

Board Composition in Small and Medium-Sized Family Firms

Peer-reviewed author version

VOORDECKERS, Wim; VAN GILS, Anita & VAN DEN HEUVEL, Jeroen (2007)
Board Composition in Small and Medium-Sized Family Firms. In: Journal of small
business management, 45(1). p. 137-156.

DOI: 10.1111/j.1540-627X.2007.00204.x

Handle: <http://hdl.handle.net/1942/1529>

Board Composition in Small and Medium Sized Family Firms.

Wim Voordeckers, Anita Van Gils, Jeroen Van den Heuvel

Corresponding author: Wim Voordeckers
Hasselt University
KIZOK Research Center
Agoralaan – Building D
3590 Diepenbeek
BELGIUM
Tel.: +32 11 268613
Email: wim.voordeckers@uhasselt.be

Bio's of the authors are in the footnote of the next page!

Board Composition in Small and Medium Sized Family Firms*.

Wim Voordeckers, Anita Van Gils, Jeroen Van den Heuvel

This study focuses on the determinants of board composition in Belgian small and medium-sized family firms. It extends the empirical literature on board composition in private small and medium sized family enterprises by integrating several dimensions of the ‘family component’ in the research model. Furthermore, using a multinomial logit model, we examine in which circumstances family firms opt for (1) a family board, (2) an inside board or (3) an outside board. Results suggest that family related contingency variables are far more important than CEO related or control variables, giving support to the argument that board composition in family firms is a reflection of the family characteristics and objectives. Moreover, the results suggest that a resource dependence and added value perspective explain more of the variation in board composition than agency considerations.

* Dr. Wim Voordeckers is associate professor in Research Center KIZOK at Hasselt University. His research interests include small business finance and governance in small and medium-sized family firms.

Dr. Anita Van Gils is assistant professor in the Organization and Strategy Department at Maastricht University. Her research interests include strategic alliances, entrepreneurship and governance in small and medium-sized as well as family firms.

Jeroen Van den Heuvel is Ph.D. student in Research Center KIZOK at Hasselt University. His research interests include corporate governance in small and medium-sized family firms.

The authors would like to thank Clifford Smith (the reviewer), William Jackson (the special issue editor), and the participants at the 2005 Office Depot Small Business Research Forum for comments and advice made on earlier versions of this paper. The authors gratefully acknowledge the financial support of the ‘Instituut voor het Familiebedrijf’. We especially thank Mr. J. Lievens, co-founder and executive director for the guidance and discussions during the research project.

Introduction

Family firms represent the majority of all businesses in countries around the world (Astrachan and Shanker 2003; IFERA 2003). They occupy an important economic position within most of these nations as they provide extensive contributions to worldwide economic production, employment and wealth creation (La Porta, Lopez-de-Silanes, and Shleifer 1999; IFERA 2003). Most of these family firms can be categorized as small or medium-sized (Donckels and Fröhlich 1991; Corbetta and Montemerlo 1999).

Despite the fact that worldwide the majority of firms are family firms, the ‘family component’ has often been neglected in organizational research (Dyer 2003). Recently, several scholars concluded that omitting the family as a variable in organizational research can lead to incomplete and misleading findings. For example, altruism makes agency relationships in family firms different from those found in other organizational forms (Gómez-Mejia, Nuñez-Niekel, and Gutierrez 2001; Schulze, Lubatkin, Dino, and Buchholtz 2001; Dyer 2003).

Within the organizational research area, corporate governance research is one of the topics receiving increased attention. The vast amount of research concentrates on the board of directors. In the past, the majority of these studies focused on board practices in large public firms, as boards in these firms act as watchdogs in order to align managers’ interests with the shareholders’ interests. Moreover, many research projects examined the board-performance relationship. Although these studies demonstrated mixed results (Daily, Dalton, and Cannella 2003), researchers and managers acknowledge the importance and added value of well-functioning boards of directors in smaller private firms. Johannisson and Huse (2000) and Forbes and Milliken (1999) argue that boards may even have a more important role in smaller

than in larger incorporated firms. In unquoted family firms, the added value of boards is reflected in several potential board roles including strategy development and control (Nash 1988; Gabrielsson and Winlund 2000), general and technical advice and counsel (Ward and Handy 1988), arbitration among family members (Whisler 1988), networking (Schwartz and Barnes 1991; Borch and Huse 1993; George, Wood and Khan 2001) and disciplining of management (Johannisson and Huse 2000). Nevertheless, research focusing on boards of directors in small and medium-sized (family) firms is considered to be in its infancy and a promising avenue for future research (Forbes and Milliken 1999; Huse 2000; Gabrielsson and Huse 2002; Hermalin and Weisbach 2003).

Among the different dimensions of boards of directors, board composition is one of the most fundamental, accounting for the majority of research efforts on boards (Zahra and Pearce 1989). The number of articles studying board composition, the affiliation of directors and the distinction between inside and outside boards is overwhelming (Finkelstein and Hambrick 1996; Johnson, Daily, and Ellstrand 1996). Recently, two of these studies examined the determinants of outside directors involvement in private firms using a multivariate model (Westhead 1999; Fiegner, Brown, Dreux, and Dennis 2000a). Neither of these studies specifically focused on the determinants of board composition in small and medium-sized *family* firms. This is a surprising finding given the fact that the board in a private family firm context may fulfil several important roles with a likely positive influence on performance. Furthermore, only evidence in an Anglo-Saxon environment seems to be available at this moment.

Based on these observations, the objective of this study is to investigate the determinants of board composition in small and medium-sized family firms. Our

paper extends the empirical literature on board composition in private small and medium-sized firms by integrating several dimensions of the ‘family’ component in the model, following the arguments of Dyer (2003) and Corbetta and Salvato (2004). First, this paper adheres to the argument that the traditional distinction between inside and outside boards is not sufficiently all-encompassing to study boards in family firms, as several types of inside boards exist such as a board solely composed of family members or a board with family and non-family managers. Therefore, the inside-outside board classification is replaced by a threefold distinction, building on the categories and subcategories as proposed by Schwartz and Barnes (1991) and Finkelstein and Hambrick (1996). Second, to guide and structure the determinants, we used a contingency perspective on family firm boards of directors (Corbetta and Salvato 2004). Hence, several family-related contingency variables are included in our empirical model. Corbetta and Salvato (2004) point out that a general tendency exists in family firm literature to present descriptions and prescriptions as valid for all family firms although no two family firm problems are similar. They argue that board composition variables should be linked to variables that simultaneously define different family business types, and bear relevance in determining governance needs. Following this argument, this study covers succession planning, generational issues, family size and family firm objectives.

Besides the inclusion of family-related contingency variables, several CEO-related contingency variables are included as well. Previous studies found that the balance of CEO-board power in small private firms is expected to tilt toward the CEO (Westhead 1999; Fiegenger, Brown, Dreux, and Dennis 2000b). For this reason, we also include CEO-related contingency variables and study their influence on board composition.

This paper proceeds as follows. In the first part, an overview is given of the key theoretical developments concerning board composition and board roles. Subsequently, research hypotheses are formulated with regard to the adoption of different types of boards in small and medium-sized family firms. The third part discusses the empirical methodology and the sample selection. Next, the results of the multinomial logit regression model are presented and analysed. Finally, a discussion of the results concludes the paper.

Literature review

Theoretical perspectives on boards

Board composition can be described as the definition of the affiliation of each director with the firm (Finkelstein and Hambrick 1996). An important dimension in this discussion is the level of director independence, grounded in agency theory (Johnson et al. 1996). Agency theory focuses on the control function of the board. This theory treats the company as a nexus of contracts through which various participants transact with each other (Jensen and Meckling 1976). As assets are the property of the shareholders, a principal-agent problem may arise because managers have to make decisions concerning the productive use of these assets. Installing a board of directors with independent non-executive directors can be an effective instrument to cope with this problem and decrease agency costs (Fama and Jensen 1983). Independent outside directors are expected to monitor management's self-interest more effectively than dependent directors.

This agency problem seems less important in private family firms because property rights are largely restricted to internal decision agents. A recent stream of

literature (Gómez-Mejia et al. 2001; Schulze et al. 2001; Arthurs and Busenitz 2003; Dyer 2003; Morck and Yeung 2003; Schulze, Lubatkin, and Dino 2003; Steier 2003) scrutinize the family factor within agency theory. These studies indicate that agency problems and relations in family firms seem to have a different origin than usual agency relationships in non-family firms. Schulze et al. (2003) state that altruism can alter the incentive structure of a firm in such a way that some of the agency benefits gained are offset by free riding and other agency problems. Furthermore, the combination of private ownership and family management results in a web of incentives that is likely to undermine a family firm's governance. For both family and non-family firms, the adoption of an outside board of directors could reduce agency costs or costs resulting from altruistic behavior because of their expected higher degree of independence.

Besides agency theory, several other theoretical perspectives have been used in order to explain the composition of the board of directors. Among these theories are the resource dependence theory (Pfeffer and Salancik 1978; Hillman, Cannella, and Paetzold 2000), stewardship theory (Davis, Schoorman, and Donaldson 1997), institutional theory (Di Maggio and Powell 1983) and social network theory (Gulati and Gargiulo 1999). No one theory seems to be superior to another. A multitheoretical view is obvious as each theory may be partly suitable in any given situation (Lynall, Golden, and Hillman 2003; Corbetta and Salvato 2004; Roberts, McNulty and Stiles 2005). Based on these theories, authors deducted several sets of *interrelated* and *integrated* roles (Hillman and Dalziel 2003; Huse 2005) that directors may fulfill, such as the strategy and networking role (Daily and Dalton 1992; Pearce and Zahra 1992; Johnson et al. 1996; McNulty and Pettigrew 1999; Hillman et al. 2000; Golden and Zajac 2001; Stiles 2001).

The strategy role, defined as directors' involvement in defining the firm's business concept and mission and the selection and implementation of a company strategy (Pearce and Zahra 1992) or more specific as directors' provision of advice and counsel to the CEO (Johnson et al. 1996), may be especially important in smaller and entrepreneurial firms (Huse 1990; Daily and Dalton 1992; Daily and Dalton 1993; Gabrielsson and Winlund 2000). According to Dyer (1986) and Whisler (1988), the knowledge input of boards of directors can be very valuable during life-cycle changes and leadership and generational succession in family firms.

An assessment of the general literature on board roles indicates that the *networking role* is closely related to resource dependence theory. For example, Johnson et al. (1996, p. 427) describe the resource dependence role of board of directors as "one of a number of instruments that management may use to facilitate access to resources critical to the firm's success". For example, a critical factor of growth within small and medium-sized family firms is the access to external financing sources. From a resource dependence perspective it is clear that an outside director can fulfill the boundary spanning role by directly or indirectly helping small and medium sized enterprises in accessing the external financing market.

Based on the different roles directors have to fulfill within a private family firm context, one can conclude that not the independence of an outside director is important but rather the *added value* to the firm. Hence, board composition and especially the adoption of outside directors should then be driven by the governance, resource, advice and information *needs* of the firm (Grundei and Talaucar 2002).

Board composition

Although in most studies, outside director representation is used as a measure of board composition and independence of directors (Pearce and Zahra 1992; Johnson et al. 1996), several other affiliations have been described in board literature. Finkelstein and Hambrick (1996) differentiate between inside directors, outside directors, affiliated directors and family directors. Pearce and Zahra (1992) discuss the importance of two groups of outside directors, namely affiliated and non-affiliated. Focusing on small private firms, Fiegner et al. (2000b) used almost the same categorization but distinguish between ‘owner directors’ and ‘non-owner directors’ within the outside director category. Concentrating on family firms, Schwartz and Barnes (1991), differentiated between three kinds of inside boards as opposed to outside boards (differentiated in number of outsiders): (1) all-family boards, (2) family-management boards, containing at least one family member and at least one representative of company management, and (3) quasi boards with at least one professional or retired company executive added to family and manager-directors. Furthermore, Ward and Handy (1988) present a typology of board composition which may include several board roles. They differentiate between (1) outside boards with subcategories ideal board, majority board, advisory board and minority board, (2) inside boards with subcategories family board, management board and shareholder board and (3) token boards.

The last two categorizations clearly show that board composition research in family firms solely concentrating on the traditional distinction between inside versus outside boards neglects the fact that generally two types of inside boards exist: (1) those solely composed of family members and (2) those composed of family members and non-family managers. Therefore, in this study, we included different categories of

director affiliation other than the traditional inside/outside board distinction. More specific, we differentiate between family boards, inside boards and outside boards¹. The main argument behind this classification is the proposition that the transition to professional management in small family firms - as reflected in board composition (Whisler 1988; Dyer 1989; Fiegener et al. 2000a) - evolves more gradually than the 'sudden' adoption of outside directors. Both an internal mixed (inside) board as well as an outside board can solve the need for guidance and strategic advice. Dyer (1989 p.232) states that the inclusion of "key professional managers on the board of directors can be a good way to gain their input as well as to teach them how the family feels about the business". Furthermore, from a stakeholder perspective, the inclusion of key professional managers may be a way for stakeholder interests to be directly represented in important strategic decisions (Luoma and Goodstein 1999) of the family firm. From this point of view, inside boards can be considered as a separate category - somewhere in-between family and outside boards - and a first step towards a higher degree of professionalising. In the next section, hypotheses are developed concerning the influence of CEO and family related contingency variables on the adoption of these three defined categories of board composition.

Hypothesis development

Because our dependent variable consists of three categories, three different comparisons can be made. As previously argued, inside boards can be considered as a category in between family and outside boards. For some variables under study, inside boards seem to be very similar to family boards. For other variables, it can be argued that they are very close to outside boards. Each hypothesis refers to one of the two

¹ Definitions are presented in the Measures section.

relevant comparisons. When a family board is expected to differ from both an inside and outside board for a specific variable, these two latter boards are referred to as ‘non-family board’ in the hypotheses. When hypotheses are referring to ‘outside boards’, family and inside boards are considered to be very similar and are one category as opposed to outside boards

CEO characteristics

Because the CEO is often the dominating person in family firms (Westhead 1999; Fiegener et al. 2000a; Feltham, Feltham and Barnett 2005), this study focuses on the relationship between board composition and two important CEO characteristics: CEO power and CEO education.

In the majority of small and medium-sized firms, CEO power is expected to be the main determinant of board composition and board roles (Fiegener et al. 2000b). Especially in family firms, a powerful CEO can affect the functioning of the board and may be heavily involved in the selection process of directors and managers (Finkelstein and Hambrick 1996) and the CEO succession process. Furthermore, a powerful CEO may be able to take the chair position on the board (Finkelstein and d’Aveni 1994). For Fortune 500 firms, Shivdasani and Yermack (1998) illustrated that CEO involvement in the selection of new directors results in the appointment of fewer independent outside directors. Hence, outside directors could be a threat to the decision power of the CEO. This effect is likely to be more prevalent in small private firms, especially in the presence of CEO duality.

Furthermore, many studies include CEO tenure as an indication of CEO power (Shen 2003). As executives’ tenures advance, their power increases due to the development of a patriarchal aura or the accumulation of shareholdings (Miller 1991),

which is often the case in small and medium sized family firms. From another point of view, CEOs with a long tenure in one company may have limited perspectives and may not appreciate several of the benefits by which outside directors can add value to the firm (Westhead 1999).

H1: The greater the CEOs power in family firms, the lower the likelihood of having an outside board.

A significant body of research (Finkelstein and Hambrick 1996) suggests that the characteristics of organisations - such as board composition – are dependent upon the education of senior managers. Therefore, in family firms, the level of education of the CEO - as the dominant person in the firm - is expected to be related to board composition. This relationship can be explained from a resource dependence perspective. The board in small and medium-sized family firms is a resource through its network, counselling and advising activities. A CEO with a higher level of education is more likely to partly substitute for these board activities due to increased cognitive abilities. Consequently, the likelihood that outsiders or non-family managers are employed as director is lower when a CEO has a higher level of education.

H2: The higher the level of education of the CEO, the lower the likelihood of having a non-family board.

Family complexity

Family complexity emerges in several aspects of the family firm. We include the issues of succession planning, generational issues and family size.

The fact that *succession* seems to be the primary concern in family firms (Chua, Chrisman, and Sharma 2003) is reflected in the majority of the family firm literature investigating aspects of the succession process (Wortman 1994). The succession process in a family firm is often accompanied with a power struggle (Barnes and Hershon 1994). The inclusion of outsiders at the board may help to guide this process and to prevent irreparable family rifts and company stagnation. Outside directors may fulfil the role of arbitrator within the board and provide a forum for discussion and conflict resolution (Whisler 1988). Based on these arguments, we expect family firms near a generational change to adopt outside directors. In addition, Fiegener et al. (2000a) argue that CEOs near retirement reduce their involvement in the company. Therefore, they become more dependent on the board. Non-family insiders are expected to play a role too in the succession process. Hermalin and Weisbach (1988) found that firms near CEO retirement tend to add inside directors to their board.

H3a: Family firms, which are near a generational transition, are more likely to have a non-family board.

Similar arguments apply to the *generation* and the *number of family members employed*. When more family members are active in the firm, the likelihood of opposite opinions and objectives increases, thereby increasing the need for outside arbitration. Furthermore, when families age and a new generation takes over the key

management positions in the firm, the risk of intra-family conflict augments (Schulze et al. 2003). Schulze et al (2003) argue that the degree of intra-family conflict depends on the generation in charge. According to these authors, agency problems seem to be more prevalent with sibling partnerships than with a cousin consortium. In this last structural form, ownership is most likely to be passed to outside family members which are less overinvested in the family firm so that their risk preferences are more akin to outside investors in public firms. Hence, these family members are expected to behave more as a diversified investor, mitigating agency problems compared to sibling partnerships. In addition, Westhead, Howorth and Cowling (2002) state that the structural form of the family firm will change in case a generational transition takes place. Complexity may be increasing as well as decreasing, depending on changing ownership. In their empirical study, they found that a larger proportion of multi-generation firms employ non-executive directors.

Fiegener et al. (2000b) link CEO generational stakes to board composition. They point out that first-generation CEOs compose a more dependent board than non-founder CEOs because they have a stronger emotional need to protect their discretion. Opposing arguments - against outside directors in multi-generation family firms - are presented by Westhead et al. (2002). They argue that outside directors may focus too much on the financial performance of the firm rather than upon the non-pecuniary objectives of family members. Overall, we conclude that outside directors can provide family firms with arbitration (Whisler 1988), new expertise and experience to cope with increasing structural form complexity. We therefore postulate the following hypotheses:

H3b: Multi-generation family firms are more likely to have an outside board.

H3c: Family firms with more family members employed are more likely to have an outside board.

Family firm objectives

Family firms differ in their objectives from non-family firms. Owner-managers of family firms usually have a stronger influence on the definition and implementation of firm objectives (Tagiuri and Davis 1992). Therefore, objectives related to family issues such as maintaining family control, financial independence of the family, family harmony and family employment tend to be far more important than traditional business objectives such as value/profit maximization, growth and innovation (Donckels and Fröhlich 1991; Sharma, Chrisman, and Chua 1997; Westhead 1997; Upton, Teal, and Felan 2001). Other authors (Birley and Sorenson 1995; Leenders and Waarts 2003) emphasize that objectives may also vary within the family firm population. Furthermore, in multigenerational firms, objectives become more diverse as families expand (Ward 1997), indicating the dynamics of objectives in family firms. From these arguments, we conclude that a stronger focus of the firm on objectives related to family issues as opposed to business objectives will have a negative influence on the employment of outside directors. Family firms that focus more on business objectives are more likely to employ outside directors. Therefore, we postulate the next hypothesis:

H4a: Family firms with a strong focus on family related objectives are less likely to have an outside board.

H4b: Family firms with a strong focus on business-oriented objectives are more likely to have an outside board.

Research Method

Sample

The empirical data used in this paper originate from a study exploring a wide range of characteristics - strategic and environmental issues, management and board composition, governance, succession and performance - in a sample of Belgian family firms. As definitions of family businesses abound in the literature and definitional ambiguities persist (Chua, Chrisman, and Sharma 1999), we first selected an operational definition for the research object. Based on the common selected criteria of ownership and management control, the following businesses were included in the sample: (1) at least 50 percent of ownership and management is controlled by the family or (2) 50 percent of ownership is controlled by the family, the company is not family-managed but the CEO perceives the firm as family firm, or (3) less than 50 percent of the ownership is controlled by the family, the company is family-managed, however, the majority of shares is owned by an investment company or a venture capital firm and the CEO perceives the firm as family firm. Moreover, all firms were limited liability companies (“Naamloze Vennootschap”) that employed at least five people and were situated in the Flemish part of Belgium².

In total, 3400 firms were randomly selected from a family-business database and a survey was mailed to the CEO’s. After sending a reminder or contacting the firm by phone, 311 surveys were returned (9.2 percent response rate), of which 295 contained sufficient data to be included in the analysis. Of these 295 family firms, 246

² Limited liability companies in Belgium have the legal obligation to have at least three directors (some exceptional cases allow only two directors) which operate in a one-tier board system. Auditors are not allowed to fulfil a director position. Accountants and attorneys are only allowed to take a director position under very strict conditions.

(83 percent) were family-owned and managed, 41 (13.9 percent) family-owned but not family-managed and 8 family-managed but not family controlled. After removing cases with missing values and large firms with more than 250 employees, we ended up with a final sample of 211 small and medium-sized family firms. All variables used in the study are derived from this database.

Measures

Dependent variables

Our definition of a family board³ is similar to the definition of the ‘all-family board’ of Schwartz and Barnes (1991), who describe it as composed entirely of family members. We define an inside board as one which contains at least one director who is not a member of the family but has a direct or indirect affiliation with the company such as top managers or affiliated directors (Fiegener et al. 2000a). As soon as a board contains one outside director, it is classified as an outside board. Hence, this category also contains boards with both non-family insiders and outside directors. An outside director is defined as a non-executive who is not a family member, a non-family manager or an affiliated director such as an attorney or accountant. With respect to outside directors, Gabriëlsson and Huse (2005) state that outside directors in family firms are often persons with a close connection to the CEO and the dominating

³ A family board could consist both of executive and non-executive family directors. We did not differentiate between these two categories of family directors, as we found no arguments to believe that the determinants of board composition under study differ significantly for both kinds of family directors. First, executive and non-executive family directors are obviously both dependent director categories. Second, the follow up of the questionnaire was partly done by telephone. From these telephone contacts, we learned that several non-executive family directors are just the non-working partner or children of the entrepreneur who are added to the board because of the legal requirement in Belgium to have at least three directors in a limited liability company. In our sample, we cannot differentiate between a “real” non-executive family director and a “paper” non-executive family director. So it does not make sense to investigate differences between executive and non-executive family directors as this last category is obscured by this effect.

family. This implies that outside directors in our definition are not necessarily completely independent. However, our measure serves its purpose namely to indicate a higher level of independence on the ‘dependent-independent’ continuum compared to the other types of directors.

Independent variables

CEO power is measured by CEO duality and CEO tenure. CEO duality was coded “1” if the CEO is also the chairman of the board and “0” otherwise. CEO tenure is measured as number of years in the current position as CEO. CEO education was treated as a categorical variable with four categories: primary/secondary school as base category, college 3 years, college 4 years and university degree as consecutive educational levels.

Concerning the family variables, generation is measured as a set of categorical dummy variables: first generation as base category, second and third or later generation as consecutive categories. Generational transition is measured as a dummy variable, coded “1” if the generational transition was planned within 5 years and “0” otherwise. The number of working family members is a continuous variable. The family firm goals included in this study are measured as component scores of factor analysis. The questions on family firm goals in our questionnaire are based on the Stratos questionnaire (Bamberger 1994) which was tested extensively in a European small business context. The respondent was asked to indicate the importance of 12 goals on a five point Likert scale. The answers to the 12 questions were factor analyzed in order to detect the underlying structure. Four components were extracted, explaining 59 percent of the goal variation in our family firm sample: (1) “preserve family character of the firm”, (2) “innovation”, (3) “growth” and (4) “profit

maximization”. The first one can be considered as a family-related objective, the three others are more business-related objectives.

Control variables

Three control variables have been inserted into the econometric model: ‘firm size’, ‘firm age’ and ‘growth stage’. When an organization grows and enlarges, complexity increases and more professional management practices are required (Fiegener et al. 2000b). Therefore we included firm size and firm age. Firm size is proxied by the natural logarithm of the total number of employees. Firm age is defined as the natural logarithm of firm age measured in years.

When firms reach new stages of development, management and governance structures need changes. Board composition may vary depending on the stage of the life cycle (Whisler 1988; Lynall et al. 2003). Therefore, this effect must be taken into account. Life cycle stage was inserted in the model as a categorical variable with three phases: growth, maturity and consolidation. Respondents were asked in the questionnaire to indicate the firm’s life cycle stage.

Results and discussion

The relation between board composition and the independent variables is examined through a multinomial logistic regression⁴ analysis with board composition as a categorical variable with three alternatives: (1) a family board, (2) an inside board and (3) an outside board.

⁴ The odds ratios in a multinomial logit model are assumed to be independent of the other alternatives (Independence of Irrelevant Alternatives) (Maddala 1987). To test the validity of this independence assumption, we used the Hausman specification test. The test statistic indicates no violation of the independence assumption.

***** Insert table 1 and 2 about here *****

Tables 1 and 2 provide the summary statistics for the variables in the study. On average, sample firms have 34 employees and exist for 38 years. More than 21 percent of the firms in the sample are managed by the first generation, 53 percent by the second generation and 26 percent by the third generation or higher. Sixty percent of the firms indicate to have a generational transition within 5 years. CEO duality is very high: 76 percent. Moreover, in more than 90 percent of the firms, the CEO is a member of the board. About half of the firms (49 percent) seem to be in the maturity stage of the life cycle. Thirty-six percent describe themselves as growing firms while 15 percent is in the consolidation stage. Our sample is strongly dominated by family firms in which family ownership is very high. More than 90 percent of the firms in the sample show 100 percent family ownership⁵. Concerning the dependent variable, 71.6 percent of the firms have a family board, while inside and outside boards both account for 14.2 percent. From these outside boards, 18 contain just one outside director. Nine outside boards contain two outside directors while just three outside boards have three or more outside directors.

***** Insert table 3 about here *****

⁵ Because of the low variation, the variable was not included as an independent variable in the model. Our regression results have to be interpreted with this sample characteristic in mind. Unquoted family firms with high proportions of voting shares by a single dominant family group are expected to be less likely to employ outside directors (Westhead 1999) because they are reluctant to external funding and they focus more upon immediate profitability which may conflict with the non-pecuniary objectives of the family owners. Besides this technical reason not to include the variable in our model, another argument could be presented. Not family ownership percentage in itself is a determinant but the potential conflict between pecuniary and non-pecuniary objectives where ownership percentage may be a proxy for. Because we already include pecuniary as well as non-pecuniary objectives as determinants in the model, we measure a possible influence directly through the factor scores of the objectives.

H1 predicts that the likelihood of an outside board would decrease when the power of the CEO increases. Of the two variables (CEO tenure and duality) included to test this hypothesis, only CEO duality was significant for the comparison between family and outside boards. When CEO duality is present, the likelihood decreases that the family firm will employ an outside director, supporting H1. The same negative sign, although not significant, was found between family and inside boards (regression (2)), and between inside and family boards (regression (3)). CEO tenure was not found to be significant⁶.

CEOs with a higher degree of education are expected to be less likely to employ inside managers or outside directors at their boards (H2). The coefficients in regression (1) and (2) show the expected negative sign but the result had only a weak statistical significance ($p < 0.1$). Non-family managers are usually engaged when the management needs of the firm cannot be fulfilled by family members. From a resource dependence perspective, this result suggests that the governance needs of family firms with a lower educated CEO are higher, resulting in the employment of especially non-family managers as directors.

Family related variables (H3 and H4) seem to be among the most significant determinants of board composition in small and medium-sized family firms. Family firms near a generational change are more likely to have outside directors, partly supporting H3a. For inside boards, no significant effect was found. The added value that outside directors deliver in a succession as advisor or arbitrator seems to be appreciated by CEOs. Non-family executives operating in the inside board might not be independent enough to evaluate potential successors in a neutral way. H3b - stating that multigenerational family firms are more likely to adopt an outside board - is not

⁶ This result was robust against other proxies for CEO tenure such as the ln of tenure or the categorisation of Hermalin and Weisbach (1988).

supported by the results. On the contrary, we find a negative sign for all but one coefficient, indicating the opposite of what was hypothesized. As expected, these effects are not significant in regression (2). A more surprising result is that only the coefficient for the second generation is significant and not for the third generation and higher. Family firms in the second generation are less likely to adopt an outside board. This result can be explained based on the roles that outside directors seem to play in family firms. Outside directors seem not to be selected from an agency point of view but rather from a resource dependence perspective. Schulze et al. (2003) point out that agency dynamics during the sibling partnership stage - mostly found in the second generation - are more problematic than in the controlling owner (first generation) or cousin consortium stage (third generation and higher). From our results, we conclude that in those stages in which agency problems are high - such as in the sibling partnership stage - family firms do not seem to cope with these agency problems through the employment of outside directors. Although at first sight surprising, these regression results can be explained in a logical way because generation can be considered as an interaction variable or proxy for several other possible board determinants. First, a higher generation can be a proxy for a well-developed internal knowledge base in the firm. Higher generation successors are often better educated than the first generation owner-manager. Therefore, the need for external advice and counsel decreases. Second, two countervailing effects may apply. An increase in the knowledge base also increases the awareness of the added value of outside directors. Moreover, family firms in the third generation or higher seem to be less focused on family objectives⁷. Both effects could increase the likelihood of having an outside board and moderate the first described effect.

⁷ We tested the relation between objectives and generation with an ANOVA test. The importance of

H3c is neither supported by the results. When the number of working family members increases, the likelihood that non-family directors will be employed decreases. This result suggests that the adoption of outside directors is primarily driven by a preference to favor family members for top management and director positions (Daily and Dollinger 1993). Non-family directors are only employed when few family members are available for director positions. More family members may also be a proxy for a higher importance of the family objective ‘keeping the family character’. From another point of view, more working family members usually means a greater internal knowledge base, reducing the governance needs of the firm and the likelihood that outside directors are engaged.

Both H4a and H4b are supported by the empirical results. The family related objective ‘Keeping the family character’ shows a strong negative significant sign in regression (1) and (3), indicating that firms which have a strong focus on this family related objective will have a lower likelihood of employing an outside board. On the contrary, the business related objective ‘Profit maximization’ shows a strong positive significant effect in regression (1) and (3), indicating that if the score on this business related objective is high, the board is more likely to be an outside board. Family firms which have a stronger focus on growth are surprisingly more likely to have an inside board and not an outside board. The innovation objective seems to have no effect on board composition.

Few significant effects are found for the control variables. Larger family firms are more likely to adopt outside directors. On a 10 percent significance level, mature family firms are more likely to have outside directors than growing firms.

the objective ‘Keeping the business in the family’ decreases with a higher generation. The result was significant on the $p < 0.1$ significance level.

Conclusions

A general analysis of the three regressions in the multinomial logit model reveals that all three comparisons show significant results. The comparison between outside boards and family boards seems to be more important than the comparison between inside and family boards. The results also show that the reasons to appoint inside managers to the board of directors differ from the reasons why outside directors are appointed. This result proves that a more detailed categorization than the traditional inside-outside board comparison is justified.

CEO power, generational transition and the family firm's objectives are significant determinants of board composition in family firms. Nevertheless, several expected relationships such as multigenerations and the number of working family members show an opposite result than what was expected. In general, the family related contingency variables seem to be far more significant than the CEO related contingency variables and the control variables, giving support to the argument of Corbetta and Salvato (2004) that board characteristics in family firms are a reflection of family characteristics and objectives. Furthermore, the results suggest that board composition in small and medium-sized family firms can be better explained from a resource dependence and added value perspective than from agency considerations.

Our results have important implications for practitioners, consultants, accountants and policy-makers. The strong focus in many family firms on family objectives such as 'keeping the firm in the family' suggest that the relationship between governance needs and board composition could be obscured by emotional and bounded rationality constraints of working family members. When these constraints are present, family firm members do not acknowledge the potential added value of outside directors. Nevertheless, our results indicate that these directors

certainly can add value to the firm through advice and arbitration in for example succession issues. As consultants and accountants of the firm fulfill the legal obligations related to the annual meetings of the board of directors, these confidants have a responsibility in making family firms conscious of the advantages of outside directors. Policy makers should realize that just imposing a law on board composition or creating a corporate governance code for private firms does not directly add value to the functioning of it. It will be more important to convince the family CEO of the added value of a professionalized board.

Furthermore, several challenges remain for future research. The majority of the studies focusing on board composition are written using data from common-law countries. Our study uses data from Belgium, which could be classified as a French-civil law country (La Porta, Lopez-de-Silanes, Shleifer and Vishny 1998). As La Porta et al. (1998) found that legal systems matter for corporate governance issues, we could question if the legal environment has also an influence on corporate governance and board composition in private (family) firms. Unfortunately, examining evidence from a single country only provides little scope for studying the effect of legal systems (Denis and McConnell 2003). No international study addressing this topic for private firms was found. Nevertheless, we believe that differences in legal environments play a minor role for private firms compared to public firms. First, governance recommendations and legal investor protection are mainly created with investors of large public companies in mind. Secondly, although private firms have to fulfill the legal obligations concerning corporate board composition, Grundei and Talaulicar (2002) – investigating the two tier board system in the German legal environment - argue that these obligations could impede the speed of decision making in high-tech start-ups. Therefore, according to these authors, these firms will follow a

hidden modification strategy whereby they reconcile legal constraints and business requisites. Our results provide indirect evidence that similar mechanisms appear in small and medium-sized Belgian family firms. These issues should be further scrutinized.

Secondly, due to data limitations, we only included a threefold categorization of the board of directors. Other and more detailed affiliations could be tested. Moreover, additional measures of the ‘family factor’ such as the influence of emotional and rationality constraints on board issues may be investigated.

Lastly, some of our board composition determinants may have an endogenous character. More theoretical and empirical work has to be done to scrutinize the causal relations between board and context related variables in family firms.

References

- Arthurs, J. D., and L. W. Busenitz (2003). "The Boundaries and Limitations of Agency Theory and Stewardship Theory in the Venture Capitalist/Entrepreneur Relationship," *Entrepreneurship: Theory & Practice*, 28 (2), 145-162.
- Astrachan, J. H., and M. C. Shanker (2003). "Family Businesses' Contribution to the U.S. Economy: A Closer Look," *Family Business Review*, 16 (3), 211-219.
- Bamberger, I. (1994). *Product/market strategies of small and medium-sized enterprises*. England: Avebury.
- Barnes, L. B., and S. A. Hershon (1994). "Transferring Power in the Family Business," *Family Business Review*, 7 (4), 377-392.
- Birley, S., and S. Sorenson (1995). *The Family and the Business*. London: The Management School Imperial College.
- Borch, O.J. and M. Huse (1993). "Informal Strategic Networks and the Boards of Directors", *Entrepreneurship: Theory and Practice*, 18 (1), 23-36
- Chua, J. H., J. J. Chrisman, and P. Sharma (1999). "Defining the Family Business by Behavior," *Entrepreneurship: Theory and Practice*, 23 (4), 19-39.
- Chua, J. H., J. J. Chrisman, and P. Sharma (2003). "Succession and Nonsuccession Concerns of Family Firms and Agency Relationship with Nonfamily Managers," *Family Business Review*, 16 (2), 89-107.
- Corbetta, G., and D. Montemerlo (1999). "Ownership, Governance, and Management Issues in Small and Medium-Size Family Businesses: A Comparison of Italy and the United States," *Family Business Review*, 12 (4), 361-374.
- Corbetta, G., and C. A. Salvato (2004). "The Board of Directors in Family Firms: One Size Fits All?," *Family Business Review*, 17 (2), 119-134.
- Daily, C. M., and D. R. Dalton (1992). "Financial Performance of Founder-Managed Versus Professionally Managed Small Corporations," *Journal of Small Business Management*, 30 (2), 25-34.
- Daily, C. M., and D. R. Dalton (1993). "Board of Directors Leadership and Structure: Control and Performance Implications," *Entrepreneurship: Theory and Practice*, 17 (3), 65-81.
- Daily, C. M., D. R. Dalton, and A. A. J. Cannella (2003). "Introduction to Special Topic Forum; Corporate Governance: Decades of Dialogue and Data," *Academy of Management Review*, 28 (3), 371-382.
- Daily, C. M., and M. J. Dollinger (1993). "Alternative Methodologies for Identifying Family-Versus Nonfamily-Managed Businesses," *Journal of Small Business Management*, 31 79-90.
- Davis, J. H., D. F. Schoorman, and L. Donaldson (1997). "Toward a Stewardship Theory of Management," *Academy of Management Review*, 22 (1), 20-47.
- Denis, D. and J. McConnell (2003). "International Corporate Governance", *Journal of Financial and Quantitative Analysis*, 38 (1), 1-36
- Di Maggio, P. J., and W. W. Powell (1983). "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review*, 48 147-160.
- Donckels, R., and E. Fröhlich (1991). "Are Family Businesses Really Different? European Experiences from Stratos," *Family Business Review*, 4 (2), 149-160.
- Dyer, W. G. J. (1986). *Cultural Change in Family Firms; Anticipating and Managing Business and Family Transition*. San Francisco: Jossey-Bass.
- Dyer, W. G. J. (1989). "Integrating Professional Management into a Family Owned Business," *Family Business Review*, 2 (3), 221-235.
- Dyer, W. G. J. (2003). "The Family: The Missing Variable in Organizational Research," *Entrepreneurship: Theory & Practice*, 27 (4), 401-416.
- Fama, E. F., and M. C. Jensen (1983). "Separation of Ownership and Control," *Journal of Law and Economics*, 26 (June), 301-325.

- Feltham, T.S., G. Feltham and J.J. Barnett (2005). "The Dependence of Family Businesses on a Single Decision-Maker", *Journal of Small Business Management*, 43 (1), 1-15.
- Fiegener, M. K., B. M. Brown, D. R. V. Dreux, and W. J. J. Dennis (2000a). "The Adoption of Outside Boards by Small Private Us Firms," *Entrepreneurship & Regional Development*, 12 (4), 291-309.
- Fiegener, M. K., B. M. Brown, D. R. V. Dreux, and W. J. J. Dennis (2000b). "CEO Stakes and Board Composition in Small Private Firms," *Entrepreneurship: Theory and Practice*, 24 (4), 5-24.
- Finkelstein, S., and R. A. d'Aveni (1994). "CEO Duality as a Double-Edged Sword: How Boards of Directors Balance Entrenchment Avoidance and Unity of Command," *Academy of Management Journal*, 37 (5), 1079-1108.
- Finkelstein, S., and D. C. Hambrick (1996). *Strategic Leadership: Top Executives and Their Effects on Organizations*. Minneapolis / St. Paul: West Publishing Company.
- Forbes, D. P., and F. J. Milliken (1999). "Cognition and Corporate Governance: Understanding Boards of Directors as Strategic Decision-Making Groups," *Academy of Management Review*, 24 (3), 489-506.
- Gabrielsson, J., and M. Huse (2002). "The Venture Capitalist and the Board of Directors in Smes: Roles and Processes," *Venture Capital*, 4 (2), 125-146.
- Gabrielsson, J. and M. Huse (2005). "Outside Directors in SME Boards: a Call for Theoretical Reflections", *Corporate Board: Role, Duties & Composition* 1 (1), 28-37.
- Gabrielsson, J., and H. Winlund (2000). "Boards of Directors in Small and Medium-Sized Industrial Firms: Examining the Effects of the Board's Working Style on Board Task Performance," *Entrepreneurship & Regional Development*, 12 (4), 311-330.
- George, G. R.D. Wood Jr and R. Khan (2001). "Networking Strategy of Boards: Implications for Small and Medium-Sized Entreprises", *Entrepreneurship & Regional Development*, 13 (3), 269-285.
- Golden, B. R., and E. J. Zajac (2001). "When Will Boards Influence Strategy? Inclination X Power = Strategic Change," *Strategic Management Journal*, 22 (12), 1087-1111.
- Gómez-Mejia, L. R., M. Nuñez-Niekel, and I. Gutierrez (2001). "The Role of Family Ties in Agency Contracts," *Academy of Management Journal*, 44 (1), 81-95.
- Grundei, J., and T. Talaulicar (2002). "Company Law and Corporate Governance of Start-Ups in Germany: Legal Stipulations, Managerial Requirements, and Modification Strategies," *Journal of Management and Governance*, 6 (1), 1-27.
- Gulati, R., and M. Gargiulo (1999). "Where Do Interorganizational Networks Come From?," *American Journal of Sociology*, 104 (5), 1439-1493.
- Hermalin, B. E., and M. S. Weisbach (1988). "The Determinants of Board Composition," *RAND Journal of Economics*, 19 (4), 589-606.
- Hermalin, B. E., and M. S. Weisbach (2003). "Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature," *Economic Policy Review*, 9 (1), 7-26.
- Hillman, A. J., A. A. J. Cannella, and R. L. Paetzold (2000). "The Resource Dependence Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change," *Journal of Management Studies*, 37 (2), 235-255.
- Hillman, A. J., and T. Dalziel (2003). "Boards of Directors and Firm Performance: Integrating Agency and Resource Dependence Perspectives," *Academy of Management Review*, 28 (3), 383-396.
- Huse, M. (1990). "Board Composition in Small Enterprises," *Entrepreneurship & Regional Development*, 2 363-373.
- Huse, M. (2000). "Boards of Directors in SMEs: A Review and Research Agenda," *Entrepreneurship & Regional Development*, 12 271-290.
- Huse, M. (2005). "Accountability and Creating Accountability: A Framework for Exploring Behavioural Perspectives of Corporate Governance", *British Journal of Management*, 16, S65-S79.
- IFERA (2003). "Family Businesses Dominate," *Family Business Review*, 16 (4), 235-239.

- Jensen, M. C., and W. H. Meckling (1976). "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics*, 3 (October), 305-360.
- Johannisson, B., and M. Huse (2000). "Recruiting Outside Board Members in the Small Family Business: An Ideological Challenge," *Entrepreneurship & Regional Development*, 12 353-378.
- Johnson, J. L., C. M. Daily, and A. E. Ellstrand (1996). "Boards of Directors: A Review and Research Agenda," *Journal of Management*, 22 (3), 409-438.
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer and R. Vishny (1998). "Law and Finance", *Journal of Political Economy*, 106 (6), 1113-1155
- La Porta, R., F. Lopez-de-Silanes, and A. Shleifer (1999). "Corporate Ownership around the World," *Journal of Finance*, 54 (2), 471-517.
- Leenders, M., and E. Waarts (2003). "Competitiveness and Evolution of Family Businesses: The Role of Family and Business Orientation," *European Management Journal*, 21 (6), 686-697.
- Luoma, P., and J. Goodstein (1999). "Stakeholders and Corporate Boards: Institutional Influences on Board Composition and Structure," *Academy of Management Journal*, 42 (5), 553-563.
- Lynall, M. D., B. R. Golden, and A. J. Hillman (2003). "Board Composition from Adolescence to Maturity: A Multitheoretic View," *Academy of Management Review*, 28 (3), 416-431.
- Maddala, G. S. (1987). *Limited-dependent and qualitative variables in econometrics*. Cambridge University Press New York.
- McNulty, T., and A. M. Pettigrew (1999). "Strategists on the Board," *Organization Studies*, 20 (1), 47-74.
- Miller, D. (1991). "Stale in the Saddle: CEO Tenure and the Match between Organization and Environment," *Management Science*, 37 34-52.
- Morck, R., and B. Yeung (2003). "Agency Problems in Large Family Business Groups," *Entrepreneurship: Theory & Practice*, 27 (4), 367-382.
- Nash, J. M. (1988). "Boards of Privately Held Companies: Their Responsibilities and Structure," *Family Business Review*, 1 (3), 263-269.
- Pearce, J. A., and S. A. Zahra (1992). "Board Composition from a Strategic Contingency Perspective," *Journal of Management Studies*, 29 (4), 411-438.
- Pfeffer, J., and G. R. Salancik (1978). *The External Control of Organizations*. New York: Harper & Row.
- Roberts, J., T. McNulty and P. Stiles (2005). "Beyond Agency Conceptions of the Work of the Non-Executive Director: Creating Accountability in the Boardroom", *British Journal of Management*, 16, S5-S26.
- Schulze, W. S., M. H. Lubatkin, and R. N. Dino (2003). "Exploring the Agency Consequences of Ownership Dispersion among the Directors of Private Family Firms," *Academy of Management Journal*, 46 (2), 179-194.
- Schulze, W. S., M. H. Lubatkin, R. N. Dino, and A. K. Buchholtz (2001). "Agency Relationships in Family Firms: Theory and Evidence," *Organization Science*, 12 (2), 99-116.
- Schwartz, M. A., and L. B. Barnes (1991). "Outside Boards and Family Businesses: Another Look," *Family Business Review*, 4 (3), 269-285.
- Sharma, P., J. J. Chrisman, and J. H. Chua (1997). "Strategic Management of the Family Business: Past Research and Future Challenges," *Family Business Review*, 10 (1), 1-35.
- Shen, W. (2003). "The Dynamics of the CEO-Board Relationship: An Evolutionary Perspective," *Academy of Management Review*, 28 (3), 466-476.
- Shivdasani, A. and D. Yermack (1998). "CEO Involvement in the Selection of New Board Members: An Empirical Analysis", New York University, Center for Law and Business, Working Paper No. 98-015.

- Steier, L. (2003). "Variants of Agency Contracts in Family-Financed Ventures as a Continuum of Familial Altruistic and Market Rationalities," *Journal of Business Venturing*, 18 (5), 597-618.
- Stiles, P. (2001). "The Impact of the Board on Strategy: An Empirical Examination," *Journal of Management Studies*, 38 (5), 627-650.
- Tagiuri, R., and J. A. Davis (1992). "On the Goals of Successful Family Companies," *Family Business Review*, 5 (1), 43-62.
- Upton, N., E. J. Teal, and J. T. Felan (2001). "Strategic and Business Planning Practices of Fast Growth Family Firms," *Journal of Small Business Management*, 39 (1), 60-72.
- Ward, J., L., and J. L. Handy (1988). "A Survey of Board Practices," *Family Business Review*, 1 (3), 289-308.
- Ward, J. L. (1997). "Growing the Family Business: Special Challenges and Best Practices," *Family Business Review*, 10 (4), 323-337.
- Westhead, P. (1997). "Ambitions, 'External' Environment and Strategic Factor Differences between Family and Non-Family Companies," *Entrepreneurship & Regional Development*, 9 (2), 127-157.
- Westhead, P. (1999). "Factors Associated with the Employment of Non-Executive Directors by Unquoted Companies," *Journal of Management and Governance*, 3 (1), 81-111.
- Westhead, P., C. Howorth, and M. Cowling (2002). "Ownership and Management Issues in First Generation and Multi-Generation Family Firms," *Entrepreneurship & Regional Development*, 14 247-269.
- Whisler, T. L. (1988). "The Role of the Board in the Threshold Firm," *Family Business Review*, 1 (3), 309-312.
- Wortman, M. S. J. (1994). "Theoretical Foundations for Family-Owned Business: A Conceptual and Research-Based Paradigm," *Family Business Review*, 7 (1), 3-27.
- Zahra, S. A., and J. A. I. Pearce (1989). "Boards of Directors and Corporate Financial Performance: A Review and Integrative Model," *Journal of Management*, 15 (2), 291-334.

Table 1

Descriptive statistics					
Variable	Mean	Median	St. Dev.	Min	Max
Firm Size (number of employees)	34.96	17	46.76	5	250
Firm age (years)	37.95	29	35.02	3	362
Number of working family members	2.86	3	1.56	0	12
CEO tenure (years)	16.09	14	10.81	0.5	53
Family ownership (percentage)	97.38	100	10.13	40	100

N= 211

Table 2
Percent distributions of firms in the sample

Variable	Percent distribution
Family ownership	
100 percent	90.5 percent
<100 percent	9.5 percent
Generational transition	
≤ 5 years	60.19 percent
> 5 years	39.81 percent
Generation	
First generation	21.3 percent
Second generation	53.1 percent
Third generation or higher	25.6 percent
CEO Education	
Primary/Secondary Education	40.3 percent
College (3 years)	27.5 percent
College (4 years)	11.4 percent
University Degree	20.9 percent
CEO duality	76 percent
Affiliation classification of directors	
Family boards	71.6 percent
Inside Boards	14.2 percent
Outside boards	14.2 percent
Life cycle stage	
Growth stage	36 percent
Maturity stage	49.3 percent
Consolidation stage	14.7 percent

N=211

Table 3
Multinomial Logit Model of the board composition decision: the adoption of a family board, an inside board or an outside board

Independent variables	Dependent variable		
	(1) $\ln (P_{out}/P_{fam})$	(2) $\ln (P_{in}/P_{fam})$	(3) $\ln (P_{out}/P_{in})$
Intercept	-0.613 (0.163)	-0.461 (0.115)	-0.152 (0.007)
LN(Firm Size)	0.681 (5.568)**	0.523 (3.714)	0.158 (0.196)
LN(Firm Age)	-0.122 (0.133)	0.268 (0.524)	-0.391 (0.798)
Life cycle stage ^a			
Maturity	1.141 (2.714)*	-0.076 (0.021)	1.214 (2.469)
Consolidation	0.559 (0.332)	-1.335 (1.292)	1.894 (1.711)
CEO duality	-1.654 (5.483)**	-0.768 (1.680)	-0.886 (1.179)
CEO tenure	0.035 (1.153)	-0.011 (0.172)	0.046 (1.388)
CEO education ^b			
College (3 years)	0.088 (0.014)	-0.667 (1.201)	0.755 (0.729)
College (4 years)	-1.125 (1.646)	-1.868 (3.778)*	0.743 (0.398)
University degree	-1.069 (1.940)	-1.364 (3.122)*	0.295 (0.091)
Generation ^c			
2 nd generation	-1.607 (4.706)**	-0.145 (0.059)	-1.462 (3.052)*
3 rd generation and higher	-0.807 (0.916)	-1.477 (2.279)	0.670 (0.328)
Generational transition	1.525 (4.667)**	-0.690 (1.790)	2.215 (7.724)***
Number of working family members	-1.246 (19.29)***	-0.577 (7.239)***	-0.668 (4.258)**
Family firm objectives			
Keeping family character	-0.860 (9.049)***	0.155 (0.363)	-1.015 (8.138)***
Innovation	-0.168 (0.317)	0.383 (2.106)	-0.550 (2.263)
Growth	0.102 (0.130)	0.486 (3.971)**	-0.384 (1.325)
Profit maximisation	0.908 (7.103)***	-0.032 (0.018)	0.940 (5.831)**
N		211	
	-2 Log Likelihood (Initial Model)	335.12	
	-2 Log Likelihood (Final Model)	229.91	
	χ^2	105.21***	

^a“Growth stage”, ^b“Primary/secondary education”, ^c“First generation” are the suppressed comparison categories.

Wald statistics between parentheses.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$