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**THE IMPACT OF FAMILY COHESION ON BEHAVIORAL BOARD PROCESSES:  
AN EXAMINATION OF FAMILY FIRM HETEROGENEITY**

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**Abstract:** This study examines variations across family firms in behavioral board processes. We present a framework which clarifies how control on the one hand, and trust as a facilitator of advice on the other, can be employed in a complementary manner by boards in their relationship with the CEO. Building on this framework, we develop hypotheses on the association between family cohesion and these behavioral processes within family firm boards. The empirical results suggest that boards operating under cohesive family bonds to the CEO have a better understanding of those domains where the CEO is trustworthy and of those domains where control is required. Moreover, cohesive family bonds appear to stimulate advice interactions between the board and the CEO. A downside of strong family cohesion seems to be its negative influence on the effectiveness of the control exercised by boards over the family CEO.

**Keywords:** Board of directors; Family firm; Control; Trust; Advice.

## **INTRODUCTION**

In many firms operating in today's economy, organizational processes are significantly influenced by families – typically through family involvement in ownership and management (Chua, Chrisman & Sharma, 1999; IFERA, 2003). Over the years, numerous studies have examined how the social ties, norms and values embedded within family systems affect the functioning of these family firms (e.g., Arregle et al., 2007; Habbershon & Williams, 1999; Lubatkin et al., 2005; Schulze et al., 2001). With the resource-based view and agency theory emerging as the two dominant theoretical perspectives for analyzing the uniqueness of family firms (Chua, Chrisman & Steier, 2003), substantial progress has been made in creating clarity on the domain and distinctiveness of family firm research (Sharma, 2004). However, in addition to explaining differences between family and nonfamily firms, the development of a theory of the family firm entails the study of family firm heterogeneity (Chrisman, Steier & Chua, 2006). That is, family firms are not a homogeneous organizational form; yet thus far few scholars have explored the differences within the group of family firms. In the words of Nordqvist (2005: 289), “apart from the important research endeavor to compare family firms with nonfamily firms, it is perhaps even timelier to turn our attention to comparing different family firms with each other (...) we need to know more about the inherent differences within the large population of family firms”. This study contributes to the latter line of research.

In exploring differences among family firms, this study focuses on the functioning of a firm's most central governance mechanism, namely the board of directors. Some studies have empirically examined how differences in the attributes of family systems affect the characteristics of family firm boards, with most of them looking at family-related determinants of board composition or board meeting frequency (e.g., Bammens, Voordeckers & Van Gils, 2008; Leon-Guerrero, McCann & Haley, 1998; Voordeckers, Van Gils & Van den Heuvel, 2007). To our knowledge, however, no prior study has examined how family attributes influence the family firm board's actual performance of its governance tasks. Exercising control over and providing advice to the CEO are the two primary components of the board's internal administrative function (Westphal, 1999), and those boards that effectively perform these tasks enhance the corporate strategic decision-making process (Carpenter & Westphal, 2001). This study examines how the cohesiveness of the business family relates to the capacity of family firm boards to exercise control over and provide advice to the family CEO. By examining these variations across family firms in the functioning of the board, this study enhances the understanding of family firm heterogeneity.

Our focus on the board's control and advisory tasks is in line with previous studies interested in exploring how boards can combine these tasks in their relationship with the CEO

(Adams & Ferreira, 2007; Westphal, 1999; Westphal & Stern, 2007). That is, a tension appears to exist between the exercise of control and the provision of advice, and combining these tasks often proves difficult for board members. The exercise of control, the argument goes, is grounded in distrust and may preclude or destroy a trusting relationship between the board and the CEO (Falk & Kosfeld, 2006; Ghoshal & Moran, 1996). Advice on the other hand, requires a close trusting relationship in which the CEO feels comfortable to seek advice and board members feel encouraged to provide it (Westphal, 1999; Zand, 1972). Hence, in order to perform their control and advisory tasks, board members will need to embrace both trust and control in their relationship with the CEO, and this balancing act can be very challenging (Daily, Dalton & Cannella, 2003; Sundaramurthy & Lewis, 2003).

In a family firm context, boards are typically largely composed of relatives of the family CEO. This can be explained by the fact that most business families prefer to internalize upper echelon positions to family members alone so as to maintain discretion over the organizational decision-making process (Carney, 2005; Lane et al., 2006; Voordeckers et al., 2007; Westhead, Cowling & Howorth, 2001). Prior research indicates that the social capital embedded in family bonds between board members and CEOs significantly influences the effectiveness of the agency relationship (e.g., Gomez-Mejia, Nuñez-Nickel & Gutierrez, 2001; Kosnik, 1987; Steier, 2001; 2003). Yet not all family bonds are alike. As discussed by Olson and colleagues, the emotional bonding that family members have towards one another may differ substantially across families with some families experiencing extreme closeness whilst others are characterized by moderate or even low emotional closeness (Olson, 1989, 2000; Olson & Gorall, 2003). We argue that the level of family cohesion – which captures this relational dimension of family social capital – will influence the family firm board’s capacity to combine distrust/control and trust/advice in their relationship with the family CEO. Hence, the objective of this study is to explore how the cohesiveness of family systems affects the behavioral processes on family firm boards; with these behavioral board processes referring to psychological dimensions (e.g., the board’s trust in the CEO) and actual behaviors (e.g., the providing of advice).

In addition to contributing to the understanding of family firm heterogeneity, this study adds to the general governance literature by embracing the view that CEOs are rationally bounded and pursue an admixture of both self-serving and pro-organizational motives (Donaldson, 1990; Hendry, 2002), and by revealing how boards can deal with these CEOs in terms of the trust that they put in them and the control that they exercise over their behavior. The structure of this article is as follows. First, seeing that academic knowledge on how to combine trust and control in agency relationships is still underdeveloped (Huse, 2005; Long & Sitkin, 2006; Reed, 2001), the next section elucidates how board members can employ both concepts in a complementary

manner in their relationship with the CEO. This section is not specific for the organizational form of family firms, but generally applicable. Subsequently, we apply the developed framework in a family firm context and develop hypotheses on the relationship between family cohesion and the behavioral processes on family firm boards. Hereafter, we clarify our methodology and discuss the empirical findings. In the concluding section, we discuss the main contributions of this study and formulate suggestions for future research.

## **TRUST & CONTROL IN THE BOARD-CEO RELATIONSHIP**

### ***Agency & Stewardship Perspectives***

As indicated, the difficulty in combining the control and advisory tasks essentially concerns the tension between control on the one hand, and trust as a facilitator of advice on the other. Both control and trust are governance mechanisms that reduce perceived relational risk in a cooperative endeavor (Nooteboom, 2002; Ouchi, 1979). Control is about influencing the behavior of people, in casu the CEO, so as to ensure that they act in an effective and cooperative manner (Das & Teng, 2001; Lebas & Wiegenstein, 1986). Trust on the other hand, is about allowing the other party to act with full discretion “based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer, Davis & Schoorman, 1995: 712). These two governance mechanisms are grounded in different governance theories, with agency theory underlying the importance of control and stewardship theory focusing on trust systems to manage relational risk (Schoorman, Mayer & Davis, 2007; Sundaramurthy & Lewis, 2003).

Agency theory is concerned with the divergence of interests between managers and their principals (Jensen & Meckling, 1976). This assumption of diverging interests has two main grounds. Firstly, agency scholars focus on narrowly defined self-interest as the main driver of human behavior (i.e., the homo economicus assumption) as this allows them to clearly model situations (Hendry, 2005). Secondly, agency theory neglects the social context of manager-principal relationships, which in turn discards the possibility of principals assessing the trustworthiness of their managers (Gomez-Mejia & Wiseman, 2007; Lubatkin et al., 2007). Based on this undersocialized economic rational view, agency theory emphasizes the importance of control to ensure that managers act in the best interests of their principals, and formally discounts trust as a governance mechanism (Hendry, 2005; Roberts, McNulty & Stiles, 2005; Ulhoi, 2007). Stewardship theory on the other hand, puts emphasis on the opportunity for trusting agency relationships. More specifically, stewardship theorists argue that many managers are motivated to behave in a pro-organizational manner based on, for instance, firm identification, a genuine concern for the interests of the shareholders, or the satisfaction derived from successfully

performing valuable and challenging work (Davis, Schoorman & Donaldson, 1997; Donaldson, 1990). It is argued that these stewards can be trusted to never substitute self-serving behaviors for pro-organizational behaviors, and that control should be avoided as this would negatively impact their pro-organizational motivation (Davis et al., 1997; Frey & Jegen, 2001; Gagné & Deci, 2005).

Davis and colleagues (1997) maintain that, based on psychological and situational factors, managers choose to behave as either self-serving agents or pro-organizational stewards; which suggests a focus on either control or trust by board members in their relationship with a specific CEO. Qualitative studies have indicated, however, that this either/or approach is not in line with the lived experience of most board members (Roberts et al., 2005). What is more, a focus on either control or trust is likely to result in dysfunctional organizational dynamics (Sundaramurthy & Lewis, 2003). An emphasis on control stimulates myopic decision-making and impression management, and fosters a polarized board-CEO relationship with insufficient openness for advice interactions (Roberts 2001; Westphal, 1999). Conversely, a focus on trust may result in an atmosphere of groupthink wherein board members encourage CEOs but rarely challenge their views (Sundaramurthy & Lewis, 2003). Moreover, having blind trust in the CEO is inappropriate given the high strategic and financial stakes, and does not correspond with the board's duty of care (Monks & Minow, 2004; Wicks, Berman, & Jones, 1999). These arguments indicate that, contrary to agency or stewardship perspectives, boards of directors must embrace both trust and control in their relationship with the CEO (Daily et al., 2003; Sundaramurthy & Lewis, 2003).

### ***Trust & Control: A Complementary Approach***

Trust and control refer to complex social processes, and perspectives on the nature of the trust-control relationship vary greatly among scholars (Das & Teng, 1998; Long & Sitkin, 2006; Poppo & Zenger, 2002; Reed, 2001). In this section, we build on the trust literature to clarify how boards can employ trust and control in a complementary manner in their relationship with the CEO. In line with this literature (e.g., Nooteboom, 1996; Schoorman et al., 2007), we make a distinction between the intentional and ability dimension of trustworthiness. That is, given the different concepts and dynamics at play, we distinguish between the CEOs' intentions to act in a pro-organizational manner and their abilities to do so when discussing the board's balancing of trust and control.

***Intentional Dimension.*** Intentional trust refers to the perception that a CEO will forgo opportunities for opportunism because of integrity or altruism (Mayer et al., 1995; Nooteboom, 1996). Seeing that managerial motivation is typically an admixture of both self-serving and pro-organizational motives, the intentional trustworthiness of CEOs generally has some upper-limit

(Nooteboom, 2002; Wicks et al., 1999). In the words of Hendry (2002: 108), “however honest and dutiful they may be, few managers can be entirely free of self-seeking behavior”. Hence, while values or feelings of concern may lower the propensity of CEOs to behave opportunistically, certain opportunities are generally too tempting for them to resist and thus situated beyond their upper-limit of trustworthiness (Nooteboom, 1996; 2002; Williamson, 1979). For instance, a CEO may be intrinsically motivated to work hard, and therefore refrain from shirking and free-riding behaviors, but be untrustworthy when it comes to making a particular investment decision that increases shareholder value rather than personal prestige or wealth; or be reluctant to pursue growth opportunities when these require him/her to delegate decision-making authority.

Over time, as the board-CEO relationship develops, the members of the board should be able to assess those areas and situational circumstances (from now on referred to as domains) in which the intentions of the CEO can be trusted, and those domains that are situated beyond the upper-limit of the CEO’s intentional trustworthiness (Lewicki, McAllister & Bies, 1998; Lubatkin et al., 2007; Whitener et al., 1998). This time dimension plays a critical role in the development of intentional trust, with the history of prior experiences and social interactions allowing board members to gain insights in the CEO’s motivational nature (Rowthorn & Sethi, 2008; Schoorman et al., 2007).

Seeing that control may lead to cynicism on the part of the controllers and increased opportunistic tendencies on the part of the controllees (i.e., the self-fulfilling prophecy of distrust), CEOs should be allowed to act with full discretion in those domains that are situated beneath their upper-limit of intentional trustworthiness (Das & Teng, 2001; Falk & Kosfeld, 2006; Frey & Jegen, 2001; Ghoshal & Moran, 1996). Yet for those domains that are situated above this upper-limit, board members should be aware of the threat of opportunism and exercise control over the behavior of the CEO (Lewicki et al., 1998; Nooteboom, 2002). As argued by Roberts and colleagues, the best way for board members to control CEOs is to challenge, question, and discuss their actions and strategic decisions via face-to-face interactions (Roberts, 2001; Roberts et al., 2005). Contrary to more distant forms of control, such as incentive pay, face-to-face control can be focused on specific domains of the CEO’s behavior and is therefore less likely to give rise to the self-fulfilling prophecy of distrust in other domains.

**Ability Dimension.** Ability trust refers to trust in a CEO’s competencies and skills to behave in an effective manner (Mayer et al., 1995). The ability trustworthiness of CEOs always has an upper-limit due to human bounded rationality, which refers to the idea that all decision-makers have their limitations regarding knowledge, computational capabilities, and the organization and utilization of memory (Lewicki et al., 1998; Simon, 1955; 2000). As a result of their bounded rationality, CEOs need to rely on simplifying cognitive models when dealing with complex

strategic issues, which increases the danger of fallible judgment, misinterpretations, and the like (Arthur, 1994; Hendry, 2002).

Over time, board members should be able to gain an understanding of the upper-limit of the CEO's ability trustworthiness (Lewicki et al., 1998). Compared to assessing the CEO's intentional trustworthiness, board judgments of the CEO's abilities may form more easily as board members can readily obtain information on the CEO's skills through external sources (e.g., diploma) and direct observation, with less need for interpersonal interactions (Rousseau et al., 1998; Sundaramurthy, 2008). Nonetheless, time still plays an important role as it allows the board to gain a fine-grained understanding of the CEO's abilities on a broad array of domains (Lewicki et al., 1998). For instance, board members may learn that the CEO is outstanding in analyzing and uncovering market trends, adequate but not excellent in devising effective selling strategies, and relatively poor in anticipating the strategic moves of competitors.

For those domains of decision-making that are situated beneath the CEO's upper-limit of ability trustworthiness, his/her judgment can be fully trusted and he/she should be allowed to act with full discretion. Otherwise, the decision-making process is needlessly slowed down and the CEO may become frustrated due to lack of autonomy (Jehn, 1995; Sundaramurthy & Lewis, 2003). Yet for those domains that are situated above this upper-limit, the board members should become actively involved in the decision-making process by employing their idiosyncratic cognitive schemata to expose the CEO's judgment to critical scrutiny (Hendry, 2005; Rindova, 1999). By challenging, questioning, and discussing the CEO's assumptions and strategic views, board members can enrich the employed cognitive models and try to ensure that these do not become obsolete over time (Arthur, 1994; Jehn, 1995; 1997; Judge & Zeithaml, 1992; Roberts et al., 2005). Engaging in such investigative face-to-face interactions constitutes an important task for the board of directors, especially when the CEO is dealing with complex strategic issues (Forbes & Milliken, 1999).

The above theoretical argumentation clarifies how trust and control can be combined by the members of the board in their relationship with the CEO. In summary, as the board-CEO relationship develops, board members should be able to assess the domains in which the CEO is trustworthy both in terms of intentions and abilities (Lewicki et al., 1998; Lubatkin et al., 2007), and these domains should determine the boundaries of the CEO's discretion. Yet for those domains that the board perceives as overly tempting (i.e. beyond the upper-limit of the CEO's intentional trustworthiness) and/or as overly complex (i.e. beyond the upper-limit of the CEO's ability trustworthiness), it should become actively involved by asking investigative questions about the CEO's strategic decision-making process. Trust and control are thus two alternative governance mechanisms that can be used in a complementary manner.



## **FAMILY COHESION & BEHAVIORAL BOARD PROCESSES**

So far, we have discussed the concepts of opportunism, stewardship, and bounded rationality – and revealed their implications in creating effective board-CEO relationships in terms of trust and control. We will now apply this framework in a family firm context, and develop hypotheses on the association between the level of family cohesion and these behavioral board processes. Agency relationships in family firms often involve family bonds between the board members and the CEO, and we propose that variations in the relational nature of these family bonds – captured by the degree of family cohesion – influence the family firm board’s combining of trust and control in their relationship with the family CEO. This hypotheses development section is structured as follows. First, we explore how family cohesion affects the board’s intentional trust in the family CEO and – given that trust is generally viewed as an important facilitator of advice interactions – how this relates to the provision of board advice. Next, we consider the ability dimension of the board’s trust in the CEO, and also explore its effect on board advice. Lastly, we discuss the association between family cohesion and the board’s capacity to exercise control over the family CEO. The hypothesized model is summarized in Figure 1 which outlines the expected impact of the cohesiveness of the business family on the behavioral processes within family firm boards.

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### ***Family Cohesion & the Building of Intentional Trust***

Highly cohesive family systems are characterized by strong affective interdependencies, with relatives spending most of their time together (Olson, 2000; Olson & Gorall, 2003). Because of the long history of intense socialization processes that characterize these families, board members from these families will have a deep understanding of the family CEO’s desires, motives, and objectives (Lee, 2006; Sundaramurthy, 2008). In addition, strong family bonds can be expected to incite stewardship behavior on the part of the family CEO (Corbetta & Salvato, 2004; Mullen & Copper, 1994). Highly cohesive families may thus create an ideal basis for intentional trust of the family firm board in the CEO, with family directors having a great willingness to rely on the good intentions of the family CEO.

Conversely, when family cohesion is weak, family relationships are characterized by relatively high degrees of personal separateness and independence (Olson, 1989; Olson & Gorall, 2003). Board members from such disengaged families will have gained limited insight in the

family CEO's motivational drives, and may therefore have relatively little faith in the latter's intentions to maximize family welfare (Corbetta & Salvato, 2004; Mullen & Copper, 1994; Rousseau et al., 1998; Sundaramurthy, 2008). Family firm boards operating under such weak family bonds will need to rely more on exchange interactions in the organizational setting so as to strengthen their intentional trust in the family CEO (Lubatkin et al., 2007). Yet because of the larger risks involved, and the self-fulfilling prophecy of distrust, building intentional trust in the organizational setting may prove extremely difficult (Ghoshal & Moran, 1996; Sundaramurthy & Lewis, 2003). It is therefore not uncommon for family firms to be characterized by an atmosphere of distrust (Steier, 2001).

Cohesive family systems are thus argued to be a valuable resource for the building of intentional trust by family firm boards in the family CEO. Scholars have often viewed intentional trust as an important facilitator of board advice as it offers the openness required for thoughtful advice interactions (Huse, 1994; Westphal, 1999; Zand, 1972). In an atmosphere of intentional trust, CEOs feel more comfortable to turn to the board for assistance and board members feel socially compelled to provide the requested advice (Chua, Steier & Chrisman, 2006; Westphal, 1999). Conversely, in the absence of intentional trust, the board-CEO relationship is prone to become polarized with interpersonal defensiveness, constricted communications, and mutual rejection as the outcome – thus lowering the likelihood of helping behaviors in the form of advice and counsel (Adams & Ferreira, 2007; Huse 1993; Sundaramurthy & Lewis, 2003; Zand, 1972). The above discussion results in the following two hypotheses:

***Hypothesis 1a:** Family cohesion will be positively associated with the board's intentional trust in the family CEO.*

***Hypothesis 1b:** The board's intentional trust in the family CEO will be positively associated with the level of advice interactions.*

### ***Family Cohesion & the Building of Ability Trust***

In highly cohesive families, little private space and time is permitted to family members (Olson & Gorall, 2003). The time that these relatives spend together in the family system allows them to accumulate detailed information about one another's skills and competencies on a broad array of domains (Barnes & Hershon, 1976; Lewicki et al., 1998). Seeing that ability trust is based on an understanding of the CEO's competencies (Mayer et al., 1995), strong family bonds between board members and CEO can, *ceteris paribus*, be expected to facilitate the process of building ability trust. On the other hand, when family cohesion is weak, relatives often do their own thing, with separate time and interests predominating (Olson, 2000). In these disengaged families,

information asymmetries between the family board members and the family CEO concerning the latter's competencies will be more significant and ability trust lower.

When the board's initial ability trust in the CEO is high, the perceived threat of adverse selection will be low (Eisenhardt, 1989). Yet when the initial understanding of the CEO's competencies is underdeveloped, the board will need to incur higher verification costs while the CEO is working in order to make sure that he/she is sufficiently skilled for the job (Chrisman, Chua & Litz, 2004; Eisenhardt, 1989). During this verification period, CEOs are generally less inclined to ask the board for advice as they fear that their request for help will engender skepticism about their skills. That is, these CEOs may believe that the board "will view their need for assistance as an admission of uncertainty or dependency and as an indication that they are less than fully competent or self-reliant" (Westphal, 1999: 9). To sum up, we propose that cohesive family systems create a strong basis for the building of ability trust by family directors in the family CEO, and that this ability trust in turn increases the CEO's willingness to ask the family firm board for advice on complex strategic issues.

***Hypothesis 1c:*** *Family cohesion will be positively associated with the board's ability trust in the family CEO.*

***Hypothesis 1d:*** *The board's ability trust in the family CEO will be positively associated with the level of advice interactions.*

In line with the above argumentation, we also expect that the level of family cohesion will influence the advice interactions between the board and the CEO via its impact on the board's intentional and ability trust in the CEO. In other words, we propose that the board's intentional and ability trust in the CEO act as mediators in the relationship between family cohesion and advice interactions.

***Hypothesis 1e:*** *The board's intentional and ability trust in the family CEO will mediate in the relationship between family cohesion and the level of advice interactions.*

### ***Family Cohesion & the Exercising of Control***

Agency scholars traditionally assumed that board control is not very important in a family firm context, mainly because the overlap of ownership and management is supposed to align the economic interests of the managers with those of the principals (Fama & Jensen, 1983a,b). Family CEOs may, however, also pursue noneconomic preferences which negatively impact firm value and the welfare of the owning-family. Besides problems related to the dark side of altruism which

may, for example, engender strategic inertia (Schulze et al., 2001; 2002; 2003a), family CEOs may pursue pet projects or avoid profitable investments when they demand a great amount of personal effort – just as CEOs in nonfamily firms (Gomez-Mejia et al., 2001; Schulze et al., 2003b). Moreover, due to human bounded rationality all CEOs have their cognitive limitations. Board control is therefore necessary whenever CEOs are likely to misinterpret situations or misjudge the consequences of their actions (Lewicki et al., 1998; Nooteboom, 2002). This bounded rationality problem may be especially significant in family firms where self-imposed selection criteria give exclusive consideration to family members for the CEO position, limiting the pool of competent candidates (Bammens & Voordeckers, 2008). Hence, board control in the form of asking CEOs investigative questions and assessing their behavior is also important in a family firm context, and should complement trust as a governance mechanism. We will now discuss the relationship between the level of family cohesion and the boards' capacity to exercise control over family CEOs.

Firstly, highly cohesive family bonds may bias the family directors' assessment of the upper-limit of the CEO's intentional and ability trustworthiness, resulting in excessive or even blind trust (Gomez-Mejia et al., 2001; Schulze et al., 2001). As stated by Nooteboom (2002: 70), "problems of trust and betrayal in family firms (...) can be especially acute because the reliability of personal bonds could not be questioned". Board members with strong family bonds to the CEO may thus simply not contemplate the possibility of opportunistic behavior on the part of the CEO; and rather than questioning the CEO's competencies, these board members are more inclined to shift negative performance attributions to exogenous forces (Gomez-Mejia et al., 2001). When the family system is less cohesive, emotional feelings and sentiments are less likely to color the family directors' perceptions of the family CEO's trustworthiness, which reduces the threat of blind trust.

Furthermore, in order to exercise control over the strategic decision-making process, board members need to possess complementary cognitive schemata and use them to challenge and probe the CEO's assumptions and strategic views (Rindova, 1999; Roberts et al., 2005). Yet due to the long history of socialization processes that characterize cohesive family systems, board members from such families often share similar cognitive schemata with the CEO, which reduces the quality of questions aimed at challenging the CEO's strategic views (Arregle et al., 2007). Strong board-CEO family bonds also increase the danger of groupthink since members of a cohesive group often do not want to express any criticism of the ideas of one another (i.e. compliance), and are more likely to come to believe that their own doubts regarding a proposal are incorrect (i.e. internalization) (Ahlfinger & Esser, 2001; Janis, 1972; McCauley, 1998). Conversely, when family cohesion is weak, family members have few shared interests or activities, and their energy

is mainly focused outside the family (Olson, 2000; Olson & Gorall, 2003). Boards operating under weak family bonds are therefore more likely to have alternative perspectives and cognitive schemata on how to deal with particular problems and situations, and to use them to challenge the CEO's decision-making process.

Lastly, the norms governing highly cohesive families such as, for instance, comfort, security and concern may limit the family directors' capacity to discipline or fire an underperforming CEO (Gomez-Mejia et al., 2001; Lubatkin et al., 2005). When this occurs, family CEOs may become comforted in the belief that they will not be disciplined for opportunistic or injudicious decision-making, and therefore pay less heed to the questions and criticisms of the board. That way, board control will have a limited influence on the CEO's strategic decision-making. In families that are more disengaged, however, business values of profitability and efficiency are likely to preponderate (Steier, 2003) and emotions will play a lesser role in board deliberations.

In summary, we propose that family cohesion has a negative impact on the boards' capacity to exercise control over family CEOs. More formally, we expect a negative influence of family cohesion on the level of control exercised by family firm boards (e.g., because of blind trust and groupthink) and on the effectiveness of the exercised control in terms of its influence on the CEOs' decision-making (e.g., because of the reduced quality of investigative inquiries and family norms of concern)<sup>1</sup>.

***Hypothesis 2a:** Family cohesion will be negatively associated with the level of control that the board exercises over the family CEO.*

***Hypothesis 2b:** Family cohesion will be negatively associated with the effectiveness of the control that the board exercises over the family CEO.*

## **METHODOLOGY**

### ***Sample & Data Collection***

The selection of the sampled companies was based on the Belgian Bel-First database of Bureau Van Dijk using the following selection criteria: (1) As we were only interested in collecting data from family firms, we used two *ex ante* criteria to distinguish family firms from nonfamily firms: at least two board members were required to have the same last name and/or the last name of at least one of the board members had to be part of the company name; (2) We selected limited liability firms as in Belgium only this type of firm is legally obliged to have a board of directors<sup>2</sup>; (3) Seeing that we set out to examine the influence of family cohesion on the processes within family firm boards, we required a sample of family firms that were of sufficient size to have potentially active boards. Therefore, in line with Chrisman and colleagues (2007), we selected

those companies having at least ten employees; (4) In order to control for the effects of industry differences on board processes, we only selected companies active in the manufacturing industry (NACE codes 16-36); Additional selection criteria were that the companies had to be (5) privately owned and (6) located in the Dutch-speaking part of Belgium. Based on these criteria, 1360 companies were selected.

Data were collected through a survey instrument sent to these 1360 companies. The time frame of the data collection was end 2007 – beginning 2008. Of the 1360 companies that were sent a survey, and after having sent a reminder, 102 companies responded to the mailings. Although this response is below the 10-12 percent rate typical for studies targeting upper-echelons (Geletkanycz, 1998), it is in line with the response to recent surveys among Belgian family firms (e.g., Van den Heuvel, 2006). One of the reasons for this low response might be the secretive nature of family firms (Neubauer & Lank, 1998). To identify the family firms among these 102 responding companies, they were screened using the following more strict *ex post* criteria which were asked for in the survey: (1) The respondents had to perceive the firm as a family firm; (2) At least 50 percent of ownership had to be controlled by the family and/or no less than 50 percent of the managers had to be member of the family; (3) The CEO had to be a member of the family. These *ex post* criteria resulted in a sample of 85 family firms. Lastly, given the objective of this study, we also excluded those family firms that, besides the CEO, had no other family members on the board of directors. This additional requirement reduced the sample by only one case, so that our final sample consists of 84 family firms. All respondents were member of the company's board of directors, with 52 percent of them also occupying the CEO position, an additional 16 percent also being member of the company's management team, and 93 percent being member of the family. Sample characteristics are presented in Table 1.

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### ***Dependent Variables***

The levels of *board advice* and *board control* were measured using two scales with three items each. These scales are based on the work of Westphal and colleagues (Gulati & Westphal, 1999; Westphal, 1999). All items were evaluated on a 7-point Likert scale. The six items were factor-analyzed with the principal components method. A scree plot test suggested two factors, and a promax rotation indicated that the three advice items loaded on a single factor and two control items on the second factor. Yet one control item loaded on the advice factor (i.e., the fourth item in Table 2 panel A). Given that the challenging of the CEO's assumptions and strategic views is

generally viewed as a form of board control rather than advice (e.g., Gulati & Westphal, 1999; McNulty & Pettigrew, 1999; Sundaramurthy & Lewis, 2003; Westphal & Stern, 2007), we decided not to include this fourth item in the analyses. That is, concepts must be theory-driven rather than exploratory data-based, and the main purpose of this factor analysis was to suggest ways to revise our measures of these concepts for the better. The level of board advice is thus measured as the average of three items (Cronbach's alpha = 0.904), and the level of board control as the average of two items (Cronbach's alpha = 0.901).

In addition to the level of board control, our hypothesized model also refers to the effectiveness of the control exercised by family firm boards. In order to evaluate control effectiveness, we need to link the level of board control to some relevant outcome measure. In line with the behavioral process approach of this article (cf. Huse, 2005), we opted to link board control to the board's contribution to strategic decision-making. As strategic decisions are characterized by high levels of complexity and diverging preferences among interested parties (Schweiger, Sandberg & Ragan, 1986), boards that exercise control over these types of decisions should be able to enhance the strategic decision-making process (Fama & Jensen, 1983a; Judge & Zeithaml, 1992; Zahra & Pearce, 1989). In the words of Carpenter and Westphal (2001: 642), "boards may contribute to strategic decision making by regularly monitoring the decision-making process, as suggested by agency theorists". Hence, the association between the level of board control and the board's strategic contribution can be viewed as an appropriate indicator of control effectiveness<sup>3</sup>. The variable *board strategic contribution* was evaluated on a 7-point Likert scale using three items based on Carpenter and Westphal (2001). These items are presented in Table 2 panel B, and a factor analysis using the principal components method showed that the items loaded on a single factor. In an additional factor analysis with promax rotation (not reported) which included these three board strategic contribution items, together with the three board advice items and the two board control items, we also found that the strategic contribution items loaded on a unique factor. The variable board strategic contribution is the average of these three items (Cronbach's alpha = 0.971).

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INSERT TABLE 2 ABOUT HERE  
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### ***Independent & Intervening Variables***

We based our measure of *family cohesion* on Seashore's (1954) four item cohesiveness index which has been used in various prior studies (e.g., Bollen & Hoyle, 1990; O'Reilly, Caldwell & Barnett, 1989). When assessing the cohesiveness of the business family, respondents were asked

to consider only those members of the family who were somehow involved in the family firm (e.g., as a shareholder, board member, manager or employee). Our measure of the board's *intentional trust* in the CEO is a three item scale based on Simons and Peterson (2000), and our measure of the board's *ability trust* in the CEO is a four item scale based on Butler (1991). In line with Mayer and colleagues' (1995) definition of trust and Gillespie's (2003) discussion on the behavioral trust inventory, the trust items captured the trustors' willingness to engage in trusting behaviors in their relationship with the trustee, rather than their assessment of the trustee's trustworthiness.

The cohesion and trust items were worded so as to fit the family and board setting respectively, and they were all evaluated on a 7-point Likert scale (Table 2 panel C). Given the large overlap between the members of the family and the members of the board<sup>4</sup>, we included the family cohesion items together with the trust items in a factor analysis to test whether they actually measured different constructs. A scree plot test indicated three factors, and a promax rotation revealed that the items loaded on the expected factors. Family cohesion is the average of the four cohesion items (Cronbach's alpha = 0.915), intentional trust of the three intentional trust items (Cronbach's alpha = 0.806), and ability trust of the four ability trust items (Cronbach's alpha = 0.867)<sup>5</sup>.

### ***Control Variables***

So as to evaluate the impact of family cohesion on board functioning while keeping the presence of board members with a family bond to the CEO at a constant level, we included *percentage family bonds* as a control variable in the analyses. This variable was evaluated by asking respondents to indicate how many directors were member of the CEO's family, and dividing this number by the total number of board members (the CEO was excluded from these calculations). We also asked respondents to indicate how long the CEO already occupied this position. *CEO tenure* was included as a control variable as it may impact the CEO's strategic decision-making processes (Finkelstein & Hambrick, 1990; Miller & Le Breton-Miller, 2006). Moreover, CEO tenure is likely to influence the board's trust as, over time, the board gains more insight into the CEO's motives and competencies (Schoorman et al., 2007). As the *board's knowledge* concerning the company's internal affairs and environment influences its ability to perform the control and advisory tasks (Forbes & Milliken, 1999; Hillman & Dalziel, 2003), we controlled for it in our analyses. Our measure of board knowledge is a six item scale based on the value creating board survey (Huse, 2008; Minichilli & Hansen, 2007). The items were factor-analyzed with the principal components method (Table 2 panel D). As the factor loading of the first item was below 0.6 and its communality below 0.4, we excluded this item from the measure. The control variable



board knowledge is the average of the five remaining items (Cronbach's alpha = 0.853). Seeing that the size of the company may affect the board's inclination to delegate decision-making authority to the CEO, we also included *firm size* measured as the logarithm of sales in our analysis (Westphal, 1999).

Additionally, we controlled for the degree of power that the CEO has over the board. CEO power was evaluated using three different measures, namely *CEO ownership*, *CEO duality*, and *percentage of inside directors* (Fiegener et al. 2000; Johnson, Daily & Ellstrand 1996; Voordeckers et al., 2007). Yet because of the small sample size, we decided not to include all three measures of CEO power simultaneously in the analyses. Instead, we evaluated the hypotheses in three separate tests – each test with an alternative measure of CEO power included as a control variable. In the discussion of the results, we will report those analyses including CEO ownership because of the following reasons: (1) While the differences were mostly marginal, these tests with CEO ownership generally gave the most conservative estimates of our hypothesized effects; (2) The tests with CEO ownership most often had the highest coefficient of determination; (3) Compared to CEO duality and percentage of insiders directors, CEO ownership most frequently had a significant influence on the dependent variable<sup>6</sup>; (4) By including CEO ownership as a control variable we also controlled for the CEO's incentive to act in an opportunistic manner (Jensen & Meckling, 1976).

### ***Nonresponse & Common Method Bias***

Potential nonresponse bias was evaluated using two separate procedures. Firstly, we compared several organizational characteristics (number of board members, number of employees, total assets, and return on assets) between the group of respondents and the group of nonrespondents; and found no significant differences. Secondly, following the argument that late respondents are expected to be similar to non-respondents (Kanuk & Berenson, 1975), we differentiated between the 25 percent earliest respondents and the 25 percent latest respondents and conducted several t-tests and Chi-square tests on the variables included in the analyses. The results showed no significant differences on any of the variables. A robustness-check using a cut-off point at 40 percent showed similar results. The results of these tests therefore suggest that our sample is representative of the population of family firms. Since the data were collected via a cross-sectional survey design, and several measures involved a subjective assessment by the respondent, common method variance was a potential problem. To assess the significance of this problem we performed Harman's one-factor test in which we entered all retained items of our dependent, intervening, and independent variables in a factor analysis (Podsakoff & Organ, 1986). Since

neither a single factor emerged nor a “general” factor accounting for the majority of the variance, common method variance did not appear to be a significant problem (Podsakoff & Organ, 1986).

### *Analysis*

Our hypotheses were tested with multiple regression analyses. The method of multiple regression was preferred over structural equation modeling because of the small sample size and the need to estimate interaction effects (Kline, 2005). As recommended by Jaccard and Turrisi (2003), constitutive terms were mean-centered prior to the formation of interaction terms. To test for the hypothesized mediating relationships we followed the procedure proposed by Baron and Kenny (1986). For all models, we used several regression diagnostics to assess whether modeling assumptions were satisfied. In the presence of heteroscedasticity, we used the White-corrected standard errors. Given the small sample size, we also tested for normality. In the presence of non-normality, we examined the studentized deleted residuals to identify possible outliers. We then performed a robustness check by deleting the outliers that caused the non-normality; the results appeared to be robust in all instances and we report those results where the residuals had a normal distribution. We also assessed the variance inflation factor values, and found no noteworthy multicollinearity problems.

## **DISCUSSION OF RESULTS**

*Descriptives.* Descriptive statistics and bivariate correlations are displayed in Table 3. As expected, the family firm boards in our sample are largely composed of members of the CEO’s family. On average 83 percent of the board members (not counting the CEO) had a family bond with the CEO. Moreover, in 63 percent of the cases all board members were part of the CEO’s family. It is therefore reasonable to expect that family social capital will influence the functioning of family firm boards. Concerning the hypothesized effects we find that all correlations have the expected sign, with the exception of the correlation between family cohesion and the level of board control.

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*Hypotheses 1a-1e.* Table 4 reports the results of the regression analyses concerning the relationships put forward in hypotheses 1a to 1e. The results in panel 1 indicate that the level of family cohesion is positively associated with the board’s intentional trust in the CEO, supporting hypothesis 1a. In panel 3 we find that the board’s intentional trust in the CEO leads to more board

advice, supporting hypothesis 1b. The results in panel 2 show that the level of family cohesion is also positively associated with the board's ability trust in the CEO, supporting hypothesis 1c. Regarding hypothesis 1d, however, we find in panel 3 that more ability trust in the CEO does not lead to more advice interactions. As it might be that ability trust only plays a role during the initial phases of the CEO's tenure – i.e., when the board still needs to verify whether or not the CEO is sufficiently skilled for the job – we performed an additional regression analysis (not reported) where we included the interaction between ability trust and CEO tenure. Yet we found that the marginal effect of ability trust on board advice (i.e.,  $\partial \text{board advice} / \partial \text{ability trust}$ ) was non-significant throughout the range of possible CEO tenure values. Hence, we do not find any support for hypothesis 1d in our data.

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INSERT TABLE 4 ABOUT HERE  
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Thus while the board's intentional trust in the CEO seems to stimulate advice interactions, their ability trust in the CEO apparently does not affect the providing of board advice and counsel. The fact that promotions to the CEO position in family firms are often based on kinship ties rather than professional competencies may play a role here (Anderson & Reeb, 2004; Carney, 2005; Johannisson & Huse, 2000). Secured by their family status, these CEOs may not fear any unfavorable consequences for their careers by disclosing the existence of problems and admitting their own limitations in dealing with them – even when the board's perceptions of their skills are unfavorable. An alternative explanation might be that the level of ability trust reflects the CEO's competencies, knowledge, and skills. Therefore, any effect that ability trust has on the openness for board advice may be offset by the opposite effect on the need for this advice. Whereas low ability trust may not be a major concern regarding the providing of advice, low intentional trust remains problematic. Intentional trust refers to expectations of honesty and obligation, and if CEOs do not meet these expectations, they will be held morally accountable, regardless of their family status (Hendry, 2005; Hosmer, 1995). As a result, polarizing dynamics may take place between the board and the CEO (Sundaramurthy & Lewis, 2003), with a reduced openness for advice interactions as an outcome.

In order to test hypothesis 1e we had to perform two additional regression analyses (Baron & Kenny, 1986; Mathieu & Taylor, 2006). Given that ability trust does not affect board advice, we only tested whether the board's intentional trust in the CEO mediates in the relationship between family cohesion and the level of advice interactions. The results in panel 4 of Table 4 indicate that family cohesion has a strong positive association with the level of board advice.

Panel 1 already showed that family cohesion also leads to more intentional trust, and panel 3 that intentional trust is positively associated with advice interactions. An additional requirement for full mediation is that when intentional trust is included in the equation, the relationship between family cohesion and the level of board advice should attenuate to a non-significant level (Mathieu & Taylor, 2006). However, the results in panel 5 indicate that this is not the case. We find that the effect of family cohesion remains significant, and that the effect of intentional trust becomes non-significant. This indicates that rather than being (fully or partially) mediated by the family firm board's intentional trust in the family CEO, family cohesion has a direct effect on the level of board advice (Mathieu & Taylor, 2006). Hence, hypothesis 1e is not supported.

A possible explanation for the direct effect of family cohesion on board advice can be formulated by making a distinction between the affective and cognitive dimensions of social constructs and exchange relationships (McAllister, 1995; Milliken & Martins, 1996). The concept of cohesion is affective in nature and captures the interpersonal attraction and emotional bonding experienced by the members of a group (Olson, 2000; O'Reilly et al., 1989; Smith et al., 1994). On the other hand, intentional trust typically has both cognitive and affective components (McAllister, 1995; Rousseau et al., 1998; Sundaramurthy, 2008). The cognitive component is based on knowledge regarding the trustee's intentions, which can be derived from the success of previous interactions, the trustee's reputation, or other so-called rational sources of information (McAllister, 1995; Nooteboom, 2002). Yet with repeated interactions, affection enters into the relationship, and this affection may cause people to expect trustworthy behavior even in those domains where they do not have any knowledge or "rational information" concerning the other party's motives or intentions (Rousseau et al., 1998). The results in Table 4 suggest that it might mainly be the affective dimension of the board-CEO relationship – captured by the degree of family cohesion and, to a lesser extent, by the affective component of intentional trust – that creates an atmosphere of support and collaboration. So mutual likings, closeness, and the "chemistry" between the board members and the CEO may play a key role in determining the degree of advice interactions (Huse, 1994; Roberts et al., 2005; Sundaramurthy & Lewis, 2003), rather than credible information concerning the CEO's intentions. We emphasize that this line of reasoning needs to be further explored in future research so as to determine to what extent, in which circumstances, and during which phases of ongoing agency relationships affection outweighs cognition as a predictor of advice interactions.

**Control Variables.** Some of the control variables in Table 4 had a significant impact on the dependent variable. Firstly, we find that CEO ownership is positively associated with the board's ability trust in the CEO. Ability trust refers to the board's willingness to engage in trusting behaviors with the CEO based on positive expectations of the CEO's skills and capabilities

(Mayer et al., 1995; Rousseau et al., 1998). In line with this definition and the arguments of Gillespie (2003), our measure of ability trust captures the behavioral intentions of the board. Yet the board's trusting behaviors are not only dependent upon perceptions of the CEO's ability trustworthiness but also on the perceived risks in the agency relationship in terms of potential gains and losses (Mayer et al., 1995). As CEO ownership increases, the risks as perceived by the board presumably decrease (e.g., lower threat of litigation by duped shareholders). We believe that the positive association between CEO ownership and our measure of ability trust (which emphasizes the behavioral intentions of the board) reflects the board's decreased perception of risk in the agency relationship, rather than more positive perceptions of the CEO's abilities. The negative effect of CEO ownership on the level of board advice (panels 3 to 5 of Table 4) may reflect the CEO's increased power over the board. That is, scholars have suggested that CEOs often attach greater value to personal discretion than to the potential valuable advice that active boards may provide (e.g., Fiegenger et al., 2000; Heidrick, 1988). As CEO power increases, they should become more capable of installing passive boards (Gabrielsson & Huse, 2005; Lane et al., 2006)<sup>7</sup>.

Regarding the positive effect of the board's knowledge on its intentional trust in the CEO (panel 1 of Table 4), we already indicated that intentional trust has an important cognitive component. When boards have a better understanding of the firm's internal affairs and external dynamics, they should be better able to interpret and evaluate the efforts and contribution of the CEO which, *ceteris paribus*, facilitates the building of intentional trust. Lastly, the positive association between board knowledge and the level of board advice (panels 3 to 5) is in line with the general governance literature on board capital. The greater the board's understanding of the firm's activities, main strengths and weaknesses, and environment, the greater its ability to provide advice to the CEO (Forbes & Milliken, 1999; Hillman & Dalziel, 2003).

***Hypotheses 2a-2b.*** Table 5 reports the results of the regression analyses concerning the relationships put forward in hypotheses 2a and 2b. Panel 1 shows, contrary to our expectations, that family cohesion is positively associated with the degree of control exercised by family firm boards over the family CEO. Hypothesis 2a is therefore not supported. Taken together with the results in Table 4 (panels 1 and 2), boards characterized by strong (weak) family bonds to the CEO seem to have both more (less) trust in the CEO and to exercise more (less) control over his/her behavior. Although these findings may appear paradoxical, they are in line with Lewicki and colleagues' (1998) assertion that trust and distrust are two distinct constructs rather than opposite ends of a single continuum. These authors define "trust in terms of confident positive expectations regarding another's conduct, and distrust in terms of confident negative expectations regarding another's conduct" (Lewicki et al., 1998: 439). Our results thus suggest that strong

family bonds come with a good understanding of those domains where the CEO can be expected to behave in a positive manner (and can be trusted), but also of those domains where the CEO can be expected to behave in a negative manner (and needs to be controlled). Hence, strong family bonds do not appear to lead to pathological or blind trust, but rather to facilitate the building of well-placed trust, complemented with the necessary control. Conversely, boards operating under weak family bonds to the CEO do not have this fine-grained understanding of those domains where trust in the CEO is appropriate nor of those domains where control is required. In these low trust/low distrust relationships, boards have “neither reason to be confident nor reason to be wary and watchful” (Lewicki et al., 1998: 446).

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INSERT TABLE 5 ABOUT HERE  
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These results suggest, contrary to agency theory arguments, that information asymmetries between the board and the CEO regarding the latter’s trustworthiness do not seem to result in vigilant control. Instead, vigilant control appears to be reserved for those situations where the board has confident negative expectations regarding the CEO’s conduct (i.e., when information asymmetries are low). In low trust/low distrust relationships, high levels of control would probably inhibit the potential development of trust as the CEO’s actions may then be interpreted as responses to that control rather than signs of trustworthiness (Ghoshal & Moran, 1996; Mayer et al., 1995). Moreover, vigilant control might crowd-out the CEO’s stewardship motivation, thus rendering him/her less trustworthy (Frey & Jegen, 2001; Rowthorn & Sethi, 2008). However, a configuration of low trust and low control is suboptimal as it reflects the board’s ignorance concerning the CEO’s trustworthiness, and should therefore be limited in time. Over time “by listening and seeing how well claims to know and undertakings to act held up” (O’Neill, 2002 quoted in Roberts et al., 2005), awareness of the CEO should develop, allowing the board to devise an effective governance system with well-placed trust and well-placed control (Roberts et al., 2005; Wicks et al., 1999).

In addition, seeing that our operationalization of board control involves the asking of investigative questions, the finding that family cohesion is positively associated with the degree of control is at odds with Janis’ original groupthink model (Janis, 1972). In this regard, we note that the role of cohesion as an antecedent of groupthink has often been questioned and even criticized (Esser, 1998; Turner & Pratkanis, 1998; Whyte, 1989; 1998), and that several prior empirical studies found positive effects of cohesion on the quality of group discussions (Leana, 1985; Moorhead & Montanari, 1986). Based on groupthink arguments, it might be that when family

cohesion is low, and the affective distance among the family directors and between them and the CEO is substantial, they may feel insecure about their roles and experience a threat of ridicule and exclusion for expressing a critical mindset (Leana, 1985; McCauley, 1998). Instead, when family cohesion is high, the family directors may feel secure enough to challenge the CEO and ask him/her critical questions<sup>8</sup>.

In hypothesis 2b we proposed that family cohesion would be negatively associated with the effectiveness of the control exercised by family firm boards. As discussed in the methodology section, control effectiveness can be evaluated by linking the level of board control to the board's contribution to strategic decision-making. Therefore, we tested hypothesis 2b by estimating the effect of the interaction between family cohesion and board control on the variable board strategic contribution. The results in panel 2 of Table 5 show that this interaction term has a significant negative effect, lending support to hypothesis 2b. Hence, while strong family bonds appear to lead to higher levels of control (panel 1), our results also indicate that such bonds lower the effectiveness of this control. This finding corroborates the view that CEOs from highly cohesive families feel comforted in the belief that family norms of concern and security make family directors less willing to discipline poor performance; and that as a result these family CEOs feel less compelled to heed to board inquiries on strategic issues (Lubatkin et al., 2005). Moreover, the strong socialization processes that characterize highly cohesive families may reduce the diversity of the relatives' cognitive schemata (Arregle et al., 2007; Ensley & Pearson, 2005), thus lowering the family firm board's effectiveness in challenging the assumptions and strategic views of the family CEO<sup>9</sup>.

This negative effect of family cohesion on the effectiveness of board control is graphically illustrated in Figure 2. The X-axis denotes the level of family cohesion and the Y-axis denotes the marginal effect of board control on board strategic contribution (as an indicator of control effectiveness). The solid line represents the marginal effect of board control whilst the dashed lines represent the 90 percent confidence interval of the marginal effect. The calculations of the standard errors and confidence intervals of the marginal effect are based on the variance-covariance matrix of the coefficient estimates (Brambor, Clark & Golder, 2006). The marginal effect is statistically significant whenever the upper and lower bounds of the confidence interval are both above the zero line. We thus find that this marginal effect, as an indicator of control effectiveness, decreases as the level of family cohesion increases and that it is no longer statistically different from zero at high levels of family cohesion – i.e., starting from a value of about 6.3 on a 7-point Likert scale. Of the business families in our sample, 35.8 percent had a family cohesion value larger than 6.3.

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INSERT FIGURE 2 ABOUT HERE  
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**Control Variables.** Regarding the control variables, the results in panel 1 of Table 5 indicate that board knowledge has a positive impact on the degree of board control, which is in line with the argument that boards need to be sufficiently knowledgeable about the firm and its environment to be able to exercise control over the CEO's strategic decision-making (Baysinger & Hoskisson, 1990; Forbes & Milliken, 1999; Hillman & Dalziel, 2003). The finding that firm size is positively associated with board control indicates that as the financial stakes and business complexity increase, board members become skeptical of more domains of the CEOs' behavior and – to mitigate these perceived risks – exercise more control (Lewicki et al., 1998; Schoorman et al., 2007)<sup>10</sup>. In the analysis where we examined the relationship between board control and board strategic contribution (panel 2 of Table 5), we also included the level of board advice as a control variable. In line with the argument that board advice enhances the strategic decision-making process (Carpenter & Westphal, 2001; Mustakallio, Autio & Zahra, 2002), we find a significant positive effect on board strategic contribution. Lastly, CEO ownership appears to be positively associated with the board's contribution to strategic decision-making (panel 2 of Table 5). Note that we actually control for the level of board control and advice in this analysis. Therefore, this finding indicates that CEOs with high levels of ownership have both the power and incentive to focus board involvement on those domains of the strategic decision-making process where its contribution is most substantial.

## **CONCLUSION & DIRECTIONS FOR FUTURE RESEARCH**

As argued by Arregle and colleagues (2007), family social capital may have a substantial bearing on the organizational processes within family firms. In this study, we examined the relationship between the cohesiveness of the business family – which captures the relational dimension of family social capital – and the behavioral processes on family firm boards. The empirical results indicate that family cohesion is positively associated with the board's intentional and ability trust in the family CEO and that it results in higher levels of board control. This suggests that boards operating under strong family bonds to the CEO are better able to assess both those domains where the CEO is trustworthy and those domains where control is required. In addition, our results show that higher levels of family cohesion stimulate helping behaviors by family firm boards in the form of advice and counsel to the CEO. Yet as argued in the social capital literature, while strong family bonds may facilitate some processes, they are likely to inhibit others (Bubolz, 2001; Nahapiet & Ghoshal, 1998). This is demonstrated by the finding that family cohesion



reduces the effectiveness of board control in terms of its contribution to the strategic decision-making process. Hence, while strong family bonds appear to enhance the board's understanding of the CEO's limitations in terms of self-seeking tendencies and bounded rationality, these bonds also seem to reduce the impact of actions aimed at mitigating the negative consequences of these limitations.

The contribution of this article is threefold. Firstly, this study enhances the understanding of family firm heterogeneity, and by doing so contributes to the development of a theory of the family firm (cf. Chrisman et al., 2006). In recent years, numerous studies have explored the distinctive nature of family firms as an organizational form, and substantial progress has been made on this topic (Chua et al., 2003; Sharma, 2004). Until now, however, the topic of family firm heterogeneity received little academic interest. Yet substantial variations may exist within the large population of family firms, and the study of these variations represents an important research endeavor for family business scholars (Chrisman et al., 2006; Nordqvist, 2005). Our study reveals that behavioral board processes differ across family firms depending on the cohesiveness of the business family.

Secondly, our discussion on the balancing of trust and control contributes to the corporate governance literature. As stated by Schoorman and colleagues (2007: 346), "one of the major distinctions between agency theory and stewardship theory is the use of trust versus control systems to manage risk". Agency theory has been frequently criticized for its unrealistic depiction of human motivation (i.e., the *homo economicus* assumption) and undersocialized view of exchange relationships. Yet the stewardship theory argument that stewards will never substitute self-serving behaviors for cooperative behaviors may not be any more realistic (Hendry, 2002). The presented framework has brought these two theoretical perspectives closer together by depicting managers as having a limited trustworthiness. This study adopts the view that principals can rely on the honesty, goodwill, and dutifulness of their managers (which is emphasized in stewardship theory), but that these managers – like most individuals – also have self-serving tendencies which need to be curbed through the exercise of control (which is emphasized in agency theory). This study thus provides theoretical insights into how boards can deal with the complex admixture of a manager's self-serving and pro-organizational motives. Moreover, it highlights the importance of the concept of managerial bounded rationality – which is ignored in both the agency and stewardship theory framework – and reveals its implications in creating effective board-CEO relationships in terms of trust and control.

Thirdly, while most prior empirical studies on family firm boards can be described as "input-output" research, this study has opened up the black box of behavioral board processes. That is, prior studies typically examined direct relationships between contingency variables (e.g.,

generation, family ownership) and board composition, or between board composition and outcome measures (e.g., financial performance), while making inferences about the intermediate behavioral processes linking these variables; often with inconsistent findings (Bammens, 2008). As argued by Pettigrew (1992) and Forbes and Milliken (1999), including direct measurements of behavioral process variables may lead to surprising new insights. This study demonstrates the value of such behavioral process research. For instance, our finding that family cohesion has a positive impact on the level of control that family firm boards exercise over family CEOs challenges current thinking about control in a family firm context. More specifically, this finding contradicts claims about cohesive family bonds leading to blind trust (Gomez-Mejia et al., 2001; Schulze et al., 2001) and groupthink (Janis, 1972).

Of course, our findings have to be interpreted in light of some limitations associated with this study. A first limitation is the small size of the sample used for our statistical analyses. The smaller the sample size, the wider the confidence intervals of the estimated parameters which lowers the absolute t-values. Consequently, inferences based on non-significant findings in our analyses are possibly not generalizable to the total population of family firms. Secondly, the family firms in our sample are all active in the manufacturing industry, privately-owned, and located in the Dutch-speaking part of Belgium. Hence, future research will need to verify the generalizability of our findings to family firms in different socio-economic contexts. Another limitation is the cross-sectional nature of our data set, which limits any inferences regarding causality. Lastly, over half of the responding board members were also CEO of the firm which may give some limitations in the interpretation of the results. While the CEOs' perceptions concerning the discussed behavioral board processes are valuable, ideally we would have had responses from different types of board members per firm so as to evaluate possible differences in perceptions regarding these processes (cf. Huse, 1993).

In addition to addressing the above limitations, many other challenges remain for future research. Firstly, the discussion of our results pointed to the potential value of distinguishing between cognition-based trust and affect-based trust when examining trust in board-CEO relationships. As indicated by Schoorman and colleagues (2007), little is known about the interplay of these cognitive and affective bases of trust. Our findings suggest that it is mainly the affection embedded in trusting relationships that stimulates advice interactions between the board and the CEO. Future research including direct measurements of these cognitive and affective components of both intentional and ability trust will need to verify this line of reasoning. Additionally, scholars may empirically examine to what extent family cohesion shapes the board's cognition-based as opposed to affect-based trust in the CEO. It is often argued that affection may lead to pathological or blind trust (e.g., Nooteboom, 2002). Therefore, a more detailed examination of the

relationship between family cohesion and the cognitive and affective components of trust, and how these two components interrelate, would further enhance our understanding of the threat of blind trust in highly cohesive family systems.

Second, in the present study we adopted the view that agency relationships are multifaceted and that CEOs may be trustworthy in some domains but not in others. While this view offers important insights into the balancing of trust and control by boards in their relationship with the CEO, our understanding of how boards behave given beliefs about the CEO's trustworthiness in a particular domain remains underdeveloped. That is, future conceptual and empirical research should elucidate how boards adapt the intensity and type of control (e.g., direct and overt vs. subtle and hidden) to the level of trust/distrust within specific domains of the CEO's behavior. In this regard, the role of various contingencies such as, for instance, the threat of litigation, board ownership, and the board members' exploitation aversion might be explored (Fehr, Fischbacher & Kosfeld, 2005; Mayer et al., 1995).

Another avenue for future research concerns the potential contribution of outside directors on family firm boards. Various studies have examined the contribution of outside directors on family firm boards; yet the results of these studies are very mixed (e.g., Schulze et al., 2001; Schwartz & Barnes, 1991; Westhead & Howorth, 2006). Given that the question whether or not to include outsiders on the board, and if yes, which type of outsiders, is one of the main family firm governance topics (Hoy & Verser, 1994), scholars should attempt to clarify these inconsistent findings. We propose that the framework presented in this study offers a useful lens for further exploring the value of these outsiders. More specifically, our framework suggests that the type of outside director that a family firm requires will depend on the current behavioral processes taking place within the board, with these behavioral processes being partly determined by the characteristics of the family. For example, outside directors who have "independence of mind" (Roberts et al., 2005) may be especially valuable for improving the effectiveness of board control when the board is composed of directors operating under strong family bonds to the CEO. On the other hand, when family cohesion is low and distrust prevails, "CEO-friendly" outsiders (Adams & Ferreira, 2007) may prove more valuable for the decision-making process as they can fulfill the CEO's needs for advice. Hence, we encourage scholars to use the presented framework to refine the understanding of outside directors on family firm boards.

On a related topic, scholars may explore the impact of family social capital on the views and behaviors of these outside directors. In the development of our hypotheses, we focused on the effects of family cohesion on board functioning via the beliefs and behaviors of those board members with a family bond to the CEO. However, as suggested by Arregle and colleagues (2007), family social capital may also influence nonfamily organizational members, for example,

through coercive, mimetic, or normative forces. Therefore, future research may examine these isomorphic processes within family firm boards and explore how these influence the performance of outside directors.

Another important avenue for future research is the study of possible determinants of family cohesion. Prior studies indicate that specific family events (e.g., illness of a relative) and geo-cultural differences (e.g., Latin vs. Germanic countries; urban vs. rural areas) are likely to impact the cohesiveness of families (Gomez-Mejia et al., 2001; Hasui, Kishida & Kitamura, 2004; Olson, 2000). Family business scholars may focus on those factors which are more specific for business families, such as the generational life cycle, relational governance mechanisms, and the idiosyncrasies of the succession process. There is mainly a need for more empirical research on the relationship between these factors and family cohesion.

Lastly, future research may examine to what extent the processes described in this article are unique to, or more characteristic for, a family firm setting. That is, social ties between board members and CEOs may also exist in nonfamily firms (Westphal, 1999). Our framework can be used to explore how differences between family and nonfamily firms regarding the incidence and affective nature of board-CEO social ties lead to differences in board functioning. This line of research would contribute to the further understanding of the distinctiveness of family firms as an organizational form.

In conclusion, by examining the impact of family cohesion on board functioning, this study enhanced the understanding of differences in organizational processes within the large population of family firms. Moreover, by revealing how boards can balance trust and control in their relationship with the CEO, this study integrated agency and stewardship perspectives of corporate governance. The model presented in this study incorporates the concepts of opportunism, stewardship, bounded rationality, and social capital, and therefore provides a useful lens for exploring the complexities of board processes in a family firm context. We hope that this study stimulates more research on family firm heterogeneity and board functioning using a behavioral and socially embedded governance perspective.

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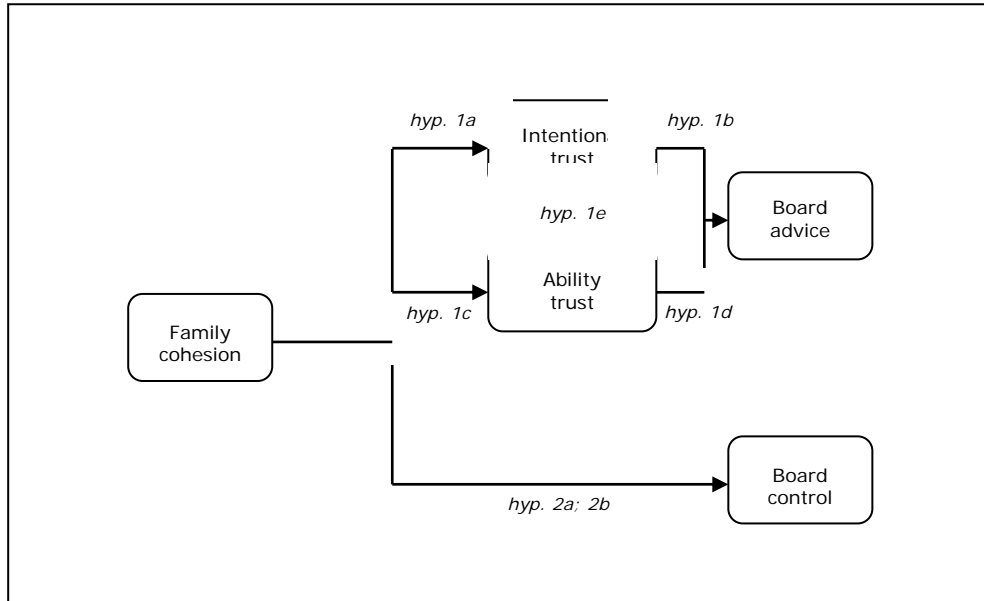
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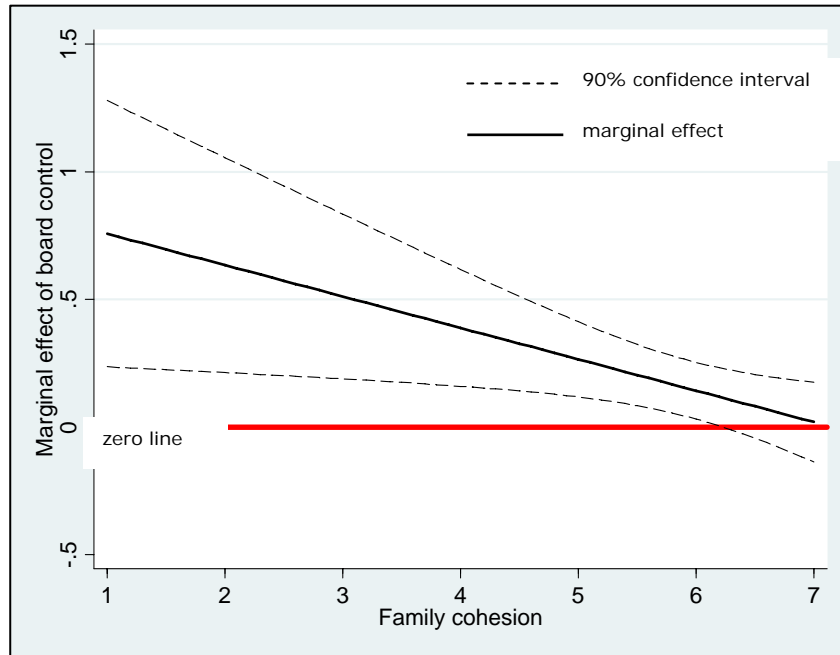
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**Figure 1**  
**Family cohesion and behavioral board processes**



**Figure 2**  
**Marginal effect of board control on board strategic contribution**  
**across the range of family cohesion values**



**Table 1**  
**Sample characteristics**

	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Median</b>	<b>Standard deviation</b>
<b># employees</b>	7	3000	123.8	34	377
<b>Sales (mio €)</b>	0.2	500	27.2	6.3	73.9
<b>% family managers</b>	14.3	100	75.5	75	27.3
<b>% family ownership</b>	40	100	95.5	100	12.4

**Table 2**  
**Factor loadings of measures**

Items	Factor loadings		
(evaluated on a 7-point Likert scale: 1 = minimally; 7 = very much so)			
<b>A: Board advice &amp; control</b>			
<i>Scales based on Gulati &amp; Westphal (1999), Westphal (1999); PCA with promax rotation (N=76); Total variance explained in retained items = 86.9%</i>			
To what extent...	<b>Board advice</b>	<b>Board control</b>	
- does the board provide assistance and advice to the CEO in the formulation of corporate strategy?	.882	-.005	
- does the board serve as a sounding board for the CEO on strategic issues?	.971	-.070	
- does the board provide advice and counsel in discussions on strategic topics?	.903	.021	
- does the board challenge the opinion of the CEO on strategic matters?	.726	.217	
- does the board formally evaluate the functioning of the CEO?	-.042	.982	
- does the board ask the CEO investigative questions on strategic decisions?	.064	.909	
<b>B: Board strategic contribution</b>			
<i>Scale based on Carpenter &amp; Westphal (2001); PCA (N=79); Total variance explained = 97.9%</i>			
To what extent...	<b>Board strategic contribution</b>		
- does the board add valuable insights on strategic issues?	.975		
- does the board make important contributions to the strategic decision-making process?	.975		
- does the board contribute to strategic discussions?	.965		
<b>C: Family cohesion, intentional trust &amp; ability trust</b>			
<i>Family cohesion scale based on Seashore (1954); Intentional trust scale based on Simons &amp; Peterson (2000); Ability trust scale based on Butler (1991); PCA with promax rotation (N=78); Total variance explained = 75.6%</i>			
To what extent...	<b>Family cohesion</b>	<b>Intentional trust</b>	<b>Ability trust</b>
- do the family members get along with each other?	.880	-.001	-.002
- do the family members help out one another?	.850	-.110	.146
- do the family members stick together as a group?	.913	.065	-.023
- are the family members ready to defend each other from external criticisms?	.917	.038	-.082
- is the board willing to count on the CEO to continually show absolute integrity when executing his/her responsibilities?	-.102	.784	.105
- is the board willing to rely on the CEO to always act in the best interest of the firm and the shareholders?	.046	.972	-.185
- is the board willing to count on the CEO to fully live up to his/her word?	.051	.774	.064
- is the board willing to rely on the CEO to always act competently?	-.019	-.158	.972
- is the board willing to count on the CEO to never perform poorly?	.040	-.050	.858
- is the board willing to fully depend on the CEO's skills when handling important business matters?	-.026	.362	.616
- is the board willing to count on the CEO to always do things in a capable manner, even when dealing with very complex matters?	.038	.261	.627
<b>D: Board knowledge</b>			
<i>Scale based on Huse (2008), Minichilli &amp; Hansen (2007); PCA (N=82); Total variance explained in retained items = 63.5%</i>			
To what extent do you agree with the following statements:	<b>Board knowledge</b>		
Our board is knowledgeable about:			
- critical firm activities and key business functions	.548		
- core technologies and competencies of the firm	.804		
- key weaknesses in the organization	.763		
- developments in the firm's technological environment	.801		
- health-, environment- and safety-related business matters	.764		
- customer needs and desires	.809		

**Table 3**  
**Descriptive statistics and Pearson correlation coefficients<sup>a</sup>**

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12
1. Board advice	5.034	1.491	1											
2. Board control	4.298	1.863	<b>.597</b>	1										
3. Board strategic contribution	5.246	1.534	<b>.712</b>	<b>.521</b>	1									
4. Family cohesion	5.923	1.017	<b>.560</b>	<b>.339</b>	<b>.477</b>	1								
5. Intentional trust	6.169	.707	<u>.275</u>	.058	.180	<b>.369</b>	1							
6. Ability trust	5.773	.775	<i>.213</i>	.156	<u>.233</u>	<b>.470</b>	<b>.667</b>	1						
7. % family bonds	.827	.245	-.095	-.024	-.167	-.198	-.153	-.051	1					
8. CEO ownership	.410	.248	-.188	-.102	-.014	.003	-.012	.219	.137	1				
9. CEO duality	.597	(0/1)	-.195	<u>-.300</u>	-.197	-.151	-.099	.038	<u>.239</u>	<u>.286</u>	1			
10. % inside directors	.754	.281	.136	.118	.105	.113	.091	.159	<u>.281</u>	<u>.266</u>	<u>.244</u>	1		
11. CEO tenure	17.305	11.525	.078	.102	-.040	.143	-.022	.171	.205	<b>.377</b>	<b>.425</b>	<b>.299</b>	1	
12. Board knowledge	5.925	.778	<u>.259</u>	<u>.275</u>	.145	.066	.270	<u>.246</u>	.141	.179	.173	<b>.316</b>	.156	1
13. Firm size <sup>b</sup>	15.802	1.437	.013	.064	.126	-.001	-.134	-.116	<b>-.388</b>	<u>-.273</u>	-.237	<b>-.342</b>	-.206	<u>-.301</u>

<sup>a</sup> Correlations in *italics* are significant at the 0.10 level; underlined at the 0.05 level; in **bold** at the 0.01 level.

<sup>b</sup> Logarithm of sales.

**Table 4**  
**Results of regression models (hyp. 1)**

	(1) Intentional trust <sup>a</sup>	(2) Ability trust	(3) Board advice	(4) Board advice	(5) Board advice
<b>Family cohesion</b>	.184** (.089)	.245*** (.090)		.696*** (.156)	.623*** (.164)
<b>Intentional trust</b>			.601* (.317)		.293 (.220)
<b>Ability trust</b>			-.044 (.322)		
<b>% family bonds</b>	-.401 (.361)	-.253 (.376)	-.131 (.757)	.194 (0.681)	.340 (.685)
<b>CEO ownership</b>	.145 (.336)	.639* (.349)	-1.541** (.698)	-1.332** (.610)	-1.388** (.607)
<b>CEO tenure</b>	-.009 (.008)	.002 (.008)	.027 (.016)	.011 (.014)	.013 (.014)
<b>Board knowledge</b>	.202* (.111)	.132 (.113)	.498** (.222)	.539*** (.196)	.500** (.197)
<b>Firm size</b>	-.071 (.063)	-.058 (.065)	.125 (.129)	.109 (.114)	.136 (.115)
<i>N</i>	65	66	63	63	63
<i>Adj. R</i> <sup>2</sup>	.103*	.147**	.173**	.335***	.344***

\*, \*\*, \*\*\* significant at 0.10, 0.05, 0.01 level respectively; Standard errors reported in parentheses; Intercept not reported; <sup>a</sup>One outlier deleted due to non-normality concerns.

**Table 5**  
**Results of regression models (hyp. 2)**

	(1) Board control	(2) Board strategic contribution <sup>a,b,c</sup>
Family cohesion	.530** (.223)	.183 (.173)
Board control		.152** (.066)
Family cohesion * board control		-.123* (.062)
% family bonds	1.176 (.973)	-.508 (.507)
CEO ownership	-1.155 (.871)	1.465** (.569)
CEO tenure	.024 (.020)	-.010 (.009)
Board knowledge	.607** (.280)	.028 (.169)
Firm size	.309* (.163)	-.006 (.082)
Board advice		.604*** (.143)
<i>N</i>	63	62
(Adj.) <i>R</i> <sup>2</sup>	.141**	.650***

\*, \*\*, \*\*\* significant at 0.10, 0.05, 0.01 level respectively; Standard errors reported in parentheses; Intercept not reported; <sup>a</sup>One outlier deleted due to non-normality concerns; <sup>b</sup>Estimates based on the White-corrected standard errors; <sup>c</sup>Cov(coefficient board control, coefficient interaction term) = -0.00007992.

## NOTES

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<sup>1</sup> Note that regarding the providing of advice we mainly expect an effect of family cohesion – via its influence on trust – on the level of advice interactions, and not so much on the effectiveness of board advice. This because trust is generally viewed as a facilitator of advice by increasing the openness for (and thus level of) advice, but not as an antecedent of advice effectiveness. Nonetheless, the impact of family cohesion on the effectiveness of board advice will also be tested in additional analyses (cf. *infra*).

<sup>2</sup> Belgium has a one-tier board system with a minimum of three board members per firm (two board members suffice for those limited liability firms having less than three owners), CEO duality is allowed for, and since 2005 there is a corporate governance code for privately-held (family) firms.

<sup>3</sup> Similarly, the board's strategic contribution can be used to assess the effectiveness of board advice (Carpenter & Westphal, 2001; Mustakallio et al., 2002). Although not hypothesized, potential determinants of advice effectiveness will be tested in additional analyses.

<sup>4</sup> In our sample, on average 75 percent of the involved family members were also board member, and over 80 percent of the board members were member of the CEO's family.

<sup>5</sup> As indicated, over half of the responding board members were themselves also the CEO of the firm. Seeing that trust and control refer to social processes involving an assessment of the CEO's motivation and competencies, we tested whether the responses on the variables 'board control', 'intentional trust' and 'ability trust' differed between those board members who were also CEO and those who weren't. T-tests indicated that there are no significant differences between both groups of respondents, suggesting that the CEOs did not systematically evaluate these variables more favorably than the other respondents.

<sup>6</sup> The percentage of inside directors did not have a significant impact on the dependent variable in any of our analyses. In those instances where CEO duality had a significant impact on the dependent variable, we will mention this in the discussion of our results.

<sup>7</sup> This would also explain the significant negative effect of CEO duality on the level of board advice (t-value = -1.84; p-value = 0.071) that we found in panel 3 when doing the analysis with CEO duality instead of CEO ownership as a control variable.

<sup>8</sup> In an additional analysis (not reported), we tested the possibility of a curvilinear relationship between family cohesion and the level of board control. As the results showed that the marginal effect of family cohesion on board control (i.e.,  $\partial \text{board control} / \partial \text{family cohesion}$ ) was either positive or non-significant across the range of possible family cohesion values, we found no support for this alternative hypothesis.

<sup>9</sup> In an additional analysis (not reported) we tested whether family cohesion influences the effectiveness of board advice. We found that the effect of the interaction term 'family cohesion\*board advice' on board strategic contribution was non-significant. Hence, as expected, family cohesion only impacts the openness for, and thus level of, board advice (panel 5 of Table 4).

<sup>10</sup> In line with the general governance literature, we also found a negative impact of CEO duality on the level of board control (t-value = -3.19; p-value = 0.002) when using CEO duality as a control variable instead of CEO ownership in panel 1 of Table 5.