DOCTORAATSPROEFSCHRIFT

2008 | Faculteit Toegepaste Economische Wetenschappen

Boards of Directors in Family Firms

Generational Dynamics and the Board's Control and Advisory Tasks

Proefschrift voorgelegd tot het behalen van de graad van
Doctor in de Toegepaste Economische Wetenschappen, te verdedigen door:

Yannick BAMMENS

Promotor: prof. dr. Wim Voordeckers
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ABSTRACT

The objective of this dissertation is to enhance the understanding of the board's control and advisory tasks in a family firm context. For this purpose, a generational life cycle and process approach are applied. The empirical results indicate that the generational phase has a significant impact on board task needs, board composition, and behavioral board processes. More specifically, the need for board advice shows a convex generational trend and these advice needs act as a mediator in the relationship between generation and the presence of outside directors. Moreover, the need for board control increases over the generations. However, contrary to our expectations, these control needs do not act as a mediator in the relationship between generation and the number of family directors. Regarding the relationship between the generational evolution and behavioral board processes, our results reveal that generation has a negative influence on the board's intentional and ability trust in the family CEO, and a negative influence on the effectiveness of the control that the board exercises over the family CEO. Overall, these results highlight the importance of tailoring family firm boards to the requirements and specificities of the generational phase.

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Yannick Bammens,
Bilzen, augustus 2008

SAMENVATTING (*summary)*

Corporate governance kan omschreven worden als het geheel van structuren en processen die helpen verzekeren dat beslissingnemers binnen ondernemingen in het beste belang van de onderneming handelen, en die deze beslissingnemers ondersteunen in het nastreven van de bedrijfsdoelstellingen. Het uitwerken van een effectief corporate governance systeem kan van groot belang zijn voor de stabiliteit en lange termijn performantie van ondernemingen. Totnogtoe ging in het corporate governance debat de meeste aandacht uit naar grote beursgenoteerde bedrijven. Recentelijk echter, is het besef gegroeid dat het de kleinere familiale ondernemingen zijn die in de meeste landen de grootste economische bijdrage leveren. Er is dan ook zowel bij beleidsmakers als academici een toenemende interesse voor het bestuur van familiebedrijven. Hierbij ligt de focus veelal op een goede werking van de raad van bestuur, hetgeen beschouwd wordt als zijnde een essentieel onderdeel van een effectief corporate governance systeem. Familiale ondernemingen zijn echter zeer divers, en het is wenselijk om een beter inzicht te krijgen in de werking van raden van bestuur in verschillende types van familiebedrijven.

In dit doctoraatsproject werd onderzocht op welke wijze de werking van een raad van bestuur samenhangt met de generatiefase waarin het familiebedrijf zich bevindt. Het argument hierbij is dat er zich doorheen de generaties belangrijke wijzigingen voordoen binnen het familiesysteem, en dat deze generatiewijzigingen een impact zullen hebben op de governance noden van het familiebedrijf en de performantie van de raad van bestuur. Met betrekking tot de werking van de raad van bestuur ligt de focus van dit doctoraat op de interne bestuurstaken, met name het uitoefenen van controle over het managementteam en het verschaffen van advies. Kortom, de doelstelling van dit doctoraat is om een beter inzicht te krijgen in de relatie tussen de generatiefase waarin een familiebedrijf zich bevindt enerzijds, en de advies- en controletaken van de raad van bestuur anderzijds.

In een eerste empirische studie werd er nagegaan hoe de nood aan de advies- en controletaken van de raad van bestuur wijzigt doorheen de generaties, en welke impact deze veranderende governance noden hebben op de samenstelling van de raad van bestuur. De resultaten tonen aan dat de nood aan adviesverlening door de raad van bestuur afneemt van de eerste naar de tweede generatie, en opnieuw toeneemt van de tweede naar latere generaties. Voorgaand onderzoek duidt erop dat deze daling in de nood aan advies van de eerste naar de tweede generatie veelal een gevolg is van de bedrijfservaring en -kennis die de familie opbouwt doorheen de generaties. De toename in de nood aan advies van de tweede naar latere generaties kan verklaard worden door de toenemende mate van conflict binnen de familie, waarbij de raad van bestuur een belangrijke adviserende en bemiddelende rol kan spelen. De resultaten tonen tevens aan dat de aanwezigheid van externe bestuurders daalt van de eerste naar de tweede generatie, en opnieuw licht toeneemt van de tweede naar latere generaties – en dat deze generatiewijzingen in de aanwezigheid van externe bestuurders een direct gevolg zijn van de veranderingen in de nood aan advies.

Met betrekking tot de controletaak van de raad van bestuur, duiden onze resultaten erop dat de nood aan controle toeneemt over de generaties. Deze toename in de nood om controle uit te oefenen over het managementteam kan verklaard worden door het feit dat families in een verdere generatie veelal gekenmerkt worden door meer onenigheid omtrent bedrijfszaken en minder onderling vertrouwen. Een laatste bevinding van deze eerste empirische studie is dat het aantal familiale bestuurders licht toeneemt over de generaties, maar dat – in tegenstelling tot hetgeen wij vooropstelden – deze toename niet verklaard wordt door de toenemende nood aan controle.

In onze eerste studie lag de focus dus op generatiewijzigingen in de nood aan advies en controle, en hoe deze veranderende governance noden de samenstelling van de raad van bestuur beïnvloeden. In een tweede empirische studie werd de relatie onderzocht tussen de generatiefase en de daadwerkelijke uitvoering van de advies- en controletaken door de bestuurders. Het vertrekpunt hierbij was dat bestuurders van familiebedrijven vaak deel uitmaken van de familie van de bedrijfsleider, en dat generatiewijzigingen in de cohesie van deze familie een impact zouden hebben op de bestuursprocessen. Onze bevindingen duiden erop dat de mate van familiale cohesie inderdaad een sterke invloed heeft op verscheidene processen binnen de raad van bestuur. Meer specifiek vinden we dat een hogere mate van familiale cohesie gepaard gaat met meer vertrouwen van de raad van bestuur in de familiale bedrijfsleider en een grotere openheid voor adviesinteracties. Tevens blijkt dat bij een toenemende mate van familiale cohesie, de raad van bestuur meer controle uitoefent over de familiale bedrijfsleider maar dat de effectiviteit van de uitgeoefende controle afneemt.

Zoals vermeld, verwachtten we dat de generatiefase via haar effect op de mate van familiale cohesie een impact zou hebben op bovengenoemde processen binnen de raad van bestuur. Uit onze resultaten blijkt evenwel dat de mate van familiale cohesie niet samenhangt met de generatiefase. Dit duidt erop dat vele families in staat zijn om de cohesie tussen de familieleden op niveau te houden doorheen de generaties. Wel vonden we een aantal directe effecten (dus niet via de mate van familiale cohesie) van de generatiefase op de bestuursprocessen; met name een negatief effect op de mate van vertrouwen van de bestuurders in de familiale bedrijfsleider, en een negatief effect op de effectiviteit van de uitgeoefende controle.

Samengevat, uit onze analyses blijkt dat de generatiefase een significante invloed heeft op de governance noden, de samenstelling van de raad van bestuur, en de processen binnen de raad van bestuur. Dit toont aan dat men wel degelijk rekening moet houden met de generatiefase waarin het familiebedrijf zich bevindt wanneer men tracht een effectief governance systeem te installeren en de werking van de raad van bestuur te verbeteren.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

1

INTRODUCTION

1.1 INTRODUCTION

The objective of this dissertation is to enhance the understanding of boards of directors in a family firm context. Boards are a central element of a firm's governance system, and this dissertation focuses on their tasks as an administrative body – i.e., exercising control over management and providing advice (cf. Carpenter & Westphal, 2001; Pfeffer & Salancik, 1978; Westphal, 1999). This introductory chapter clarifies the main concepts used in this dissertation, namely governance, boards of directors, control, advice, and family firms. Furthermore, it elucidates the importance of studying boards in a family firm context, and clarifies the main research approaches employed in this dissertation. Lastly, this chapter specifies our research questions and outlines the structure of this dissertation.

1.2 GOVERNANCE & THE BOARD OF DIRECTORS

The main research topic of this dissertation is the board of directors, which is generally viewed as the corner stone of a good corporate governance system (e.g., Daily, Dalton & Cannella, 2003; Fama & Jensen, 1983a; Lane et al., 2006; Zahra, Neubaum & Huse, 2000). This section first clarifies the concept of corporate governance, and then considers the governance tasks of the board of directors.

Definitions of corporate governance abound (cf. Pieper, 2003; Van den Heuvel, 2006), yet all definitions have been argued to be limited in some way or another as they are all based on a particular perspective within a particular context (Huse, 2005a; Tirole, 2001). However, most definitions or descriptions of governance tend to emphasize the importance of exercising control over corporate decision-makers and holding them accountable for their actions (e.g., Barnhart & Rosenstein, 1998; Baysinger & Hoskisson, 1990; Keasey & Wright, 1993; Monks & Minow, 2004). This emphasis on the control tasks of corporate governance is grounded in the agency view that corporate decision-makers may take actions that decrease firm value, especially (but not exclusively) in settings where ownership and control are separated (Anderson & Reeb, 2004; Berle & Means, 1932; Fama & Jensen, 1983a,b; Jensen & Meckling, 1976; Morck & Yeung, 2003; Schulze et al., 2001; Shleifer & Vishny, 1997).

Fuelled by the scant empirical evidence in support of this agency view of corporate governance (Dalton et al., 1998; 1999; 2003) and criticisms of its fundamental assumptions regarding human motivation (Davis, Schoorman & Donaldson, 1997; Donaldson, 1990), there is now increased recognition that governance is also about enabling and supporting decision-makers to maximize firm value (Daily et al., 2003; Filatotchev & Wright, 2005; Sundaramurthy & Lewis, 2003; Uhlaner, Wright & Huse, 2007). In the words of Lane and colleagues (2006: 150), "it is the balance between monitoring and collaboration among governance actors that allows for an effective governance system". In line with these developments, this dissertation views corporate governance as the system of structures and processes aimed at ensuring that corporate decision-makers act in the best interests of the firm, and, simultaneously, at supporting them in doing so.

Scholars have identified various governance mechanisms (e.g., market for corporate control, boards of directors, product market competition, advisory councils, social control), and this dissertation focuses on the potential contribution of boards of directors. It can be noted that not all firms may decide to install a board, and that some boards (the so-called phantom or rubber stamp boards) are only installed to meet legal requirements without much actual board involvement (Lane et al., 2006; Pieper, Klein & Jaskiewicz, 2008). However, several studies have indicated that when boards effectively perform their governance tasks, they can have a beneficial influence on corporate decision-making and contribute to the organizational value creation process (e.g., Mustakallio, Autio & Zahra, 2002; Westphal, 1999). Regarding the governance tasks that a board can perform, this dissertation builds on prior literature in which a distinction is made between the board's tasks as an administrative body and its tasks as a linking mechanism between the firm and the external environment (Pfeffer & Salancik, 1978; Westphal, 1999). As for the board's administrative tasks, a further distinction is made between its control and advisory tasks (Carpenter & Westphal, 2001; Westphal, 1999)[1]. This dissertation focuses on the board's administrative tasks, and examines the contribution that a board can make by exercising control over management (the ensuring part of governance) and providing advice (the supporting part).

As we focus on board control and advice, we will now briefly elucidate these concepts. Control is about influencing the behavior of other people, in casu the management team, so as to ensure that they act in an effective and cooperative manner (Das & Teng, 2001; Lebas & Wiegenstein, 1986). The importance of board control is grounded in the awareness that managers have their limitations, both in terms of efforts and cognitive capacities (Lewicki, McAllister & Bies, 1998; Sundaramurthy & Lewis, 2003). Hence, board control is both about limiting managerial opportunism (which is emphasized in standard agency theory) and challenging the managers' strategic views so as to lower the likelihood of misjudgments, misinterpretations, and the like (Sundaramurthy & Lewis, 2003; Westphal & Stern, 2007). Board advice on the other hand, is a type of helping behavior in which the management team uses the board as an additional source of information or as a sounding board (Westphal, 1999). The provision of advice will often be at the request of management, and does not limit managerial discretion over the decision-making process (Adams & Ferreira, 2007; Gulati & Westphal, 1999; Westphal & Stern, 2007).

[1] Another distinction that is commonly made in the literature is that between a board's control and service tasks (e.g., Forbes & Milliken, 1999; Hillman & Dalziel, 2003). From that perspective, providing advice and linking the firm to its external environment are both service tasks.

Our focus on the board's control and advisory tasks is in line with many previous studies interested in examining how boards can combine these tasks in their relationship with the management team so as to create value for the firm (e.g., Adams & Ferreira, 2007; Westphal, 1999; Westphal & Stern, 2007). That is, several scholars have indicated that there exists a tension between both tasks because control is grounded in distrust and supposedly requires boards to be independent of management whilst the provision of advice calls for close trusting relationships between board and management. This dissertation will contribute to this debate on how boards can combine control and advice in their relationship with management by examining contingencies that explain the varying importance of board control and advice, and by exploring how control/distrust and advice/trust can be effectively balanced in the board-management relationship.

To sum up, this dissertation focuses on the board's control and advisory tasks as two central elements of a firm's governance system. Given that the context in which boards are embedded conditions their functioning (Gabrielsson & Huse, 2004; Huse, 2005a,b), the next section discusses the context in which this dissertation studies boards.

1.3 CONTEXTUALIZATION

Family Firm Context. This dissertation studies boards of directors in a family firm context. Although no definition of family firms has yet gained widespread acceptance, the main distinguishing characteristic of these types of firms is that organizational processes and corporate policy are substantially influenced by a family system (Chua, Chrisman & Sharma, 1999; Donnelley, 1964; Pratt & Davis, 1986; Sharma, 2004), typically through family involvement in ownership (Carsrud, 1994; Gallo & Sveen, 1991; Davis, 1983; Neubauer & Lank, 1998) and/or top management (Arregle et al., 2007; Handler, 1989; Litz, 1995; Tagiuri & Davis, 1996). Family firms warrant the attention of scholars as they represent a vital part of economic life. Various studies highlight that family firms are the predominant form of business organization around the world, and that they contribute extensively to gross national products and employment (Astrachan & Shanker, 2003; Burkart, Panunzi & Shleifer, 2003; IFERA, 2003; Westhead & Cowling, 1998). While family firms are especially prevalent among privately-held SMEs (Daily & Dollinger, 1993; Donckels & Fröhlich, 1991; Van den Heuvel, 2006), many of the largest publicly-traded corporations are also controlled by families (Claessens, Djankov & Lang, 2000; La Porta, Lopez-de-Silanes & Shleifer, 1999). Besides the economic importance of family firms, it is valuable to examine boards in this setting as these firms differ in important ways from non-family firms due to the influence of the family system.

Studies comparing the traits of family and non-family firms indeed found significant differences in organizational behaviors, structures, goals, and performance (Chrisman, Chua & Sharma, 2005a; Daily & Dollinger, 1993; Donckels & Fröhlich, 1991; Gomez-Mejia et al., 2007; Sharma, 2004; Westhead, Cowling & Howorth, 2001). Over the years, scholars have identified various concepts (e.g., paternalism, parental altruism, particularism, family social capital) that enhance the understanding of how the family system influences organizational processes (Arregle et al., 2007; Carney, 2005; Johannisson & Huse, 2000; Schulze et al., 2001). While many of these contributions are fragmented in the sense that they do not adhere to a coherent framework, two dominant theoretical perspectives for analyzing the distinctive nature of family firms have recently emerged, namely the resource-based view of the firm and agency theory (Chrisman et al., 2005a; Chua, Chrisman & Steier, 2003; Sharma, 2004). As argued by Chua et al. (2003: 333), these two theoretical perspectives may "help impose more discipline and structure on family business research".

Those family business scholars applying the resource-based view emphasize the potential benefits of family involvement. More specifically, these scholars are interested in identifying the unique bundle of resources that a firm possesses as a result of the interaction between the family and the business systems, and they examine how the management of these "familiness" resources may lead to competitive advantages for family firms (Habbershon & Williams, 1999; Habbershon, Williams & MacMillan, 2003; Sirmon & Hitt, 2003). Conversely, family business scholars employing the agency perspective typically focus on the negative side of family involvement. Within an agency framework, the concept of parental altruism – which is argued to exacerbate self-control problems – appears most promising for distinguishing between family and non-family firms (Chrisman, Chua & Litz, 2004; Schulze et al., 2001). To sum up, consensus is growing that family firms represent a distinct organizational form, with the resource-based view of the firm and agency theory emerging as the two dominant theoretical paradigms for exploring these firms' distinctive organizational traits (Chrisman et al., 2005a).

Acknowledging that family firms represent a unique and economic important organizational form, various prior studies have examined boards in this setting. While we leave an in-depth discussion of these studies for the next chapter, it can be noted that both theoretical and empirical work on family firm boards suggest that the family system has a strong influence on various board dimensions. For instance, the content of certain board tasks is quite specific for family firms, such as resolving family disagreements (Lester & Cannella, 2006) and restraining the owner-managers' altruistic tendencies (Schulze et al., 2001). Moreover, board composition is also affected as family firm boards are typically largely composed of relatives of the family CEO (Lane et al., 2006; Voordeckers, Van Gils & Van den Heuvel, 2007). Lastly, the behaviors of the board in terms of its activeness and effectiveness have also been argued to be significantly influenced by the involvement of the family (Gomez-Mejia, Nunez-Nickel & Gutierrez, 2001; Lane et al., 2006; Schulze, Lubatkin & Dino, 2003a). The distinctive nature of family firms thus critically conditions their boards of directors as a governance mechanism. In this dissertation we aim to enhance the understanding of family firm boards, amongst others, by analyzing empirical data obtained from Belgian family firms. Therefore, before proceeding with a discussion of the employed research approaches, some background information on the Belgian governance context is provided so as to further contextualize the empirical studies of this doctoral dissertation.

Belgian Governance Context. Belgium can be classified as a French-civil-law country with a one-tier board system. All limited liability firms (*Naamloze Vennootschappen*) have the legal obligation to install a board of directors with at least three directors (two directors suffice for those firms having less than three owners). The directors are appointed by the general meeting of shareholders for a maximum period of six years with a possibility for reappointment, and they can be fired *ad nutum* by the general meeting. Auditors are not allowed to take up a position as director. Accountants and attorneys are allowed to take up a director position under exceptional circumstances only (e.g., when a firm is confronted with severe organizational problems). Boards of directors have legal authority over all corporate matters not reserved for the general meeting; yet with the exception of a number of duties which the law explicitly reserves for the board, such as the exercise of control, boards may delegate their tasks to a management team. Members of the management team can also be a member of the board, and CEO duality is allowed for. Belgium has a corporate governance code for publicly-traded firms (Code Lippens) since 2004, and one for privately-held firms with special recommendations for family firms (Code Buysse) since 2005. Whilst the Code Lippens is based on the "comply or explain" principle, the Code Buysse fully acknowledges the diversity within the group of privately-held firms and can be viewed as a set of contingent recommendations.

1.4 RESEARCH APPROACHES

This section clarifies the research approaches that this dissertation employs when examining the family firm board's control and advisory tasks, namely a generational life cycle and process approach.

Life Cycle Approach. Consensus regarding the distinctive nature of family firms seems to be growing among scholars. However, family firms should not be viewed as a homogeneous organizational form (Chrisman, Steier & Chua, 2006; Nordqvist, 2005). Different types of family firms exist with different governance characteristics. While they all have in common that a family system significantly influences their organizational processes and corporate policy, the nature of this family influence may vary across family firms (Corbetta & Salvato, 2004a; Miller & Le Breton-Miller, 2006; Steier, 2001; 2003). This dissertation acknowledges these differences by taking a life cycle perspective when examining family firm boards.

The central premise of life cycle models is that opportunities, difficulties, and behaviors change across the different stages of a firm's life cycle (Anderson & Zeithaml, 1984; Dodge & Robbins, 1992). In the general governance literature (i.e., not specific for family firms), a number of scholars have explored how life cycle changes related to the business system impact the characteristics of boards of directors (e.g., Filatotchev & Wright, 2005; Lynall, Golden & Hillman, 2003). Specific for family firms, however, is the presence of the family system, and generational changes in this family system have been argued to have a strong influence on the family firm (Gersick et al., 1997; Lubatkin et al., 2005; Sonfield & Lussier, 2004). As these generational changes are unique to the family firm context, these will be our focus when applying the life cycle approach.

Regarding the generational life cycle, family business scholars typically distinguish between three generational forms (Gersick et al., 1997; Lubatkin et al., 2005; Neubauer & Lank, 1998; Sonfield & Lussier, 2004; Steier, 2001; Ward & Dolan, 1998), namely: (1) Controlling-owner firms where the shares are concentrated in the hands of a single owner-manager who is usually the founder of the firm and the head of the household; (2) Sibling partnerships where ownership has been transferred to several siblings, with some of these sibling-owners possibly not being active in management; and (3) Cousin consortia where ownership is further fractionalized as it has been passed on to third and later generations. As will be revealed in the next chapter, current academic knowledge concerning the impact of this generational evolution on family firm boards is largely undeveloped.

Process Approach. Most previous research on boards of directors can be described as "input-output" or "black box" research (Gabrielsson & Huse, 2004; Huse, 1998; 2005a). This essentially means that these studies examined direct relationships between relatively easily measurable variables such as, for example, board composition and firm performance, while making inferences about the intervening processes that presumably link these variables (Huse, 2000; Pettigrew, 1992; Roberts, McNulty & Stiles, 2005). The problem with these input-output models is that the empirical results are often weak or inconsistent (Daily et al., 2003; Huse, 1998; Finkelstein & Mooney, 2003). As stated by Forbes and Milliken (1999: 490), the relationship between these variables "may not be simple and direct, as many past studies presume, but, rather, complex and indirect". It has thus been argued that researchers need to pay more attention to intervening processes when doing research on boards (Daily et al., 2003; Huse, 1998). Such process variables refer to psychological dimensions (e.g., cohesion, trust, needs, power) and actual actions and behaviors (e.g., monitoring, advising) (Smith et al., 1994). In recent years, governance scholars have devised conceptual models that provide additional insights into board processes (e.g., Forbes & Milliken, 1999; Huse, 2005b), and an increasing number of empirical studies on corporate boards point to the value of including direct measurements of process variables (e.g., Gabrielsson & Winlund, 2000; Huse, 2008; Huse, Minichilli & Schoning, 2005; Minichilli & Hansen, 2007; Westphal, 1998; Westphal & Stern, 2007).

Our literature review in the next chapter will reveal that there is a strong need for this type of process research to further enhance the understanding of family firm boards. That is, most prior studies on family firm boards tended to examine direct relationships between contingency variables (e.g., firm size, generation, family ownership) and board composition, or between board composition and some outcome measure (e.g., corporate performance, financial disclosure), with inadequate attention to the intervening processes. As in the general literature on boards, the findings of these studies were often ambiguous. This dissertation recognizes the shortcomings of these input-output models and, in line with the recent developments in the governance literature, will examine the main intervening processes when studying family firm boards.

1.5 RESEARCH QUESTIONS & OUTLINE OF THE DISSERTATION

The objective of this dissertation is to enhance the understanding of the board's control and advisory tasks in a family firm context by exploring generational differences and including measurements of intervening processes. Our overall research question can be formulated as follows: *How do generational dynamics in the family system relate to the control and advisory tasks of family firm boards?* This broad research question will be dealt with by addressing several more specific research questions in chapters 3 and 4 of this dissertation. First, however, **chapter 2** provides a reflective moment by reviewing the existing body of literature on family firm boards. Given the focus of this dissertation, the review will be structured according to the two administrative tasks of a board, namely exercising control and providing advice. We will discuss the theoretical perspectives underlying the importance of these tasks in a family firm setting and give an overview of the main empirical findings. This review will also enable us to better position the contributions of this dissertation within the existing body of literature.

The expectation that firms in a different life cycle stage have different governance needs (Filatotchev & Wright, 2005; Steier, 2001), and that these firms may adapt the composition of their board accordingly (Huse, 2005b; Lynall et al., 2003), forms the basis of the study presented in **chapter 3**. More specifically, this chapter addresses the following two research questions: *(1) How does the generational phase of the family firm influence the need for board control and advice?,* and *(2) How do these changing board task needs affect the composition of the family firm board?* Given the poor survival rate of family firms (Birley, 1986; Neubauer & Lank, 1998), it is important to gain a better understanding of how board task needs alter over the generations. Moreover, few prior studies have examined the relationship between the generational phase and board composition, and those that did showed inconsistent findings (e.g., Fiegener et al., 2000a; Voordeckers et al., 2007; Westhead, Howorth & Cowling, 2002).

While chapter 3 examines the impact of the generational evolution on board task needs and board composition, **chapter 4** will explore generational variations in the family firm board's actual performance of the control and advisory tasks. Given that current academic knowledge on how boards can effectively combine both tasks is still underdeveloped (Daily et al., 2003; cf. supra), this chapter first considers the following question: *(3) How can boards combine the exercising of control (which is grounded in distrust) and the providing of advice (which requires trusting relationships) in their relationship with management?* This chapter draws mainly on the trust literature to integrate and refine ideas on how board members can employ trust and control in a complementary manner. Then, building on these insights, we will address our last research question, namely: *(4) How does the generational phase of the family firm influence the board's capacity to perform the control and advisory tasks?* When examining this relationship between the generational phase and board task performance, we will focus on the level of family cohesion as a potential mediator. Lastly, to conclude, **chapter 5** summarizes the main empirical findings of this dissertation, and discusses its most important theoretical and practical implications.

2

THE BOARD'S CONTROL AND ADVISORY TASKS IN FAMILY FIRMS: AN OVERVIEW OF THEORETICAL PERSPECTIVES AND EMPIRICAL FINDINGS

2.1 INTRODUCTION

Family firms represent a unique organizational form because of the substantial influence that family systems have on organizational processes and corporate policy, typically via family involvement in ownership and management (Arregle et al., 2007; Chua et al., 1999; Sharma, 2004). Over the years many scholars have examined this organizational form, with most research focused on issues of firm sustainability such as succession and governance (Hoy & Verser, 1994; Zahra & Sharma, 2004). As a field of study develops it is important to occasionally take stock of the literature, and in this chapter we will review the literature on family firm boards.

The number of articles on family firm boards increased rapidly in the late 1980s, yet many of these early writings were based on the experience of practitioners such as consultants and business owners, and lacked systematic analysis and scientific rigor (e.g., Harris, 1989; Heidrick, 1988; Mathile, 1988). Since the beginning of the new millennium, however, academic interest in the topic of family firm boards soared, with various studies indicating that boards may indeed have an important influence on the performance and continuity of family firms (e.g., Anderson & Reeb, 2004; Corbetta & Salvato, 2004a; Johannisson & Huse, 2000; Lester & Cannella, 2006; Mustakallio et al., 2002).

Given the purpose of this dissertation, this review focuses on and organizes the literature according to the board's tasks as an administrative body, namely the exercise of control (section 2.2) and the provision of advice (section 2.3). In both sections, we first provide an in-depth discussion of the theoretical perspectives underlying the importance and value of these board tasks in a family firm context. Given that the board members' required qualities to be effective contributors depend on the task at hand (Adams & Ferreira, 2007; Huse, 2005b), we also devote a subsection to a discussion of these board members qualities. Lastly, in both sections, an overview is given of the main empirical findings related to these board tasks in a family firm setting. In the final section of this chapter (section 2.4), we reflect on the current status of research and position the empirical studies of this doctoral dissertation (chapters 3 and 4) in the existing literature.

2.2 THE BOARD'S CONTROL TASKS

2.2.1 Importance of Board Control in Family Firms

The importance of board control is grounded in agency theory (Jensen & Meckling, 1976)[2], which is the most dominant theoretical perspective in the corporate governance debate. Agency theory emphasizes that decision-makers may not act in the best interests of the firm and its shareholders. From this perspective, the board of directors is viewed as an important internal control mechanism for ensuring that decision-makers maximize firm value (Eisenhardt, 1989; Fama & Jensen, 1983a).

While in the general governance literature applying agency theory decision-makers are generally portrayed as self-interested economic utility-maximizers (for a discussion, see Hendry, 2005), applications of agency theory in a family firm setting tend to emphasize (nuclear) family-interests, and consider both economic and noneconomic motives of behavior. Four different types of agency problems can be identified in a family firm context, namely

[2] It can be noted that, over the years, scholars applying agency theory have complemented/extended the original Jensen & Meckling model with insights from other fields such as, for instance, behavioral economics (e.g., Hendry, 2002; Lubatkin et al., 2005) and organizational control theory (e.g., Baysinger & Hoskisson, 1990; Eisenhardt, 1985; 1989).

those related to (1) families expropriating firm wealth, (2) families pursuing noneconomic objectives, (3) self-control problems which are aggravated by parental altruism, and (4) intra-family divergence of interests. Regarding these agency problems, family firm boards are expected to play a critical role in reducing information asymmetries and in limiting the discretion of family decision-makers (e.g., Anderson & Reeb, 2004; Gabrielsson & Huse, 2005; Schulze et al., 2001). We will now discuss these four types of agency problems in greater detail.

Expropriation of Firm Wealth. Regarding board control in a family firm setting, scholars have most often examined the agency problems that may arise between owning-families on the one hand, and non-family shareholders on the other. This agency problem is assumed to be most significant in family-controlled public firms, where families often obtain control significantly in excess of their cash flow rights due to their participation in management and the use of mechanisms such as pyramid structures and dual class voting shares (La Porta et al., 1999; Morck & Yeung, 2003; Sacristan-Navarro & Gomez-Anson, 2007). In these firms, owning-families have great potential to expropriate firm (economic) wealth at the expense of minority shareholders through, for example, special dividends, excessive compensation, and tunneling activities (Anderson & Reeb, 2004; Ben-Amar & André, 2006). It is therefore argued that oversight by an independent[3] board of directors is required to protect the interests of the minority non-family shareholders (Anderson & Reeb, 2004; Miller & Le Breton-Miller, 2006).

Although clear agency theoretical distinctions between family-controlled public firms and private family firms remain underdeveloped, family ownership is typically much more concentrated in private family firms (Anderson & Reeb, 2004; Lubatkin et al., 2005; Schulze et al., 2001). As a consequence, in privately-held family firms the economic welfare of the family is closely aligned with firm wealth – significantly reducing the threat of expropriation. Therefore, while the focus in a public setting was on families increasing their economic

[3] The term "independent" will be further elucidated in section 2.2.2.

welfare at the expense of minority non-family shareholders, in a private setting this focus has shifted to families pursuing noneconomic objectives which might be detrimental to economic performance and the interests of non-family stakeholders (e.g., Fiegener et al., 2000a,b; Westhead & Howorth, 2006).

Noneconomic Family Objectives. Family firms are less likely than non-family firms to pursue economic performance as their sole or even primary goal (Chrisman, Chua & Zahra, 2003; Gomez-Mejia et al., 2007; Sharma, Chrisman & Chua, 1997). Examples of noneconomic family objectives include job creation for family members, maintenance of family harmony, and preserving the family character of the firm (Sharma et al., 1997; Voordeckers et al., 2007; Westhead & Howorth, 2006). Although pursuance of such objectives does not necessarily create economic inefficiencies (Chrisman et al., 2003; Sirmon & Hitt, 2003)[4] – when it does, it represents an agency cost for the non-family stakeholders (e.g., investors, banks) who are only interested in the economic performance of the firm (Chrisman et al., 2004; Steijvers, Voordeckers & Vanhoof, 2008; Voordeckers & Steijvers, 2006). These non-family stakeholders may then demand the appointment of independent board members, or gain a board seat for themselves, in order to protect their financial interests (Chrisman et al., 2004; Fiegener et al., 2000a). Note that this introduction of non-family members on the board has also been argued to incite an ideological reconfiguration in family firms, with an invasion of managerialism and greater market focus while reducing the dominance of paternalism, which is the main ideology underlying the noneconomic family objectives (Johannisson & Huse, 2000).

Scholars studying agency issues in private family firms have recently also started to explore how self-control problems – incited by noneconomic preferences – can cause family owner-managers to take actions that are not only detrimental to corporate economic performance, but also to the family's long-term (economic and noneconomic) welfare. Furthermore, while studies of

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[4] E.g., the objective to perpetuate the business for future generations creates patient capital which in turn may lead to more creative and innovative strategies (Sirmon & Hitt, 2003).

family-controlled public firms generally view the family as a homogeneous unity (Anderson & Reeb, 2004), in a private setting, scholars have explored situations in which the interests of some relatives are likely to diverge from the interests of other members of the family. Both developments will now be further elucidated.

Self-control Problems & Parental Altruism. Self-control problems are analogous to the traditional principal-agent problem found in the model of Jensen and Meckling (1976), except that they refer to agency problems within a single individual (Jensen, 1994; Thaler & Shefrin, 1981). The concept of self-control implies a multiself model of man, characterized by internal conflicts between a "farsighted planner" who is concerned with long-term welfare maximization, and a "myopic doer" who acts upon his/her short-term preferences (Thaler & Shefrin, 1981). Therefore, rather than consistently taking actions that maximize their long-term welfare (e.g., following a strict diet), individuals may lack self-discipline and choose instant satisfaction instead (e.g., binging on sweets).

Taking the view that family firms are embedded in the parent-child relationship found in the household, Schulze et al. (2001; 2003b) maintain that parental altruism, which is a noneconomic motive, may cause owner-managers to lose self-control by spoiling their employed children. Private family firms are assumed to be more vulnerable to these self-control problems than public ones because "the private firm's large-block-holding owner-managers enjoy almost unchallenged discretion over the use of their firm's assets" (Lubatkin et al., 2005: 317). Examples of decisions based on parental altruism include the setting up of separate departments or plants for each child, rewarding their employed children equally regardless of effort and performance, and lavishing them with excessive perquisites and privileges that would not be found in non-family firms (Lubatkin et al., 2005; Schulze et al., 2001). Such decisions, although well-intentioned, may engender strategic inertia and feelings of distributive injustice and, most prominently, cause the employed children to engage in shirking and free-riding behaviors (Schulze et al., 2001; 2002; 2003b). As such, these decisions are myopic and not in the long-term interest of the firm nor the family; that is, parent owner-managers choose instant gratification for their children in spite of significant delayed costs.

Scholars have suggested that the board of directors may play a valuable role in limiting the discretion of owner-managers in order to prevent their self-control problems from undermining the viability of the family firm (e.g., Chrisman et al., 2004; Jaffe, 2005; Schulze et al., 2001). The members of the board should question and challenge the owner-managers' decisions and set some limits on their altruistic tendencies, not only to safeguard the interests of lenders and investors, but also of the family itself. Moreover, seeing that altruism is argued to bias the parent owner-managers' perceptions of their employed children, and to make them less inclined to hold their offspring accountable, board members may need to act as objective monitors of the employed children and discipline possible shirking and free-riding behaviors (Chrisman et al., 2004; Schulze et al., 2002).

Intra-family Divergence of Interests. The above described parental altruism model applies mainly to controlling-owner firms where the altruistic tendencies of a single owner-manager towards his/her children may negatively impact organizational processes. The nature of the agency problems generally alters over the generations (Lubatkin et al., 2005). In sibling partnerships, where ownership has been transferred to several siblings, altruism gives each sibling an incentive to maximize the welfare of their own nuclear family unit rather than that of the extended owning-family (Schulze et al., 2003a). This disregard for the interests of the extended family may even be more pronounced in cousin consortia, where ownership has been passed on to the members of the third and later generations who typically have relatively weak family bonds (Gersick et al., 1997; Lubatkin et al., 2005). Hence, as a result of these generational dynamics, goal alignment based on kinship ties weakens and agency problems increasingly resemble those found in a non-family firm context, i.e., the problem of managers pursuing their "own" interests with little concern for the interest of the (other) shareholders (Carney, 2005; Jaskiewicz & Klein, 2007; Lubatkin et al., 2005). Boards in later generation firms may therefore need to monitor managerial behavior so as to ensure that the best interests of the extended family are being served, and reduce information asymmetries between the various family branches (Gabrielsson & Huse, 2005; Steier, 2001).

2.2.2 Qualities of Controlling Board Members

So far, we have discussed the potential value of board control in family firms. In this subsection we give an overview of the most important qualities that board members are required to have in order to perform their control tasks effectively. While several factors may have a potential bearing on control effectiveness, such as, for example, the board members' knowledge, competencies and time commitments (Baysinger & Hoskisson, 1990; Hillman & Dalziel, 2003; Johannisson & Huse, 2000; Lane et al., 2006), agency theorists argue that the single most important quality of board members is their independence of those parties who they are supposed to control (Johnson, Daily & Ellstrand, 1996; Zahra & Pearce, 1989). In a family firm context, the agency issue under consideration will determine in relation to which party board independence must be evaluated. For instance, in order to protect the financial interests of non-family stakeholders, board members must be independent of the owing-family (Brunello, Graziano & Parigi, 2003; Fiegener et al., 2000a; Yeh & Woidtke, 2005). Yet in order to effectively mitigate self-control problems or intra-family divergence of interests, independence must be evaluated in relation to the owner-manager, or various family factions respectively (Gabrielsson & Huse, 2005; Schulze et al., 2001). In general, independence can be interpreted as being independent of all "part-interests".

Most studies tend to evaluate independence in terms of formal ties, such as employment, kinship, or business relations (e.g., Anderson & Reeb, 2004). However, some scholars have emphasized that the most important quality is not so much formal independence, but "independence of mind" (Lane et al., 2006; Roberts et al., 2005). Independence of mind refers to the board members' ability to ask controllees challenging questions and to objectively evaluate their performance, and this ability cannot always be predicted by the lack of formal ties (Lane et al., 2006). For example, in those family firms where cohesion is low amongst relatives, non-executive family directors may actually be more independent of management than outside directors (i.e., directors who are neither part of the management team nor of the family) who are recruited through the network of the family CEO (Gabrielsson & Huse, 2005). It is therefore important to emphasize that board independence is not necessarily equivalent to board outsiderness (Van den Heuvel, 2006)[5].

Lastly, compared to those situations where external stakeholders or different family factions demand board representation in order to safeguard their interests, board members may have little formal power when the family firm is owned by a single owner-manager; for these owner-managers can easily overrule board decisions and replace "rebellious" board members (Ford, 1989; Gabrielsson & Huse, 2005; Jonovic, 1989). In order to restrain self-control problems in these situations, the board members' independence of mind will need to be complemented with the owner-manager's respect and esteem for their opinion. As stated by Chrisman et al. (2004: 348), even without formal power "boards of directors (…) should act as a further check on altruism because of the influence their opinions will have on owner-manager behavior".

2.2.3 Overview of Empirical Findings on Board Control

In this subsection an overview is provided of the empirical studies on family firm boards that employed an agency perspective. For a more detailed presentation of the empirical findings, we refer to the overview in appendix 1. It can be noted that most of these empirical studies sampled family-controlled public firms where the main agency concern is the expropriation of firm wealth by owning-families. These studies will be discussed in the first two paragraphs. Due to difficulties in obtaining data from privately-held family firms (cf. Schulze et al., 2001), there have been far less empirical studies on boards in this organizational setting. The last three paragraphs discuss those findings that

[5] It can be noted, however, that many studies use outsiderness as an indicator of independence in theory development and/or empirical testing (e.g., Fiegener et al., 2000a,b; Jaskiewicz & Klein, 2007; Schulze et al., 2001).

relate to the issue of noneconomic family objectives, parental altruism, and intra-family divergence of interests respectively.

Regarding the studies using a sample of family-controlled public firms, some explored the relationship between family control rights and board characteristics (e.g., Chau & Leung, 2006; Yeh & Woidtke, 2005); the majority of these studies, however, examined the impact of board composition on some outcome measure like CEO turnover (Brunello et al., 2003), managerial earnings manipulation (Jaggi & Leung, 2007), the extent of disclosures (Chen & Jaggi, 2000; Haniffa & Cooke, 2002; Ho & Wong, 2001) and, most often, firm performance (e.g., Anderson & Reeb, 2004; Barontini & Caprio, 2006; Klein, Shapiro & Young, 2005a; Mishra, Randoy & Jenssen, 2001). Furthermore, a number of scholars examined the effects of other board characteristics such as the effect of board ownership on CEO turnover (Tsai et al., 2006) and firm performance (Mishra et al., 2001; Randoy & Goel, 2003), and the effect of CEO duality on firm performance (Braun & Sharma, 2007).

The empirical findings of most these studies on boards in family-controlled public firms support the view that while owning-families may have a strong incentive to monitor the management team in order to protect family wealth (e.g., Barontini & Caprio, 2006; Mishra et al., 2001), family influence needs to be balanced with independent board structures to limit the danger of these families expropriating firm wealth at the expense of minority shareholders (e.g., Anderson & Reeb, 2004; Brunello et al., 2003; Chau & Leung, 2006; Ho & Wong, 2001; Jaggi & Leung, 2007). Moreover, it appears that owning-families generally attempt to assemble boards that do not mitigate their discretion over corporate decision-making (e.g., Anderson & Reeb, 2004; Chen & Jaggi, 2000; Yeh & Woidtke, 2005). However, the findings of some scholars lead them to conclude that agency theory is not applicable in their sample of family-controlled public firms (Klein et al., 2005a; Randoy & Goel, 2003; Tsai et al., 2006). These scholars argue that the owning-family's key interest is in ensuring long-term firm performance, and that independent board structures may actually lower company efficiency by causing decision-makers to focus on short term financial performance. These findings suggest that not all owning-families have an incentive to expropriate firm wealth (Ben-Amar & André, 2006) and, therefore, that optimal board structures will be conditional on the specificities of the firm.

Those few studies using a sample of privately-held family firms most often focused on the potential conflicts of interest between the family on the one hand, and non-family stakeholders on the other. The empirical findings indicate that business families are typically reluctant to appoint independent outside directors on their board due to the fear of losing discretion over the decision-making process (e.g., Voordeckers et al., 2007; Westhead et al., 2001), and that this reluctance increases with the relative importance of noneconomic family objectives (Fiegener et al., 2000a,b; Voordeckers et al., 2007). Results also indicate that independent outside directors are included on boards primarily as a response to pressures of non-family stakeholders, such as investors and banks, attempting to safeguard their financial interests (Fiegener et al., 2000a; Johannisson & Huse, 2000).

Taking the parental altruism perspective, Schulze et al. (2001) found that, contrary to their hypotheses, independent outside directors have a significant negative impact on sales growth and that average board tenure (as an indicator of board entrenchment) has a significant positive effect. However, they also found that private family firms that employ a set of "good governance practices" (including higher percentages of independent directors and lower average board tenure in addition to, for example, strategic planning) outperform the firms that do not employ such practices. Based on these findings, Schulze et al. suggest that independent board structures "may impart a positive effect only when coupled with complementary governance mechanisms" (Schulze et al., 2001: 111).

Lastly, there are hardly any empirical studies that deal with boards in a context of intra-family divergence of interests. Using the culture subscale of the F-PEC scale, Jaskiewicz and Klein (2007) did, however, find that low levels of goal alignment between relatives result in larger and more independent boards. Similarly, Pieper et al. (2008) found that the lower this goal alignment, the higher the likelihood that family firms install boards, presumably for controlling purposes. Some empirical studies using an agency theoretical lens explored the association between generational aspects, such as ownership dispersion, and board decision-making (Schulze et al., 2003a), yet the relationship between the generational life cycle and the board's control tasks remains largely unexplored.

2.3 THE BOARD'S ADVISORY TASKS

2.3.1 Importance of Board Advice in Family Firms

While agency theory is the single most important theory underlying the importance of board control, the board's advisory tasks have a multi-theoretical basis. A first theoretical basis can be found in stewardship theory, which essentially redirects the focus from board control to board advice by emphasizing the prevalence of stewardship attitudes among organizational actors. Two other theoretical perspectives, each related to a different advisory subtask, are more concerned with the actual content of board advice. A first advisory subtask is the providing of complementary expertise to the management team, for which the resource-based view of the firm provides the main theoretical basis. A second advisory subtask is quite unique to the family firm setting, namely that of mediating family conflicts. For this subtask, a theoretical basis can be found in stakeholder theory. Before proceeding with our discussion, it is interesting to note that, contrary to agency theory arguments, the argumentation concerning the family firm board's advisory tasks does not differ between public and private family firms.

Stewardship Attitudes. Agency theory assumes a divergence between the preferences of agents and the best interests of shareholding groups and other important firm stakeholders[6]. In a contrasting approach to corporate

[6] This assumption of diverging preferences has two main grounds. Firstly, agency scholars generally focus on (narrowly defined) self-interest as the main driver of human behavior because this allows them to more easily model situations (Hendry, 2005). Secondly, agency scholars tend to neglect the social context of relationships, which in turn discards the possibility of governance actors assessing one another's intrinsic motivation (Gomez-Mejia & Wiseman, 2007; Lubatkin et al., 2007a).

governance, stewardship theorists have explored psychological and situational factors that are likely to make individuals behave in a pro-organizational and, therefore, trustworthy manner (Davis et al., 1997). For instance, managers may act as good stewards of the firm due to opportunities for self-actualization or identification with corporate values (Argyris, 1973; Donaldson, 1990; Donaldson & Davis, 1991). A critical assertion of stewardship theorists[7] is that exercising control over these stewards lowers their motivation to behave in a pro-organizational manner and makes them more inclined to behave in a self-serving manner in those domains where they cannot be adequately controlled (Davis et al., 1997). Hence, rather than emphasizing control, governance structures are put forward that nurture stewardship attitudes and support stewards in their pro-organizational endeavors; and one of the main supportive tasks of boards is argued to be the providing of advice and counsel (Davis et al., 1997; Sundaramurthy & Lewis, 2003). Several scholars have indicated that stewardship theory may be highly applicable in a family firm context, amongst others, due to strong firm identification, an involvement-oriented management philosophy, and low reliance on institutional powers that typically characterize these firms (Corbetta & Salvato, 2004b; Greenwood, 2003; Jaskiewicz & Klein, 2007; Klein et al., 2005a; Miller & Le Breton-Miller, 2006).

Providing Complementary Expertise. When discussing the board's advisory subtask of providing complementary expertise to the management team, governance scholars typically refer to the resource-based view of the firm to theoretically ground their argumentation. The resource-based view provides a theoretical framework for analyzing the potential contribution of board members through their professional competencies, skills, and experience (Barney, 1991; Castanias & Helfat, 2001). Within this framework, board advice contributes to the organizational value creation process to the extent that the knowledge held by board members complements the knowledge base of the management team (Gabrielsson & Huse, 2005; Huse, 2005b).

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[7] Also see motivation crowding theory (Frey & Jegen, 2001) and self-determination theory (Gagné & Deci, 2005).

Regarding the managerial knowledge base, a distinction is often made between two types of knowledge, namely firm-specific knowledge (i.e., detailed information about and intimate understandings of the firm's internal processes) on the one hand, and general business skills (mostly based on university training and outside work experience) on the other (Forbes & Milliken, 1999; Sirmon & Hitt, 2003). Because of early socialization in the firm and intense hands-on training by family veterans, management teams in family firms may have deeper levels of firm-specific knowledge compared to their counterparts in non-family firms (Dyer, 2006; Kets de Vries, 1993; Sirmon & Hitt, 2003). Yet because of nepotism and difficulties in attracting highly-educated and experienced managers from outside the family, these management teams may be at a disadvantage regarding general business skills (Anderson & Reeb, 2004; Carney, 2005; Johannisson & Huse, 2000; Sirmon & Hitt, 2003).

Based on this potential disadvantage concerning general business skills, scholars have emphasized the importance for family firms of appointing outside directors who have functional skills (e.g., in finance, law, marketing) and business experiences that are lacking in the family (Gabrielsson & Huse, 2005; Nash, 1988; Van den Heuvel, Van Gils & Voordeckers, 2006). Hence, from a resource-based view outside directors are not so much valued for their potential independence (cf. supra) but rather for their complementary competencies, experiences, and knowledge. Areas in which board advice has been argued to be highly valuable for family firms include market and technical developments, financial matters, and legal regulations (Hutcheson, 1999; Mueller, 1988; Whisler, 1988).

Mediating Family Disagreements. As indicated, stewardship theory may be highly applicable in a family firm setting. Yet stewardship attitudes among family firm actors should not be taken for granted. As suggested by Corbetta and Salvato (2004b), the prevalence of stewardship attitudes is highly dependent upon family-related factors such as the nature of the relationships between the involved family members. Disagreements between relatives concerning important business issues may disrupt family harmony, hamper stewardship behaviors, and even paralyze the functioning of the family firm (Aronoff & Ward, 1994; Corbetta & Salvato, 2004b; Gersick et al., 1997; Schulze et al., 2003a). Family discord often revolves around dividend payout policy, succession, and the future direction of the family firm (Kets de Vries, 1993; Schulze et al., 2003a; Vilaseca, 2002). From this perspective, an important governance task is to preserve family harmony by resolving family disagreements before the factions become fixated and stewardship attitudes wane (Lane et al., 2006; Lester & Cannella, 2006).

Numerous scholars have suggested that this governance task of preserving family harmony can be performed at the board level, particularly by impartial outside board members who can act as go-betweens or mediators (Lester & Cannella, 2006; Nash, 1988; Voordeckers et al., 2007; Ward, 1988). Outside directors can help build consensus by focusing the discussion on objective facts and assisting the relatives in seeing the topic from a more balanced perspective (Johannisson & Huse, 2000; Jonovic, 1989; Whisler, 1988). A theoretical basis for this mediation task can be found in stakeholder theory, which asserts that the views of all important stakeholders must be represented on the board, and that the objectives of the firm should be derived by balancing these sometimes conflicting views and preferences (Corbetta & Salvato, 2004a; Freeman & Reed, 1983; Luoma & Goodstein, 1999). It is important to note, however, that outside directors should only act as mediators when family disagreements concern business issues, and refrain from getting involved in purely affective conflicts that may originate with a turbulent family history (Alderfer, 1988; Schwartz & Barnes, 1991).

2.3.2 Qualities of Advising Board Members

As with board control, we will now discuss the qualities that board members are required to have to perform their advisory tasks in an effective manner. The above discussion of the two advisory subtasks, namely providing complementary expertise and mediating family disagreements, already highlighted the value of the professional competencies, broad business experiences, and objective perspectives that may characterize outside directors (e.g., Gabrielsson & Huse, 2005; Heidrick, 1988; Mueller, 1988; Schwartz & Barnes, 1991). However, additional qualities have been mentioned in the literature as being highly significant for the effective provision of advice and counsel. Some of these qualities are not individual board member characteristics, but rather characteristics of the advising relationship.

Both in the general governance literature (Sundaramurthy & Lewis, 2003; Westphal, 1999), as in the literature on family firm boards (Chua, Steier & Chrisman, 2006; Gabrielsson & Huse, 2005; Mathile, 1988), scholars have emphasized the importance of trust in advising relationships. In the absence of trust, board-management relationships are prone to become polarized with executives engaging in impression management rather than asking for board assistance in those areas where their skills are insufficient (Johannisson & Huse, 2000; Klein, 2000; Mathile, 1988). Similarly, effective mediation is only possible when the outside directors are fully trusted by the feuding family factions (Lester & Cannella, 2006; Whisler, 1988). As argued by Lester and Cannella (2006: 762), trusting relationships are central in family firms since "families tend to guard their privacy, and are very careful with whom they share confidential information".

In addition, business issues such as corporate policy and succession planning tend to be heavily influenced by family considerations and dynamics (Chua et al., 1999; Corbetta & Tomaselli, 1996; Jonovic, 1989; Lester & Cannella, 2006). The outside directors should therefore have some experiences and sensitivities relevant to the unique situation of family firms, allowing them to deal with the emotion-laden family atmosphere when providing advice (Heidrick, 1988; Mueller, 1988). Regarding the mediation task, Harris (1989) has even stated that without an adequate understanding of family dynamics, outside directors are more likely to exacerbate rather than resolve family disputes.

On the subject of specific board member types, some scholars have argued that affiliated outside directors (i.e., outside directors with a fiduciary/

business relationship to the firm) will have advantages in providing advice due to their closer connection with the firm and the family (Jaskiewicz & Klein, 2007; Klein et al., 2005a). Others have argued that leaders of similar family firms will be most effective in providing advice. The argument is that these outsiders can draw on their own experiences as family business leaders to provide advice on issues germane to the often unique situation of family firms, and that trust may more easily arise between them and the members of the owning-family (Alderfer, 1988; Chua et al., 2006; Lester & Cannella, 2006).

2.3.3 Overview of Empirical Findings on Board Advice

In this section, we give an overview of the main empirical findings related to board advice in a family firm context. A more detailed presentation of all empirical findings can be found in appendix 1. It is interesting to note that compared to the control tasks, far less empirical studies have focused on the advisory tasks of family firm boards. This points to the dominance of agency theory in research on family firm boards, especially in a public setting.

First of all, some empirical results suggest that the prevalence of stewardship attitudes in the family firm may indeed be related to the relative importance of board advice. That is, while the findings of Anderson and Reeb (2004) indicate that the families in their sampled firms typically appointed affiliated outside directors to facilitate the expropriation of firm wealth, Klein et al. (2005a) found that board independence had a negative impact on the value of the sampled firms and argued that this reflects a stewardship setting where affiliated outside directors should be appointed in order to provide advice. Similarly, Jaskiewicz and Klein (2007) found that the higher the level of goal alignment between relatives (which they used as an indicator of the prevalence of stewardship attitudes) the higher the proportion of affiliated directors on the board, who were argued to have advantages in providing advice.

Surveys of family firm CEOs also indicate that they greatly appreciate the provision of board advice, particularly the broader perspectives and detached views on business matters that outside directors can offer them (Schwartz &

Barnes, 1991; Van den Heuvel et al., 2006; Ward & Handy, 1988). These findings are supported by Mustakallio et al. (2002) who found that the more advice family firm boards provide, the better the quality of and commitment to strategic decisions.

Lastly, empirical studies point to the significance of various contingency variables such as company size, the level of CEO education, and the proximity of CEO retirement, which – arguably through their influence on the need for expert advice, guidance, and mediation – were found to affect board composition (Fiegener et al., 2000a; Voordeckers et al., 2007). The generational phase of the family firm is also recognized as having a potentially important influence on advice needs and board composition, yet the empirical results are very mixed (Fiegener et al., 2000a; Voordeckers et al., 2007; Westhead et al., 2002).

2.4 CONCLUSION & DIRECTIONS FOR FUTURE RESEARCH

In this last section we reflect on the current status of research on family firm boards, and position the studies of this dissertation (chapters 3 and 4) within the existing body of literature. This discussion is structured according to four directions for future research, namely (1) to further explore how the generational evolution of family firms affects the characteristics and functioning of their boards; (2) to pay more attention to intervening processes when doing research on family firm boards, (3) to examine how board members can effectively combine the control and advisory tasks, and (4) to explore how family firm boards can mitigate the negative consequences of the family managers' bounded rationality.

Generational Life Cycle. Family business scholars have indicated that important changes occur over the generational life cycle, for example, regarding the level of family trust, discord, experience and cohesion (Astrachan, Klein & Smyrnios, 2002; Davis & Harveston, 1999; Ensley & Pearson, 2005; Gersick et al., 1997; Raskas, 1998). However, our review of the literature on family firm boards reveals that few prior studies have explored the impact of these generational dynamics on the characteristics and functioning of family firm boards. Some initial contributions have been made (e.g., Fiegener et al., 2000a Van den Berghe & Carchon, 2002; Westhead et al., 2002), yet our understanding of the relationship between the generational phase and family firm boards remains very fragmented and, to our knowledge, no prior study has focused on this relationship. Given this gap in the literature, this dissertation sets out to further explore how generational dynamics affect family firm boards. More specifically, in chapter 3 we examine how the generational phase relates to the need for board control and advice, and how these changing board task needs influence the composition of the board. In chapter 4 we explore how the generational phase influences the family firm board's actual performance of the control and advisory tasks.

Intervening Processes. Our review of empirical studies on family firm boards also reveals that scholars typically examined the relationship between some contingency variable (e.g., firm size, generation, family ownership) and board composition, or between board composition and some outcome measure (e.g., financial disclosure, firm performance), while making inferences about the intermediate processes linking these variables. Oftentimes, however, the findings of these studies were mixed. For example, while Fiegener et al. (2000a) found no effect of generation on outside board representation, Westhead et al. (2002) found a positive effect, and Voordeckers et al. (2007) found a negative association. Similarly, whereas some scholars found that outside directors on family firm boards enhance firm performance (e.g., Anderson & Reeb, 2004), others found no effect (e.g., Westhead & Howorth, 2006), or even a negative effect (e.g., Klein et al., 2005a; Schulze et al., 2001). Many of these inconsistent findings concern some of the most important family firm governance topics (Neubauer & Lank, 1998; Hoy & Verser, 1994). This points to the potential value of including direct measurements of the intervening processes so as to gain a better understanding of the family firm governance system (Pettigrew, 1992; Forbes & Milliken, 1999).

We acknowledge that the study of intervening processes can be challenging since it may lead to "an infinite regress of reductionism from which there is no logical escape" (Pfeffer, 1983: 352). However, important contributions can be made by focusing on, and testing, the most central intervening process variables (Forbes & Milliken, 1999). This dissertation adheres to this principle. As indicated, in chapter 3 we test the mediating role of the need for board control and advice in the relationship between the generational phase and board composition. In chapter 4 we examine how the generational phase relates to various behavioral board processes such as trusting, questioning, and advising. As we will see, including direct measurements of these process variables may challenge some of the existing thinking on family firm boards and lead to new insights.

Combining Control & Advice. A third important direction for future research is to enhance the understanding of how boards can combine the control and advisory tasks. While many scholars have argued that effective governance systems require boards to combine control and advice in their relationship with management (e.g., Daily et al., 2003; Lane et al., 2006; Sundaramurthy & Lewis, 2003), academic knowledge on how this combining act works remains underdeveloped. One of the main difficulties for scholars resides in the fact that board control and advice are grounded in theories with very different views of managerial motivation. Agency theory focuses on economic self-interest as the prime driver of managerial behavior, which results in an emphasis on distrust and board control (Fama & Jensen, 1983a,b; Hendry, 2005). Conversely, stewardship theory argues that many managers can be trusted to behave in a pro-organizational manner, leading to an emphasis on board support (Davis et al., 1997). It is interesting to note that in studies on family firm boards, the difference between both theoretical perspectives is somewhat slighter in the sense that scholars applying agency theory recognize the importance of family concerns and noneconomic motives. Yet contrary to stewardship theorists, they tend to emphasize the negative effects of these considerations (Greenwood, 2003). By overlooking concepts like integrity, responsibility, and reciprocal altruism, the agency perspective still provides a dire undersocialized view of family firms (Corbetta & Salvato, 2004b; Lubatkin, Durand & Ling, 2007b). On the other hand, the view that family decision-makers can be trusted to consistently behave in a pro-organizational manner has been empirically refuted (Anderson & Reeb, 2004; Chrisman et al., 2007).

Recently, family business scholars have started to explore how various contingencies may influence the prevalence of agency versus stewardship attitudes in family firms (Corbetta & Salvato, 2004b; Miller & Le Breton-Miller, 2006). This enhances our understanding of variations across family firms regarding their board's emphasis on either control or advice, and in chapter 3 we contribute to this line of research by examining generational changes in the need for board control and advice. However, these studies do not fully clarify how both tasks can be effectively combined within the same firm. In chapter 4 we contribute to this debate by developing the idea that family managers pursue an admixture of both pro-organizational motives and motives that may impair organizational success, and discussing how family firm boards relate to this depiction of managerial motivation. This chapter explains how family managers can be viewed as having a limited trustworthiness, and how board members need to assess those domains of their behavior where trust is well-placed and those domains where control is required. This chapter then explores the role of trust as a facilitator of board advice.

Bounded Rationality. Lastly, in a recent article Hendry (2002) discussed what might be called the principals' "other agency problem", referring to those costs arising from the decision agents' bounded rationality. The concept of bounded rationality denotes the idea that all decision-makers have their limitations regarding information, computational capabilities, and the organization and utilization of memory (Simon, 1955; 2000). As a result, even well-intentioned and self-restrained decision-makers may not maximize firm value because of misinterpretations, misjudgments, and the like (Hendry, 2002). In the general governance literature, some contributions have been made on how boards can mitigate the negative consequences of managerial bounded rationality (Hendry, 2005). Yet in the literature on family firm boards this problem has thus far not gained much attention. This bounded rationality problem may, however, be especially important in family firms (Bammens & Voordeckers, 2008a) where selection and promotion criteria are often primarily based on family ties rather than competencies (Chrisman et al., 2004; Lubatkin et al., 2005), incompetent family managers are less likely to be replaced (Gomez-Mejia et al., 2001), and the management team is typically small and dominated by a single decision-maker (Feltham, Feltham & Barnett, 2005). In chapter 4 of this dissertation we include the bounded rationality problem in our discussion, and explore how the social capital embedded in family bonds is likely to influence the capacity of family directors to mitigate the negative consequences of the family CEO's bounded rationality.

Conclusion. During the last few years academic interest in the topic of family firm boards has increased substantially. The purpose of this chapter was to provide a reflective moment by reviewing this body of literature and suggesting phenomena and relationships in need of further academic research. This literature review revealed that while important contributions have been made, many intriguing challenges remain for future research. Our suggestions for future research also served to better position the empirical studies of this dissertation in the existing literature.

3

BOARD TASK NEEDS AND BOARD COMPOSITION IN FAMILY FIRMS: A GENERATIONAL PERSPECTIVE*

3.1 INTRODUCTION

Family firms often have the objective of perpetuating the business for future generations, and this long-term commitment creates important advantages such as, for example, patient capital and intensive executive apprenticeships (Miller & Le Breton-Miller, 2006; Sirmon & Hitt, 2003). Yet despite this desire to pass the business on to future generations, it is estimated that barely one-third of these firms continue into the second generation, and that only about ten percent of them make it to the third generation (Birley, 1986, Neubauer & Lank, 1998). While some positive explanations (e.g., successful acquisition) may partly account for this pattern, the family business literature indicates that many of these firms fail to reach the next generation due to the challenges and complexities that characterize this organizational form (Gersick et al., 1997; Levinson, 1971; Lubatkin et al., 2005; Miller & Le Breton-Miller, 2006; Raskas, 1998). The failure of a significant number of these family firms could be avoided by implementing good functioning governance mechanisms, such as effective boards of directors (Gomez-Mejia et al., 2001; Neubauer & Lank, 1998; Schulze et al., 2002). Boards may contribute to corporate performance and stimulate survival among a larger group of family firms by balancing family and business

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considerations, by offering counsel and guidance, and by challenging the chosen course of action (e.g., Lane et al., 2006; Lester & Cannella, 2006; Schulze et al., 2002).

As firms evolve, different forms of governance will be needed (Filatotchev & Wright, 2005). A number of life cycle perspectives have been provided in the literature, but these generally focus on the business system while family firms are more complex (Morris et al., 1997). Given that the generation in charge of the business is a central component of a family firm's life cycle (Gersick et al., 1997; Neubauer & Lank, 1998; Steier, 2001), this chapter examines how boards are adapted throughout the generational life cycle so as to meet the changing governance needs of the firm. Put differently, this chapter adopts a contingency perspective by suggesting the need to tailor boards to the requirements of the generational life cycle stage. The previous chapter revealed that fairly little is known about the relationship between the generational stage and family firm boards. Some studies revealed that later generation firms have larger boards (Westhead et al., 2002) with more board meetings (Astrachan & Kolenko, 1994; Leon-Guerrero et al., 1998; Van den Berghe & Carchon, 2002). Yet the results on board composition are very mixed. Whereas Fiegener et al. (2000a) found no effect of generation on outside board representation, Westhead et al. (2002) found a significant positive effect, and Voordeckers et al. (2007) found a negative association. Moreover, in none of these prior studies the relationship between the generational stage and the family firm board was the prime research focus, and theoretical explanations concerning this relationship remain underdeveloped.

As discussed in the introductory chapter, this dissertation focuses on the board's control and advisory tasks. When discussing these tasks, governance scholars make a distinction between board task needs or expectations which refer to the tasks' importance or potential value (Grundei & Tallaulicar, 2002; Huse, 2005b; Lynall et al., 2003; Van den Heuvel et al., 2006), and board task performance which is the degree to which boards actually succeed in fulfilling these tasks (Forbes & Milliken, 1999; Gabrielsson & Winlund, 2000). A first aim of this chapter is to examine how generational dynamics influence the need for board advice and board control. When exploring this relationship we build on previous research discussing generational changes in important family attributes (e.g., Davis & Harveston, 2001; Raskas, 1998; Steier, 2001) that are likely to influence advice and control needs. We focus on these board task needs since contingency factors such as the generational phase can be argued to first influence these needs before any other governance element is affected. Then, as a second aim of this chapter, we will examine how these changing board task needs influence the composition of the board. That is, seeing that prior theoretical and empirical studies suggest that board task needs have a significant influence on board composition (Audretsch & Lehmann, 2006; Lynall et al., 2003; Voordeckers et al., 2007), we hypothesize and test the mediating effect of the need for board advice and control in the generation-board composition relationship. This chapter thus presents an integrated framework on how generational dynamics influence board task needs and board composition, and advances the understanding of variations in family firm governance systems.

The structure of this chapter is as follows. In the model development section we first discuss three family attributes that have been demonstrated to change over the generations, namely family discord, family experience, and family trust. This discussion forms the basis for the development of our hypotheses on how generational dynamics impact board task needs and board composition. Hereafter we clarify our research method, followed by a discussion of the empirical results. Finally, in the conclusion, we summarize our main findings and formulate directions for future research.

3.2 MODEL DEVELOPMENT

3.2.1 Generational Changes in Family Attributes

The generational evolution is typically associated with important changes in the attributes of the business family (Gersick et al., 1997). We have identified three family attributes in the literature which have been demonstrated to alter over the generations, and which can be linked to board task needs and board composition.

Family Discord. A first argument for the claim that board characteristics alter over the generations relates to the level of family discord. Family discord refers to disagreements among relatives regarding business issues such as, for instance, the strategic direction of the firm, dividend payout policy, and succession (Kets de Vries, 1993; Raskas, 1998; Schulze et al., 2003a; Vilaseca, 2002)[8]. Family firms have been argued to be a ripe context for such disagreements due to the overlap of the family and business systems which complicate normal business concerns (Kellermanns & Eddleston, 2004; Sharma, 2004). A number of researchers have revealed that the level of discord among the relatives involved in the firm increases over the generations (Davis & Harveston, 1999; 2001; Ensley & Pearson, 2005; Raskas, 1998). As the number of generations and family branches increases, so too does the potential for diverging views and conflicts concerning business issues (Dyer, 1994; Ward & Aronoff, 1994). The relatives involved in later generation firms are more likely to have disagreements due to weakened leadership authority and diluted intra-family socialization processes (Arregle et al., 2007; Davis & Harveston, 1999; Schulze et al., 2003a). Moreover, the number of passive family shareholders typically increases over the generations (Jaffe & Lane, 2004). These passive shareholders tend to prefer short-term dividend payouts whereas relatives actively involved in the firm emphasize reinvestments (Gersick et al., 1997; Schulze et al., 2003a; Vilaseca, 2002). As will be demonstrated below, this increase over the generations in the level of family discord can be linked to the need for board advice and board control.

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[8] Note that the concept of family discord is similar to, but not the same as, the concept of task conflict as defined by Jehn (1995; 1997). Both concepts have in common that they refer to business/task-related matters as opposed to emotion-laden personality conflicts. Yet whereas family discord may also refer to diverging preferences concerning firm objectives and goals, task conflict refers to diverging viewpoints in common-goal groups (Jehn, 1997).

Family Experience. A second family attribute which may account for the link between the generational stage and family firm boards is the level of family experience. The concept of family experience is derived from the F-PEC scale (Astrachan et al., 2002; Klein, Astrachan & Smyrnios, 2005b), which is an acknowledged scale for assessing the extent of family influence in a business organization (cf. Sharma, 2004). Family experience is one of the subscales of the F-PEC scale, and refers to the tacit organizational knowledge that families develop over time (Astrachan et al., 2002). Regarding the operationalization of the family experience subscale, Klein et al. (2005b) indicated that the generational phase of the family firm is its main indicator. Anecdotal evidence also suggests that families increase their organizational knowledge over the generations (Miller & Le Breton-Miller, 2006). Each generation adds valuable business experience and skills to the family (Corbetta & Salvato, 2004a; Klein et al., 2005b) and compared to executive veterans in non-family firms, family veterans are typically very willing and able to share their wisdom with their successors through various formal and informal channels (Miller & Le Breton-Miller, 2006; Sirmon & Hitt, 2003). Below we will link this generational increase in the level of family experience to the need for board advice.

Family Trust. Our last argument for the claim that the characteristics of family firm boards alter over the generations is based on changes in the level of family trust. Trust refers to the willingness of a party to be vulnerable to the actions of another individual based on positive expectations regarding this individual's behavior (Mayer, Davis & Schoorman, 1995; Rousseau et al., 1998). In the family business literature, high levels of trust among the involved family members is often regarded as one of the main advantages of this organizational form (Habbershon & Williams, 1999; Sundaramurthy, 2008; Tagiuri & Davis, 1996). However, several researchers have found evidence of a decrease in family trust over the generations (Raskas, 1998; Steier, 2001). This decrease is attributable to the fewer social interactions taking place among the relatives, which limits the opportunity to develop mutual trust (Mayer et al., 1995). Family members in first generation firms typically belong to the same nuclear household and therefore tend to have closer relationships than the relatives involved in sibling partnerships; yet siblings generally have stronger trusting ties than the members of a cousin consortium who often do not spend much time together in the family system (Ensley & Pearson, 2005; Gersick et al., 1997; Sundaramurthy, 2008)[9]. Below we will discuss how this generational decrease in the overall level of family trust relates to the need for board control.

Thus far we gave an overview of generational changes in three important family attributes – discord, experience, and trust – which have been identified by several family business scholars. In the subsequent sections we build on the findings of these scholars and consider the possible consequences for the family firm's governance system. More specifically, in the next section we examine how these generational dynamics affect the need for board advice and the likelihood of having an outside director on the board. In section 3.2.3 we discuss their impact on the need for board control and the number of family directors.

3.2.2 Need for Board Advice & Outside Directors

Scholars have indicated that one of the main contributions of boards of directors in family firms is the provision of advice and counsel (Schwartz & Barnes, 1991; Van den Heuvel et al., 2006). We will now explain how the generational changes in the level of family discord and family experience can be related to the overall need for board advice. Furthermore, seeing that it are mainly outside directors who are expected to provide valuable advice and counsel (Lester & Cannella, 2006; Schwartz & Barnes, 1991; Ward & Handy, 1988), the generational phase can also be linked to the likelihood of having an outside director on the board[10].

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[9] As the perception of altruism is one of the main antecedents of family trust (Mayer et al., 1995), these arguments can also be linked to the work of Schulze et al. who argued that siblings have incentives to attach greater weight to the welfare of their own nuclear household than to the welfare of the extended family (Schulze et al., 2003a), and that many of the altruistic attributes that make family firms theoretically distinct are often completely lost during the cousin consortium generational stage (Lubatkin et al., 2005).

[10] Given that family firms have a reputation for resisting to bring in outside directors (Lane et al., 2006; Westhead et al., 2002; 2006), and in line with previous studies (e.g., Voordeckers et al., 2007), we examine the likelihood of having an outside director on the board, rather than the number of outside directors. As for the family firms included in our sample only 14.7 percent had included outside directors on their board; of those firms with outside directors, the majority had included only one outside director.

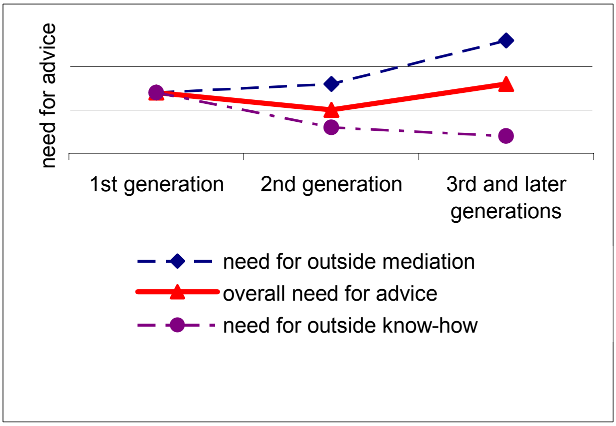
As demonstrated by Jehn (1995), moderate levels of discord may possibly enhance group performance through the creation of new ideas. However, when family disagreements concern strongly held preferences, and consensus is difficult to attain, the functioning of the family firm may be paralyzed (Miller, Burke & Glick, 1998; Schulze et al., 2003a). Mediation by a third party may then prove vital for the survival of the family firm. The board of directors, and more particularly the outside directors, are commonly attributed this role of mediator because of their objectivity, impartial views, and professional competencies (Lester & Cannella, 2006; Nash, 1988; Voordeckers et al., 2007; Ward, 1988; Ward & Aronoff, 1994). Outside directors can build consensus between feuding relatives by focusing the discussion on objective facts and helping the family factions in seeing matters from a more balanced and detached perspective (Johannisson & Huse, 2000; Jonovic, 1989; Whisler, 1988). As the level of family discord has been shown to increase over the generations, the need for board advice and the likelihood of having an outsider on the board can be expected to increase. That is, mediation is an important advisory subtask of family firm boards (Lester & Cannella, 2006; Voordeckers et al., 2007), and we expect that families adapt the composition of their board to meet their changing governance needs.

However, the generational changes in the level of family experience can be expected to have the opposite effect on the overall need for board advice. As discussed in the previous chapter, outside directors can augment the know-how of the management team by providing expert advice (Gabrielsson & Huse, 2005; Huse, 1990). This may be especially valuable for family firms where nepotism prevails and management teams are typically small and dominated by a single decision-maker (Anderson & Reeb, 2004; Feltham et al., 2005). Yet seeing that the level of family experience increases over the generations, the need for this type of board advice may lessen. In other words, as the organizational knowledge of the family develops over the generations (Astrachan et al., 2002; Miller & Le Breton-Miller, 2006), the need for complementary business experiences and skills held by outside directors can be expected to decrease.

Therefore, in order to formulate hypotheses concerning the impact of the generational phase on the overall need for board advice, a more detailed depiction of the generational changes in family discord and experience is required. Anecdotal evidence indicates that family discord is most prevalent among third generation family firms (Neubauer & Lank, 1998). This is in line with the empirical results of Davis and Harveston (1999; 2001) who found only a moderate increase in the level of discord from the first to the second generation, and a more substantial increase from the second to the third generation. This trend can be explained as follows. The rise in discord from the first to the second generation is often largely due to the interferences of the founder with the successors' leadership (i.e., the so-called shadow of the founder) which may give rise to tensions and conflicts (Davis & Harveston, 1999). However, this problem of the shadow of the founder is generally not as prevailing as the disagreements and conflicts that characterize third generation firms where a multitude of preferences, views, and objectives coexist within the extended family (Davis & Harveston, 1999; 2001; Gersick et al., 1997). With regard to the level of family experience, family business scholars have argued that its increase is most substantial from the first to the second generation since first generation firms typically build up a great amount of capabilities, knowledge, and rituals. Second and subsequent generations tend to contribute far less to this knowledge-development process (Astrachan et al., 2002; Klein et al., 2005b).

This more detailed depiction of these generational changes suggests a significant decrease in the need for complementary outside know-how from the first to the second generation, which is not likely to be compensated by the increased need for outside mediation. From the second to the third generation a substantial increase in the need for outside mediation is argued to take place, which is not likely to be compensated by the further decreasing need for complementary outside know-how. These trends, which are summarized in Figure 1, thus suggest a convex generational trend in the overall need for board advice and the likelihood of having an outside director on the board.

Figure 1
Graphical representation of hypothesis 1



Hence, we propose the following:

> ***Hypothesis 1a:*** *The need for board advice will decrease from the first to the second generation, and increase from the second to the third generation.*
>
> ***Hypothesis 1b:*** *The likelihood of having an outside director on the board will decrease from the first to the second generation, and increase from the second to the third generation.*

So far, we related generational dynamics to board task needs and board composition without explicitly discussing the causal chain between these variables. Research on boards of directors (Grundei & Talaulicar, 2002; Huse, 2005b; Lynall et al., 2003; Voordeckers et al., 2007) suggests that board task needs will mediate the relationship between the generational phase and board composition. Huse (2005b), for example, argues that internal contingencies, such as the generational phase, are a central element in the delineation of board task needs. Board composition is then likely to be adapted in line with these changing board task needs (Huse, 2005b; Voordeckers et al., 2007). Analogously, Grundei and Talaulicar (2002) indicate that – even though external contingencies, such as legal obligations, may have some influence – in reality companies follow mainly their governance needs and set up boards that reflect these needs. Therefore, we hypothesize that the generational phase influences the likelihood of having an outside director on the board via its effect on the need for board advice.

> ***Hypothesis 1c:*** *The need for board advice will mediate between the generational phase and the likelihood of having an outside director on the board.*

3.2.3 Need for Board Control & Family Directors

The importance of board control is derived from agency theory which assumes that (1) the preferences of shareholders and managers diverge, and that (2) managers seek to maximize their personal utility (Eisenhardt, 1989; Jensen & Meckling, 1976). From this agency perspective, boards are viewed as an important internal control mechanism for ensuring that the managers maximize shareholder value (Fama & Jensen, 1983a; Monks & Minow, 2004). As will be discussed below, the generational changes in the level of family discord can be related to the first agency assumption, and those in the level of family trust to the second one. Hence, the generational phase can be linked to the need for board control.

We have argued that outside directors can play a vital role as mediators in the case of family discord. However, family managers may not always open up organizational processes to other relatives, and instead address strategic issues behind the scenes (Miller et al., 1998; Schulze et al., 2003a). Therefore, as the divergence of preferences and viewpoints increases over the generations, family owners may become suspicious of the decisions made by family executives. Moreover, perceptions of altruism and integrity are the main antecedents of trust (Mayer et al., 1995). Both integrity and altruism can be viewed as non-rational sources of the family managers' conduct which increase their propensity to behave as good stewards, despite possible diverging preferences

(Nooteboom, 1996; 2002). Yet as the level of family trust – and thus mutual perceptions of altruism and integrity – decreases over the generations, family managers will be increasingly perceived as pursuing their personal and nuclear household interests, rather than the interests of the extended owning-family (Lubatkin et al., 2005; Raskas, 1998). As a result of these generational dynamics, family owners have an increasing incentive to exercise control over the behavior of family managers in an effort to assure that their own best interests are being served.

Family firm boards are typically largely composed of members of the owning-family (Voordeckers et al., 2007; Westhead et al., 2002). In later generation firms, these family directors can be expected to act as vigilant monitors of the management team. As stated by Miller and Le Breton-Miller (2006: 75), "given significant shareholdings, family owners (…) possess the incentive, power, and information to control their managers". As the number of family branches increases over the generations, and each family branch is likely to demand a board representative to safeguard its interests when controlling the managers, we might also expect a generational increase in the number of family directors (cf. Fiegener et al., 2000b; Van den Berghe & Carchon, 2002). The discussion about the mediating effect of board task needs in the previous section is also valid for the board's control tasks. That is, we expect that the generational phase will influence the number of family directors via its effect on the need for board control. More formally we propose the following:

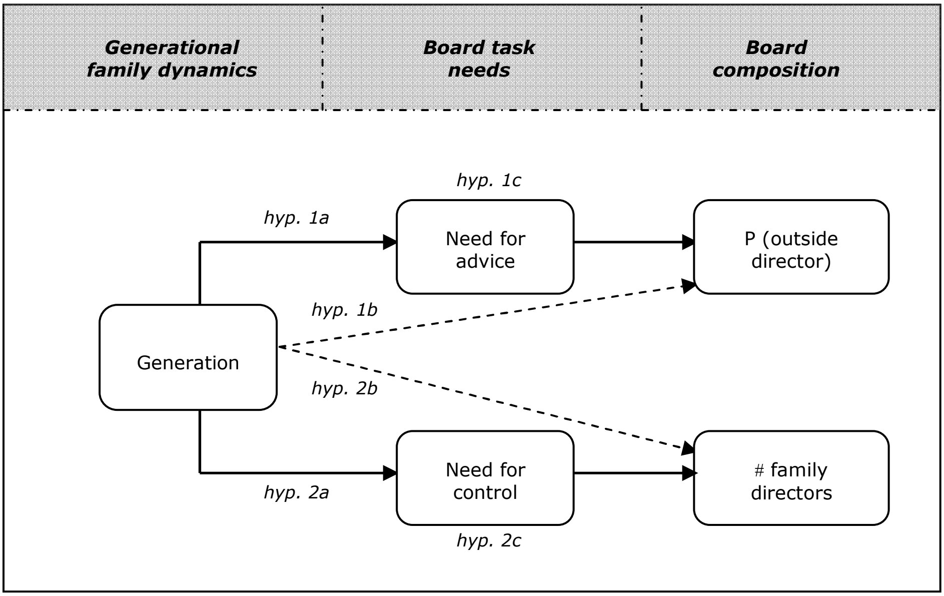
Hypothesis 2a: *The need for board control will increase from one generation to the next.*

Hypothesis 2b: *The number of family directors will increase from one generation to the next.*

Hypothesis 2c: *The need for board control will mediate between the generational phase and the number of family directors.*

The hypothesized model that will be tested in this chapter is presented in Figure 2. It reveals the relationship between generational dynamics, board task needs, and the composition of family firm boards.

Figure 2
Hypothesized model (chapter 3)



3.3 METHODOLOGY

3.3.1 Sample & Data Collection

The empirical data presented in this chapter are derived from a study exploring a wide range of characteristics (strategic issues, governance, succession, performance, etc.) in a sample of Belgian family firms. The time frame of the data collection was end 2002 – beginning 2003. In total, 3400 limited liability firms were randomly selected from a family firm database and a survey was mailed to the CEOs[11]. After sending a reminder, 311 surveys were returned (9.1%). Based on the common selected criteria of ownership and management

[11] Only limited liability firms were selected as in Belgium only this category of corporations has the legal obligation to install a board of directors.

control (Chua et al., 1999) and the CEO's perception (Westhead & Cowling, 1998), the following more stringent ex post criteria (asked for in the survey) were used to identify the family firms among these respondents: (1) The CEO 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[12]; (3) The CEO had to be a member of the family[13]. Of the 311 respondents, 286 firms could be classified as family firms according to these ex post criteria. All sampled firms were privately-owned enterprises, employed at least five people, and were situated in the Dutch-speaking part of Belgium. Total sample characteristics are presented in Table 1.

Potential nonresponse bias was evaluated using two separate procedures. First, following the argument that late respondents are expected to be similar to nonrespondents (Kanuk & Berenson, 1975), we differentiated between the 20% earliest respondents and the 20% 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, suggesting that there is no nonresponse bias in the results. Robustness checks with cut-off points at 10% and 30% showed exactly the same results. Secondly, we contacted a random sample of nonrespondents by telephone and requested data on firm size, board size, board composition, and board meeting frequency. Comparing the data of these nonrespondents with that of our respondents suggests that the population of family firms may be characterized by slightly more phantom or rubber stamp boards (cf. Lane et al., 2006) in terms of board size, outside representation, and frequency of board meetings compared to the firms in our sample.

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[12] In those cases where less than 50 percent of ownership was controlled by the family, an additional requirement was that the majority of the shares were owned by a venture capitalist or investment company (cf. Van den Heuvel et al., 2006; Voordeckers et al., 2007). The rationale underlying this additional requirement is that in those firms that are family-managed and perceived as family firms, families are likely to also have a long-term ownership perspective (i.e., the intention of regaining ownership control) when the majority of shares are in the hands of a venture capitalist or investment company.

[13] This helped assure that the management of the firm was sufficiently influenced by members of the family – which was implicitly assumed in the hypotheses build-up – even when less than 50 percent of the managers were member of the family.

Table 1
Sample characteristics

	N	Min	Max	Mean	Median	Standard deviation
% family managers	271	10	100	86.7	100	24.4
% family ownership	268	40	100	97.2	100	10.3

	N	%
Size		
Micro (5-10 employees)	90	31.5
Small (10-50 employees)	144	50.3
Medium (51-250 employees)	18	6.3
Large (>250 employees)	28	9.8
Unknown	6	2.1
Business life cycle		
Start phase	0	0
Growth phase	96	33.6
Maturity phase	137	47.9
Consolidation phase	43	15.0
Unknown	10	3.5
Activity		
Industrial	92	32.2
Construction	41	14.3
Retail	103	36.0
Services	50	17.5
Generation		
First generation	66	23.1
Second generation	140	49
Third and later generation	75	26.2
Unknown	5	1.7

3.3.2 Intervening & Dependent Variables

As measures of board task needs, and in line with Van den Heuvel et al. (2006), the respondents were asked, in two separate questions, to evaluate the *importance of board advice* and the *importance of board control* on a Likert scale from 1 (not important) to 5 (very important)[14]. They were also asked to specify the *number of family directors* and outside directors on their board. A family director was defined as a member of the family who takes up a position as board member in the firm. The variable *presence of an outside director* was 0 if no outside directors were on the board and 1 otherwise. As no consistency exists in the literature regarding the definition of an outside director (e.g. Schwartz & Barnes, 1991; Voordeckers et al., 2007; Ward & Handy, 1988; Westhead et al., 2002), we employed an operational definition that seemed most appropriate for this study. We therefore defined an outsider as someone who is neither member of the family, nor part of the management team, nor affiliated to the firm[15]. These outside directors should be able to provide the most objective and impartial advice.

3.3.3 Independent Variable

To determine the *generational phase* of the family firm, the survey included a question in which respondents were asked to indicate the generation currently having the decision power in the firm. This revealed the most dominant generation involved in the family firm's decision-making processes. We recoded this variable in three categorical dummy variables: first generation; second generation; third and later generations.

3.3.4 Control Variables

We included six control variables in the analyses of this study. First, several studies suggest that the economic development of the company may have a substantial impact on its governance practices (e.g. Fiegener et al., 2000a;

[14] In the survey an explicit distinction was made between the importance of board tasks and the extent to which the board actually performed these tasks.
[15] Affiliated directors are those directors with a fiduciary/business relationship to the firm.

Lynall et al., 2003). We therefore added *firm size* (logarithm of total assets) to the analyses. Furthermore, respondents were asked to indicate the *phase in the business life cycle* (start, growth, maturity, or consolidation) that the firm was currently situated in. As no starting firms were present in the sample, the variable business life cycle phase was recoded in three categorical dummies. Adding these two control variables enabled us to distinguish governance changes exclusively due to generational dynamics from changes due to the economic development of the firm. Furthermore, results concerning the relationship between the generational phase and board characteristics may be driven by the possible increasing *number of employed family members* (Voordeckers et al., 2007) or the *number of family shareholders* which can be considered as a proxy for ownership dispersion (Pieper et al., 2008). Hence, we also included these variables as control variables in order to distinguish between effects due to the mere size of the family and pure generational differences. Moreover, given that the presence of non-family shareholders may influence board task needs and board composition (Fiegener et al., 200a), we included the binary variable *non-family ownership* (1 if non-family shareholders were present, 0 otherwise) in the analyses. Non-family ownership was treated as a binary variable because only about 10% of the firms included in the analyses had non-family shareholders. Lastly, *CEO duality* may be an important determinant of board composition (e.g., Voordeckers et al., 2007). Given that CEO duality was expected to influence board composition but not board task needs, we only included this variable in the analyses with a board composition variable as dependent variable. Separate analyses confirmed that CEO duality was unrelated to board task needs and did not affect the hypothesized results involving these needs.

3.3.5 Analysis

Our hypotheses were tested with multiple regression analyses. Depending on the dependent variable at hand, we performed a linear or binary logistic regression[16]. To test for the hypothesized mediating relationships we followed the procedure proposed by Baron and Kenny (1986) and estimated the following four regression models: (1) regressing the mediator on the independent variable, (2) regressing the dependent variable on the independent variable, (3) regressing the dependent variable on the mediator, and (4) regressing the dependent variable on both the independent variable and the mediator (Baron & Kenny, 1986; Mathieu & Taylor, 2006). Diagnostic tests revealed that there were no multicollinearity problems. In the presence of heteroscedasticity, the White-corrected standard errors were used. For those regressions with the generational phase as an independent variable, two sets of results will be reported: (a) those with the first generation as the suppressed comparison category (subcolumn a in Tables 4 and 5); (b) those with the second generation as the suppressed comparison category (subcolumn b in Tables 4 and 5).

3.4 DISCUSSION OF RESULTS

Descriptives. Descriptive statistics and bivariate correlations are displayed in Table 2. As expected, relatively few family firms had an outside director on their board (14.7%). This is in line with the family business literature which suggests that families are typically reluctant to appoint outsiders on their board due to the fear of losing discretion (Carney, 2005; Lane et al., 2006; Westhead et al., 2002). Concerning the hypothesized relationships we find that all correlations have the expected sign and that, apart from the correlation between the need

[16] *Robustness check:* Linear regression analysis is generally considered to be appropriate for ordinal dependent variables with at least five categories (in casu "the need for board advice" and "the need for board control" which are evaluated on a 5-point Likert scale). Even so, for those tests with these board task needs as a dependent variable we performed a robustness check by using ordered logistic regression instead of linear regression (see appendix 2). The results of these ordered logistic regressions were similar to the reported linear regression results. Similarly, for those tests with the number of family directors as the dependent variable we performed a robustness check by using Poisson regression instead of linear regression (see appendix 3). Again, the results of these Poisson regressions were fully consistent with the reported linear regression results.

Table 2
Descriptive statistics and Pearson correlation coefficients[a]

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Presence outside director	.147	(0/1)	1													
2. # family directors	2.858	1.265	.047	1												
3. Need for board advice	3.705	1.227	**.182**	*.118*	1											
4. Need for board control	3.544	1.169	<u>.130</u>	.025	**.478**	1										
5. 1st generation	.235	(0/1)	.056	**-.166**	.080	*-.127*	1									
6. 2nd generation	.498	(0/1)	<u>-.150</u>	.006	<u>-.152</u>	.022	**-.552**	1								
7. 3rd and later generations	.267	(0/1)	*.115*	<u>.150</u>	.097	.090	**-.334**	**-.601**	1							
8. CEO duality	.793	(0/1)	**-.200**	<u>-.156</u>	-.007	-.102	.036	.006	-.042	1						
9. Growth phase	.348	(0/1)	-.070	.074	.094	.002	*.108*	.023	<u>-.128</u>	*.104*	1					
10. Maturity phase	.496	(0/1)	.074	-.021	-.070	.002	-.021	<u>.137</u>	<u>-.135</u>	<u>-.127</u>	**-.725**	1				
11. Consolidation phase	.156	(0/1)	-.011	-.069	-.028	-.007	*-.113*	**-.217**	**.351**	.038	**-.314**	**-.426**	1			
12. Firm size[b]	7.447	1.161	<u>.139</u>	**.162**	**.199**	**.210**	*-.113*	-.062	**.178**	**-.210**	-.050	.000	.065	1		
13. # family employees	2.931	1.646	*-.101*	**.357**	-.012	-.010	-.098	.029	.061	*-.111*	.014	.030	-.058	**.241**	1	
14. # family shareholders	2.826	2.029	.016	**.327**	.042	.043	<u>-.152</u>	-.024	**.173**	<u>-.147</u>	-.063	.064	-.006	**.159**	**.425**	1
15. Non-family ownership	.104	(0/1)	**.423**	.060	.014	.000	-.099	.000	.093	-.055	-.077	.059	.018	-.030	-.061	-.021

[a] Correlations in *italics* are significant at the 0.10 level; <u>underlined</u> at the 0.05 level; in **bold** at the 0.01 level.
[b] logarithm of total assets.

for board control and the number of family directors, the expected relationships are also statistically significant. In Table 3 the generational trends in board task needs and board composition are presented. Again, these trends are as expected.

Table 3
Descriptives - generational trends in board task needs and board composition

	1st generation	2nd generation	3rd and later generations
Need for board advice[a]	3.89	3.52	3.90
Need for board control[a]	3.26	3.57	3.72
% firms with outside director	19.0%	9.4%	21.6%
# family directors	2.49	2.88	3.19

[a]Mean score: 1 = not important; 5 = very important.

Hypotheses 1a–1c. Table 4 reports the results of the regression analyses concerning the relationships put forward in hypotheses 1a to 1c. The results in panel 1 indicate that the need for board advice decreases from the first to the second generation, and increases again in third and later generation firms. Both the difference between second and first generation firms and between second and third and later generation firms are statistically significant. These results support hypothesis 1a. Panel 2 of Table 4 presents the results concerning the association between the generational phase and the likelihood of having an outside director on the board. The results show that this likelihood follows a similar convex trend over the generations as the need for board advice. However, only the difference between first and second generation firms is statistically significant. Hypothesis 1b is therefore only partially supported.

In order to interpret the parameters of the logistic regression (panel 2 of Table 4), we need to calculate the odds ratios. The odds are the probability of an event divided by the probability of a non-event. The odds ratio equals e^{β} with β being the parameter estimate, and this ratio indicates the influence of a one unit increase in the regressor (in casu generation) on the odds in favor of an event (in casu the presence of an outside director). When comparing first generation firms with second generation firms, we find that the odds ratio equals $e^{1.313}$ or 3.717. This means that the odds in favor of having an outside director on the board are about 3.7 times larger in first generation firms than in second generation firms. Similarly, when comparing third generation firms with second generation firms, we find that the odds ratio equals $e^{0.885}$ or 2.423. Hence, the odds in favor of having an outside director are about 2.4 times larger in third generation firms than in second generation firms. Lastly, when comparing first generation firms with third generation firms, we find that the odds ratio equals $e^{0.428}$ or 1.534. Again, this means that the odds in favor of having an outside director are about 1.5 times larger in first generation firms than in third generation firms. However, as indicated only the difference between first and second generation firms is statistically significant.

In order to test whether the need for board advice mediates the relationship between the generational phase and the presence of outside directors (hypothesis 1c), we had to perform two additional regression analyses. Panel 3 of Table 4 shows that the need for board advice has a significant positive impact on the likelihood of having an outside director on the board. An additional requirement for mediation is that the effect of generation on this likelihood attenuates to a non-significant level when considered simultaneously with the need for board advice (Mathieu & Taylor, 2006). The results in panel 4 reveal that this is indeed the case. That is, once the need for board advice is accounted for, generation no longer has a significant impact on the likelihood of having an outside director. Hypothesis 1c is therefore supported. The odds ratio related to the need for board advice equals $e^{0.656}$ or 1.927 (cf. panel 4 of

Table 4
Results of regression models (hyp. 1)

	(1) Need for board advice		(2) Presence outside director		(3) Presence outside director	(4) Presence outside director	
Generation	**(a)**	**(b)**	**(a)**	**(b)**		**(a)**	**(b)**
1st generation		.361* (.216)		1.313** (.640)			.969 (.674)
2nd generation	-.361* (.216)		-1.313** (.640)			-.969 (.674)	
3rd and later generations	.087 (.258)	.448** (.210)	-.428 (.708)	.885 (.600)		-.330 (.736)	.638 (.616)
Need for board advice					.764*** (.288)	.656** (.293)	
Firm size	.207*** (.076)		.645*** (.228)		.564** (.229)	.553** (.237)	
Business life cycle§							
Maturity phase	-.256 (.185)		.222 (.564)		.324 (.570)	.400 (.584)	
Consolidation phase	-.530* (.269)		-.729 (.883)		-.315 (.853)	-.345 (.896)	
# family employees	-.055 (.055)		-.554** (.216)		-.599*** (.221)	-.588*** (.225)	
# family shareholders	.012 (.046)		.024 (.165)		-.024 (.181)	.004 (.183)	
Non-family ownership	.029 (.263)		3.587*** (.671)		3.717*** (.687)	3.752*** (.707)	
CEO duality			-.968* (.552)		-1.263** (.585)	-1.170** (.589)	
N	*209*		*197*		*197*	*197*	
Adj. R²	*.045***						
Nagelkerke R²			*.471****		*.493****	*.508****	

*, **, *** significant at 0.10, 0.05, 0.01 level respectively; Standard errors reported in parentheses; Intercept not reported; Model (1) is estimated with linear OLS regression, models (2) till (4) are estimated with binary logistic regressions; (a) 1st generation as suppressed comparison category; (b) 2nd generation as suppressed comparison category; §Growth phase as suppressed comparison category.

Table 4), which means that the odds in favor of having an outsider on the board increase with about 93% for every unit increase in the need for board advice.

The above findings thus reveal a convex relationship between the generational phase and the governance elements under study. These hypotheses were based on previous research findings concerning generational changes in two family attributes, namely family discord and family experience. We argued that these changes would have opposing effects on the need for board advice and the likelihood of having an outside director. The rise in the level of family discord over the generations (e.g., Raskas 1998) was argued to augment the need for board advice and thus the likelihood of having an outside director on the board, whereas the rise in the level of family experience (e.g., Klein et al., 2005b) was argued to have the opposite effect. The convex trend in our results suggests, as expected and in line with the literature, that the increase in family experience is the main driver of these governance changes from the first to the second generation, and that the level of family discord is the main driver of these governance changes from the second to the third generation. Our findings also indicate that the need for board advice acts as a mediator in the relationship between generation and the presence of outside directors[17].

Control Variables. Regarding the control variables in the analysis with the need for board advice as the dependent variable (panel 1 of Table 4), we find that the size of the firm has a positive impact on this need. This is in line with, for example, Fiegener et al. (2000a) who argue that the need for specialized expertise and competencies increases as the firm expands and becomes more complex. The finding that the need for board advice is lower in

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[17] *Robustness check:* In our operational definition of outside directors we excluded managers, family members, and affiliates from this category. As some might also categorize affiliates as outside directors (e.g., Anderson & Reeb, 2004) we retested our models using this alternative operationalization of outside directors (i.e., including affiliates) as a dependent variable (see appendix 4). Compared to the results reported in Table 4, the analyses using this alternative operationalization showed very similar patterns with slightly higher significance levels for the generation dummies and slightly lower significance levels for the need for board advice.

firms in the consolidation phase compared to those in the growth phase may reflect the reduced complexity of these firms as investment opportunities have dropped and organizational processes have become institutionalized (Lynall et al., 2003).

The results also show significant effects of some control variables on the likelihood of having an outsider on the board (panel 4 of Table 4). Firstly, the size of the firm appears to have a positive impact on the presence of outsiders. Given that the need for board advice is already included in this analysis, this result suggests that the value and importance of other board tasks that outsiders perform such as, for example, resource dependence tasks also increase with firm size (Fiegener et al., 200a; Pfeffer, 1972).

Moreover, we find that the number of family employees is negatively associated with the likelihood of having an outside director. A possible explanation might be that higher numbers of family employees signify a higher emphasis on family-oriented goals or paternalism as a corporate ideology, thus lowering the family's willingness to appoint more business-oriented outsiders on their board (Johannisson & Huse, 2000; Sharma et al., 1997; Westhead & Howorth, 2006). Alternatively, a larger number of involved family members may reflect a larger pool of skills and perspectives inside the family. As stated by Astrachan and colleagues (2002: 50), "the number of family members dedicated to the business is viewed as an important indicator of how much experience the business receives from the family"; and the higher this level of family experience the lower the need for outside directors becomes.

In line with the argument that outside directors are included on family firm boards, amongst others, as a response to pressures of external stakeholders attempting to safeguard their financial interests (Fiegener et al., 2000a; Johannisson & Huse, 2000), we also find that the presence of non-family shareholders is positively associated with the likelihood of having an outsider on the board. Lastly, CEO duality is negatively associated with this likelihood. This finding corroborates the general governance literature which argues that CEOs prefer to maintain their discretion over the strategic decision-making process

(Westphal, 1998) and therefore use their power to install dependent boards (Fiegener et al., 2000b; Voordeckers et al., 2007).

Hypotheses 2a-2c. Table 5 reports the results of the regression analyses concerning the relationships put forward in hypotheses 2a to 2c. Panel 1 reveals that the need for board control increases over the generations, but only the difference between first generation and third and later generation firms is statistically significant. Hypothesis 2a is therefore only partially supported. In panel 2 of Table 5 we find that the number of family directors also increases over the generations. Yet seeing that only the difference between first generation and third and later generation firms is significant, hypothesis 2b is also only partially supported. We hypothesized that the relationship between the generational phase and the number of family directors would be mediated by the need for board control. Panel 3 reveals, however, that the need for board control is not associated with the number of family directors. Hence, hypothesis 2c is not supported by the data in our sample. Instead, generation appears to have a direct effect on the number of family directors (Mathieu & Taylor, 2006).

The above findings thus indicate that there is an increase over the generations in the need for board control. This finding is in line with prior research suggesting that intra-family conflict increases over the generations while mutual trust decreases, and that further generation firms therefore need to rely more on formal control mechanisms (e.g., Lubatkin et al., 2005; Steier, 2001). Furthermore, we find that the effect of the generational phase on the number of family directors is not mediated by the need for board control. This suggests that other board task needs than the need for control mediate this relationship. For instance, as discussed by Judge and Zeithaml (1992), boards may also actively participate in the development of corporate strategy and form strategic decisions together with the management team. This type of strategic participation by boards may be especially prevalent among family firms where owners "may have objectives for their involvement and ownership (…) other than value creation through dividends or earnings" (Huse, 2005b: S70). Seeing

Table 5
Results of regression models (hyp. 2)

	(1) Need for board control§		(2) # family directors		(3) # family directors	(4) # family directors	
Generation	**(a)**	**(b)**	**(a)**	**(b)**		**(a)**	**(b)**
1st generation		-.347 (.238)		-.217 (.224)			-.229 (.225)
2nd generation	.347 (.238)		.217 (.224)			.229 (.225)	
3rd and later generations	.535** (.257)	.189 (.176)	.473* (.269)	.255 (.215)		.493* (.273)	.263 (.217)
Need for board control					-.015 (.077)	-.037 (.078)	
Firm size	.183*** (.066)		-.033 (.079)		-.010 (.080)	-.027 (.080)	
Business life cycle§§							
Maturity phase	-.098 (.174)		-.109 (.189)		-.093 (.190)	-.114 (.189)	
Consolidation phase	-.299 (.255)		-.497* (.284)		-.339 (.268)	-.509* (.286)	
# family employees	-.073 (.063)		.222*** (.056)		.224*** (.056)	.219*** (.056)	
# family shareholders	.007 (.039)		.097** (.047)		.112** (.047)	.097** (.047)	
Non-family ownership	-.108 (.190)		.432 (.269)		.474* (.270)	.427 (.270)	
CEO duality			-.365* (.206)		-.360* (.208)	-.372* (.207)	
N	*216*		*203*		*203*	*203*	
Adj. R²	*.032**		*.181****		*.172****	*.177****	

§Estimates based on the White-corrected standard errors; **, *** significant at 0.05, 0.01 level respectively; Standard errors reported in parentheses; Intercept not reported; All models are estimated with linear OLS regressions; (a) 1st generation as suppressed comparison category; (b) 2nd generation as suppressed comparison category; §§Growth phase as suppressed comparison category.

that the degree of family discord tends to increase over the generations (Davis & Harveston, 1999; 2001; Ensley & Pearson, 2005; Raskas, 1998), board participation in the formation of strategic decisions may become increasingly important with more family members demanding a seat on the board to present their personal or nuclear family's views.

Our analyses indicate that the generational rise in the need for board control is not reflected in the number of family directors (panel 3 of Table 5). A possible explanation might be that previously passive family directors are simply being replaced by more active family monitors. Additionally, we tested whether this increase over the generations in the need for board control influences the likelihood of having an outside director on the board. That is, family members may rely on outside directors with the required functional skills and "independence of mind" to exercise control (Gabrielsson & Huse, 2005; Jaskiewicz & Klein, 2007). In these additional analyses (not reported) we found that the need for board control indeed has a moderate positive impact on the presence of outside directors. However, this need for board control does not act as a mediator in the generation–outside director relationship when the need for board advice is controlled for. Taken together, this suggests that the generational phase influences the likelihood of having an outside director primarily through changes in advice needs. Yet once on the board, these outsiders may also fulfill the need to control the management team (cf. Gabrielsson & Huse, 2005).

Control Variables. Regarding the control variables in the analysis with the need for board control as the dependent variable (panel 1 of Table 5), we find that firm size has a significant positive effect. This indicates that exercising control over managerial decision-making becomes increasingly important as the complexity of the firm and the financial stakes increase (Bammens, Voordeckers & Van Gils, 2007; Nooteboom, 2002; Schoorman, Mayer & Davis, 2007).

As for the analysis with the number of family directors as the dependent variable (panel 4 of Table 5), we find that the number of family employees and shareholders are significantly positively associated with the number of family directors. In line with our earlier discussion regarding the board's participation in the formation of strategy, this may indicate that as the number of involved relatives increases, cognitive divergence concerning strategic issues is likely to increase; therefore, more family members may want to participate during strategic board discussions. The finding that there are on average fewer family directors in the consolidation phase compared to the growth phase may then reflect the lower strategic participation of boards as attractive investment opportunities have dropped, decision-making structures have been decentralized, and organizational processes institutionalized (Lynall et al., 2003). Lastly, the negative effect of CEO duality on the number of family directors is in line with the view that CEOs prefer to maintain their discretion over strategic decision-making (Westphal, 1998) and thus use their power to limit their relatives' involvement. Of course this line of reasoning concerning the board's participation in the formation of strategic decisions will need to be verified in future research since we were unable to test it with our data.

3.5 CONCLUSION & DIRECTIONS FOR FUTURE RESEARCH

The purpose of this study was to enhance the understanding of the relationship between the generational phase of family firms, their governance needs, and the composition of their board. By examining generational life cycle changes, this study answers to recent calls for research on variations within the group of family firms to further advance the development of a theory of the family firm (Chrisman et al., 2005a; 2006). It also relates to current developments in the governance literature exploring life cycle changes in board task needs and board composition (Filatotchev & Wright, 2005; Lynall et al., 2003). To summarize, our results suggest that the need for board advice decreases from the first to the second generation, and rises again in third and later generation firms. This convex trend can be explained by the generational changes in two family attributes with opposing effects, namely the increase in discord among family members and the rise in family experience (e.g. Davis & Harveston 1999; 2001;

Klein et al., 2005b). Moreover, we found a decrease in the presence of outside directors from the first to the second generation and a moderate increase in their presence among third and later generation firms. Moreover, this effect of the generational phase on outsider presence appeared to be mediated by the need for board advice. The results also show a mounting trend in the need for board control, which is argued to result from increased intra-family divergence of preferences and decreased mutual trust (e.g. Lubatkin et al., 2005; Raskas, 1998; Steier, 2001). Contrary to our expectations, however, this need for board control does not seem to be reflected in the number of family directors. Instead, we found that the generational phase has a direct effect on the number of family directors.

This study has some limitations that should be acknowledged and addressed in future research. Firstly, our measure of the generational phase was rather coarse. The generational phase was assessed by asking respondents to indicate the generation currently having the decision power in the firm, which reveals the most dominant generation involved in the running of the firm. Yet various hybrid forms may exist with varying degrees of involvement by several generations. Scholars may therefore take a more continuous approach of the generation concept and examine the level of involvement of different generations in ownership, the board, and management. Moreover, our discussion of generational dynamics was based on the classic generational stages model. That is, we made the assumption that generational transitions involve a move towards a more complex structure (i.e., controlling-owner → sibling partnership → cousin consortium). However, so-called "recycles" (structure remains more or less the same, e.g. founder who transfers the firm to his/her only child) or "devolutionary transitions" (structure becomes less complex, e.g. two siblings who transfer the firm to a single successor) may also occur (Gersick et al., 1999). Our argumentation may be less applicable to those firms experiencing generational recycles or devolutionary transitions[18], and

[18] Note that this may also partly explain why some of the hypothesized generational differences in board task needs and board composition failed to reach statistical significance.

future research should take this into consideration when further examining the impact of generation on board characteristics. Third, we discussed generational changes in various family attributes, such as trust and discord, and integrated them to derive implications for board task needs and board composition, without actually measuring these family attributes. Future research should incorporate direct measurements of these family attributes in the empirical models so as to get a clearer understanding of their effects on board characteristics.

A final limitation of this study concerns our measures of board task needs. These measures were based on the perceptions of a single respondent per firm (the CEO) using single-item scales. To begin with, the respondents' perceptions concerning board task needs may not be the same as the "real" board task needs. That is, respondents may be insufficiently aware of the potential of boards and therefore not contemplate the possibility of their board satisfying some existing (possibly latent) governance need[19]. Moreover, perspectives concerning board task needs may vary between governance actors (Huse & Rindova, 2001). It would therefore be valuable for future research to question multiple respondents per firm, preferably each with a different role (e.g., owner-managers, passive family owners, outside directors), and explore inter-rater reliability or the impact of their respective views on board composition. Furthermore, multiple-item scales may yield more reliable measures since item-level errors tend to be cancelled out when several items are combined. Lastly, the survey data used in this study only included one unidimensional measure of the need for board advice; given their diverging trends, it would be interesting for future research to distinguish between the need for complementary expertise and the need for mediation when measuring board advice needs.

Besides addressing the above limitations, many other interesting challenges remain for future research. First, we concentrated on the need for board advice and the need for board control as potential mediators in the

[19] Note that although our measures of board task needs may not fully capture the real/objective generational changes in these needs, it are, nonetheless, the governance actors' perceptions of board task needs that will ultimately affect the composition of the board.

generation–board composition relationship. As discussed, the provision of advice and the exercise of control are the two primary administrative tasks of a board (Carpenter & Westphal, 2001; Pfeffer & Salancik, 1978; Westphal, 1999) and the focus of this dissertation. Nonetheless, several other board tasks have been described in the literature. For instance, regarding the relationship between the generational phase and the number of family directors we suggest that it might be valuable for scholars to further examine the participation of boards in the formation of strategic decisions (Judge & Zeithaml, 1992).

Scholars can also extend our model by exploring the role of moderating variables, both between generation and board task needs and between these needs and board composition. For example, relational governance mechanisms such as family meetings and councils may enhance mutual trust and promote a shared business vision among the relatives, thus mitigating the relationship between generation and board task needs (Mustakallio et al., 2002; Neubauer & Lank, 1998). Regarding the link between board task needs and board composition, various factors may lead to a persistence of suboptimal board compositions (Lynall et al., 2003). In this regard, scholars may explore the role of, for example, family traditions and difficulties in attracting outside board members (Heidrick, 1988; Steier, 2001).

Third, a family firm's life cycle can itself be viewed as taking place within the broader institutional life cycle of a country (Filatotchev & Wright, 2005). In Belgium, the "Buysse committee" recently developed a corporate governance code for privately-held firms with special recommendations for family firms. Future studies taking a neo-institutional perspective (Leaptrott, 2005) may examine to what extent such governance codes influence the generational changes in the characteristics of family firm boards. That is, the firm's internal board task needs might play a lesser role once business families feel pressured to comply with these authoritative sources so as to obtain and maintain legitimacy in society.

Finally, the focus of this study was on generational changes in board task needs and board composition. The next logical step is to explore generational changes in actual board task performance. Possible intervening process variables that may be examined include cohesiveness, trust, and criticality (Finkelstein & Mooney, 2003; Forbes & Milliken, 1999; Huse, 2005b). In the next chapter, we will examine this underresearched topic and explore generational variations across family firms concerning their board's capacity to effectively combine the control and advisory tasks.

4

BOARD TASK PERFORMANCE IN FAMILY FIRMS: GENERATION, FAMILY COHESION, AND THE BALANCING OF TRUST AND CONTROL*

4.1 INTRODUCTION

In the previous chapter we explored how the generational evolution affects the need for board control and advice, and through these changing needs the composition of the family firm board. We now turn our attention to the relationship between the generational life cycle and the board's actual performance of these tasks. Exercising control over and providing advice to the CEO are the two primary tasks of a board as an administrative body (Pfeffer & Salancik, 1978; Westphal, 1999), and by effectively performing these tasks boards can enhance the organizational decision-making process (Carpenter & Westphal, 2001). Combining the control and advisory tasks may, however, prove difficult for board members. Control is based on the premise of distrust and may preclude or destroy trust between the board and the CEO (Falk & Kosfeld, 2006; Ghoshal & Moran, 1996). Advice on the other hand, requires a trusting relationship in which CEOs feel comfortable to seek advice and board members feel encouraged to provide it (Chua et al., 2006; Westphal, 1999; Zand, 1972). Therefore, 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 extremely challenging (Daily et al., 2003; Roberts et al., 2005; Sundaramurthy & Lewis, 2003). This chapter will examine how generational dynamics influence these processes in family firm boards.

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Business families typically prefer to internalize board membership 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; Ward, 1988; Westhead et al., 2001). Consequently, the relationships between board members and the family CEO often involve family bonds. Several scholars have indicated that the social capital embedded in these family bonds significantly influences the effectiveness of agency relationships (e.g., Gomez-Mejia et al., 2001; Kosnik, 1987; Schulze et al., 2001; Steier, 2001; 2003). Yet not all family bonds are alike, and we propose that generational changes in the nature of the family bonds will impact the performance of family firm boards. More specifically, we argue that the level of family cohesion – which captures the emotional bonding and closeness experienced by relatives (Olson, 1989; 2000) – changes over the generations, and that these changes influence the board's capacity to effectively combine control/distrust and advice/trust in their relationship with the family CEO. Put differently, we argue that generation influences actual board task performance via its effect on the level of family cohesion.

This study adds to the literature on family firm boards as, to our knowledge, it is the first research project to empirically examine how the nature of the relatives' family bonds – captured by the level of family cohesion – impacts the performance of family firm boards. Earlier studies, also acknowledging that family firm boards are generally largely composed of members of the CEO's family, mainly focused on how the appointment of outside directors affects board functioning (e.g., Anderson & Reeb, 2004; Ben-Amar & André, 2006; Johannisson & Huse, 2000; Klein et al., 2005a; Schulze et al., 2001; Ward & Handy, 1988; Westhead & Howorth, 2006). Moreover, this study contributes to the general governance literature by embracing the view that CEOs are rationally bounded and pursue an admixture of both pro-organizational motives and motives that may impair organizational success (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 chapter is as follows. First, seeing that academic knowledge on how to balance trust and control in agency relationships is still underdeveloped (Huse, 2005b; 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, in section 4.3 we apply the developed framework in a family firm context, and develop hypotheses on the relationship between family cohesion and the family firm board's capacity to combine control/distrust and advice/trust in its relationship with the family CEO. Building on these insights, we can then examine how the generational evolution – via its effect on family cohesion – influences board task performance. Hereafter, we clarify our methodology and discuss our empirical findings. Finally, the last section of this chapter discusses the main contributions of this study and formulates suggestions for future research.

4.2 TRUST & CONTROL: A COMPLEMENTARY APPROACH

4.2.1 Agency & Stewardship Perspectives

Trust and control are both governance mechanisms that reduce perceived relational risk in a cooperative endeavor (Nooteboom, 2002; Ouchi, 1979). Control is about influencing the behavior of people so as to ensure that they act in a cooperative and effective fashion (Das & Teng, 2001; Lebas & Wiegenstein, 1986). As indicated, the importance of board control is derived from agency theory which assumes that managers are self-interested, and examines how shareholders can install control mechanisms to monitor and evaluate managerial behavior so as to protect their own economic interests (Eisenhardt, 1989; Jensen & Meckling, 1976; Shleifer & Vishny, 1997). Seeing that agency theorists focus on individual economic utility maximization and disregard the social context of agency relationships, trust relations are formally discounted within the agency framework and control is emphasized (Hendry, 2005; Lubatkin et al., 2007a; Roberts et al., 2005; Ulhoi, 2007).

Trust can be defined as "the willingness of a party to be vulnerable to the actions of another party 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 et al., 1995: 712). While many scholars have suggested that trust is essential for understanding interpersonal and group behavior, little empirical research has examined the implications of trust for the governance of intra-organizational agency relationships (Hosmer, 1995; Nooteboom, 2002). A theoretical basis for trustworthy behavior in agency relationships can be found in stewardship theory, which argues that many managers are intrinsically motivated to behave in the best interests of the firm and its shareholders (Davis et al., 1997; Donaldson, 1990). Examples of stewardship motivations include satisfaction through successfully performing valuable and challenging work, self-actualization, genuine concern for the interests of the shareholders, and identification with the firm (Argyris, 1974; Donaldson & Davis, 1991). It is argued that such stewards will never substitute self-serving behaviors for pro-organizational behaviors (Davis et al., 1997), and that control should be avoided as it may negatively impact their intrinsic motivation (Davis et al., 1997; Frey & Jegen, 2001; Gagné & Deci, 2005).

Stewardship theory maintains that managers choose to behave as either agents or stewards, and that their choice is contingent upon their psychological drives and perceptions of the context (Davis et al., 1997). Such an approach suggests a focus on either control or trust by board members in their relationship with the CEO. Yet qualitative studies indicate that this either/or approach is not in line with the lived experience of most directors (Roberts et al., 2005). Moreover, a focus on 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 agency relationship with insufficient openness for advice interactions (Roberts 2001; Westphal, 1999). On the other hand, 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 CEOs 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).

4.2.2 Balancing Trust & Control

The above 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). However, trust and control refer to complex social processes and perspectives regarding the nature of their relationship vary (Das & Teng, 1998; Long & Sitkin, 2006; Reed, 2001). In the trust literature, scholars typically make a distinction between two types of trust, namely intentional trust and ability trust (Nooteboom, 1996). In order to clarify how trust and control can be employed in a complementary manner, we will distinguish between these two dimensions of the CEOs' trustworthiness, i.e. their intentions to act in line with the interest of the shareholders, and their abilities to do so.

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 stewardship motives, the intentional trustworthiness of CEOs generally has some upper-limit (Hendry, 2002; Nooteboom, 2002; Wicks et al., 1999). That is, values or feelings of concern may lower the propensity of CEOs to behave opportunistically, but certain opportunities will generally be too tempting for them to resist (Nooteboom, 1996; 2002; Williamson, 1979). In the words of Hendry (2002: 108), "however honest and dutiful they may be, few managers can be entirely free of self-seeking behavior". For instance, a CEO may be intrinsically motivated to work hard, and thus refrain from shirking or free-riding, 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 et al., 1998; Lubatkin et al., 2007a; Whitener et al., 1998). The time dimension plays a key 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 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 may still play 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. 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 balanced by the members of the board. In summary, over time 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., 2007a), 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 decision-making process. Trust and control are thus two alternative governance mechanisms that should be used in a complementary manner.

4.3 FAMILY DYNAMICS & 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. As mentioned in the introduction of this chapter, agency relationships in family firms often involve family bonds between the board members and the CEO (Corbetta & Salvato, 2004a; Lane et al., 2006; Voordeckers et al., 2007; Westhead et al., 2002). The family social capital[20] embedded in these family bonds may have a substantial bearing on the balancing of trust and control in these agency relationships (Gomez-Mejia et al., 2001; Mustakallio, 2002; Nahapiet & Ghoshal, 1998). However, not all families are characterized by the same amount of social capital (Arregle et al., 2007; Bubolz, 2001). Some families are characterized by close emotional ties between their members with intense socialization processes leading to strong family

[20] Family social capital refers to the resources inherent in family relationships which facilitate some forms of activity while inhibiting others (Arregle et al., 2007; Nahapiet & Ghoshal, 1998).

social capital, while the members of other families may experience emotional separateness and fail to develop family social capital (Bubolz, 2001; Lee, 2006; Olson & Gorall, 2003). In this section, we first develop hypotheses on how differences in family social capital – captured by the degree of family cohesion (Olson, 1989; 2000) – influence the family firm board's capacity to adequately balance trust and control in their relationship with the family CEO. Building on these insights, we will then examine how the generational evolution – via its effect on family cohesion – influences these board processes.

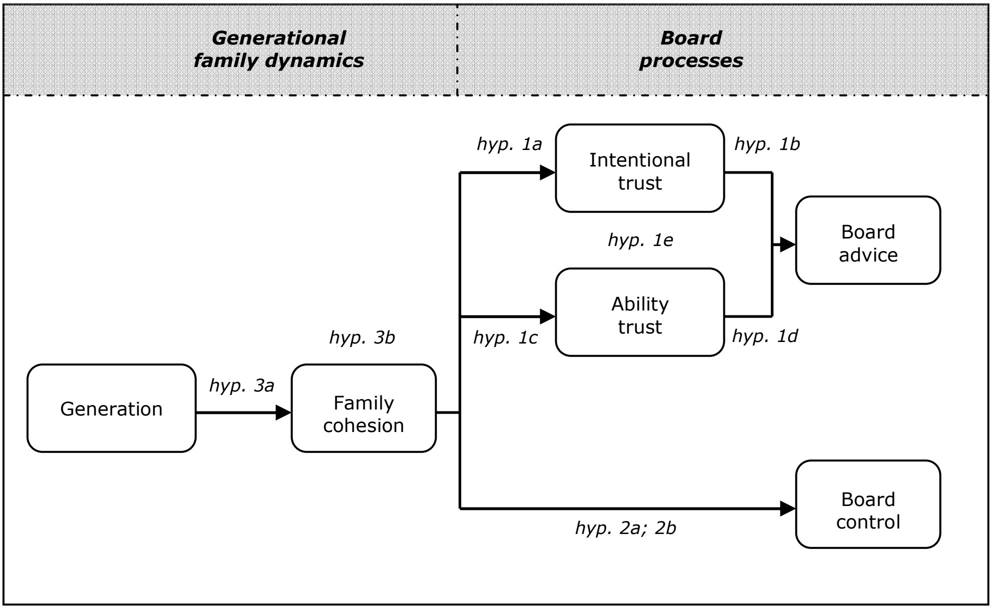
In our discussion of the influence of family cohesion on the balancing of trust and control by family firm boards, we will compare the traits and processes that characterize highly cohesive or enmeshed families with those of disengaged families. Note that these two family types should be viewed as the end-points of a family cohesion continuum with most families probably situated somewhere along this continuum. Furthermore, in order to keep our argumentation straightforward, we focus our discussion on the impact of family cohesion on board processes through the beliefs and behaviors of the family directors. It can be noted, however, that family social capital may also influence the beliefs and behaviors of non-family directors (should these be included on the board), for example, through coercive, mimetic, or normative isomorphic influences[21].

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 (cf. supra) – 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. Subsequently, we discuss the association between family cohesion and the board's capacity to exercise control over the family CEO. As a final part of this section, we explore the impact of the generational evolution on the level of family cohesion in order to link the

[21] Coercive influences refer to the pressures that family directors may impose on non-family directors; mimetic influences result as non-family directors intentionally copy the behaviors of family directors; normative influences denote the idea of non-family directors internalizing the beliefs of family directors (Arregle et al., 2007).

generational phase with these board processes. The hypothesized model is summarized in Figure 3 which outlines the expected impact of the generational evolution – via its effect on family cohesion – on the behavioral processes within family firm boards.

Figure 3
Hypothesized model (chapter 4)



4.3.1 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 such families can be expected to have a deep understanding of the family CEO's desires, motives, and objectives (Lee, 2006; Sundaramurthy, 2008). In addition, strong family bonds are likely to incite stewardship behavior on the part of the family CEO (Corbetta & Salvato, 2004b; 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 board members 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 a relatively high degree of personal separateness and independence (Olson, 1989; Olson & Gorall, 2003). Board members from such disengaged families are less likely to have gained insight in the family CEO's motivational drives, and may have little faith in the latter's intentions to maximize family welfare (Corbetta & Salvato, 2004b; Mullen & Copper, 1994; Rousseau et al., 1998; Sundaramurthy, 2008). Boards operating under such weak family bonds will need to rely more on the exchange interactions in the organizational setting to strengthen their intentional trust in the CEO (Lubatkin et al., 2007a). Yet because of the larger risks that characterize the organizational setting and the self-fulfilling prophecy of distrust, building intentional trust in this setting may prove 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 because it offers the openness required for thoughtful advice interactions (Huse, 1994; Westphal, 1998; 1999; Zand, 1972). In an atmosphere of intentional trust, CEOs are more inclined to turn to the board for assistance and board members feel comfortable, even socially obliged, to provide the requested advice (Chua et al., 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 CEO.

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

4.3.2 Family Cohesion & the Building of Ability Trust

In highly cohesive families, little private space and time is permitted to the relatives (Olson & Gorall, 2003). The time that these family members spend together 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. As a result of these processes, the perceived threat of adverse selection will be significantly reduced (Chrisman et al., 2004; Eisenhardt, 1989).

On the other hand, when family cohesion is weak, relatives often do their own thing, with separate time and interests predominating (Olson, 2000). In such families, information asymmetries between the family board members and the family CEO concerning the latter's competencies can be expected to be more significant, and ability trust thus lower. The board will then 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 et al., 2004; Eisenhardt, 1989). During this verification period, CEOs are generally less inclined to ask the board for advice as they may 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). In brief, we propose that cohesive family systems create a strong basis for the building of ability trust of 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 CEO.*
> ***Hypothesis 1d:*** *The board's ability trust in the 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 CEO will mediate in the relationship between family cohesion and the level of advice interactions.*

4.3.3 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 aligns the economic interests of the agents with those of the principals (Fama & Jensen, 1983a,b). As discussed in chapter 2, however, family CEOs may also pursue noneconomic preferences which negatively impact 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; 2003b), family CEOs can also pursue pet projects or avoid profitable investments when they demand a great amount of personal effort - just as CEOs in non-family firms (Gomez-Mejia et al., 2001; Schulze et al., 2003a). Moreover, due to human bounded rationality all CEOs have their cognitive limitations (Arthur, 1994; Simon, 1955; 2000). 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 (Chrisman et al., 2004; Schulze et al., 2001). Hence, board control in the form of asking CEOs investigative questions and assessing their behavior (Roberts et al., 2005; Westphal, 1999) is also important in a family firm context, and should complement trust as a governance mechanism (Bammens & Voordeckers, 2008a). We will now discuss the relationship between the level of family cohesion and the board's capacity to exercise control over the family CEO.

Firstly, when the family is highly cohesive, the strong emotional bonds that characterize these families 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 bonds are weaker, emotional feelings and sentiments are less likely to color the board members' perceptions of the family CEO's trustworthiness, reducing the threat of blind trust.

Furthermore, in order to exercise control over the 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 in the family system, board members from highly cohesive families are likely to share similar cognitive schemata with the CEO on how to deal with particular problems and situations, which reduces the quality of questions aimed at challenging the CEO's 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, and to use them to challenge the CEO's decision-making.

Lastly, the norms governing highly cohesive families, such as comfort, security, and concern, limit the family directors' capacity to discipline or fire an underperforming CEO (Gomez-Mejia et al., 2001; Lubatkin et al., 2005). Family CEOs may then 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. In families that are more disengaged, emotions will play a lesser role in board deliberations, and the business values of profitability and efficiency will probably preponderate (Steier, 2003).

In summary, we propose that family cohesion has a negative impact on the board's capacity to exercise control over the family CEO. More formally, we expect a negative effect of family cohesion on the level of control exercised by the board (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 security)[22].

[22] 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).

Hypothesis 2a: *Family cohesion will be negatively associated with the level of control exercised by the board.*

Hypothesis 2b: *Family cohesion will be negatively associated with the effectiveness of the control exercised by the board.*

4.3.4 Generational Changes in Family Cohesion

In the preceding discussion, we have explored how the level of family cohesion influences the employment of trust and control by family firm boards in their relationship with the family CEO. Although various contingencies can be expected to have a bearing on the level of cohesion of owning-families, the factor most frequently referred to by family business scholars is the generational life cycle (e.g., Ensley & Pearson, 2005; Lubatkin et al., 2005; Neubauer & Lank, 1998).

As family firms pass from one generation to the next, the nature of the intra-family dynamics typically alters and family cohesion can be expected to decrease (Gersick et al., 1997; Neubauer & Lank, 1998). In first generation firms, the involved relatives are member of the same nuclear family unit, which usually corresponds with relatively high levels of cohesion (Arregle et al., 2007; Ensley & Pearson, 2005). In second generation firms, the frequency of social interactions among the members of the family is typically lower and individuals are more involved with their own nuclear family unit than with the owning-family as a whole (Neubauer & Lank, 1998; Schulze et al., 2003a). By the third generation, the emotional bonds between the relatives, many of whom are not actively involved in the firm, are often no stronger than those between non-family members. That is, many of the affective traits that make family firms theoretically distinct may have been lost by this generational stage (Lubatkin et al., 2005; Raskas, 1998).

Hence, we expect that the generational evolution will be negatively related to the overall level of cohesion among the family members involved in the firm. Moreover, we propose that family cohesion will mediate in the relationship between generation and board processes (cf. Figure 3). That is, we expect that the generational evolution will have a negative influence on the level of (intentional and ability) trust and advice in the board-CEO relationship, and a positive influence on the level and effectiveness of board control – and this via its negative effect on the level of family cohesion. This leads to our two final hypotheses:

> ***Hypothesis 3a:*** *The generational evolution of the firm will be negatively associated with family cohesion.*
> ***Hypothesis 3b:*** *The generational evolution of the firm influences board processes (negative effect on trust and advice, positive effect on control) via its effect on family cohesion.*

4.4 METHODOLOGY

4.4.1 Sample & Data Collection

The selection of the sampled companies was based on the Bel-First CD-ROM 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 non-family firms, namely 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. In order to be included in the analyses, the responding companies also had to satisfy more stringent ex post criteria (cf. infra); (2) We selected limited liability firms as in Belgium only this type of firm is legally obliged to have a board of directors; (3) Seeing that we set out to examine the influence of family dynamics 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 et al. (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 sent to 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 stringent 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 more stringent 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 these board members 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 6. Regarding the generational phase, the respondents were asked to indicate the most dominant generation in ownership, management, and the board.

Table 6
Sample characteristics

	N	Min	Max	Mean	Median	Standard deviation
# **employees**	82	7	3000	123.8	34	377
Sales (mio €)	75	0.2	500	27.2	6.3	73.9
% family managers	82	14.3	100	75.5	75	27.3
% family ownership	76	40	100	95.5	100	12.4
Generational phase:	***Ownership***		***Management***		***Board of directors***	
	N	**%**	**N**	**%**	**N**	**%**
- 1st generation	29	34.5	28	33.3	33	39.3
- 2nd generation	35	41.7	38	45.2	33	39.3
- 3rd generation	14	16.7	11	13.1	11	13.1
- 4th generation	5	6.0	6	7.1	6	7.1

4.4.2 Dependent Variables

The level of *board advice* and *board control* were measured using two scales with three items each. These scales are based on the work of Westphal et al. (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 7). Given our discussion on the conceptual distinction between board advice and board control in the introductory chapter, we decided not to include this fourth item in the analyses. To reiterate, most governance scholars view the challenging of the CEO's assumptions and strategic views as a form of board control as it is based on distrust of natural human limitations, and aimed at mitigating the negative consequences of these limitations (Gulati & Westphal, 1999; Sundaramurthy & Lewis, 2003; Westphal &

Table 7
Factor loadings of board advice and board control

Items (evaluated on a 7-point Likert scale: 1 = minimally; 7 = very much so)	Factor 1 **Board advice**	Factor 2 **Board control**
To what extent…		
- 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**

PCA with promax rotation (N = 76); total variance explained in retained items = 86.9%

Stern, 2007). Put differently, shaping strategic decisions by asking the CEO challenging questions is consistent with agency theory and can be considered as an important part of the board's control tasks (Hendry & Kiel, 2004; McNulty & Pettigrew, 1999). Therefore, as 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, this first control item was deleted from the analyses (cf. Butler, 1991; Raykov & Marcoulides, 2000). 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 will need to link the level of board control to some relevant outcome measure. In line with the process approach of this dissertation (cf. chapter 1), we opted to link board control to the board's contribution to strategic decision-making (rather than some distant outcome measure like corporate financial performance). As strategic decisions are generally 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; Hendry, 2005; Judge & Zeithaml, 1992; Mustakallio et al., 2002; 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 effect of the control exercised by boards on their contribution to strategic decision-making can be viewed as an appropriate indicator of control effectiveness[23]. The variable *board contribution* was evaluated on a 7-point Likert scale using three items based on Carpenter and Westphal (2001). These items are presented in Table 8, 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 contribution items, together with the three board advice items and the two board control items, we also found that the board contribution items loaded on a unique factor. The variable board contribution is the average of these three items (Cronbach's alpha = 0.971).

Table 8
Factor loadings of the board's contribution to strategic decision-making

Items (evaluated on a 7-point Likert scale: 1 = minimally; 7 = very much so)	Factor 1 **Board contribution**
To what extent…	
- 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**

PCA with promax rotation (N = 79); total variance explained = 97.9%

[23] Note that, in a similar way, the board's contribution to strategic decision-making can be used to asses the effectiveness of board advice (Carpenter & Westphal, 2001; Mustakallio et al., 2002). Although not hypothesized, we will test potential determinants of advice effectiveness in additional analyses.

4.4.3 Intervening Variables

We based our measure of *family cohesion* on Seashore's (1954) four item cohesiveness index which has been used in numerous other studies (e.g., Bollen & Hoyle, 1990; O'Reilly, Caldwell & Barnett, 1989)[24]. When assessing the level of family cohesion, respondents where asked to consider only those members of the family who were somehow involved in the family firm (e.g., as a shareholder, employee, manager, or board member). 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 were worded so that they 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 formulated so as to fit the family and board setting respectively, and they were all evaluated on a 7-point Likert scale (Table 9). Given the large overlap between the members of the family and the members of the board[25], 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)[26].

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[24] We decided not to use the FACES-scale as developed by Olson as the various versions of this scale either do not capture the high extremes of family cohesion (Olson & Gorall, 2003), or are not in line with Olson's Circumplex Model (Gorall, Tiesel & Olson, 2006).

[25] 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 family.

[26] 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.

Table 9
Factor loadings of family cohesion and the board's trust in the CEO

Items (evaluated on a 7-point Likert scale: 1 = minimally; 7 = very much so)	Factor 1 **Family cohesion**	Factor 2 **Intentional trust**	Factor 3 **Ability trust**
To what extent…			
- 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**

PCA with promax rotation (N = 78); total variance explained = 75.6%

4.4.4 Independent Variable

The independent variable of this study is the *generation* in charge of the family firm. The measure of this variable is based on the F-PEC scale of Klein et al. (2005b). The respondents were asked, in three separate questions, to indicate the generation which (1) owned most of the shares, (2) was most influential in the management team, and (3) was most influential in the board of directors. Among the firms in our sample, the highest generation involved was the fourth generation. Given the low number of categories of this ordinal variable, the standard principal components method could not be used to perform a factor-analysis. Instead, we used the nonlinear (categorical) principal components analysis (Linting et al., 2007). In brief, this procedure replaces the category labels with category quantifications whilst simultaneously performing a principal component model estimation. The ordinal variables are quantified in such a way that as much as possible of the variance in these quantifications is accounted for by the components. We extracted one component using this method (Table 10), and used the object scores of this component in our analysis (Cronbach's alpha = 0.986).

Table 10
Factor loadings of generation

Items	Factor 1 **Generation**
Which generation…	
- owns most of the shares?	**.979**
- is most influential in the management team?	**.990**
- is most influential in the board of directors?	**.989**

Nonlinear PCA (N = 83); total variance explained in the quantified variables = 97.2%

4.4.5 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 related to the CEO, 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 since many scholars have suggested that tenure impacts the CEO's strategic decision-making processes (e.g., Finkelstein & Hambrick, 1990; Miller & Le Breton-Miller, 2006). 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 11). 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 (cf. François, 2001). The control variable board knowledge is the average of the five remaining items (Cronbach's alpha = 0.853).

Table 11
Factor loadings of board knowledge

Items (evaluated on a 7-point Likert scale: 1 = strongly disagree; 7 = strongly agree)	Factor 1 **Board knowledge**
To what extent do you agree with the following statements: 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**

PCA (N=82); total variance explained in retained items = 63.5%

Seeing that the size of the company may affect the board's inclination to delegate decision-making authority to the CEO, we included *firm size* measured as the logarithm of sales in our analysis (Westphal, 1999). In those analyses with the generation as a predictor variable, we also controlled for *family size*. This enabled us to distinguish between effects due to the mere size of the family and pure generational differences. Family size was evaluated by asking the respondents how many family members were involved in the firm as an employee, manager, director, or shareholder.

Additionally, we controlled for the degree of CEO power over the board. CEO power was evaluated using three different measures, namely *CEO ownership*, *CEO duality*, and *percentage of inside directors* (Fiegener et al. 2000b; Johnson et al., 1996; Voordeckers et al., 2007). Yet because of the small size of our sample, 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[27]; (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). Notable findings with the tests including an alternative measure of CEO power will be reported in the discussion section.

4.4.6 Nonresponse & Common Method Bias

Potential nonresponse bias was evaluated using two separate procedures. Firstly, 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 our dependent, intervening or independent variables. Hence, regarding the variables of interest, our sample seems to be representative of the population of family firms (keeping in mind our selection criteria). However, we did find a significant difference on one of our control variables, namely family size. More specifically, we found that the average family size of the late respondents (4.9) is larger than that of the early respondents (3.2); this suggests that the total population of family firms might be characterized by a larger number of involved family members. A possible explanation may be that larger business families are more

[27] 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.

heavily affected by various family considerations and therefore perhaps somewhat more secretive (cf. Lane et al., 2006; Neubauer & Lank, 1998). A robustness-check using a cut-off point at 40 percent showed similar results. Secondly, 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[28]. The results of these tests suggest that our sample is representative of the total population.

Since the data were collected via a cross-sectional survey design, and many 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). Regarding the three generation items we used their quantified values as generated by the nonlinear principal components analysis. Six factors with an Eigenvalue larger than one emerged, and these factors accounted for 82 percent of the variance in the original items. Moreover, the first factor only accounted for 34.6 percent of the variance. 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).

4.4.7 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

[28] Note that the selection of these firms was based on the ex ante criteria used to identify family firms (cf. supra).

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 (VIF) values, and found no noteworthy multicollinearity problems (largest VIF = 2.12).

4.5 DISCUSSION OF RESULTS

Descriptives. Descriptive statistics and bivariate correlations are displayed in Table 12. 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. Regarding these hypothesized effects we also find that the correlations are statistically significant apart from most correlations involving the generation object score.

Hypotheses 1a-1e. Table 13 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

Table 12
Descriptive statistics and Pearson correlation coefficients[a]

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Board advice	5.034	1.491	1													
2. Board control	4.298	1.863	**.597**	1												
3. Board contribution	5.246	1.534	**.712**	**.521**	1											
4. Family cohesion	5.923	1.017	**.560**	**.339**	**.477**	1										
5. Intentional trust	6.169	.707	<u>.275</u>	.058	.180	**.369**	1									
6. Ability trust	5.773	.775	*.213*	.156	<u>.233</u>	**.470**	**.667**	1								
7. Generation	.018	1.022	-.043	.093	.018	-.033	<u>-.241</u>	-.183	1							
8. % family bonds	.827	.245	-.095	-.024	-.167	*-.198*	-.153	-.051	-.044	1						
9. CEO ownership	.410	.248	-.188	-.102	-.014	.003	-.012	*.219*	<u>-.262</u>	.137	1					
10. CEO duality	.597	(0/1)	*-.195*	<u>-.300</u>	*-.191*	-.151	-.099	.038	*-.194*	<u>.239</u>	<u>.286</u>	1				
11. % inside directors	.754	.281	.136	.118	.105	.113	.091	.159	-.156	<u>.281</u>	<u>.266</u>	<u>.244</u>	1			
12. CEO tenure	17.305	11.525	.078	.102	-.040	.143	-.022	.171	-.170	*.205*	**.377**	**.425**	**.299**	1		
13. Board knowledge	5.925	.778	<u>.259</u>	<u>.275</u>	.145	.066	*.210*	<u>.246</u>	<u>-.288</u>	.141	.179	.173	**.316**	.156	1	
14. Firm size[b]	15.802	1.437	.013	.064	.126	-.001	-.134	-.116	.190	**-.388**	<u>-.273</u>	*-.231*	**-.342**	*-.206*	<u>-.301</u>	1
15. Family size	4.367	2.870	.051	.007	.005	-.053	.094	-.156	.028	-.133	-.182	-.070	<u>-.268</u>	-.128	<u>-.237</u>	**.383**

[a] Correlations in *italics* are significant at the 0.10 level; <u>underlined</u> at the 0.05 level; in **bold** at the 0.01 level.
[b] Logarithm of sales.

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 (cf. supra) – we performed an additional regression analysis (not reported) where we included the interaction between ability trust and CEO tenure. Yet neither ability trust nor this interaction term had a significant effect on the level of board advice. Moreover, we found that the marginal effect of ability trust on board advice (i.e., ∂board advice/∂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.

Thus while the board's intentional trust in the CEO seems to stimulate more advice interactions, their ability trust in the CEO apparently does not affect the providing of 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. As a result, less ability trust will not be negatively associated with the openness for advice interactions. An alternative explanation may be that the level of ability trust also 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, despite 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 one of the outcomes.

Table 13
Results of regression models (hyp. 1)

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

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

In order to test hypothesis 1e we had to perform two additional regression analyses. 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 13 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. A final 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 (e.g., 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)[29]. Yet with repeated

[29] Note that although family cohesion is an affective construct, it may nevertheless influence the cognitive component of intentional trust – i.e., affective bonds may engender a mutual understanding of one another's motives and behavior.

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 13 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 13 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 behavior is 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 13) may reflect the CEO's increased power over the board. Scholars have oftentimes suggested that CEOs attach greater value to personal discretion than to the potential valuable advice that active boards may provide (e.g., Fiegener et al., 2000b; Heidrick, 1988). As CEO power increases, they should become more capable of installing passive boards (Gabrielsson & Huse, 2005; Lane et al., 2006)[30].

Regarding the positive effect of the board's knowledge on its intentional trust in the CEO (panel 1 of Table 13), we indicated that intentional trust has an important cognitive component. When boards have a better understanding of the firm's internal affairs and its environmental dynamics, they should be better able to interpret and evaluate the efforts and performance of the CEO which is necessary to build cognitive intentional trust. In other words, to distinguish between self-serving/stewardship behaviors and low/high performance due to exogenous forces, boards need to be knowledgeable about the firm (McAllister, 1995; Rousseau et al., 1998). Lastly, the positive association between board knowledge and the provision of advice and counsel (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 (Corbetta & Salvato, 2004a; Forbes & Milliken, 1999; Hillman & Dalziel, 2003).

Hypotheses 2a-2b. Table 14 reports the results of the regression analyses concerning the relationships put forward in hypotheses 2a and 2b. Panel 1 shows that, contrary to our expectations, family cohesion is positively associated with the degree of control exercised by family firm boards. Hypothesis 2a is therefore not supported. Taken together with the results in Table 13 (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

[30] 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.

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).

These results suggest that, contrary to agency theory arguments, 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 intrinsic 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),

Table 14
Results of regression models (hyp. 2)

	(1) Board control	(2) Board contribution[a,b,c]
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)
N	*63*	*62*
(Adj.) R^2	*.141***	*.650****

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

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 (e.g., 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 (e.g., Leana, 1985; Moorhead & Montanari, 1986). Based on groupthink arguments, it might be so 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 critical questions[31].

In hypothesis 2b we proposed that the level of family cohesion would be negatively associated with the effectiveness of the control exercised by family firm boards. As discussed in section 4.4.2, control effectiveness can be evaluated by linking the level of control exercised by the board to its contribution to the strategic decision-making process (Carpenter & Westphal, 2001; Fama & Jensen, 1983a). Therefore, we tested hypothesis 2b by estimating the effect of the interaction between family cohesion and board control on the variable board contribution. The results in panel 2 of Table 14 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 these strong family

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[31] 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., ∂board control/∂family cohesion) was either positive or non-significant across the range of possible family cohesion values, we found no support for this alternative hypothesis.

bonds lower the influence of board control on the CEO's strategic decision-making. This finding suggests that CEOs from highly cohesive families feel comforted in the belief that family norms of concern and security make the family directors unwilling to discipline poor performance. As a result, these family CEOs may feel less compelled to heed to board reviews and inquiries (Lubatkin et al., 2005). The strong socialization processes that characterize highly cohesive families may also 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[32].

This negative effect of family cohesion on the effectiveness of board control is graphically illustrated in Figure 4. The X-axis denotes the level of family cohesion and the Y-axis denotes the marginal effect of board control on the board's contribution to strategic decision-making[33]. Note that the analysis in panel 2 of Table 14 was based on the mean-centered values of family cohesion in order to mitigate multicollinearity issues (Jaccard & Turrisi, 2003). However, in Figure 4 we again added the mean value of family cohesion (5.923) so as to illustrate how the marginal effect of board control changes across the range of family cohesion values (min. = 1; max. = 7, cf. supra). 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[34] (cf. 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

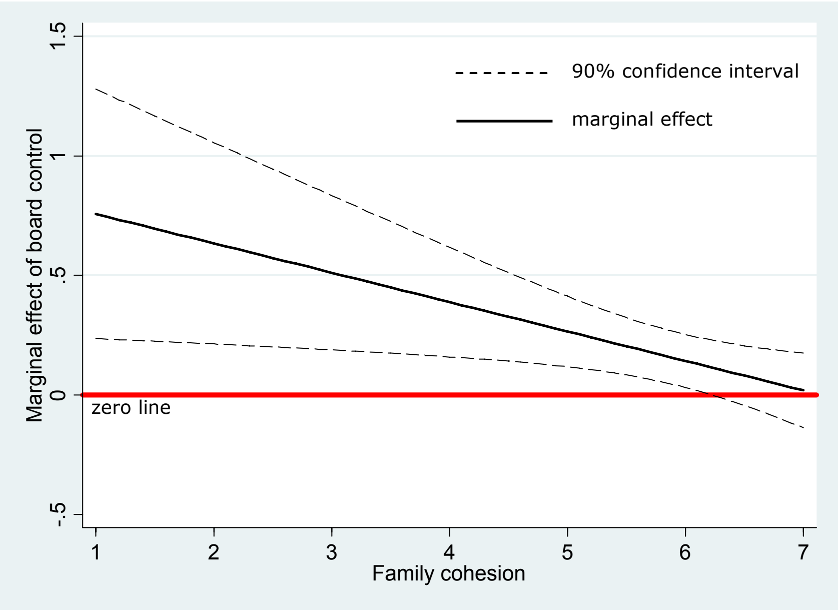
[32] In an additional analysis (not reported) we checked whether family cohesion influences the effectiveness of board advice. We found that the effect of the interaction term 'family cohesion*board advice' on board contribution was non-significant. Hence, as expected, family cohesion only impacts the openness for, and thus level of, board advice (panel 5 of Table 13).

[33] Marginal effect = ∂board contribution/∂board control = 0.15181413 – 0.12300066 * (family cohesion_mean-centered), see Table 14.

[34] Standard error ($\sigma_{\partial Y/\partial X}$) = $[0.0043902 + 0.00378716 * (\text{family cohesion\_mean-centered})^2 + 2 * (\text{family cohesion\_mean-centered}) * (-0.00007992)]^{1/2}$, see Table 14.

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. Of the business families in our sample, 35.8 percent had a family cohesion value larger than 6.3. In summary, the effectiveness of the control exercised by family firm boards over family CEOs – in terms of its influence on the strategic decision-making process – weakens as family cohesion increases, and board control no longer has a significant influence on strategic decision-making at very high levels of family cohesion.

Figure 4
Marginal effect of the level of board control on board contribution across the range of family cohesion values



Control Variables. Regarding the control variables, the results in panel 1 of Table 14 indicate that board knowledge has a positive impact on the degree of board control. This 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 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' conduct, and thus exercise more control over the CEO to mitigate the perceived risks (Lewicki et al., 1998; Schoorman et al., 2007)[35]. In the analysis where we examined the relationship between board control and board contribution (panel 2 of Table 14), we also included the level of board advice as a control variable. In line with the argument that board advice serves to enhance the strategic decision-making process (Carpenter & Westphal, 2001; Mustakallio et al., 2002), the level of board advice has a positive effect on the board's contribution to strategic decision-making. Lastly, higher levels of CEO ownership appear to be positively associated with the board's contribution to strategic decision-making (panel 2 of Table 14). Note that we actually control for the level of board control and advice in this analysis. Therefore, this finding reveals that CEOs with higher 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.

Hypotheses 3a-3b. The results presented in panel 1 of Table 15 reveal that the generational evolution of the family firm is not significantly associated with the level of family cohesion. Hence, we do not find support for hypotheses 3a and 3b in our data. However, the results in panels 2 and 3 show that generation does have a direct negative impact on both the board's intentional and ability trust in the CEO. We also tested whether generation affects the degree of advice provided by the board (panel 4), but found no significant direct effect. Given that intentional trust is positively associated with board advice (panel 3 of Table 13), it might still be that generation has an indirect effect on the level of board advice via the board's intentional trust in the CEO[36]. To test

[35] 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 14.
[36] Contrary to mediation, an indirect effect hypothesis implies that the total relationship between generation and board advice is non-significant (Mathieu & Taylor, 2006).

Table 15
Results of regression models (hyp. 3)

	(1) Family cohesion[a]	(2) Intentional trust	(3) Ability trust	(4) Board advice	(5) Board advice	(6) Board control	(7) Board contribution[a,b]
Generation	-.032 (.129)	-.195* (0.099)	-.174* (.101)	.048 (.197)	.171 (.196)	.335 (.252)	.226 (.158)
Intentional trust					.608** (.249)		
Board control							.089 (.091)
Generation * board control							-.227 (.136)
Family size	.019 (.044)	.056 (.034)	-.006 (.034)	.061 (.067)	.028 (.065)	.033 (.085)	.0115 (.046)
% family bonds	-.997** (.482)	-.732* (.369)	-.502 (.378)	-.585 (.769)	-.135 (.760)	.531 (.983)	-1.038* (.559)
CEO ownership	.079 (.523)	.159 (.395)	.383 (.405)	-1.199 (.795)	-1.270 (.762)	-.778 (1.016)	1.338** (.559)
CEO tenure	.008 (.011)	-.006 (.008)	.007 (.008)	.022 (.016)	.025 (.016)	.031 (.021)	-.008 (.012)
Board knowledge	.180 (.162)	.115 (.122)	.089 (.125)	.631** (.242)	.565** (.234)	.772** (.310)	.135 (.181)
Firm size	-.086 (.093)	-.133* (.071)	-.058 (.073)	.016 (.142)	.096 (.140)	.226 (.182)	-.089 (.101)
Board advice							.653*** (.110)
N	*65*	*66*	*66*	*63*	*63*	*63*	*62*
Adj. R^2	*.000*	*.113***	*.070*	*.096**	*.171***	*.067*	*.579****

*, **, *** significant at 0.10, 0.05, 0.01 level respectively; Standard errors reported in parentheses; Intercept not reported; [a]One outlier deleted due to non-normality concerns; [b]Cov(coefficient board control, coefficient interaction term)= 0.00446023.

this indirect relationship we performed the Aroian version of the Sobel test (Baron & Kenny, 1986; Mathieu & Taylor, 2006). For this test we used the parameter estimates and standard errors for the association between generation and intentional trust (β_{mx}: panel 2 of Table 15) and for the association between intentional trust and board advice when generation was also included in the regression analysis ($\beta_{ym.x}$: panel 5 of Table 15). The results reveal that the indirect effect is not significant ($\beta_{mx}*\beta_{ym.x}$: Aroian-value = -1.462; p-value = 0.144). Hence, generation does not seem to affect the level of board advice, neither directly nor through mediation nor indirectly[37].

For a possible explanation of these findings we refer to our earlier discussion concerning the affective and cognitive dimensions of social constructs and exchange relationships (McAllister, 1995; Milliken & Martins, 1996). While we acknowledge that the later generation family firms in our sample possibly exhibit a survival bias[38], our results do suggest that many business families are able to preserve family cohesion – which captures the affective bonding among the relatives – over the generations. Hence, we infer that the direct impact of generation on the board's intentional and ability trust in the CEO may reflect mainly changes in the cognitive component of trust (McAllister, 1995; Nooteboom, 2002). That is, although in many business families the overall level of intra-family affection appears to be unaffected by the generational evolution, the fact that in later generations many relatives may not have grown up in the same nuclear family unit as the CEO may negatively impact their understanding and cognitive assessment of the family CEO's trustworthiness. If generation mainly has an impact on the cognitive dimension of family relationships then, in

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[37] Based on our finding in chapter 3 that second generation family firms generally have a lower need for board advice (Bammens, Voordeckers & Van Gils, 2008b), we might also expect a convex relationship between generation and the actual level of board advice. In order to test this, we included the second order term of our present operationalization of generation in a regression analysis with the degree of board advice as the dependent variable (not reported), but found that this second order term was non-significant. Moreover, we found that the marginal effect of generation on board advice (i.e., ∂board advice/∂generation) was non-significant throughout the range of generation object scores. This suggests that changes in board task needs may not necessarily be reflected in changes in actual board task performance (Huse, 2005b; Steier, 2001).

[38] That is, perhaps mainly those firms that were able to preserve family cohesion made it to a later generation, whilst those firms that didn't failed or were put up for sale.

line with our earlier discussion concerning the impact of affection versus cognition on advice interactions, this also explains why generation does not affect the level of advice provided by family firm boards.

We also examined the relationship between the generational evolution and the control exercised by the board. The results in panel 6 of Table 15 reveal that generation is not significantly associated with the level of board control. Panel 1 of this Table also indicates that generation cannot influence the degree of board control indirectly via family cohesion. Furthermore, we examined whether generation influences the effectiveness of board control. In the regression analysis with the board's contribution to strategic decision-making as the dependent variable (panel 7 of Table 15), we find that the interaction between generation and board control just fails to be significant at the 10% level (t-value = -1.67; p-value = 0.101). However, when we include CEO duality as a control variable instead of CEO ownership (not reported), we find that this interaction term does have a significant negative effect (t-value = -1.75; p-value = 0.086). Similarly, when we include the percentage of inside directors instead of CEO ownership (not reported), the interaction between generation and board control has a significant negative effect on the board's contribution to strategic decision-making (t-value = -1.73; p-value = 0.089)[39].

Hence, the effectiveness of board control – in terms of its contribution to strategic decision-making – seems to be lower in later generation family firms. More specifically, the significant positive marginal effect of board control on board contribution in early generation firms becomes non-significant negative in later generation firms[40]. A possible explanation for this finding might be that as the divergence of preferences among the relatives increases over the

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[39] In an additional analysis (not reported) we also checked whether generation influences the effectiveness of board advice. We found that the effect of the interaction term 'generation*board advice' on board contribution was not significant, regardless of whether CEO ownership, duality, or percentage of inside directors were included as a control variable. Hence, generation only seems to impact the effectiveness of board control.

[40] Marginal effect = ∂board contribution/∂board control = 0.08895303 – 0.22705569 * (generation_mean-centered); Standard error ($\sigma_{\partial Y/\partial X}$) = [0.00825071 + 0.01849361 * (generation_mean-centered)^2 + 2 * (generation_mean-centered) * (0.00446023)]$^{1/2}$, see Table 15.

generations (Bammens et al., 2008b), inquiries by the board may degenerate into political maneuvering causing "a series of compromises, ill-will, and second-best decisions about growth, investments in new technology, and so on" (Schulze et al., 2003a: 184).

Control Variables. Regarding the control variables included in the analyses in Table 15, the percentage of board members with a family bond to the CEO appears to be negatively associated with family cohesion and intentional trust (panels 1 and 2). This suggests that increased family board representation reflects a dwindling level of family cohesion with especially those family members with low intentional trust in the CEO demanding a seat on the board (Steier, 2001). In this respect, Gabrielsson and Huse (2005) remind us that in a family firm setting non-family directors are often recruited through the personal network of the CEO, and that (non-executive) family directors may actually be more socially independent of the CEO. In panel 7 of Table 15 we find that the percentage of board members with a family bond to the CEO is also negatively related to the board's contribution to strategic decision-making. In line with the arguments of various scholars (e.g., Schwartz & Barnes, 1991; Ward & Handy, 1988; Lester & Cannella, 2006), this indicates that directors who do not belong to the business family are better able to contribute to strategic decision-making, for example, trough their outside experience and objective views on business matters.

In panel 2 of Table 15 we find that firm size is negatively associated with the board's intentional trust in the CEO. This suggests that as the financial stakes become higher, board members are less willing to rely on the good intentions of the CEO because of the increased risks (cf. supra). Furthermore, the board's knowledge of the firm's internal affairs and environment is positively associated with both the level of board advice and board control (panels 4 to 6). As mentioned, this indicates that boards need to be sufficiently knowledgeable of the firm in order to perform their advisory and control tasks. Lastly, the effects of board advice and CEO ownership on board contribution (panel 7 of Table 15) have already been clarified when discussing the control variables of Table 14.

4.6 CONCLUSION & DIRECTIONS FOR FUTURE RESEARCH

As argued by Arregle et al. (2007), family social capital is likely to have a substantial bearing on the organizational processes of family firms. In this chapter we proposed that generational changes in the degree of family cohesion – which captures the relational dimension of family social capital (Nahapiet & Ghoshal, 1998) – would impact the behavioral processes on family firm boards. While our empirical results corroborate the view that family cohesion has a strong impact on the functioning of family firm boards, the level of family cohesion does not seem to weaken over the generations.

Regarding the impact of family cohesion on board processes, we found that it is positively associated with the board's intentional and ability trust in the family CEO and that it brings about 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 suggest that high levels of family cohesion stimulate helping behavior by family firm boards in the form of providing advice and counsel to the CEO. Yet as argued in the social capital literature, while strong family bonds may facilitate some processes, they may 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.

Whereas the generational evolution did not seem to affect board processes via its influence on the level of family cohesion, we did find several direct effects. More specifically, our empirical results indicate that the generational evolution is negatively associated with the board's intentional and ability trust in the family CEO. Moreover, we found that generation has a negative impact on the effectiveness of board control in terms of its contribution to strategic decision-making. Hence, our results indicate that the generational life cycle of family firms is an important contingency that needs to be taken into account when examining the functioning of family firm boards.

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. Our tests of nonresponse bias also suggest that, in comparison to the total population, the family firms in our sample may involve fewer family members. Hence, future research will need to verify the generalizability of our findings to family firms in different socio-economic and governance contexts. Another limitation is the cross-sectional nature of our data set, which limits any inferences regarding causality. Fourth, our measure of board control could be improved by distinguishing between control of the CEOs' intentions and control of their abilities. In this study we used a unidimensional operationalization of board control, and were therefore unable to differentiate between control aimed at mitigating opportunistic tendencies and control aimed at mitigating the negative consequences of human bounded rationality. Lastly, over half of the responding board members were also the CEO of the firm which may give some limitations in the interpretation of the results. While the perceptions of CEOs concerning the discussed board processes are valuable, ideally we would have had responses from different types of board members per firm so as to evaluate differences in perceptions regarding these processes (cf. Huse, 1993).

In addition to addressing the above limitations, many other challenges remain for future research. Firstly, our model can be further refined by analyzing the relationship between different types of managerial motivation and the need for board control. For instance, work motivation scholars distinguish between external regulation, introjected regulation, identified regulation, integrated regulation, and interest-based intrinsic motivation (for a discussion, see Gagné & Deci, 2005). The benefits of such a fine-grained approach towards motivation reside in the fact that certain types of motivation are highly effective in predicting trustworthy behavior (e.g., integrated regulation) whilst other types are more susceptible to opportunities for defection (e.g., introjected regulation) (Gagné & Deci, 2005; Osterloh, Frey & Frost, 2001). Moreover, some types of so-called "higher order" motives (Maslow, 1954) may actually lead to bad stewardship. For example, self-actualization motives may stimulate risky growth-oriented decision-making (Argyris, 1973) which is not necessarily in line with the preferences of family owners who are concerned with financial security and socioemotional wealth (Gomez-Mejia et al., 2001; 2007). Similarly, opportunistic motives can be consistent with good stewardship (Lubatkin, 2007; Zahra, 2007). Zahra (2007) gives the example of empire building activities which create opportunities for future revenue generation. In brief, in order to capture the complexities of real-world governance systems, scholars need to pay more attention to the different types of managerial motivation and their relationship with the need for board control.

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 some 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 conduct. In this regard, the role of various contingencies like the threat of litigation, board ownership, and the board members' exploitation aversion can be explored (Fehr, Fischbacher & Kosfeld, 2005; Mayer et al., 1995).

Another avenue for future research concerns the antecedents of family cohesion. In this study we examined one possible determinant of family cohesion, namely the generational evolution of the firm, but found no significant association between both concepts. It would be interesting to examine to what extent this non-significant relationship between generation and family cohesion represents a survival bias, or signifies that preserving family cohesion over the generations is not a main concern for most families[41]. Regarding other possible antecedents of family cohesion, scholars have suggested 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 level of family cohesion (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 role of relational governance mechanisms which serve to increase social interactions among the members of the owning-family and to develop agreement on family-related business matters (Habbershon & Astrachan, 1997; Lievens, 2004; Mustakallio et al., 2002). Other possible antecedents of family cohesion include past financial and non-financial firm performance, and the idiosyncrasies of the succession process. There is mainly a need for empirical research on the relationship between these factors (possibly in combination with the generational phase) and family cohesion.

Fourth, scholars may further examine how the existence of family subsystems influences the processes described in this chapter. As stated by Olson (2000: 165), "opposite extremes may also be found in different family subsystems. In many enmeshed families, some siblings may disengage completely from the family in order to avoid fusion, assuming positions of pseudo-autonomy that dissolve in contact with the family". Therefore, a more elaborate consideration of these family subsystem dynamics and their relationship with board processes would be valuable within the framework of this study.

We noted in chapter 2 that various studies have examined the value and contribution of outside directors on family firm boards, and that the results of

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[41] Note that our earlier remark concerning the possibility of generational recycles and devolutionary transitions (cf. section 3.5) may also serve as a partial explanation for the non-significant effect of generation on family cohesion.

these studies were inconsistent (e.g., Schulze et al., 2001; Schwartz & Barnes, 1991; Westhead & Howorth, 2006). We believe that the framework presented in this chapter offers a useful lens for further exploring the potential contribution of these outsiders. More specifically, our framework suggests that the type of outside director that a family firm requires is dependent upon 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" 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. 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 examine this line of reasoning so as to clarify the prior inconsistent findings on this topic.

In addition, we encourage scholars to 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 the beliefs and behaviors of those board members with a family bond to the CEO. Yet prior research suggests that family social capital may also influence non-family organizational members, for example, through various isomorphic forces (Arregle et al., 2007). Therefore, future research may examine these isomorphic processes within family firm boards so as to further advance the understanding of the performance of outside directors.

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

Lastly, the discussion of our results pointed to the potential value of distinguishing between cognition-based trust and affect-based trust when examining the antecedents and outcomes of trust in board-CEO relationships[42]. As indicated by Schoorman et al. (2007), little is know about the interplay of these cognitive and affective bases of trust. Our findings suggest that the generational evolution of family firms may primarily influence the cognitive component of trust, while it is mainly the affection embedded in trusting relationships that appears to stimulate 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. This would be interesting as affection may lead to pathological or blind trust (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.

In conclusion, research on family firm boards presents unique challenges for scholars since agency theory, which is the most dominant theory in the governance literature, may have limited applicability in a family firm context. That is, the standard agency model disregards trust, social context, and the problem of managerial bounded rationality (Donaldson, 1990; Gomez-Mejia & Wiseman, 2007; Hendry, 2002; Lubatkin et al., 2007a; Roberts et al., 2005), while these issues are assumed to be highly significant in family firms (Arregle

[42] It can be noted that a similar distinction between affective and cognitive components can be found in the literature on conflict (e.g., Amason & Sapienza, 1997; Jehn, 1995; 1997), and that many governance scholars have adopted this distinction between affective (relational) conflict and cognitive (task) conflict in their research (e.g., Finkelstein & Mooney, 2003; Forbes & Milliken, 1999; Huse, 2005b).

et al., 2007; Chrisman et al., 2004; Tagiuri & Davis, 1996; Miller & Le Breton-Miller, 2006). The framework presented in this chapter encompasses these issues, and the empirical results suggest that it offers a useful lens for exploring the complexities of board processes in family firms. We hope that this study stimulates more research on family firm boards using a behavioral and socially embedded governance perspective.

5

CONCLUSION

5.1 INTRODUCTION

The purpose of this dissertation was to advance the understanding of the board's control and advisory tasks in a family firm context. This dissertation employed a life cycle approach by examining generational variations across family firms, and a process approach by discussing and testing various psychological dimensions (e.g., cohesion, trust) and actual board behaviors. This concluding chapter summarizes the empirical findings of this dissertation, and discusses its main theoretical and practical implications.

5.2 EMPIRICAL FINDINGS

Findings Chapter 3. The argument in this first empirical chapter was that generational family dynamics would influence board task needs, and via these needs affect the composition of the board. More specifically, we expected that generational changes in the need for board advice would affect the likelihood of having outside directors on the board, and that generational changes in the need for board control would mainly be reflected in the number of family directors (cf. Figure 2 in chapter 3).

Regarding board advice, the empirical results indicate the following: (1) The need for board advice decreases from the first to the second generation and increases again hereafter. Prior family business studies suggest that this convex generational trend in the need for board advice can be explained by a decreased need for complementary board expertise among second generation firms, and an increased need for board mediation among third and later generation firms.

(2) The likelihood of having an outside director on the family firm board shows an analogous convex generational trend, although the increase from the second to later generation firms just fails to reach statistical significance, and (3) the need for board advice acts as a mediator in this relationship between generation and the presence of outside directors. These results suggest that one of the reasons for family firms to appoint outsiders on their board is these outsiders' potential for providing valuable advice, and that generational changes in the advice needs influence the likelihood of finding outside directors on family firm boards.

Regarding board control, the empirical results indicate that: (4) The need for board control tends to increase over the generations. Prior family business studies suggest that this rise in the need for board control can be explained by the higher levels of intra-family discord and lower levels of mutual trust that typically characterize further generation firms. (5) The number of family directors also increases over the generations; yet (6) the generational changes in the need for board control do not account for this rise in the number of family directors. This suggests that other processes mediate in the relationship between the generational phase and the number of family directors.

An overview of the hypotheses and results of chapter 3 can be found in Table 16. In summary, these results indicate that the generational life cycle indeed has a significant influence on the governance needs of family firms and the composition of their board of directors.

Table 16
Summary of results (chapter 3)

Hypothesis	Finding	Comment
Hypothesis 1a: The need for board advice will decrease from the first to the second generation, and increase from the second to the third generation.	*Supported*	
Hypothesis 1b: The likelihood of having an outside director on the board will decrease from the first to the second generation, and increase from the second to the third generation.	*Partially supported*	Only the difference between first and second generation firms is statistically significant.

Continued on the next page.

Hypothesis 1c: The need for board advice will mediate between the generational phase and the likelihood of having an outside director on the board.	*Supported*	
Hypothesis 2a: The need for board control will increase from one generation to the next.	*Partially supported*	Only the difference between first generation and third and later generation firms is statistically significant.
Hypothesis 2b: The number of family directors will increase from one generation to the next.	*Partially supported*	Only the difference between first generation and third and later generation firms is statistically significant.
Hypothesis 2c: The need for board control will mediate between the generational phase and the number of family directors.	*Not supported*	Direct positive effect of generation on the number of family directors.

Findings Chapter 4. The starting-point in this chapter was that family firm boards are typically largely composed of members of the CEO's family. We then examined how the generational evolution influences the board's capacity to exercise control over and provide advice to the family CEO. More specifically, we proposed that a generational decrease in the level of family cohesion would negatively impact the providing of board advice due to lower levels of trust in the board-CEO relationship. Furthermore, we expected that this generational decrease in the level of family cohesion would positively influence the board's performance of its control tasks (cf. Figure 3 in chapter 4). This chapter focused on the pivotal role of family cohesion, and we first examined the impact of family cohesion on board processes; subsequently we explored how family cohesion alters over the generations so as to link the generational phase with these board processes. The overview of our empirical findings is structured accordingly.

As for the effects of family cohesion on board advice, our empirical results suggest the following: (1) Family cohesion has a positive impact on the board's intentional and ability trust in the family CEO. (2) Family cohesion also has a positive impact on the level of advice interactions between the board members and the CEO. However, (3) the board's trust in the CEO does not seem to mediate in the relationship between family cohesion and the level of board advice. This finding suggests that it is primarily the affection embedded in the board-CEO relationship, rather than the board's understanding of the CEO's trustworthiness, that accounts for the level of advice interactions between both parties.

Concerning the effects of family cohesion on the control exercised by family firm boards, the results show that, contrary to our expectations, (4) family cohesion has a significant positive impact on the level of board control. This finding indicates that boards with strong family bonds to the CEO may have a better understanding of those domains of the CEO's conduct where control is required – and that in the absence of such an understanding, boards refrain from exercising vigilant control so as to allow for the opportunity to develop trust and gain the associated benefits. A last finding regarding the effects of family cohesion is that (5) it has a negative impact on the effectiveness of board control in terms of its contribution to the strategic decision-making process. So while boards with strong family bonds to the CEO seem to exercise more control, the exercised control seems to be less effective in influencing the family CEO's decision-making. This negative effect of family cohesion on control effectiveness can be explained by the relatives' converging mental models and the prevalence of family norms of security which limit the family directors' ability to challenge the CEO's views and discipline him/her when necessary.

Regarding the role of the generational evolution as a determinant of family cohesion, we found (6) no significant association between generation and the level of family cohesion. This suggests that many business families are able to maintain cohesion among the involved relatives over the generations. Consequently, family cohesion cannot act as a mediator in the relationship between generation and the processes within family firm boards. However, we did find several direct effects of the generational evolution on board processes. More specifically, the results show (7) a direct negative effect of generation on the board's intentional and ability trust in the CEO. This suggests that relatives in later generation firms are less knowledgeable of the family CEO's trustworthiness as many of them may not have grown up in the same nuclear family unit as the CEO. The other direct effect of generation is (8) its negative effect on the effectiveness of board control. This may reflect the intra-family divergence of preferences which often characterizes later generation firms, with the control exercised by family firm boards leading to a series of compromises and second-best strategic options (Schulze et al., 2003a).

An overview of the hypotheses and empirical findings of chapter 4 can be found in Table 17. In brief, these results indicate that the processes within family firm boards are significantly influenced by the level of cohesion among the involved relatives and the generational evolution.

Table 17
Summary of results (chapter 4)

Hypothesis	Finding	Comment
Hypothesis 1a: Family cohesion will be positively associated with the board's intentional trust in the CEO.	*Supported*	
Hypothesis 1b: The board's intentional trust in the CEO will be positively associated with the level of advice interactions.	*Supported*	
Hypothesis 1c: Family cohesion will be positively associated with the board's ability trust in the CEO.	*Supported*	
Hypothesis 1d: The board's ability trust in the CEO will be positively associated with the level of advice interactions.	*Not supported*	
Hypothesis 1e: The board's intentional and ability trust in the CEO will mediate in the relationship between family cohesion and the level of advice interactions.	*Not supported*	Direct positive effect of family cohesion on advice interactions.
Hypothesis 2a: Family cohesion will be negatively associated with the level of control exercised by the board.	*Not supported*	Significant positive effect.
Hypothesis 2b: Family cohesion will be negatively associated with the effectiveness of the control exercised by the board.	*Supported*	

Continued on the next page.

Hypothesis 3a: The generational evolution of the firm will be negatively associated with family cohesion.	*Not supported*	
Hypothesis 3b: The generational evolution of the firm influences board processes via its effect on family cohesion.	*Not supported*	Direct negative effect of generation on the board's intentional and ability trust in CEO, and on the effectiveness of board control.

5.3 THEORETICAL IMPLICATIONS

This section gives an overview of the main theoretical implications of this dissertation. First, we discuss the merits of the two employed research approaches – namely the generational life cycle and process approach – for the study of family firm boards. Subsequently, we discuss this dissertation's contribution to the debate on the relationship between trust and control. Lastly, we discuss some implications for research on the role of family social capital in family firms.

Generational Life Cycle. Over the years various studies have explored the distinctive nature of family firms as an organizational form (e.g., Carney, 2005; Chua et al. 1999; Donckels & Frölich, 1991; Dyer, 2006; Kets de Vries, 1993; Tagiuri & Davis, 1996), and consensus has grown among scholars that family firms indeed represent a unique organizational form which warrants the special attention of the academic community (Chrisman et al., 2005a,b). Yet important variations may exist within the group of family firms, and this topic of family firm heterogeneity has thus far received little academic interest (Nordqvist, 2005). The first step of family business scholars has thus been to create some clarity on the domain and distinctiveness of family firm research. As substantial progress has been made on this topic, scholars are now becoming increasingly interested in exploring variations within the large population of family firms. This dissertation contributes to the latter line of research.

In examining possible variations across family firms, this dissertation employed a life cycle perspective and explored how the generational evolution impacts family firm boards. The assumption was that, over the generations, important attributes of business families change and that these changes would affect the characteristics and functioning of family firm boards. As we found significant generational differences regarding board task needs, board composition, and behavioral board processes, this dissertation has revealed that the employment of a generational life cycle approach is indeed valuable for examining family firm boards. In other words, the generational life cycle is an important contingency variable that scholars need to take into consideration when doing research on family firm boards. Moreover, by exploring these generational differences related to one of the most central governance mechanisms of family firms, this dissertation has contributed to the further development of a theory of the family firm (Chrisman et al., 2006).

Intervening Processes. Several governance scholars have argued that there is a need for more research on board processes so as to enhance the understanding of the sometimes complex and indirect relationship between easily observable variables like board composition and financial performance (e.g., Daily et al., 2003; Forbes & Milliken, 1999; Pettigrew, 1992). In the general governance literature an increasing number of scholars are paying heed to these calls with both conceptual work (Forbes & Milliken, 1999; Huse, 2005b; Roberts, 2001; Sundaramurthy & Lewis, 2003) and empirical work (Gabrielsson & Huse, 2002; Huse et al., 2005; Westphal, 1998; 1999; Westphal & Stern, 2007). Our literature review in chapter 2 revealed, however, that thus far few studies on family firm boards have examined process variables. Input-output studies still prevail, with inconsistent findings on some of the most central family firm governance topics.

This dissertation demonstrates the value of including direct measurements of these process variables. For instance, our finding that family cohesion has a positive impact on the level of control that family firm boards exercise over the family CEO challenges current thinking about control in family firms. More specifically, this finding contradicts claims about cohesive family bonds leading to excessive or blind trust (Gomez-Mejia et al., 2001; Schulze et al., 2001) and groupthink (Janis, 1972). Moreover, process research reveals the complexity of relationships, and thus enhances our understanding of governance phenomena. As an example we refer to the relationship between family cohesion and the family firm board's contribution to strategic decision-making, which seems to work through a positive impact on the level of board advice and control and a negative impact on the effectiveness of the exercised control. Therefore, this kind of process research is more in line with the tenets of management theory, which places emphasis on capturing the complexities of real-world organizations rather than devising parsimonious models with little practical relevance (Hendry, 2005; Lubatkin et al., 2007a).

Trust & Control. Recently, governance scholars have become increasingly interested in the possible tension between the board's advisory and control tasks (e.g., Adams & Ferreira, 2007; Daily et al., 2003; Westphal, 1999). As discussed in chapter 4, this debate essentially concerns the relationship between trust (as a facilitator of advice) and control. Perspectives on the trust-control relationship have varied greatly among scholars, and consensus has not yet developed (Das & Teng, 1998; Long & Sitkin, 2006; Poppo & Zenger, 2002). Some scholars emphasize a negative relationship, with control chasing out trust and trust removing the necessity for control (e.g., Falk & Kosfeld, 2006; Sitkin & Roth, 1993). Other scholars emphasize a complementary relationship, arguing that a combined use of trust and control is desirable in most relationships (e.g., Nooteboom, 1996; 2002; Wicks et al., 1999). This dissertation adopted the view that relationships are multidimensional with some domains of managerial conduct requiring board control and other domains allowing for trust (Lewicki et al., 1998). While this complementary view highlights the potential of balancing trust and control in agency relationships, it fully acknowledges the complexities of this balancing act as tensions between both concepts remain at a subdimensional level (Schoorman et al., 2007).

Our findings seem to corroborate this complementary view. That is, our empirical results show that family cohesion is positively associated both with the level of trust that a family firm board places in the CEO, and with the level of control that this board exercises over the CEO's decision-making. This finding suggests that boards with strong family bonds to the CEO have a better understanding of those domains where the CEO can be trusted and of those domains where distrust, and thus control, is appropriate. Put differently, by adopting the view that relationships are multidimensional, one can explain the co-occurrence of higher (lower) levels of trust and higher (lower) levels of control as these both reflect a better (poorer) understanding of the other party's motives and competencies. As such, well-placed trust and well-placed control can be employed in a complementary manner.

As stated by Schoorman et al. (2007: 346), "one of the major distinctions between agency theory and stewardship theory is the use of trust versus control systems to manage risk". Therefore, our discussion on how trust and control can be effectively combined also contributes to these governance theories. Agency theory has oftentimes been criticized for its unrealistic depiction of human motivation (i.e., the homo economicus assumption). Yet the stewardship theory argument that stewards will never substitute self-serving behaviors for cooperative behaviors may not be any more realistic (Hendry, 2002). This dissertation has attempted to bring these two theoretical perspectives closer together by depicting managers as having a limited trustworthiness. The framework presented in chapter 4 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). As such, this framework provides theoretical insights into how boards can deal with the complex admixture of a manager's self-serving and pro-organizational motives.

Additionally, the idea of board members assessing the CEO's trustworthiness implies a social embeddedness framing of governance (Lubatkin et al., 2007a), and by examining the social context of family firms this dissertation has also contributed to the literature on family social capital.

Family Social Capital. A number of family business scholars have drawn on social capital theory to examine the effects of the family system on organizational processes (e.g., Arregle et al., 2007; Mustakallio et al., 2002). This line of research is based on the view that families are one of the strongest sources of social capital (Bubolz, 2001) and that social capital can have substantial positive and negative effects on organizational processes (Nahapiet & Ghoshal, 1998). This dissertation has emphasized that the social capital embedded in family bonds varies across families, and it contributes to this literature by empirically examining how variations in family cohesion – which captures the relational dimension of family social capital – affect behavioral processes within family firm boards.

Our empirical results indicate that family cohesion has both positive and negative consequences for the functioning of family firm boards. As discussed, those boards operating under strong family ties to the CEO seem to have advantages in assessing the CEO's trustworthiness (which is reflected in higher levels of trust and control) and in providing advice. On the negative side, however, the higher the level of family cohesion, the lower the effectiveness of the control exercised by family firm boards. Hence, while strong family bonds appear to enhance the 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. We have argued that this negative influence of cohesive family systems on control effectiveness results from cognitive convergence and family norms of security. This dissertation thus provides some additional insights as to how the social capital embedded in family bonds influences organizational processes in family firms.

5.4 PRACTICAL IMPLICATIONS

Since 2005, Belgium has a corporate governance code (Code Buysse) for privately-held firms, with special recommendations for family firms. Given the diversity of privately-held (family) firms, the challenges of devising a governance code for this group of organizations are great. The Code Buysse explicitly acknowledges this diversity, and emphasizes that the value and relevance of its recommendations for a specific firm are dependent on various contingencies such as, for example, the generational phase of the firm. This code can thus be viewed as a set of contingent recommendations, and it advises practitioners to make a selection as they see fit. The Code Buysse has, however, been criticized for its vagueness. In the words of Uhlaner et al. (2007: 239), "given the broadness of the audience, the recommendations are often worded so generally as to be of questionable application (…) more detailed guidelines are lacking, leaving the would-be implementer at a loss regarding specific actions to be taken". Therefore, while the Code Buysse can serve to increase awareness among practitioners of the potential value of various governance mechanisms, including boards, the formulation of more specific guidelines for different types of privately-held (family) firms would further enhance the value of this code for practitioners.

One of the main reasons why the recommendations of the Code Buysse are often worded so generally, is that the understanding of governance differences between various types of family firms is still underdeveloped. We believe that the findings of this dissertation advance this understanding, and may serve as a basis for more detailed guidelines. As an effective board can be characterized as being capable to bridge the gap between board task needs and actual board task performance (Huse, 2005b), our examination of how board task needs and board task performance vary across family firms provides various insights that may help practitioners in installing a more effective board.

In chapter 3 we explored how the family firm's board task needs alter over the generations. Our empirical findings corroborate the view that while the need for complementary expertise held by outside directors may weaken over the generations (due to an increase in family experience), the need for their objectivity and impartial views is likely to increase. This because later generation firms – especially those in the third generation and beyond – often have to deal with sharp family disagreements on corporate strategy, dividend payout policy, and the like. These family firms are well served to appoint outside directors who can act as mediators by focusing discussions on objective facts and assisting feuding relatives in seeing the topic from a more balanced perspective. Therefore, the appointment of outsiders on their board may help later generation firms in preserving family harmony, which is a necessary condition for the continued success of the family firm.

While our results show a significant increase in the need for counsel among third generation firms, the appointment of outside directors capable of providing this counsel and mediation seems to lag behind. Of the third generation firms included in our sample, only about 20 percent had included an outside director on their board. This low percentage reflects the reluctance of many business families to appoint outside directors due to the fear of losing discretion over the corporate decision-making process (Fiegener et al., 2000b; Westhead et al., 2001; 2002). For those families unwilling to appoint outside board members, it might be sensible to install an advisory council instead. Advisory councils with outside members can provide advice and counsel on business matters typically handled by a board of directors, but as these councils have no formal authority they may be more appealing to families seeking to avoid any loss of discretion[43]. The installment of an advisory council can then be viewed as a first step for the family in opening up to outsiders, with the next step being the inclusion of outsiders on the board of directors.

Another important finding of chapter 3 is that the need for board control tends to increase over the generations. This indicates that boards in later generation firms need to devote more attention to the exercise of control over management so as to lower the agency risk as perceived by the family shareholders. Put differently, as the risk that family shareholders experience becomes greater than their trust in the management team, control systems need to be installed that "bridge the difference by lowering the perceived risk to

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[43] Note, however, that this lack of formal authority and legal responsibilities may also come with important disadvantages such as difficulties in attracting qualified outsiders and motivational problems among those outsiders who do agree to join the advisory council (Heidrick, 1988; Nash, 1988).

a level that can be managed by trust" (Schoorman et al., 2007: 346). When practitioners fail to acknowledge the increased need for board control, or refrain from installing more controlling boards, the long-term commitment of these family shareholders may dwindle, putting the continuity of the family firm at risk.

The empirical analyses of chapter 4 revealed that family firms do not only differ in their board task needs, but also in their board's capacity to perform its governance tasks. Due to the fact that family firm boards are typically largely composed of members of the CEO's family, it turns out that the level of family cohesion has a strong bearing on board task performance. For instance, we found that high levels of family cohesion are negatively associated with the effectiveness of the control exercised by family firm boards over the family CEO. More specifically, those boards operating under strong family bonds to the CEO appeared to be unable to influence the CEO's strategic decision-making through the exercise of control. Therefore, highly cohesive business families may need to appoint outside directors with "independence of mind" (Roberts et al., 2005) to ask the family CEO challenging and investigative questions on strategic decision-making, and to help objectify performance evaluations. These outside monitors significantly lower the threat of inappropriate or injudicious decision-making, and can serve to enhance organizational survival (Gomez-Mejia et al., 2001; Schulze et al., 2002).

In contrast, some of our sampled business families were characterized by relatively low levels of cohesion. As our empirical findings indicate that boards operating under weak family bonds to the CEO offer significantly less advice and counsel, those CEOs may actually require the appointment of "CEO-friendly" outsiders (Adams & Ferreira, 2007) from their personal network on the board so as to meet their advice needs. Moreover, our results suggest that boards characterized by weak family bonds to the CEO may need to improve their understanding of the family CEO's trustworthiness to build well-placed trust and exercise well-placed control. Too little control places the board in a vulnerable position, while too much control results in polarizing dynamics (Sundaramurthy

& Lewis, 2003) and reduces the CEO's intrinsic motivation to perform well (Davis et al., 1997; Falk & Kosfeld, 2006). The board's understanding of the CEO's trustworthiness can be enhanced by greater formal and informal board-CEO interactions (e.g., strategy away-days, family gatherings) which allow board members to gain better insights into the family CEO's motivational drives and competencies.

The results of chapter 4 also indicate that the effectiveness of board control – in terms of its contribution to strategic decision-making – decreases over the generations. This negative effect of the generational evolution on control effectiveness may reflect the increasing divergence of preferences among the relatives involved in later generation firms (Bammens et al., 2008b), with board inquiries degenerating into political maneuvering (cf. Schulze et al., 2003a). The control that family firm boards exercise over the CEO will thus contribute little to the strategic decision-making process if the family members do not first reach agreement on the vision and mission of the family firm. Later generation business families are therefore recommended to build consensus on key strategic issues – possibly with the help of outside mediators – and to formalize the consensus statement by writing it out in a family charter (Lievens, 2004). Once this consensus has been reached, boards can exercise effective control by ensuring that the management team lives up to the agreements.

In summary, in order to install an effective board that contributes to the organizational value creation process, practitioners need to assess their board task needs and evaluate how the functioning of their board can be improved to better meet these needs. We have discussed how the generational evolution impacts the need for the board's control and advisory tasks, and how family firm boards vary in their capacity to effectively perform these tasks. Moreover, we provided several suggestions that may help practitioners in bridging the gap between the family firm's board task needs and the board's actual task performance.

5.5 CONCLUDING NOTE

Research in the domain of family firms is not only highly relevant because of the prevalence of this organizational form throughout the world (IFERA, 2003; La Porta et al., 1999), but also very intriguing as this type of research is located at the intersection of two dissimilar systems – the business system and the family system – which are governed by sometimes conflicting principles (Kets de Vries, 1993; Lubatkin et al., 2005). As indicated by Chrisman et al. (2006), the ultimate goal of family business research should be to develop a theory of the family firm which describes and explains the distinctive nature of this organizational form, and variations within the group of family firms. Research on family firm boards can contribute to this development by studying the specificities of boards in this organizational setting, and exploring how board characteristics and functioning vary across different types of family firms.

As discussed in the concluding sections of each of the preceding chapters, many important challenges remain for future research. These include, amongst others, a further conceptual refinement and improved empirical test of models on the impact of generational dynamics on the family firm board's tasks, composition, and behavioral processes. In prior research on family firm boards, scholars have drawn heavily on more general theories such as, for instance, the resource-based view, agency and stewardship theory. While it is imperative to ground studies in well-developed theories, future research should also attempt to contribute to the incremental advancement and enrichment of these general theories (Zahra & Sharma, 2004). That is, studying organizational phenomena at the intersection of the business and family systems may suggest valuable elaborations of these existing theoretical frameworks. We hope that this dissertation will incite more of this type of research.

Appendix 1

Literature review - prior empirical findings on family firm boards

Authors	Analyzed sample	Analytical approach	Board findings (only sign. results)
Ward & Handy (1988)	subsample of 66 firms having boards with non-CEO family members in the USA	Median tests	- Family CEOs are more satisfied with their board when it includes two or more outside directors
Schwartz & Barnes (1991)	262 family firms in the USA (1989)	T-tests	- The more outsiders on the board, the more valuable it is as perceived by CEOs
Astrachan & Kolenko (1994)	614 family firms in the USA (1993)	T-tests, correlations	- Family meetings are used more often than board meetings in the family firms sampled - Governance practices (i.e. summary scale based on written business plans, family meetings, and board meetings) are positively correlated with owner/CEO educational level, HRM practices, generation, number of employees, and gross revenues
Poza, Alfred & Maheshwari (1997)	229 executives and family members from 26 family firms in the USA	Correlations	- The existence of an effective board of directors is positively correlated with good communication processes in the firm - The existence of an effective board of directors is positively correlated with a statistical composite of management and planning practices (business planning, performance feedback, succession planning, communication and delegation, and career development)
Leon-Guerrero, McCann & Haley (1998)	231 family firms in the USA	Analysis of covariance	- Level of gross revenues has a negative influence on the use of family boards of directors, and a positive influence on the use of mixed boards of directors (i.e. both family and non-family directors) and regularly scheduled board meetings

			- Generation has a positive influence on the use of family and mixed boards of directors and regularly scheduled board meetings
Chen & Jaggi (2000)	174 firm-year observations of public firms in Hong Kong (1993-1994)	Regression analysis	- The association between the proportion of independent non-executive directors on corporate boards and comprehensive financial disclosures is stronger in non-family controlled firms than in family controlled firms
Fiegener et al. (2000a)	3070 small private firms in the USA (1995)	Log. regression analysis	- Firms led by CEOs who intend to pursue an intra-family transfer of leadership in the future are less likely to have outside boards - Firms in which external owners hold a larger proportion of the equity are more likely to have outside boards
Fiegener et al. (2000b)	2365 small private firms in the USA	Regression analysis	- Inheritor-CEOs have a larger board representation by family directors than founder-CEOs - Family ownership is negatively related to board size and outside owner director ratio, and positively to family director ratio - Number of family employees is positively related to board size and family director ratio, and negatively to outside non-owner director ratio - The fact that the emergency CEO is a family member is negatively related to board size, inside director ratio and outside owner director ratio, and positively to family director ratio - The fact that firm intends to pass on leadership to a family member is positively related to board size and family director ratio, and negatively to outside owner director ratio

Filbeck & Lee (2000)	61 family firms in the USA	T-tests, regression analysis	- More established, larger family businesses that have an outside board of directors or a non-family member in the financial decision-making role are more likely to employ sophisticated financial management techniques
Johannisson & Huse (2000)	14 small family firms in Sweden (1997-2000)	Qualitative study	- The appointment of outside directors on the board enforces managerialism, challenging the thus far dominating ideologies of entrepreneurialism and paternalism. This ideological contest may enhance the competitiveness of family firms
Klein (2000)	1085 firms in Germany (1996-1997)	Correlations	- The existence of a supervisory board and its size correlate positively with family firm size - The existence of a supervisory board correlates negatively with family involvement in the management board
Ho & Wong (2001)	98 public firms in Hong Kong (1997)	Regression analysis	- Companies with a higher proportion of family members on the board are more likely to have a lower extent of voluntary disclosure
Mishra et al. (2001)	120 public firms in Norway (1996)	Regression analysis	- The positive effect of founding family CEOs on firm value is stronger among firms with smaller boards - The positive effect of founding family ownership on firm value is stronger among firms with larger boards - The positive effect of founding family control (composite) on firm value is stronger among firms where directors' stock ownership is less than 25%

Schulze et al. (2001)	1376 private family firms in the USA (1995)	Regression analysis, analysis of variance and covariance	- Ratio of outside board members is negatively related to sales growth - Average board tenure is positively related to sales growth - Family firms with a good governance profile (incl. more outside board members and lower average board tenure) have better sales growth
Westhead et al. (2001)	73 private non-family firms and 73 private family firms in the UK (1995)	Matched pairs methodology: t-tests, chi-square tests	- The proportion of total shares owned by directors in family firms is larger than the proportion owned by directors in non-family firms - Family firms are less likely to have outside directors than non-family firms
Haniffa & Cooke (2002)	167 public firms in Malaysia (1995)	Regression analysis	- There is a negative association between the proportion of family members on the board and the extent of voluntary disclosure of information
Mustakallio et al. (2002)	192 family firms in Finland	Structural equation modeling	- The higher the level of the family firm board's counsel to top management, the better the strategic decision quality and the higher the decision commitment
Van den Berghe & Carchon (2002)	325 mid-sized firms in Belgium	Chi-Square tests, Kolmogorov-Smirnov Z, Kruskal-Wallis H	*Family firms vs. non-family firms:* - smaller board size - fewer board members of the following types: investment companies, senior executives, and industrial partners - more CEO duality - less use of formal selection criteria and profiles for board member nomination - fewer board meetings

			- boards are less involved in supervising the management team and more in operational issues and day-to-day policy *Person-backed family firms vs. family-backed family firms:* - smaller board size - more CEO duality - higher board independence ratio - fewer board meetings - boards are less involved in supervising the management team and in operational issues *Generational differences:* - CEO duality has a concave trend over the generations - higher percentage of family directors in 3rd generation firms - more board meetings in 3rd generation firms
Vilaseca (2002)	156 shareholders from 10 large multigeneration family firms in Spain	Correlations, regression analysis	- Organizational commitment of family firm shareholders increases when (1) the shareholder is a board member, (2) board size increases, (3) the relative number of external board members increases, and (4) the relative number of family board members decreases
Westhead et al. (2002)	138 private family firms in the UK (1995)	Matched pairs methodology: t-tests, chi-square tests	- Multi-generation family firms have larger boards of directors than 1st generation companies - Multi-generation family firms are more likely to employ an outside director than 1st generation companies

Brunello et al. (2003)	60 public firms in Italy (1988-1996)	Probit estimates	- Insider-dominated boards are effective in firing underperforming CEOs only if this CEO is not a controlling shareholder or member of the controlling family
Randoy & Goel (2003)	204 firm-year observations of public firms in Norway (1996-1998)	Regression analysis	- A high level of ownership control by board members has a negative influence on firm performance in firms without founding family CEO or chair, and a positive influence in firms with founding family CEO or chair
Schulze et al. (2003a)	1464 private family firms in the USA (1995)	Regression analysis	- When market growth conditions are favorable, the balance of voting power (~ ownership dispersion) among board members has a convex relationship with the family firm's use of debt
Anderson & Reeb (2004)	2686 firm-year observations of public firms in the USA (1992-1999)	Regression analysis	- The greater the fraction of independent directors in public firms with founding-family ownership, the better the performance of the firm - At low (high) levels of family board representation relative to independent directors, the higher the ratio of family directors to independent directors, the better (poorer) the performance of the firm - The greater the fraction of affiliated directors on the board in public firms with founding-family ownership, the poorer the performance of the firm - The presence of founding-family members on the firm's nominating committee is negatively associated with the fraction of independent directors on the board
Chrisman et al. (2004)	1141 small private firms in the USA (2000)	Correlations	- Having a board of directors or advisors is negatively correlated with family involvement in the firm
Klein et al. (2005a)	263 public firms in Canada (2002)	Regression analysis	- Board independence has a negative effect on firm performance in family-owned firms

Sheridan & Milgate (2005)	94 board members of public firms in Australia (2000-2001)	Z-tests	- More female board members (11%) than male board members (0%) claimed their names had been brought to the attention of the board because of their family affiliations with the company
Yeh & Woidtke (2005)	251 public firms in Taiwan (1998)	Regression analysis	- The fraction of board members affiliated to a firm's largest shareholder is higher when that shareholder is a member of the controlling family - Relative firm value is negatively related to board affiliation in family-controlled firms
Barontini & Caprio (2006)	675 public firms in 11 continental Western European countries (1999-2001)	Regression analysis	- Family firms perform best when the CEO comes from outside the family, and the family takes up the task of monitoring by assuming non-executive positions on the board of directors
Ben-Amar & André (2006)	232 public firms in Canada engaged in M&A transactions (1998-2002)	T-tests, chi-square tests, regression analysis	- Board size and board independence (i.e. not a manager, not related to the controlling shareholder, and not a business partner) are lower in family-controlled firms than in non-family-controlled firms - Board independence has a positive influence on acquiring firm performance
Blumentritt (2006)	133 family firms in the USA	Log. regression analysis	- Family firms having a board of directors (other than only family and/or employees) are more likely to have a written strategic plan
Chau & Leung (2006)	397 public firms in Hong Kong (2002)	Log. regression analysis	- The rate of establishment of an audit committee decreases with modest levels of family shareholding (convergence-of-interest effect), and increases with further levels of family shareholding (entrenchment effect)

Tsai et al. (2006)	304 public firms in Taiwan (1998-2002)	Survival analysis	- Higher board ownership reduces the entrenchment effect in non-family firms, whereas board ownership structure has no relevance to CEO tenure in family firms
Van den Heuvel et al. (2006)	202 private family SMEs in Belgium (2002)	T-tests	- Family firm CEOs perceive the board's service tasks as more important than their control tasks - For both the board's service tasks and their control tasks, perceived importance is higher than perceived performance
Westhead & Howorth (2006)	214 private family firms in the UK (1995)	Regression analysis	- Family firms with larger boards of directors have better sales growth
Braun & Sharma (2007)	84 public family-controlled firms in the USA (2001-2002)	Regression analysis	- Family ownership has a negative impact on firm performance if no CEO duality, and no impact if CEO duality
Jaggi & Leung (2007)	523 firm-year observations of public firms in Hong Kong (1999-2000)	Regression analysis	- The presence of family members on corporate boards weakens the effectiveness of audit committees in constraining managerial behavior of earnings management
Jaskiewicz & Klein (2007)	351 private family firms in Germany (2002)	Regression analysis	- The higher the level of goal alignment between owners and managers in family firms, (1) the smaller the board, (2) the lower the percentage of outside board member, and (3) the higher the percentage of affiliate board members
Voordeckers et al. (2007)	211 private family SMEs in Belgium (2002)	Log. regression analysis	- CEO duality in family firms reduces the likelihood of having an outside board - The higher the level of CEO education in family firms, the lower the likelihood of having a non-family board - Family firms which are near a generational transition are more likely to have an outside board

			- 2nd generation family firms are less likely to have an outside board - Family firms with more family members employed are less likely to have an outside board - Family firms with a strong focus on family-related objectives, as opposed to business-related objectives, are less likely to have an outside board
Pieper et al. (2008)	714 private family firms in Germany (2002)	Discriminant analysis, log. regression analysis	- The higher the level of goal alignment between owners and managers in family firms, the lower the likelihood that the business has installed a board of directors

Appendix 2

Robustness check - ordered logistic regression

	(1) Need for board advice		(2) Need for board control	
Generation	**(a)**	**(b)**	**(a)**	**(b)**
1st generation		.702** (.346)		-.413 (.345)
2nd generation	-.702** (.346)		.413 (.345)	
3rd and later generations	-.058 (.402)	.644** (.317)	.661* (.401)	.247 (.309)
Control variables	*not reported*		*not reported*	
N	*209*		*216*	
Pseudo R²	*.029***		*.020*	

Control variables are the same as those included in panel 1 of Tables 4 and 5; *, **, *** significant at 0.10, 0.05, 0.01 level respectively; Standard errors reported in parentheses; Intercept not reported; (a) 1st generation as suppressed comparison category; (b) 2nd generation as suppressed comparison category.

Appendix 3

Robustness check - Poisson regression

	# family directors§	
Generation	**(a)**	**(b)**
1st generation		-.085 (.066)
2nd generation	.085 (.066)	
3rd and later generations	.171* (.103)	.085 (.087)
Need for board control	-.014 (.025)	
Control variables	*not reported*	
N	*203*	
Pseudo R²	*.034****	

Control variables are the same as those included in panel 4 of Table 5; §Estimates based on White-corrected standard errors; *, **, *** significant at 0.10, 0.05, 0.01 level respectively; Standard errors reported in parentheses; Intercept not reported; (a) 1st generation as suppressed comparison category; (b) 2nd generation as suppressed comparison category.

Appendix 4

Robustness check - alternative operationalization of outside directors (i.e., including affiliates)

	(1) Presence outside director		(2) Presence outside director	(3) Presence outside director[44]	
Generation	**(a)**	**(b)**		**(a)**	**(b)**
1st generation		1.303** (.558)			1.101* (.577)
2nd generation	-1.303** (.558)			-1.101* (.577)	
3rd and later generations	-.403 (.625)	.900* (.539)		-.379 (.639)	.722 (.549)
Need for board advice			.550** (.232)	.446* (.232)	
Control variables	*not reported*		*not reported*	*not reported*	
N	*197*		*197*	*197*	
Nagelkerke R²	*.402****		*.402****	*.427****	

Control variables are the same as those included in panels 2 till 4 of Table 4; *, **, *** significant at 0.10, 0.05, 0.01 level respectively; Standard errors reported in parentheses; Intercept not reported; All models are estimated with binary logistic regressions; (a) 1st generation as suppressed comparison category; (b) 2nd generation as suppressed comparison category.

[44] The finding that the difference between the first generation and the second generation is still significant at the 10% level suggests that the need for board advice acts as a partial rather than a full mediator in the relationship between generation and this operationalization of outside directors (Mathieu & Taylor, 2006).

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