Conflict Between Controlling Family Owners and Minority Shareholders: Much Ado About Nothing

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ABSTRACT

We examine the unique nature of conflict between controlling family owners and minority shareholders (principal-principal conflict) in publicly traded family controlled firms through examining shareholder proposals. Implicit in prior governance and family business research has been that non-family shareholders are likely to be in conflict with the dominant family owners. In general, we find that much of this fear may be unwarranted except under specific circumstances. Our findings elucidate sources of heterogeneity in family firm principal-principal conflict and add greater nuance to our understanding of this type of agency problem within family firms.
INTRODUCTION

Family firms are not only characterized by concentrated ownership and control, which is used to impose the family principal’s will on minority owners (La Porta et al., 1999; Villalonga & Amit, 2006), but also by the pursuit of non-economic goals that purportedly diverge from the interests of non-family (minority) investors (Gordon & Nicholson, 2010). This would presumably lead to conflict between family and non-family principals (principal-principal conflict), as family owners engage in strategies which advance personal, family, or political agendas at the expense of minority owners (e.g., Bloom & Van Reenen, 2006; Claessens et al., 2000). Surprisingly, however, little attention has been paid to how minority owners respond to the pursuit of non-economic goals by family principals. This lack of attention is notable given it is unlikely that the minority owner remains passive when facing the so-called “threat of expropriation” (Morck & Yeung, 2003).

We advance understanding of the unique nature of conflict between controlling family owners and their minority shareholders (principal-principal relationships) within family firms. We develop and test theory examining the responses of minority owners to controlling family principals’ policy choices across three “conflict zones” that have been most ubiquitous in family firm research: corporate governance (Cruz et al., 2010; Makri et al., 2006; Schulze et al., 2001, 2003), strategic choices (Gómez-Mejía et al., 2007, 2010; Strike et al., 2015), and corporate social responsibility (CSR) (Berrone et al., 2010). Conflict zones refer to firm decisions commonly examined by family business scholars due to the likely differences between family and non-family policy choices. Drawing on family business literature, we posit that because family firms place a greater value on non-economic objectives, they are more prone to experience greater principal-principal conflict relative to non-family firms. We use shareholder proposals as direct indicators of relational conflict between dominant family owners and minority shareholders. Shareholder
proposals represent an overt behavioral manifestation of conflict since they capture minority dissatisfaction with policies pursued by the dominant shareholders at the firm’s general meetings (Parthiban et al., 2007) and act as a formal mechanism to vent these tensions (Habermas, 1984). We further suggest that the higher level of principal-principal conflict in family firms (relative to non-family firms, in these three conflict zones) will be contingent upon market based performance, given that non-family shareholders look for cues regarding the financial costs of the family owners’ pursuit of non-economic objectives. We also hypothesize that the presence of a family CEO and founder involvement influence the level of principal-principal conflict observed in family firms.

In a sample of 543 firm years across the period 2001 to 2010, we find evidence that family firms experience higher levels of principal-principal agency problems than non-family firms in the conflict zones of board related corporate governance issues, strategic decisions and CSR; yet this only occurs when market based performance is poor and in the specific case of strategic decisions when the founder is no longer involved. We also find that in the case of CSR policy, minority shareholders tend to be more defiant only when there is a family CEO at the helm of the firm and market based performance is weak. These findings provide several contributions to the family business literature.

First, studying protests of the minority shareholder allows us to provide a more complete and realistic picture of the relational dynamic between dominant family and minority owners by examining the sources of relational fallout. The literature in the family business field has generally assumed that family firms co-exist – almost perpetually – in conflict with minority shareholders (cf. Fan & Wong, 2002; Schulze et al., 2003) and that family firms have unique principal–principal agency costs accruing at the level of minority shareholders. Our study provides a more nuanced
understanding of the conditions under which principal-principal conflict is likely to be greater in family firms relative to non-family firms and challenges the paradigm that family and non-family shareholders are likely to be in perpetual conflict. In fact, even when we find differences that are statistically significant on principal-principal conflict between family and non-family firms, the magnitude of the difference tends to be rather small. Second, we propose and find confirmatory evidence that minority shareholders draw inferential conclusions about the negative consequences of family owner’s pursuit of non-economic objectives by focusing on cues and respond accordingly. Specifically, when performance is poor and when a non-founder or family CEO is leading the charge, minority shareholders are more inclined to blame dominant family owners for the firm’s troubles and express their qualms by filing proposals at the annual meetings. Finally, the use of proposals is a very direct behavioral indicator of conflict between minority shareholders and those controlling the firm (Carleton et al., 1998; Parthiban et al., 2000; Prevost & Rao, 2000; Rehbein et al., 2004; Sasser et al., 2006; Reid & Toffel, 2009). To our knowledge, this is the first time this type of data has been examined in the context of family firms and hence represents an important contribution to literature. Utilizing this direct behavioral measure of conflict, we conclude that in general, prior literature has overestimated the extent of principal-principal conflict in family firms and that minority owners appear to perceive and react to “expropriation” of their wealth by dominant family owners (as expressed through formal protests at annual shareholder meetings) only under a narrow set of conditions.

THEORY AND HYPOTHESES

Principal-Principal Conflict in Family Firms

Traditional corporate governance research has largely focused on principal-agent conflicts resulting from the separation between ownership and management (Berle and Means, 1932).
Under this approach, family firms offered a “solution” to these conflicts since concentrated ownership would presumably neutralize the moral hazard on the part of management often seen in atomized ownership (Fama & Jensen, 1983). The argument was that large owners have greater incentive and means to monitor managers to control principal-agent problems (Demsetz & Lehn, 1985; Jensen & Meckling, 1976). Evidence of this notion are the provoking claims of early agency writings suggesting that family firms are “superior forms of governance” (Fama & Jensen, 1983: 305) and that they are qualitatively different enough from non-family firms to make formal governance unnecessary (Jensen and Meckling, 1976).

Skeptical scholars, however, challenged this rosy picture of family firms, both empirically and theoretically. La Porta, López-de-Salines and Schleifer (1999: 498) found that widely dispersed corporate ownership “is actually an exception rather than the rule around the world” and hinted that conflicts in the corporate governance process were persistent, particularly when family owners were in control. Bloom and Van Reenen, 2006; Dharwadkar et al. (2000), Faccio et al. (2001), Fan and Wong, 2002, among others, suggested that traditional principal-agent problems often were supplanted in family firms by agency problems arising from dominant principals who took advantage of their privileged position to engage in “assets expropriation” of minority shareholders (what Villalonga and Amit (2006) referred to as “agency problem II”).

In other words, corporate governance scholars shifted the “center of gravity” of conflict during the past 15 years (or so) away from the relationship between shareholders and managers (e.g., Gomez-Mejia, Tosi & Hinkin, 1987; Tosi and Gomez-Mejia, 1989) towards the relationship between majority shareholders and minority shareholders, with a particular focus on family controlled firms (c.f., Cheung et al., 2006; Claessens et al., 2000; Faccio & Lang, 2002; Gordon & Nicholson, 2010; Kidwell, 2008; McKee et al., 2014; Morck et al., 2000). This burgeoning
literature suggests that principal-principal conflicts tend to be more pronounced in family firms because of 1) a relatively higher incidence of dominant ownership which is used by the family to impose its will on minority owners, and 2) family ownership may lead to the pursuit of non-economic objectives that minority shareholders consider prejudicial to their interests.

Using the general umbrella of behavioral agency theory (Wiseman & Gómez-Mejía, 1998; Gomez-Mejía, Welbourne and Wiseman, 2000), Gómez-Mejía and colleagues argued that gains or losses in so called “socioemotional wealth” (SEW) represent the pivotal reference point that family owners use to make strategic choices (e.g., Gómez-Mejía et al. 2010, 2011, 2014, in press), and thus differences in problem framing between family owners and minority shareholders is likely to exist, which in turn creates tensions among them. In their power struggle, however, it is often the family that ends victorious since family owners can abuse “their freedom to make business decisions, even bad ones” (Schulze et al., 2001: 112). Thus, these “economically irrational” strategic decisions (Gómez-Mejía, Nunez-Nickel & Gutierrez, 2001: 82) often come at the expense of other shareholders (Morck & Yeung, 2003). Family owners have a varied set of instruments to extract rents and appropriation of private benefits such as appointing unqualified family members to key posts (Carney, 1998; Claessens et al., 2000), non-merit-based compensation (Cruz et al. 2010), extended tenure for family members (McConaughy, 2000), and strategic decisions that destroy firm value for the overall businesses but can secure the control position of the family (Gómez-Mejía et al., 2001). Similarly, Fan and Wong (2002) depicted minority owners, despite in aggregate owning up to 90% of family firms, as fragmented and un-coordinated, leaving them open to opportunistic behavior by family principals. This opportunism is likely to be evident when family owners pursue non-economic family goals, as this is often incompatible with minority shareholders’ goal to derive the highest possible financial return from their investment.
In short, the prevalent view is that minority shareholders are prone to bear the costs, but not enjoy the benefits of family SEW objectives. As a result, goal divergence (and a related tension) will arise between the two parties.

**Minority Shareholders’ Responses to Principal-Principal Conflict**

Dissatisfied shareholders are likely to express their discontent through shareholder proposals (Rehbein et al., 2004; Sasser et al., 2006; Parthiban et al., 2007). To date this issue has been addressed primarily as a defensive move by shareholders against questionable policies adopted by powerful executives (e.g., Parthiban et al., 2007). However, in this study we take a novel approach, interpreting these proposals as evidence that minority shareholders are defending their interest against opportunistic behaviors by dominant family owners. As argued next, the family business literature suggests that principal-principal conflict in the context of family firms is likely to exist in three policy domains—or “conflict zones” as we call them—where minority shareholders may perceive that the dominant shareholders (i.e., the family) are pursuing family SEW objectives at their expense. Thus, if in fact principal-principal conflict is as widespread and intense in family firms, as much of the recent literature argues, one would expect to find that the number of shareholder proposals (along these three domains) should be much greater for family than non-family firms.

**Corporate Governance as a Conflict Zone: Contracting Related Issues**

The family business literature is replete with examples whereby the family’s pursuit of non-financial objectives may lead to conflict with non-family shareholders when it comes to corporate governance (e.g., Lubatkin et al., 2005; Schulze et al., 2001). Hence, because more principal-principal conflict in this domain is likely, we expect a greater number of shareholder proposals at family-controlled versus non-family-controlled firms. We now discuss in greater
detail the literature concerning: (1) the motives that drive corporate governance decisions within family firms and the associated conflict with minority shareholders; and (2) why this conflict is more prone to arise in family firms relative to non-family firms.

**Asymmetric altruism and family employees.** Family owners tend to derive utility from appointing family members to key positions independent of their relative contribution to the organization (see for instance, Volpin, 2002; Jorissen et al., 2005; Lubatkin et al., 2005; Lubatkin et al., 2007a, b; Miller et al., 2007). Verbeke and Kano (2012) introduced the concept of “bifurcation bias” to refer to a consistent tendency in family firms to treat their blood kin as a type of firm specific resource; in turn, they are groomed to fill most critical managerial positions. This altruism is often asymmetric, meaning the family members who are appointed often do not reciprocate the altruism by delivering performance that justifies their position and repays the family’s generosity (Lubatkin et al., 2005; Schulze et al., 2002).¹ Privileged treatment of family members may be observed by minority shareholders who equate this to destroying firm value, leading to conflict with the dominant family principals.

**Executive pay.** Similar to the asymmetric altruism evident in hiring decisions, the suspicion of favoritism toward relatives and close associates when designing compensation contracts is likely to be a concern of minority shareholders in family-controlled firms. For instance, when there are family ties between the top management team and the owners of the firm, there tends to be a decoupling of executive compensation and firm performance (McConaughy, 2000; Gómez-Mejía et al., 2003). Moreover, while the proportion of variable pay in family firms is formally the same or very similar for family and non-family managers, it is much more sensitive to performance

¹ This is a form of asymmetrical altruism within family firms, as opposed to the symmetrical altruism that leads family members to avoid intra-family conflict in order to advance the goals of the family firm (Eddleston & Kellermanns, 2007).
variance among non-family executives, suggesting that the family tries to ‘cover up’ altruism by making it appear as if all managers are treated equally when in fact they are not (Gómez-Mejía et al., 2003; Cruz et al., 2010). Even if the pay of individual family executives may be lower than that of their non-family counterparts (Gómez-Mejía et al., 2003), there is a widespread perception that as a result of family favoritism, this pay may not be fully deserved (Lubatkin et al., 2005).

**Scapegoating.** A family principal is more likely to blame and terminate a non-family manager than a family manager when performance deteriorates, providing a perverse justification for negative performance attributions to individuals outside the family circle. For instance, Gómez-Mejía et al. (2001) found that among Spanish newspapers, when circulation dropped over time, the family CEO usually blamed the non-family editor for the newspaper’s troubles and thus the editor was likely to be fired (even though it was not the editor’s fault). Gómez-Mejía et al. (2001, p. 84) concluded that ‘family-related contracting decouples agent’s employment from performance and business risk’. Thus, continuing the theme from family hiring and compensation noted above, scapegoating is likely to provoke minority shareholders to protest at family firms, given blame for negative family employee behaviors may lead to loss of reputation (Berrone et al., 2010).

**Entrenchment.** Retaining the family executive despite weak performance is consistent with the motive of favoring non-economic goals (Gómez-Mejía et al., 2001). To dismiss a presumably incompetent family executive from the firm would reduce control and negatively affect the emotional well-being of the individual in question as well as the rest of the family. For instance, several studies show that the tenure of family executives is on average more than three times higher than that of non-family executives (Schulze et al., 2001, 2003; Chrisman et al., 2005; Cruz et al., 2010). Gómez-Mejía et al. (2001) estimate that, all things considered, family executives stayed at the helm seven years after the probability of newspaper failure became unacceptably
high. The family executive may also suffer from a ‘family handcuff’ as it would be difficult for this individual to find an equally attractive or better job elsewhere (Gómez-Mejía et al., 2003). Thus, conflict with minority shareholders due to asymmetric entrenchment of under-performing family executives is more likely to be experienced by family firms than non-family firms, given the socioemotional benefits that family principals derive from maintaining family involvement in senior ranks.

**Protective agency contract.** A further source of principal-principal conflict is likely to derive from protective family contracting. Cruz et al. (2010) report that family members working for the family-controlled firm tend to enjoy a protective agency contract characterized by a strong concern for the executive’s welfare, including a consideration of the executive’s wishes, the minimization of taxes for the executive, and application of qualitative performance measures that may be used to excuse poor performance results post hoc (for instance, be attributed to bad luck). This is explained using the logic that protective contracts ensure family involvement, providing socioemotional benefits for the family principal; yet the financial consequences of protecting family employees from performance management applied to non-family employees may be perceived as value destroying for the firm – similar to family employee entrenchment. Likewise, family firms tend to appoint board members that are sympathetic to the family’s agenda (Jones et al., 2008). It follows that protective contracting is more likely to be a source of governance-related principal-principal conflict in family firms.

In sum, the literature reviewed above suggests that contracting issues may pit minority shareholders against dominant family principals’ intent on pursuing non-economic goals. Minority shareholders are likely to protest the real or perceived governance problems of favoritism, entrenchment, pay-performance decoupling, and other factors presumably endemic to family
firms, leading to greater principal-principal conflict in family relative to non-family firms. These protests within family firms are likely to be manifested in shareholder proposals (1) objecting to the design of executive contracts; and (2) protesting the appointment of family board members who may appear complicit in CEO entrenchment or themselves have received director compensation that is perceived as unjustified by minority shareholders. Thus:

_Hypothesis 1a:_ Family firms are more likely than non-family firms to receive shareholder proposals aimed at challenging executive contracting.

_Hypothesis 1b:_ Family firms are more likely than non-family firms to receive shareholder proposals aimed at challenging board processes and appointments.

### Strategic Choices as a Conflict Zone

In their review of family firm literature, Gómez-Mejía et al. (2011, p. 653) note that “a growing stream of research shows major differences in the strategic decisions made by family and non-family firms…these differences cannot be easily reconciled with an economically driven logic”. But these differences can be better explained by the family owners’ pursuit of non-economic motives. If this is true, we would expect minority shareholders to challenge dominant family principals accordingly when it comes to strategic choices; some of the most important strategic decisions and how they are likely to invite minority shareholder criticism in family relative to non-family firms are outlined below.

**Corporate and international diversification.** Research exploring the economic impact of diversification has provided evidence that corporate diversification may improve market valuations, after controlling for endogenous factors associated with the diversification choice (Campa & Kedia, 2002; Santalo & Becerra, 2006; Villalonga, 2004). This benefit should be particularly attractive for firms with dominant owners who face concentrated risk. Yet, as noted earlier, after controlling for a host of industry and firm-specific attributes, multiple studies show
that this does not occur when the firm has a dominant family owner (e.g., Anderson & Reeb, 2003, b; Gómez-Mejía et al., 2010). Not only do family-controlled firms diversify their portfolios less, they also tend to forgo the benefits of international diversification (such as global market expansion and access to foreign capital) (Hitt et al., 1997; Hitt et al., 2006; Strike et al., 2015). Gómez-Mejía et al. (2010) attribute this behavior to the need for delegation associated with diversification, particularly across national borders, which would lead to reduced family control. For minority shareholders in family firms, lower levels of diversification may pose a problem because this policy implies foregone opportunities and greater firm-specific risk bearing, leading to more conflict with the dominant principals relative to non-family firms.

**Acquisitions.** Acquisitions have been found to be motivated by various economic benefits, including access to valuable resources, resource pooling, the achievement of economies of scope or scale, and the leveraging of existing resources in new markets (Chatterjee, 1986; Singh & Montgomery, 1987; Zollo & Singh, 2004). However, consistent with the logic discussed above for diversification, Miller et al. (2010) argue that acquisitions tend to dilute the family’s socioemotional wealth, making family firms reluctant to engage in them. Their empirical findings strongly support this expectation: “a higher level of family ownership is associated with a lower volume and value of acquisitions. Specifically, at 20 percent of family ownership, the average number of acquisitions is 1.55 with a value of $788MM; at 60 percent of family ownership these numbers decline to 1.03 and $28MM, respectively” (p. 208). This could pose a greater problem for minority shareholders within family relative to non-family firms, as the family principals’ SEW motives prompts a reluctance to acquire other firms, leading to greater business risk and sacrificed growth opportunities (Miller et al., 2010).
**Divestitures.** Family owners may resist divestitures in order to avoid losses in SEW even though this strategic choice may be beneficial to shareholders. For instance, Feldman et al. (in press) conclude that “family firms may fail to fully exploit available economic opportunities [by avoiding profitable divestitures], potentially because they pursue multiple objectives beyond the maximization of shareholder value” (Feldman et al., in press).

**Innovation and technological diversification.** Several studies have found that family firms under-invest in R&D, and that they tend to prefer the existing modus operandi (e.g., Chrisman and Patel, 2012; Gómez-Mejía et al., 2014; Chen and Hsu, 2009; Muñoz-Bullón and Sanchez-Bueno, 2011). Gómez-Mejía et al. (2014) argued that as R&D investments increase, information asymmetries rise, threatening the family’s ability to control the firm and to appoint family members to key positions; this loss of control threatens family SEW. Minority shareholders on the other hand view this as an unwelcome risk since under-investing in R&D may threaten firm growth and survival (Chen and Hsu, 2009).

**Debt.** Family firms tend to rely on internal capital and savings rather than debt; this is because they prefer to avoid external control by financial institutions (Schulze et al., 2003). The attempts to avoid external control due to debt obligations and the associated increase in the size of the family firm can be explained (as above) by the loss of SEW that the family principals perceive to be synonymous with control loss (Chrisman and Patel, 2012). Avoiding debt can impose a limit on growth, which is likely to be inconsistent with the interests of more economically oriented minority shareholders. Thus, minority shareholders of family firms who are less concerned with loss of control than dominant family principals are more likely to protest debt policy at family firms relative to non-family firms.
In sum, a growing body of literature suggests that family idiosyncratic motives may lead dominant family principals to pursue socioemotional utilities in their strategic choices and this in turn may be detrimental to the welfare of minority shareholders. If this is in fact the case one would expect family firms to receive more shareholder proposals related to strategic issues than non-family firms. Said formally:

*Hypothesis 2*: Family firms are more likely than non-family firms to receive shareholder proposals aimed at questioning the firm’s strategic decisions.

**Corporate Social Responsibility (CSR) as a Conflict Zone**

We now examine the third policy area where the family can encounter conflict with minority shareholders: CSR. Jones (1980: 59-60) refers to CSR as “the notion that corporations have an obligation to constituent groups in society other than shareholders… such as customers, suppliers, employees and neighboring communities.” Thus, CSR refers to a responsibility to balance the interests of a large variety of firm stakeholders; stakeholders are defined as those who can affect, or are affected by the firm (Freeman, 1984: 46). The degree to which a firm adopts CSR practices is referred to as a firm’s corporate social performance (CSP), which is positively associated with the firm’s reputation in the community (Albinger & Freeman, 2000). Because of the family owners’ close attachment to the firm as well as their strong identification with the firm (especially if it carries their name), how others perceive the firm directly affects the personal pride of family owners (Chen, Chen, Cheng & Shevlin, 2010). Thus, a negative perception of the firm as a result of poor CSR is likely to be internalized by the dominant family principal as a loss of image or self-esteem (Berrone et al., 2010).

Given the family firm’s concern with image, it follows that family firms generally exhibit higher levels of CSR, good community citizenship (Berrone et al., 2010; Dyer & Whetten, 2006; Post, 1993) and stronger commitment to philanthropic activities (Déniz-Déniz and Cabrera-
Suarez, 2005) than non-family firms. Berrone et al. (2010) demonstrated that controlling families adopt environmentally friendly strategies more frequently and more efficiently than non-family firms as a way to enhance the family’s image. These authors suggested that pollution and poor environmental performance affected the family owners’ reputation and by extension, negatively impacted the family’s SEW. Similarly, Miller and Le Breton-Miller (2005) argued that family firms are more likely to adopt patient strategies that involve building relationships with multiple stakeholders such as major suppliers, community organizations, minority groups and such.

The arguments above suggest that family controlled firms are more likely to engage in proactive stakeholder engagement and socially responsible activities in the interests of reputation and image, relative to non-family firms. However, minority shareholders are likely to protest the aforementioned tendency of family owners to invest more in CSR (relative to non-family firms) – more so than the response of minority shareholders of non-family firms – given the likely perception that the family principals have over-invested in CSR for reasons other than those driven by economic intentions. In sum, the literature suggests that family firms will receive more shareholder proposals related to CSR investments, reflecting greater conflict with minority shareholders related to this conflict zone in family firms relative to non-family firms. Thus:

*Hypothesis 3:* Family firms are more likely than non-family firms to receive shareholder proposals aimed at questioning the firm’s CSR policy.

**Heterogeneity in Family Firm Principal-Principal Conflict**

It will not always be clear that the policies and practices adopted by family owners are designed to pursue non-economic goals. For instance, in the domain of corporate governance, board appointments of family members or affiliate directors linked to family owners may not be seen as problematic by minority shareholders to the extent that this is perceived as fostering a long-term horizon for the firm (Jones et al., 2008). Regarding strategic decisions, less diversification or
limited related diversification may be justified on the basis that it is beneficial to the economic interests of the firm, despite that these decisions may also help preserve family control (Gómez-Mejía et al., 2010). Likewise, the economic consequences of family investments in CSR may enhance the firm’s reputation (which is positive for the family’s image and identity), advancing family objectives without achieving an economic return; but CSR may also improve the firm’s market based performance (Margolis & Walsh, 2003). In other words, each “conflict zone” (corporate governance, strategic decisions and CSR) may have a silver lining, thus minority shareholders may be uncertain regarding the calculus and economic consequences of the family owners’ policy choices. As a result, minority shareholders are likely to look for cues – heuristics, or mental short-cuts that reduce cognitive demands and enable decision making – to discern the motives of family owners and whether or not these clash with their interests. We now explore three cues available to the minority shareholder to make this judgment: financial performance, presence of a family CEO, and founder involvement.

**Financial performance.** Possibly the most obvious cue for minority shareholders as to whether they should worry about the family’s motives is the firm’s financial performance. We suggest that minority shareholders may be indifferent to the decision making of family principals if their financial expectations (such as higher market returns) are being met. Hence, minority shareholders are less likely to be concerned that the family is exploiting its position of influence to advance family non-economic utilities as long as they see cues that the achievement of economic goals has not been undermined in the process. This evidence is likely to be provided by market based performance, given this reflects the economic returns on equity investments. Thus, as market performance of the firm increases, family ownership is less likely to lead to more minority
shareholder proposals (relative to non-family firms) for: (1) corporate governance, (executive contracting and board related issues); (2) strategic decisions; and (3) CSR policy.

Hypothesis 4: Family firms are less likely than non-family firms to receive shareholder proposals related to the firm’s governance policies, strategic decisions and CSR under higher than lower market based performance.

Family CEO. The literature exploring the economic implications of having a family CEO at the helm has provided contradictory conclusions. On the one hand, family executives have been suggested to be more inclined to pursue the non-economic objectives of their clan at the expense of minority investors. Having a family CEO gives family owners greater operational discretion to implement a non-economic agenda, and this CEO is also more likely to share the family values and to support the family wishes even if this might be prejudicial to the firm’s financial welfare (Miller & Le Breton-Miller, 2005; Villalonga & Amit, 2006). Thus, for instance, family CEOs are more prone to make extraordinary dividend payouts to project the family largess to the outside world, depriving the firm of resource slack that would otherwise be re-invested (DeAngelo & DeAngelo, 2000), avoid R&D investments that could give the firm a greater competitive advantage (yet help preserve the family’s internal control; Gómez-Mejía et al., 2014) or invest in pollution control and prevention equipment, over and above legal requirements and industry standards (to enhance the external family image; Berrone et al., 2010).

On the positive side, the family CEO has been argued to be more rigorous when engaging in high stakes strategic decisions. For instance, Feldman and colleagues (in press) have found that divestments by family firms are more likely to enhance firm value – from a purely financial perspective – when a family CEO is at the helm. This is supported by empirical research demonstrating stronger accounting profitability when a family CEO is present (Anderson & Reeb, 2003) and aligns with the classical agency theory argument that the family CEO has greater
personal wealth at stake and is therefore more strongly incentivized to pursue economic goals (Jensen & Meckling, 1976). Likewise, Sirmon and Hitt (2003) argue that family CEOs are more prone to exhibit a long term orientation and this can serve the financial interests of the firm well by avoiding myopic decisions.

The aforementioned equivocality regarding the consequences of having a family CEO for the firm’s financial success suggests that minority shareholders will search for cues to ascertain whether or not a family CEO is pursuing policies that are detrimental to their welfare. We argue that these minority investors rely on the firm’s economic performance to inform this judgement:

*Hypothesis 5:* Family firms with family CEOs are more likely (than non-family firms or family firms without a family CEO) to receive shareholder proposals related to corporate governance, strategic decisions and CSR when market based performance is low.

**Founder involvement.** The family firm whose founder is still engaged with the business has been argued to be more economically oriented than later generation family firms. For instance, Miller and colleagues (2012: 39) conclude that family businesses “embrace market-oriented logics through their founders,” in contrast to family firms in later generations where the social context constrains the firm’s pursuit of economic objectives. Similarly, Cannella and colleagues (2015) suggest that founder firms are distinct from family firms because of their clear focus on economic goals. Some attribute this to the imperative of early stage firms to gain a footing against established competitors, given the liability of newness places a premium on survival (Le Breton-Miller & Miller, 2008). Also, founders are likely to see the firm as their “baby” and will tend to make decisions that would foster growth and ensure future success (Gedajlovic et al., 2012). Various empirical studies provide indirect support for this founder effect, showing that family firms are more likely to out-perform non-family firms when the founder is involved (Anderson & Reeb, 2003; Villalonga & Amit, 2006; Miller et al., 2007; Andres, 2008). This suggests that the presence
of a founder is likely to provide a cue to minority shareholders that the family firm is prioritizing economic goals. Thus, minority shareholders are less likely to protest policies of family firms in each of the three conflict zones when the founder is involved with the business.

*Hypothesis 6:* Family firms are less likely than non-family firms in the conflict zones of corporate governance (executive contracting and board processes), strategic decisions and CSR when the founder remains involved

**METHOD**

**Data**

The data for this study was extracted from Compustat, Execucomp, and the Corporate Library (Board Analyst) databases for the period 2001 to 2010 in the United States. Compustat provides 10-K report data for publicly traded corporations and is used for our income statement and balance sheet data. The data concerning shareholder proposals is taken from the Corporate Library (Board Analyst). Our study window is limited to the period from 2001 to 2010 because the Corporate Library provides details concerning ownership and proposals for only those years. The Corporate Library defines a family firm as a company where “family ties, most often going back a generation or two to the founder, play a key role in both ownership and board membership. Family members may not have full control of the shareholder vote (greater than 50%) but will generally hold at least 20%.” The use of this definition to capture family control is reasonable for several reasons. First, this binary variable approach is consistent with many other studies that have used a family firm dummy to capture family control (Gómez-Mejía et al., 2007, 2010, 2014; Berrone et al., 2010; Deephouse & Jaskiewicz, 2013; Leitterstorf & Rau, 2014). Second, in a recent study of the entire population of Swedish firms (using an independent data source from Statistics Sweden) the family dummy is correlated in the mid 0.90s with other measures of family control (such as a continuous measure of ownership, the number of family members in the top management team, the presence
of a family chief executive, and the total number of family owners), suggesting that, while the dummy is somewhat crude, more granular measures do not seem to add much explanatory variance (Gómez-Mejía et al., 2015). Furthermore, these same authors found that psychometric measures of SEW capturing the five SEW dimensions suggested by Berrone et al. (2012; namely family control, family members’ identification with the firm, emotional attachment, binding social ties and dynastic succession) tend to correlate highly with the family dummy and other archival indicators of family involvement in the firm). Third, less than 3% of US publicly listed firms had a single voting block of shares that command a majority (Becht & Mayer, 2001) and for this 3%, the stake of equity owners with control rights averaged approximately 16% of the firm’s shares (Doidge et al., 2009). This may explain why 5% ownership has often been used as a proxy for effective corporate control by a shareholder (McEachern, 1975; Salancik and Pfeffer, 1980; Dyl, 1988, 1989; Gómez-Mejía et al., 2003). Thus the 20 percent family ownership used by Corporate Library to designate family control hence represents a conservative criterion. Fourth, we find that approximately one-third of CEOs in our database are related to the family when the firm is flagged as family-owned by Corporate Library and that in all flagged cases the family had a least one member on the board. This provides additional and independent confirmatory evidence of family influence in these firms apart from the ownership stake. Lastly, our own examination reveals that none of the firms designated as family had a non-family shareholder with a higher percentage ownership than the family. Hence, the family is the dominant owner in all firms flagged as family controlled in our data. This complies with a measure for family control used by Minichilli et al. (2014: 15): “[A firm] is considered as family controlled when the majority stake is in the hand of one family.”
The additional data noted above (beyond the Corporate Library) was manually collected by one of the authors from annual company filings that outlined ownership and board structure of the firm, along with the CEO (form DEF 14A). Among our family firms, family members’ average ownership was 21.2% (with none of the non-family shareholders exceeding this amount, so clearly the family is the dominant owner), family members occupied an average of 20.3% of board seats, and 32.3% of family firms had a family CEO.

Corporate Library’s Board Analyst database provided a list of all shareholder proposals that have been documented and filed by the firm as required by the SEC. We counted these by proposal category and in total for each firm year from 2001 to 2010. Firms in our sample received at least one proposal during the study period although there may be years when none are recorded. As per our hypotheses, the shareholder proposal categories that have been most ubiquitous in the family firm literature are: (1) corporate governance issues including executive contracting and board related issues, (2) decisions regarding firm strategy excluding CSR and corporate governance and including issues such as strategic planning, acquisitions, diversification, financing and capital structures, and investments in innovation, and (3) CSR issues such as charitable donations, community-based activities, sponsoring of natural disaster relief operations, aid to international agencies, and pollution control and prevention. The total number of firm years with proposals was 2,563; of these, 817 firm years had board related governance proposals, 896 executive contracting proposals, 216 had strategy proposals, and 633 had CSR proposals (of course, some firm years include a combination of proposal types).²

² The sum of these governance, strategy, and CSR firm years will exceed the total firm years, given that firms can have more than one type of proposal (and sometimes all three) in a single year.
The coding process was as follows: one author coded these according to the categories of corporate governance, strategic decisions, CSR, and other. Once this process had taken place, the other two authors independently reviewed the coding for accuracy. Proposals were categorized accordingly when there was unanimity among the raters.

**Dependent Variables**

*Shareholder proposals.* We use the number of shareholder proposals as a direct proxy for conflict between dominant and minority shareholders. Shareholder proposals are an important governance mechanism for minority shareholders given that they do not have the control that would allow them to influence the firm’s direction through board representation (Prevost & Rao, 2000). Individuals and/or entities that hold shares in the firm are entitled to attend general meetings and raise proposals. If they gain the necessary support from fellow shareholders, the proposal will be approved and management is required to take the proposed actions.3

Minority shareholders can use proposals at the firm’s general meetings (annual or special) to ‘formally and visibly signal discontent’ (Parthiban et al., 2007, p. 92) with management’s present or proposed actions. Prevost and Rao (2000, p. 181) note that shareholder proposals ‘signal to the market reluctance by management to address the area of concern’ that is mentioned in the proposal. Thus, the raising of a shareholder proposal indicates that management has not proactively addressed the concern of the relevant shareholder (Carleton et al., 1998; Rehbein et al., 2004; Sasser et al., 2006; Reid & Toffel, 2009). The proposals are not associated with support or harmony, given that agreed upon suggestions from minority shareholders are settled before a

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3 While it is possible that proposals could be raised by family members, this is unlikely given that altruism (or a sense of commitment) to the family firm is argued to lead family members to cooperate in the interests of pursuing firm and family goals (Eddleston & Kellermanns, 2007).
meeting (Parthiban et al., 2007). Waiting for shareholder support through a vote at a meeting is counter-productive if the dominant owners are in agreement with the suggestion.

General meetings of shareholders, executive management, and the board of directors are held at least annually (the annual general meeting, or AGM). In these meetings, shareholders unhappy with the firm’s policy and direction have the opportunity to put their opposition on record using shareholder resolutions or shareholder proposals (Parthiban et al., 2007). These proposals are submitted to the SEC requesting that the proposal be taken to a vote at the general meeting of the firm, which is held at least annually. This general meeting serves as a forum where the board of directors and executive management present and explain the financial results of the firm as well as future strategic plans, in addition to answering questions from shareholders in attendance. Prior to the meeting, the firm’s management has the opportunity to challenge the inclusion of the vote in the meeting (by protesting to the SEC), or to settle the issue prior to the meeting (by somehow appeasing the requests of the activist shareholder). If the shareholder’s proposal is not settled or challenged prior to the meeting, the disgruntled shareholder will take its proposal to a vote at the meeting to garner enough support from other shareholders to have their proposal enacted. As such, the act of submitting a proposal provides evidence of a lack of agreement or lack of cooperation between the activist shareholder and the firm.

**Independent Variables**

*Family firm.* As noted earlier, we use the ownership categorizations of both family and non-family in the Corporate Library database to code firms as family-controlled using a dummy variable (one to denote family or zero for non-family). A positive coefficient for the family dummy indicates that family firms receive more shareholder proposals than non-family firms. We further categorize family firms as founder and non-founder; that is, family firms can be categorized as one
or the other, which we use for further analysis. They are coded as one if they fall into the sub-category and zero otherwise. A firm is categorized as a founder firm if the CEO or Chairman is both a founder and a principal shareholder (holds more than 10% of total voting power). Note that we also gathered data on the number of board representatives who were from the controlling family, which we have used as a robustness test.

**Family CEO, non-founder and founder family firm.** Given Hypotheses 5 and 6 explore the effects of family CEO and involvement of founder relative to firms without founders, we include: (1) a dummy that is coded 1 if the CEO is part of the controlling family (we gathered this from publicly available data) and 0 for all other firms (family firms without a family CEO and firms that are not family controlled); (2) a dummy that is coded 1 if the founder remains involved with the family firm (as CEO or chair; taken from Corporate Library database) and coded as 0 for all other firms (family firms without a founder or firms that are not family controlled); (3) a dummy that is coded 1 if the founder is no longer involved in a family firm and coded as 0 for all other firms (taken from Corporate Library database). The latter two variables (family firm with founder involved and family firm without founder) are perfectly negatively correlated within the sample of family firms, yet because our sample includes non-family firms, this correlation is diluted across the whole sample. We include models with these variables in Table 2. Note that we avoid estimating models within the family firm sample, as the sample size would be less than 40 in each. Instead, to test our final hypothesis (comparing proposals of family firms with founder to those without) we compare the parameters of the founder family firm dummy with the parameter of the later stage (non-founder) family firm dummy.

**Market based firm performance.** Our theory predicts how minority shareholders monitor and respond to the performance of the firm and the associated value of their investment. Thus, we
are interested in a heuristic that is likely to be used by minority shareholders to assess their financial returns. Consistent with prior research examining minority shareholders’ evaluation of their firm’s performance and the related value of their investment, we use a market-based firm performance measure: Tobin’s Q, calculated as market value divided by book value (La Porta et al., 2002). Minority shareholders are likely to be aware of and monitor movements in the share price (more so than accounting returns that less directly influence their financial returns), given that the share price is readily available and directly determines the return on their investment.

**Controls.** We control for various influences upon shareholder proposals and principal-principal conflict. First, we control for firm-level variables that have previously been associated with this type of agency problem, including *firm age, firm size* (using log of assets), and board composition variables including the proportion of *female directors* (Wang & Coffey, 1992) and the proportion of *outside directors* (Beatty & Zajac, 1994). We control for the *success of the proposal vote* (each proposal is subject to a vote among shareholders) in the prior year using a dummy variable coded as one to denote that the vote was accepted, or zero if it was not. Successful voting is indicative of more combative minority shareholders, more likely to raise subsequent shareholder proposals. Family firm stage is controlled for by distinguishing between *founder* and *non-founder family firms* (Cannella et al., 2015). We control for *institutional ownership* using the measure of total dollar investment in the firm, given institutional holdings are often associated with minority shareholder protest (Parthiban et al., 2007). We also control for *year* and *industry* using dummies for both of these. Our industry controls are based on a 22 industry classification grouping industries using sic codes as designated by Demsetz and Lehn (1985) and Harford (1999).

**Statistical Analysis**
We tested our hypotheses with shareholder proposal count per firm per year as the dependent variable. We use Poisson (using STATA *poisson* command) regression models given that count data—the count of shareholder proposals—when used as a dependent variable typically violates the assumptions of OLS regressions (Cameron & Trivedi, 2006). We also use the *vce(robust)* STATA command to obtain robust standard errors, which controls for violations of the assumptions associated with the Poisson model (e.g., that mean equals variance) and the problems of autocorrelation and heteroskedasticity that are associated with panel data (Cameron & Trivedi, 2006). We also apply the goodness of fit test to confirm the suitability of the Poisson model. Each model returns a strong fit (p = 1 for all models), hence failing to reject the null hypothesis that Poisson is appropriate. In order to test the relationship between variation in ownership category and shareholder proposals, we avoid the use of firm fixed effects, given within-firm variation in ownership category (that is changes from family to non-family) is uncommon. We standardize our non-binary variables with the exception of the shareholder proposal count, although we report descriptive statistics using the non-standardized data. The Poisson models do not have a conventional R squared and thus we cannot report this statistic. Our unit analysis is the firm.

**RESULTS**

Tables 1A and 1B present the descriptive statistics (pre-standardization) and correlations among variables in our study. We produce these statistics for three different proposal categories separately (corporate governance, strategic decision-making, and CSR) and for all proposals except CSR, comprising four groups of correlation statistics. Tables 2 and 3 present the results of our regressions using shareholder proposals as the dependent variable, yet using different samples for firms with corporate governance proposals (board related issues, executive contracting and compensation), strategy proposals and CSR related proposals.
Hypotheses 1a and 1b predict that family firms are more likely than non-family firms to receive shareholder proposals aimed at challenging executive contracting (H1a) and board processes (H1b). We receive no support for these hypotheses given the main effect of the family dummy is not significant in Models 2 and 6 of Table 2.

Hypothesis 2 predicts that family firms are more prone than non-family firms to receive shareholder proposals aimed at questioning the firm’s strategic decisions. This is supported for the aggregation of family founder and non-founder firms, given that the family dummy variable is significant in Model 10. The model suggests that family firms receive 1.28 more proposals than non-family firms protesting strategic choices.\(^4\) However, in Model 11, which breaks the family variables into non-founder and founder family firms, only the non-founder dummy variable is significant. Consistent with Hypothesis 6, this suggests that minority shareholders do not react negatively to the family firm’s strategic choices when the founder is present.

Hypotheses 3 predicts that family firms are prone to receive more CSR related shareholder proposals relative to non-family firms. This is not supported, given that the main effect of the family dummy is not significant in Model 14. This demonstrates that minority owners are no less likely to protest family firm policies in the domain of CSR than in non-family firms. Note below the contingent role of performance when predicting the influence of family ownership on CSR proposals is supported when a family CEO is in charge, consistent with Hypothesis 5.

We test the moderating role of market based performance at the level of the conflict zone in Hypothesis 4. Refer to interaction models in Table 2 (Models 4, 8, 12, 16) for our results. We test the performance contingent effect for corporate governance in two parts: (1) executive

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\(^4\) To interpret coefficients of a Poisson model, we use exp[\(\beta\)], or in this case exp[0.25].
contracting (Table 2, Model 4); and (2) board related issues (Table 2, Model 8). Consistent with Hypothesis 4, Table 2 (Model 4) shows that family ownership interacts with market based performance significantly when it comes to predicting board related proposals (Table 2, Model 4; \( p < 0.01 \)). The results suggest that family firms receive 1.12 (that is, \( \exp[0.11] \)) fewer board related proposals (average number of governance proposals is 1.38) for every one standard deviation increase in Tobin’s Q (market based) performance (see Figure 1). This implies that family firms performing poorly receive approximately twice the average number of proposals protesting board related issues. Yet, family ownership is insignificant in its interaction with market based performance when predicting proposals related to executive contracting. Thus, Hypothesis 4 examining principal-principal conflict regarding corporate governance receives mixed support.

Providing further support for Hypothesis 4, family ownership interacts with market based performance significantly and negatively for strategic decision proposals (Table 2, Model 12; \( p < 0.05 \)). For every one standard deviation increase in market based performance, family firms have 0.84 fewer strategy related proposals (average proposals of 1.12), suggesting that higher firm performance significantly reduces conflict between dominant family and minority shareholders. This is depicted graphically in Figure 2. Lastly, the interaction of family ownership with market based performance is insignificant when predicting proposals related to CSR. In short, support for Hypothesis 4 is confirmed for the interaction of performance with board related issues and strategic choices but not for the interaction of performance with executive contracting and CSR.

Hypothesis 5 predicts that the presence of a family CEO is likely to lead to more minority shareholder proposals, yet only when performance is poor. This is the equivalent of hypothesizing that performance will negatively moderate the relationship between the presence of a family CEO in a family firm and shareholder proposals (for each conflict zone). Note that in the interests of
brevity, Table 3 replaces the family firm dummies used in Table 2 with a dummy indicating that the firm is both family controlled and has a family CEO. Table 3 shows that the interaction of the family CEO dummy with performance is significant and negative for board related proposals (Table 3, Model 3) and CSR proposals (Table 3, Model 12) but not for other conflict zones (executive contracting and strategy [Table 3, Models 6 and 9]). An important difference in Table 3 to our results in Table 2 (where we use only a family firm dummy) are with regard to CSR proposals, suggesting that having a family CEO at the helm tends to provoke more CSR shareholder proposals when performance is poor.

Hypothesis 6 predicts that conflict with minority shareholders is less likely when the founder is involved, relative to when the founder is not. Table 2 models 3, 7, 11 and 15 include dummies for both founder and non-founder family firms; support for this hypothesis would be evident if the non-founder dummy is significant and positive and the founder dummy is not significant or significantly less positive than the non-founder dummy. In Model 11 with strategic decision proposals, we can see that the main effect is positive and significant for non-founder family firms, but insignificant for founder family firms. This suggests that for strategic decisions, conflict is more common in non-founder family firms than founder family firms.

As a robustness test, we gathered data counting the number of family members on the board, which provides a proxy for family control. The results were substantially the same as those reported in Table 2, with significance and direction of interactions being the same, although the main effect of non-founder family in strategic proposals was not significant. We also gathered continuous measures of family ownership which produced almost identical results to Table 3.

**DISCUSSION & CONCLUSIONS**
This study has sought to advance the family business literature by exploring the conflict between a dominant family principal and minority shareholders. We clarify the relational dynamics between dominant family and minority shareholders, and in doing so, the unique nature of principal-principal conflict within family firms. As a whole, the difference between the levels of principal-principal conflict in family firms relative to non-family firms appears to be far less than implied in much of the literature (summarized earlier) exploring “Type II” (principal-principal) agency problems. In fact, the minority shareholder-dominant family shareholder conflict, as reflected in the number of proposals, seems to exist only under a specific set of conditions: when there is a family CEO at the helm, when the founder is no longer involved and when the firm is performing poorly. This suggests that minority investors in family controlled firms tend to be skeptical of the economic rationality underlying major managerial decisions only when there are cues leading them to suspect that the family’s pursuit of “socioemotional wealth” takes place at the expense of economic returns. Hence, blanket statements regarding the extent of family owners’ exploitation of non-family shareholders appear over-simplistic. If minority shareholders in these organizations receive sufficient economic returns and believe that the CEO is committed to the firm’s economic success (e.g., when the founder remains involved; Villalonga & Amit, 2006), they are less prone to be concerned with specific managerial practices or strategic decisions.

Most of the recent literature on family firms in management and finance has taken a decidedly negative bent when it comes to the pursuit of non-economic goals by family principals, which purportedly occurs at the expense of financial returns (e.g., Morck & Yeung, 2004). However, our study makes it clear that minority shareholders as a whole don’t generally feel “expropriated” (evidenced by the fact that they do not file more proposals against family than non-family firms) and when they do, the differences (in terms of proposals) between family and non-
family firms are modest. That is, even in those few instances when the difference in proposal activity between the two types of firms reaches statistical significance, the practical significance of the difference is rather small. This means that most shareholders do not perceive a contradiction in publicly traded family firms between the pursuit of SEW and economic objectives, which is consistent with evidence that family firms, on average, outperform non-family firms (c.f. Amit & Villalonga, 2014; Van Essen et al., 2011).

Our non-findings in the domain of executive contracting provide an interesting insight. Family executives have been demonstrated to receive less pay, yet their compensation is less exposed to performance risk (Gómez-Mejía et al., 2003). Thus, despite the more generous contracting terms offered to family executives (Cruz, et al., 2010), minority shareholders may be appeased by the lower total pay of family executives, resulting in shareholder proposals that were no greater than non-family firms in this domain. This provides the insight that, despite suggestions that altruism toward family executives through their hiring and compensation forego economic concerns and could provoke conflict with non-family stakeholders (Schulze et al., 2002), this does not appear to manifest in conflict with minority shareholders.

Prior research indicates that overall family firms tend to outperform rather than underperform nonfamily firms (e.g., Amit & Villalonga, 2014, for a review of this literature). Putting this research in context of this study, our results suggest that expropriation of minority shareholders is more a myth than reality. This is shown by the fact that minority shareholders are more prone to react negatively to the family firm when performance is weak (as captured by somewhat greater number of proposals filed by these shareholders against dominant family owners when performance is poor) yet in general family firms perform better. This calls for more research on family business examining the interaction between socioemotional wealth, strategic choices,
and the welfare of nonfamily shareholders (see Martin & Gomez-Mejia, in press, for additional discussion of these issues).

**Future Directions and Limitations**

The measures we use are perceptual since proposals at the annual meeting capture the subjective view of minority shareholders. Unlike other inferential measures used to assess “principal-principal” conflict (e.g., Sacristán-Navarro, 2011), this is indeed a strength of our study as discretionary proposals truly reflect minority shareholder dissatisfaction with the family firm’s management (Parthiban et al., 2007). However, it is possible that the number of proposals represents a generalized bias on the part of minority shareholders (based on suspicion rather than objective facts) given that they tend to attribute more performance shortfalls to managerial practices in the case of family than non-family firms (as per Hypothesis 4) or when a non-founder family CEO is at the helm. The difference between objective and subjective reality in this arena is an interesting issue for future research. Further data limitations are that we do not have details of exactly who filed the proposal, meaning we assume proposals are raised by non-family.

Much research remains to be done on the various dimensions of family socioemotional utilities in order to enhance specification of SEW (Schulze & Kellermans, 2015). For instance, we would benefit from understanding how different dimensions of SEW, such as family control, identity and binding social ties (see Berrone et al., 2012) individually influence principal-principal conflict. The scope of this research could also be expanded to examining conflict between the family and other non-shareholder stakeholders, in an attempt to challenge or validate the assumption that family owners are more likely to nurture relationships with a range of stakeholders (than non-family owners; Cennamo et al., 2012). This research will be useful given our results suggest that the approach to stakeholder management by family firms may not always differ to the
approach of non-family firms. If the data becomes available, family firm scholarship would benefit from more granular analysis, exploring the magnitude of principal-principal conflict created by specific strategic decisions, such as acquisitions, diversification and R&D at family firms relative to non-family. Similarly, it would be interesting to explore in more detail the nature of conflict that arises between family and non-family employees (as opposed to principal-principal conflict) and contingencies affecting this conflict at family firms, which is yet to be explored empirically.

Family business scholars could also further explore whether the family owners’ pursuit of SEW goals, such as family control and influence, is achieved at the cost of utilities derived from reputation and relationships with minority shareholders. Our results hint that the extent of this trade-off is contingent on the conflict zone, financial performance, and the presence or absence of the founder. Some non-economic goals may be more compatible with minority shareholders’ goals than others and more fine grained analysis of proposals could shed more light on this issue. Another avenue is to further explore how generational progression of family firms affects the principal-principal conflict.
REFERENCES


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### Table 1A. Descriptive Statistics and Correlations

<table>
<thead>
<tr>
<th>Governance Proposals</th>
<th>CSR Proposals</th>
<th>Upper Right (above diagonal) = Firms with CSR Proposals (N=633)</th>
<th>Lower Left (below diagonal) = Firms with Governance (EC) Proposals (N=1,713)</th>
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<tbody>
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<td>Mean</td>
<td>S.D.</td>
<td>Mean</td>
<td>S.D.</td>
</tr>
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<td>-------</td>
<td>------</td>
<td>--------</td>
<td>------</td>
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<tr>
<td>1 Proposal Count</td>
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<td>5 Firm Size</td>
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<td>0.86</td>
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</tr>
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<td>8 CEO Duality</td>
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<td>9 Women Directors %</td>
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<td>13 Founder Family</td>
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<td>14 Family CEO</td>
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<td>0.01</td>
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</tbody>
</table>

**Key:** * pairwise correlation is significant at \( p < 0.05 \) where correlation is greater than an absolute value of 0.04

*a: millions of dollars*
Table 1B. Descriptive Statistics and Correlations

<table>
<thead>
<tr>
<th></th>
<th>Strategic Proposal Firms</th>
<th>All Firms</th>
<th>Upper Right (above diagonal) = All Firms (N=543)</th>
<th>Lower Left (below diagonal) = Firms with Strategic Decision Proposals (N=216)</th>
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<td>Mean</td>
<td>S.D.</td>
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Key: * pairwise correlation is significant at p < 0.05 where correlation is greater than an absolute value of 0.04
a: millions of dollars
<table>
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<tr>
<th>Governance: Board Issues</th>
<th>Governance: Executive Contracting</th>
<th>Strategic Decisions</th>
<th>CSR</th>
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