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VIRGINIA BLANCO-MAZAGATOS
ESTHER DE QUEVEDO-PUENTE
JUAN BAUTISTA DELGADO-GARCÍA

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HOW GENERATIONAL STAGE AFFECTS AGENCY CONFLICT BETWEEN FAMILY MANAGERS AND FAMILY OWNERS

Virginia Blanco-Mazagatos*

Esther de Quevedo-Puente*

Juan Bautista Delgado-García*

Abstract

This study compares the effects on firm returns of family managers' ownership and various governance mechanisms in family firms at different generational stages. We analyze a sample of unlisted Spanish family firms totally owned by a family and find that family managers' ownership benefits firm performance more in second-and-subsequent-generation firms than in first-generation ones. Direct control exercised by family owners over family managers also has a more intense influence on performance of second-and-following-generation firms; in contrast, the effect of family governance mechanisms (succession plans, family protocols, family councils) on firm performance is not related to the firm's generational stage.

Key words: family firm, agency theory, family managers, family owners, governance mechanisms, generational stage.

JEL classification: G32, M00.

Corrresponding author: Virginia Blanco Mazagatos, Departamento de Economía y Administración de Empresas, Facultad de Ciencias Económicas y Empresariales, Universidad de Burgos, Calle Los Parralillos s/n (09001), España. E-mail: vblanco@ubu.es

* Departamento de Economía y Administración de Empresas, Facultad de Ciencias Económicas y Empresariales, Universidad de Burgos.

Introduction

Numerous studies analyzing the effect on performance of family involvement in ownership and management have produced conflicting results (Anderson & Reeb, 2003; Barontini & Caprio, 2006; Cucculelli & Micucci, 2008; Maury, 2006; Miller, Minichilli, & Corbetta, 2013; Sciascia & Mazzola, 2008; Smith & Amoako-Adu, 1999; Sraer & Thesmar, 2007; Villalonga & Amit, 2006). There are various possible reasons for the inconsistencies. First, agency problems in family firms may correspond to management entrenchment. Family manager-owners may be able to extract private benefits from owners who do not participate in firm management (Chrisman, Chua, Kellermanns, & Chang, 2007; Miller, Minichilli, & Corbetta, 2013; Sciascia & Mazzola, 2008). External owners can be either family members or nonfamily owners (Siebels & zu Knyphausen-Aufseß, 2012), but previous research has not distinguished the two types. Most studies have assumed that family members have a common interest in the firm and have focused on the divergence of interest between large (family) and small (nonfamily) shareholders (Claessens et al., 2002; Morck et al., 1988; Villalonga & Amit, 2006). However, family members differ in interests and goals (Sharma et al., 1997), so that conflict of interest may exist also between family managers – family owners who double as managers – and other family owners who do not participate in the firm management (Le Breton-Miller et al., 2011; Miller, Minichilli, & Corbetta, 2013; Siebels & zu Knyphausen-Aufseß, 2012). This entrenchment will impair firm performance (Eddleston & Kellermanns, 2007), so governance mechanisms that regulate entrenchment should improve performance. However, empirical studies on this topic are rare (Siebels & zu Knyphausen-Aufseß, 2012).

Second, family firm research suggests that the growth of the family at each generational stage accentuates the separation of ownership and control between the family managers and a larger group of family owners who perform no management tasks. Not only is ownership more dispersed but also family bonds are weaker both between family members of the same generation and between those of different generations (Gersick et al., 1997; Le Breton-Miller et al., 2011; Schulze et al., 2001; Schulze, Lubatkin, & Dino, 2002). Therefore, generational stage will increase agency conflict between family managers and

external family owners. However, to the best of our knowledge, no previous study has analyzed this issue.

Lastly, previous studies have tested the effect of family management on firm performance using samples of large, quoted firms (Miller et al., 2007) that include shareholders other than family. Such samples dilute the effects of the particular conflict of interest between family managers and other family shareholders in family firms, in which family relations may alter the economic relations common to any organization. The analysis of this potential conflict of interest requires a sample of unlisted firms wholly owned by family members.

Our paper makes three contributions to research on family business performance. First, we analyze whether ownership by family managers aligns their objectives with those of other family owners and improves firm performance. Since additional conflicts of interest between family members and non–family members may also condition firm performance, we consider only family firms wholly owned by family members to avoid other influences on our analyses. Second, we analyze whether governance mechanisms that control the entrenchment of family managers improve firm performance. Third, we analyze whether the effect of either family managers' ownership or governance mechanisms varies with generational stage. In accord with calls for more contextualized research designs (Miller, Minichilli, & Corbetta, 2013), our study is based on questionnaire and database information that includes small and medium-sized family firms in Spain.

The paper is structured as follows. The two following sections analyze the relation between family managers and family owners in order to develop our hypotheses. We then describe the data collection process, the information sources, the variables, and the methods. The next section summarizes the results. In the sixth section, analysis and discussion of the results lead to conclusions. We close by noting the limitations of our study, as well as future lines of research.

The Effect of the Agency Conflict between Family Managers and Family Owners on Firm Performance

According to agency theory (Jensen & Meckling, 1976), the family firm is a special contractual network in which economic relations, common to any organization, coexist with family relations. This duality generates advantages and disadvantages in the agency relation between family managers and family owners. Family managers are highly motivated managers (Ward, 1988). Their expectations of being in office for a long time reduce potentially hazardous moves (Sciascia & Mazzola, 2008). Family bonds between managers and owners can reduce the former's opportunism and therefore improve firm performance. Emotions generated by long-term relations between family owners and family managers may motivate family managers to pursue owners` interests (Chrisman, Chua, & Litz, 2004; Corbetta & Salvato, 2004). Still, as in any firm, separation between ownership and control introduces divergent objectives and information asymmetries between family managers and family owners (Bammens, Voordeckers, & Van Gils, 2008; Galve & Salas, 2003; Miller & Le Breton-Miller, 2006; Schulze, Lubatkin, & Dino, 2003; Thomas, 2009; Van Den Berghe & Carchon, 2003; Vilaseca, 2002), potentially leading to opportunistic behavior by family managers. Increased dispersion of ownership may enable family managers to expropriate current and future cash flows at the expense of family owners not involved in management (Johnson, La Porta, Lopez-de-Silanes, & Shleifer, 2000). Family managers may use the firm to serve their personal interests or those of their immediate family at the expense of other family branches through free riding and shirking, as well as diversion of firm resources to personal use (Bloom & Van Reenen, 2007; Miller, Minichilli, & Corbetta, 2013; Morck, Wolfenzon, & Yeung, 2005; Schulze et al., 2001). Such behavior should be higher for family firms whose family managers own less stock; the higher the family managers' ownership the lower the conflict of interest between managers and shareholders (Jensen & Meckling, 1976), and the higher the family firm's performance.

Hypothesis 1. Ownership by family managers favors family firm performance.

The Effect of Governance Mechanisms on Family Firm Performance

In firms wholly owned by a family group, dispersion of ownership increases the agency conflict between family managers and other family owners; family bonds do not unconditionally guarantee appropriate behavior (Chrisman et al., 2007). Governance mechanisms help to ensure the best effort on the part of family managers (Bartholomeusz & Tanewski, 2006; Siebels & zu Knyphausen-Aufseß, 2012). Research shows three common corporate governance mechanisms used to control agency problems between family owners and family managers: family owners' monitoring of observable behavior (Chrisman et al., 2007), board of directors (Fama, 1980; Jensen, 1993), and various mechanisms specific to family businesses such as succession plans, family protocols, and family (shareholder) councils (Lansberg, 1988, 1999; Kets de Vries, 1993; Neubauer & Lank, 1998; Ward, 1991).

***Hypothesis 2*.** Governance mechanisms favor family firm performance.

Chrisman et al (2007) indicates that family owners monitor family managers on the basis of the information obtained of the activities and performance of family managers trough observable behaviour. In light of this, we expect that

Hypothesis 2.a. Direct control favors family firm performance.

Board of directors is a central institution in the internal governance of a company. Its members provide a key monitoring function over firm managers (Fama, 1980: Jensen, 1993). Thus,

Hypothesis 2.b. The existence of a board of directors favors family firm performance.

Moreover, since family managers and owners are bounded by family ties, the implementation of specific family business governance mechanisms as succession plans, family protocol and family (shareholder) councils would relax

the agency conflict between family managers and family owners. Thus, we expect that

Hypothesis 2.c. Family governance mechanisms favor family firm performance.

Interactions between Family Managers' Ownership and Generational Stage

Since ownership dispersion increases with generational stage, family firm literature has focused on this factor to explain the reduction of firm performance over the generations (Bennedsen et al., 2007; Cucculelli & Micucci, 2008; Morck et al., 1988). However, family bonds also change with generational stage and influence individual attitudes towards cooperation, divergence in objectives, and information asymmetries. The intense family bond of first-generation family firms makes family managers concerned about how their decisions will affect the rents of family members of present or future generations, and the continuous contact between family members minimizes information asymmetries (Harvey, 1999; Karra, Tracey, & Phillips, 2006; Lubatkin et al., 2005; Pollak, 1985; Sundaramurthy, 2008). Both factors increase the cooperative efforts of family members (Jenssen, Mishra, & Randøy, 2001; Van Den Berghe & Carchon, 2003), which will be greater than those they would put into a firm in which they maintained only economic relationships (McConaughy et al., 1998).

Family bonds are weaker for family firms in the second generation (Gimeno, Labadie, Saris, & Mendoza, 2006). The descendants create their own family units and tend to increase their valuation of the current rents that may be enjoyed by these units. Equally, family managers tend to attach less value to the rents of family owners outside the firm's management and to future rents that will go to the extended family (Lubatkin et al., 2005). In addition, lower contact and communication between the different family branches disperse objectives and increase information asymmetries. This progressive weakness of family bonds in every generational stage reduces the managers' motivation to exert effort in promoting cooperation, while it increases their incentives and abilities for opportunistic behavior (Fama & Jensen, 1983; Schulze et al., 2003).

Successive family generations involved in the management of the firm will cater more to their own interests—for example, by consuming nonpecuniary 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 the other family owners or of future family generations. As this conflict of interest increases with generational stage, family manager`s ownership improves firm performance more as the generations advance.

Hypothesis 3. The generational stage of the family firm positively moderates the influence of the family managers' ownership on family firm performance.

Interactions between Governance Mechanism and Generational Stage

The higher agency conflict between family managers and family owners for firms in later generations calls for governance mechanisms to constrain potential opportunistic behaviour. T. M. Pieper, S. B. Klein, and P. 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. Y. Bammens, W. Voordeckers, and A. Van Gils (2008) showed a positive relation between the advancing generational stage of the firm and the number of family board members. They argue that this increase indicates that family members need greater control over the firm's management team as the generations pass. As we have pointed out, the literature on the family firm also acknowledges the existence of other mechanisms such as direct monitoring exercised by family owners over family managers, the succession plan, the family council, and the protocol. Although researchers have not analyzed the relation between these mechanisms and generational change, their influence should increase as the generations advance.

The accepted theoretical arguments coupled with the existing empirical evidence (Bammens et al., 2008; Chrisman et al., 2007; Pieper et al., 2008; Schulze, Lubatkin, Dino, & Buchholtz, 2001) lead us to propose that governance mechanisms that discipline family managers and stimulate communication between family members will improve performance more for firms in later generations.

Hypothesis 4. Generational stage positively moderates the influence of the governance mechanism on family firm performance.

Hypothesis 4.a. Generational stage positively moderates the influence of direct control on family firm performance.

Hypothesis 4.b. Generational stage positively moderates the influence of the existence of a board of directors on family firm performance.

Hypothesis 4.c. Generational stage positively moderates the influence of family governance mechanisms on family firm performance.

Methods

Measure of Family Firm

In the empirical analysis, we used a reasonably broad definition of the family firm (Westhead & Cowling, 1998). A firm was considered as a family firm when more than 50 percent of the equity was owned by a family, and the family had a presence in the firm's management and governance. More than one-third of our sample firms had no board of directors; in these cases, we replaced the criterion of family presence on the board of directors with the identification of the sole administrator, or some of the firm's administrators, as family members. 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. Thus we avoided including those first-generation firms that were created as a means of making a living but without the intention of continuity. We used a questionnaire to collect information on the level of family involvement in ownership, management, and governance, as well as the intention to transfer the firm to the next family generation.

Sample and Information Sources

The SABI[1] database provided the information to select the firms to which the questionnaire was sent. We included only firms with more than 10 employees, eliminating companies that fit the European Commission`s definition of micro-firms (2003/361/EC). This helps to exclude firms that are established as a means of family livelihood, but without the intention of transferring them over the future generations of the family. We also removed firms below 15 years of age; we consider that after 15 years, it is fairly possible that the founder or founders have already developed an intention to transfer the firm to their successors. These two conditions help to select family firms large and old enough so that family owners and family managers may experience asymmetric information and unobservability of behavior (Chrisman et al., 2007). Finally, we selected only unlisted firms, because listed firms will not be wholly owned by family members.

Our work compares family firms at different generational stages. Since the proportions of first-generation and even second-generation family firms are much higher than that of third-and-subsequent-generation ones, we used a random selection to ensure a sufficient number of family firms in each of the generational stages. On the assumption that a generational transfer takes place every 25 years (Gersick, Davis, McCollom, & Lansberg 1997), we independently selected firms between 15 and 25 years old, between 25 and 50 years old, and over 50 years old. After confirming family participation in ownership, management, and governance by using surnames, we sent questionnaires to 9,545 firms. The final classification of the firms as family firms and the identification of the firm's generational stage were done through the information provided in the questionnaire responses.

The questionnaire was pilot tested using four family firms. The surveys were sent by post to the CEO, together with a letter explaining the general purpose of the study, asking the CEO to complete the questionnaire, and promising anonymity. It also included an endorsement letter from the CEO of the association Empresa Familiar Castilla y León (Family Firms of Castilla and

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

León), introducing the researchers and requesting the return of the questionnaires. Four weeks after the first mailing we made follow up calls to the CEOs who had not responded in order to explain the general purpose of the study and to encourage their answers.

A total of 1,056 questionnaires were returned, which represents a response rate of 11.06 percent, similar to rates in previous studies of privately held firms (Classen, Van Gils, Bammens, & Carree, 2012; Dennis 2003; Schulze, Lubatkin, & Dino, 2003; 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 CEO`s answers to the survey`s instrument were combined with archival data, common method bias is limited. In addition, the study`s design minimizes the problem of common method variance because all the self-reported data are of "factual type" (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). We rejected 275 questionnaires that were incomplete or represented nonfamily firms, leaving a total of 781 usable questionnaires. We found no differences between firms included in the sample and those excluded in either performance ($p>0.10$) or size ($p>0.10$). We also found no differences in performance or size among survey responses between early and late respondents, suggesting no response bias. We repeated these analyses for each possible generational subsample (each 25-year group), and again found no differences in performance or size between responding and nonresponding firms and no differences in survey responses between early and late respondents, suggesting that there was no nonresponse bias in any generational subsample.

We then eliminated 483 questionnaires because the firm had no family owners other than its managers, and would therefore not be subject to any agency conflict between family owners and family managers (Chrisman et al., 2007). Lastly, we excluded firms not totally owned by a family. Our final sample

comprises 230 family firms: 52 first-generation, 127 second-generation, and 51 third-and-subsequent-generation family firms.

Variables

(a) Dependent Variable

The dependent variable is return on assets (ROA), defined as the ratio of earnings before interest and taxes to total assets. Information was obtained from the SABI database. ROA has been frequently used to analyze the family involvement in firm performance (Anderson & Reeb, 2003; Miller, Minichilli, & Corbetta, 2013).

(b) Independent Variables

We employed the information from the questionnaire to calculate the family managers` ownership, to identify its governance mechanisms, and to determine the firm's generational stage.

Family managers` ownership. Given that the propensity of family managers to expropriate owners diminishes as the former's ownership increases (Bammens et al., 2008; Jaskiewicz & Klein, 2007; Pieper et al., 2008; Schulze et al., 2003), we measured the percentage of family managers' ownership as an independent variable.

Governance mechanisms. We measured three governance mechanisms. We included the variable *direct control*, used by J. J. Chrisman and colleagues (2007). The 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 with 1 indicating that the monitoring procedure was never used and 5 indicating that the monitoring procedure was used very often.

As Chrisman and colleagues argue, different monitoring methods may be complements or alternatives. They will be complements if the information gathered by each method is incomplete and does not wholly overlap that

gathered by another approach; they will be alternatives if sufficient redundancy exists in the information gathered. Thus, a family firm`s choice not to use a particular monitoring method would not indicate an absence of monitoring; an overall measure of monitoring is needed. We averaged the five items to yield such a construct. The factor analysis confirmed the unidimensional nature of the construct.

Second, we included the variable *board of directors.* This dummy variable takes the value 1 when a firm has a board of directors and 0 otherwise. We did not introduce variables relating to the composition and size of the board of directors, as only 58 percent of firms in the sample had a board at all, so the number of observations for some of the generational stages was too small to subdivide.

Finally, family firms need to establish specific governance mechanisms to regulate the family (Mustakallio et al., 2002). The variable *family governance mechanisms* measures the existence of a family council, a written succession plan, and a family protocol. As for the direct control scale, we averaged the three items to create an overall family governance construct. Factor analysis confirmed the unidimensional nature of the construct.

Moderator Variable: Generational Stage of the Firm

To test the moderation effect of the generational stages, we employed three dummy variables indicating whether the family firm was a first-, second-, or third-and-subsequent-generation firm. The classification of the firm's generational stage was done through the information provided in the questionnaire responses. 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 family member, we assigned the firm to the oldest generation that participate in its management.

(c) Control Variables

Firm size is measured as the total number of employees. We also controlled for *firm debt,* measured as total debt over total assets. We controlled for industry effects by including eight dummy variables that covered the industry in which

the firm operated, using the *Clasificación Nacional de Actividades Económicas* (CNAE-1993 Revisado [National Classification of Economic Activities]). 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.

Results

Table 1 presents the correlation matrix. None of the coefficients is high, indicating no problems of multicollinearity.

Table 1. Correlations Matrix

VARIABLE	ROA	Size	Debt	First generation	Second generation	Third or subsequent generations	Family managers ownership	Direct control	Board of directors	Family governance mechanisms
ROA	1									
Size	0.101	1								
Debt	-0.168**	0.177**	1							
First generation	0.038	-0.056	0.062	1						
Second generation	-0.106	-0.154*	-0.026	-0.584**	1					
Third or subsequent generations	0.089	0.237**	-0.032	-0.295**	-0.604**	1				
Family managers ownership	0.084	-0.088	0.002	0.260**	-0.026	-0.225**	1			
Direct control	0.161*	0.087	-0.043	0.073	-0.061	0.000	-0.111	1		
Board of directors	0.126	0.195**	-0.045	-0.087	-0.033	0.124*	0.004	0.039	1	
Family governance mechanisms	0.185**	0.196**	-0.021	0.001	0.000	-0.001	0.047	0.148*	0.196**	1

* p<0.005
** *p<0.01*

To test the first and second hypotheses we conducted an OLS analysis. To test the third and fourth hypotheses we used Moderated Multiple Regression (MMR). The moderator effect, also known as the interaction effect, occurs when the intensity of the relationship between a dependent variable and an independent variable is affected by another independent variable. In order to test a moderator effect through a Moderated Multiple Regression (MMR), one must formalize the interaction as the product of the independent variables and then add it to the regression analysis. Thus, the regression equation must first

include the independent variables, in order subsequently to add their interaction (Aguinis, 2004; Aiken & West, 1991; Cohen & Cohen, 1983).

In this way, the independent variables were entered into the regression equations in two steps. The independent variables were introduced in model I, which covers the principal effects. We used the variable "family managers` ownership" to test the first hypothesis and the three variables representing the governance mechanisms to test the second hypothesis. Model II presents the interaction with generational stage to test the third and fourth hypotheses.

Because we used three dummy variables to measure generational stage, we used a particular case of moderated regression with presence of nonmetric variables (Hardy, 1993; Wooldridge, 2000). We selected the dummy variable "second generation" as the reference category and introduced "first generation" and "third and subsequent 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). Hence, choosing the second generation, we can compare the agency conflict between firms of the first and second generations and between firms of the second and third and subsequent generations.

One problem in the analysis of moderated regression is that the interaction term may introduce multicollinearity into the model, as that term combines two variables already in the model. To minimize the effects of multicollinearity, we performed the regression analyses with standardized independent variables (Aiken & West, 1991). In addition, once the analysis had been carried out, we calculated the variance inflation factor (VIF), which was within acceptable limits (less than 10) for all regressions, indicating an absence of multicollinearity.

In Table 2, model I, which covers the principal effects, shows a significant and positive coefficient of family managers` ownership (B=0.120; p<0.1), indicating that family manager´s ownership improves performance in the family firm. This finding supports our first hypothesis. While the existence of a board of directors has no significant effect on ROA, direct control exercised by

the family owners over the family managers (B=0.142; p<0.05) and the family governance mechanisms (B=0.158; p<0.05) do show significant and positive relations with ROA. Hence hypotheses 2a and 2c were supported.

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

	ROA			
	Model I		Model II	
Family managers` ownership * First generation			-0.199	**
Family managers` ownership * Third or subsequent generations			0.044	
Direct control * First generation			-0.359	**
Direct control * Third or subsequent generations			-0.054	
Board of directors * First generation			-0.015	
Board of directors * Third or subsequent generations			-0.035	
Family governance mechanisms * First generation			-0.098	
Family governance mechanisms * Third or subsequent generations			-0.128	
Family governance mechanisms	0.158	**	0.250	**
Board of directors	0.081		0.074	
Direct control	0.142	**	0.240	**
Family managers` ownership	0.120	*	0.200	**
Third or subsequent generations	0.103		0.271	
First generation	0.020		0.455	**
Debt	-0.219	***	-0.207	***
Size	0.146	**	0.173	**
Industry dummies	yes		yes	
N	230		230	
R^2	0.220		0.278	
F	4.032	***	3.473	***
gl	(15, 215)		(23, 207)	
ΔR^2			0.059	**
ΔF			2.111	**
gl			(8, 207)	

*** p<0.01;**p<0.05;*p<0.1.

In model II (Table 2), the significance of R^2 change (ΔR^2=5.9%; ΔF=2.111; p<0.05) demonstrates second-order moderator effects (Aguinis, 2004; Hair, Anderson, Tatham, & Black, 1995; Jaccard, Turrisi, & Wan, 1990).

These effects are relevant, given that the significant increase in variance is greater than 1 percent (Aguinis, 2004; Evans, 1985). The interactions of “family managers` ownership” with “first generation” and with “third and subsequent generations” serve to test our third hypothesis. The coefficient of the interaction term between “family managers` ownership” and “first generation” is significant and negative (B=-0.199; p<0.05), indicating that family managers` ownership has less influence on ROA in first-generation firms than in second-generation ones. The coefficient of the interaction term between “family managers` ownership” and “third and subsequent generations” is not significant, suggesting that the effects of family managers` ownership on ROA are similar for second-generation firms and third-and-subsequent-generation ones. These results partially support the third hypothesis, which suggested that generational stage positively moderates the influence of the family managers’ ownership on family firm performance.

Regarding the fourth hypothesis, the coefficient of interaction between “direct control of family owners over family managers” and “first generation” is significant and negative (B=-0.359; p<0.05), whereas the coefficient of interaction between “direct control” and “third and subsequent generation” is not significant. That is, direct control has a more positive effect in second and subsequent generations. The coefficient of interaction between “family governance mechanisms” and “first generation” is not significant, nor is the coefficient of interaction between “family governance mechanisms” and “third and subsequent generations.” Hence, generational stage does not moderate the positive effect of the family governance mechanisms on family firm performance. Finally, “existence of a board of directors” shows no significant relation with ROA or with the variables relating to generational stage. These findings only support hypothesis 4a, which suggested that generational stage positively moderates the influence of direct control on family firm performance.

Additional Analyses

In order to evaluate in detail the effect of family managers’ ownership and the governance mechanisms on performance, models were run introducing only the first generation variable of the three dummy generation variables. Hence, we can compare first against following generation’s family firms. These results are

similar to the results on table 2. Indeed, in Table 3, model I shows a significant and positive coefficient of family managers` ownership (*B*=0.106; *p*<0.1), of direct control exercised by the family owners over the family managers (*B*=0.140; *p*<0.05) and of family governance mechanisms (*B*=0.152; *p*<0.05). However, the existence of a board of directors has no significant effect on ROA.

Table 3. Results of Moderated Hierarchical Regression. Comparison of First vs following generations

	ROA			
	Model I		Model II	
Family managers` ownership * First generation			-0.202	**
Direct control * First generation			-0.368	**
Board of directors * First generation			-0.009	
Family governance mechanisms * First generation			-0.049	
Family governance mechanisms	0.152	**	0.170	**
Board of directors	0.083		0.061	
Direct control	0.140	**	0.244	***
Family managers` ownership	0.106	*	0.208	**
First generation	-0,003		0.401	**
Debt	-0.227	***	-0.220	***
Size	0.171	**	0.183	**
Industry dummies	yes		yes	
N	230		230	
R²	0.211		0.257	
F	4.122	***	4.067	***
gl	(14, 216)		(18, 212)	
Δ*R²*			0.046	**
ΔF			3.269	**
gl			(4, 212)	

*** p<0.01;**p<0.05;*p<0.1.

In model II (Table 3), the significance of R^2 change (ΔR^2=4.6%; ΔF=3.269; p<0.05) is significant. In this model, the coefficient of the interaction term between “family managers` ownership” and “first generation” is significant and negative (*B*=-0.202; *p*<0.05), indicating that family managers` ownership has less influence on ROA in first-generation firms than in following generation ones. The coefficient of interaction between “direct control of family owners over family managers” and “first generation” is significant and negative (*B*=-0.368;

p<0.05) confirming that direct control has a more positive effect in second and subsequent generations. Finally, the coefficient of interaction between "family governance mechanisms" and "first generation" is not significant neither the coefficient of interaction between "existence of a board of directors" and "first generation". We also divided the sample into two subsamples: (1) first-generation family firms and (2) family firms in second and subsequent generations.

Table 4. Results for First-generation Subsample

	ROA	
Family governance mechanisms	0,099	
Board of directors	0.074	
Direct control	-0.257	
Family managers` ownership	-0.218	
Debt	-0.155	
Size	0.194	
Industry dummies	yes	
N	52	
R^2	0.389	
F	1.911	**
gl	(13,39)	
*** p<0.01;**p<0.05;*p<0.1.		

Table 5. Results for Second-and-Following-Generations Subsample

	ROA	
Family governance mechanisms	0.170	**
Board of directors	0.054	
Direct control	0.222	**
Family managers` ownership	0.199	**
Debt	-0.227	**
Size	0.205	**
Industry dummies	yes	
N	178	
R^2	0.284	
F	4.994	***
gl	(13,164)	
*** p<0.01;**p<0.05;*p<0.1.		

Table 4 reports the results for the first-generation subsample, and Table 5 reports the results for the remaining firms. All the variables have a nonsignificant effect on performance in the first-generation subsample. However, in the other subsample, "family managers' ownership" (B=0.199; p<0.05), "direct control of family owners over family managers" (B=0.222; p<0.05), and "family governance mechanisms" (B=0.170; p<0.05) do have significant positive effects on performance. These findings reveal that the conflict between family managers and owners appears after the first succession and that when it does, governance mechanisms improve performance.

Conclusions

In the present study we have centred in the agency conflict between family managers and family owners in different generational stages. Our results suggest that generational stage, together with dispersion of ownership, influences the agency conflict between family managers and family owners. These results are consistent with studies finding that family management exerts a positive influence when the CEO is the founder but destroys value when the CEO is a descendant of the founder (Anderson & Reeb, 2003; Sraer & Thesmar, 2007; Villalonga & Amit, 2006).

In first-generation family firms all the family members belong to a single affective core, so that family managers take into account the effects of their decisions not only on their own rents, but also on the rents of other family owners and their descendants. Moreover, the family ties in first-generation family firms give rise to a dense social network that reduces information asymmetries. However, in second-generation family firms, family members create their own family units and their cross-unit affective ties relax, so that family managers focus on current rents and those of their own unit. The comparison between second and third and subsequent generation does not show significant impact on the firm performance. This finding suggests that despite the growth of the family tree in third and subsequent generations, this general condition still obtains: there are loosely affiliated family units with separate objectives.

Regarding the positive influence of direct control, our results are consistent with the study of J. J. Chrisman and colleagues (2007) that argue that family firms that monitor family managers have better performance. Chrisman and colleagues (2007) indicate that it would be interesting to further explore the capability to modulate the cooperative behavior of family managers in different business stages. Our results suggest that the control exercised by family owners stimulates family managers especially in the second and subsequent generations.

Family governance mechanisms benefit the performance of the family firm, but surprisingly this effect does not increase in intensity as the generations advance. Family governance mechanisms can be considered preventive control mechanisms so that they limit the behavior of the family members in advance and do not change with the intensity of the conflict. However, direct control is an interactive mechanisms and its intensity may adapt to the intensity of the conflict (Chrisman et al. 2007).

Lastly, our results are consistent with arguments that the presence of a board of directors does not guarantee active use of this governance mechanism in the small family firm (Danco & Jonovic, 1981; Ward, 1991).

Our paper makes several contributions. First, our paper analyses an unexplored agency relation, the agency problem between family owners that are managers and other family owners that do not participate in the management of the firm. Previous studies have not distinguished family and non-family external owners although the relation between family managers and family owners is one of the most frequent agency conflict in non-listed family firms. Second, we identify generational stage as a factor that, together with the dispersion of ownership, influences the agency conflict between the family managers and family owners of the family firm. In family firms two types of governance mechanisms are needed to control conflict: business and family governance mechanisms. Our findings also suggest that, owing to the complex contexts of family firms, family business research needs to discriminate between different “types” of family firms (Miller, Minichilli, & Corbetta, 2013) – including firms in different generational stages. Finally, the results of this study contribute to knowledge concerning agency and stewardship relationships in the

family firms. Literature has traditionally focused on agency theory (Schulze et al., 2003) or stewardship theory (Corbetta and Salvatto, 2004). Chrisman and colleagues (2007) considered both theories and their results were more supportive of the presence of agency relationships. However, they argue that the relationship between family owners is much more complex and family managers may behave alternatively as stewards or agents in different stages of the family firm's life. Our results reveal that in first generation family firms family managers will behave more likely like stewards because the intense family bonds favours the cooperative effort of family managers who will behave in the organization best interest. In second and following generation family firms the dilution of family bonds makes family managers less motivated to serve remotely related owners and more motivated to pursue personal perks rather than the firm's best interest. Thus, in second and following generations family managers may behave as agents.

The main implication of our findings for the management of the family firm is that when the founders face the first succession they must design mechanisms to counteract possible agency conflict between family managers and family owners. Especially, they should be aware that family firms can support direct control over family managers, and that family firms also need family governance mechanisms to control harmful conflicts.

Our paper has several limitations. A longitudinal study may in theory provide evidence of the evolution of family managers' ownership influence on firm performance over the course of generations, but would require an impracticable research timeline; on this topic researchers are limited to cross-sectional studies. Also, although our sample is representative of the population, the large proportion of small and medium firms does not allow us to extend our conclusions to large family firms, which may more actively use the board of directors as a governance mechanism. Research focusing on a sample of large family firms would complement our results. It would be interesting to analyze another as yet unexplored conflict, that between family managers themselves. Finally, conducting in-depth interviews and even using a case-study method would help to deepen our understanding of the effects under study.

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