performance (Arosa et al., 2010a; Basco, 2013; De Massis et al., 2013; Sciascia et al., 2014) by exploring a different agency conflict.

It might be argued that our findings suggest that a high level of ownership by family managers may reduce their willingness to behave as stewards of the family because this may harm the firm performance and therefore their personal economic interests. For instance, family managers with high levels of ownership may be less altruistic toward other family members. However, this argument is less supported by our finding that governance mechanisms, particularly family-specific governance mechanisms, are positively related to the firm performance in second- and later-generation family firms.

We found that ownership concentration by family managers impairs the performance in first-generation family firms but improves it in second- and later-generation family firms. This finding may suggest that an entrenched founder may be reluctant to leave, that in second-generation family firms family managers focus on current rents and those of their own nuclear family unit, and that despite the growth of the family tree in third and later generations, this general condition still persists: there are loosely affiliated family units with separate objectives. Overall, these results are consistent with the finding of studies that the generational stage moderates the relationship between family involvement and firm performance (Arosa et al., 2010a, 2010b; Bammens et al., 2008; Sciascia et al., 2014).

The effects of family governance mechanisms and direct control exercised by family owners also differed by generation. These mechanisms impair the performance of first-generation family firms, probably because the dominance of the founder (Beckhard & Dyer, 1983) makes them inoperative. Family governance mechanisms (family council, written succession plans, and family protocols) improve transparency by formalizing family agreements and help relax the increasing conflict between active family owners and passive family owners from the first to later generations.

Our finding that direct control improves active family owners' behavior in the second and later generations is consistent with a study by J. J. Chrisman et al. (2007) and answers their call for analyzing the capability of direct control to modulate the cooperative behavior of family managers in different business stages.

Our finding that boards of directors have no effect on the performance is consistent with previous research that suggests that the majority of private family firms have a board of directors merely to meet legal obligations and do not use it as a monitoring or advice instrument (Danco & Jonovic, 1981; Ward, 1991). Specifically, previous research has agreed that boards of directors in family firms in Spain are mainly made up of family executive directors (Cabrera-Suárez, Déniz-Déniz, & Martín-Santana, 2011) even in the case of public family firms (Sacristán & Gómez, 2009), and this dominance limits monitoring and advice capabilities of the boards.

Our paper makes several contributions. First, our paper contributes to the limited research on the conflicts of interest between active family owners and passive family owners in family firms. Previous studies have not distinguished family and nonfamily external owners, even though the relationship between active family owners and passive family owners is one of the most frequent conflicts of interest in non-listed family firms. Second, our research adds to the recent literature exploring the influence of the generational stage on the family firm performance. Specifically, our study reveals that the generational stage plays a positive and significant role in agency conflicts between family managers and family owners in family firms. We also contribute to the literature on governance mechanisms by revealing the mechanisms that are particularly effective in controlling agency conflicts between family owners involved in firm management and the other family owners. From a broader perspective, our findings provide new evidence on the influence of these mechanisms in private firms.

The results of this study also contribute to knowledge concerning agency and stewardship relationships in family firms. The literature has traditionally focused on either agency theory (Schulze et al., 2003a, 2003b) or stewardship theory (Corbetta & Salvatto, 2004). In accord with Miller et al. (2013), our results suggest that family members can behave as either agents or stewards depending on the context of ownership and management and the related socio-emotional attachments of family managers to their firm (Gomez-Mejia et al., 2007). In fact, our results show a significant change in cooperative behavior from first-generation family firms to second- and later-generation family firms. In first-generation firms, intense family bonds between family members may cause them to base business decisions more on family objectives than on firm ones (Schulze et al., 2002, 2003b). Founders possess the strongest socio-emotional attachments with their families, and they generally control business decisions in first-generation family firms. Hence, founders' entrenchment accentuates stewardship toward the family. In second- and later-generation family firms, family managers and the other family owners have their own nuclear families. The dilution of cross-unit family bonds makes family managers less motivated to serve remotely related family owners and more motivated to pursue personal perks rather than the firm's best interest. Thus, in second- and later-generation firms, dispersed family ownership and weaker family bonds between family branches may lead family managers to behave as stewards with their nuclear family and as agents with their other family branches.

Among the limitations of our study, one is inevitable: longitudinal research would require an impracticable timeline. Therefore, we have used cross-sectional methods similar to those employed by Arosa et al. (2010a, 2010b) and Sciascia and colleagues (2014), among others. A second limitation is our assumption that family owners do not have succession plans before 15 years of existence. We did not include these firms in our sample in order to exclude firms whose founders have not already developed an intention to transfer their firm to their successors because these founders may have different strategic choices and performance outcomes (Evans & Leighton, 1989; Lester & Cannella, 2006; Miller et al., 2007; Pindado & Requejo, 2014). Third, our study analyses family firms from a single country: Spain. Recent meta-analyses (O'Boyle et al., 2012; Wagner et al., 2015) have suggested that the cultural context and the legal environment may moderate the influence of family involvement on the performance. Future research should thus test whether our results hold in other geographical settings with varying levels of shareholder protection and family cultural norms. Finally, although our sample is representative of the population in Spain, the large proportion of small and medium firms does not allow us to extend our conclusions to large family firms, which may use a board of directors as a governance mechanism more actively. Research focusing on a sample of large family firms would complement our results.

Many interesting research questions remain unanswered. First, future research may wish to test whether family managers who do not hold any shares behave differently from family owner-managers. Second, the education levels of family managers may vary over generations, and it would be useful to document empirically how this factor affects the relationship between the

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generational stage and the performance. Third, in-depth interviews and case studies would help deepen our understanding of the effects under study. Finally, it would be interesting to analyze another unexplored conflict: that between family managers themselves.

The main managerial implication of our work is that families must be aware that there are differences in objectives and goals not only between family and nonfamily owners but also between family owners who double as managers and family owners who do not and that these conflicts increase as the generations pass. The good news is that families can implement mechanisms (family governance mechanisms and direct control) to counteract these conflicts in second- and later-generation family firms.

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