

Stewardship or Agency? A Social Embeddedness Reconciliation of Conduct and Performance in Public Family Businesses

– Isabelle Le Breton-Miller, Danny Miller and Richard H. Lester

Family business management is viewed in literature predominantly through two contradictory perspectives. The stewardship perspective argues that owners/leaders/managers of family firms act as farsighted stewards of their companies, who take along everyone and enhance the value for all stakeholders. In contrast, the agency perspective suggests that major family owners act in the interest of the family or that of their own selves and extract resources from the business. Isabelle Le Breton-Miller (HEC Montreal), Danny Miller (University of Alberta) and Richard H. Lester (Texas A&M University) studied the two perspectives in greater detail and examined the motivations that drive stewardship and agency behaviours. They came up with some interesting findings that are presented in this summary.

Influence of Embeddedness on Stewardship

The authors suggest that both stewardship and agency perspectives have truth. They further argue that family business conduct and performance depends on the degree and manner in which the business and its managers are embedded in the family. The authors suggest that two components of embeddedness distinctly influence stewardship behaviour in family firms -

- (a) **Embeddedness of business within the family** – This is characterised by the **presence** of family members in the business, their **interaction** and **emotional bonding**, and the family's **control** over business. The authors argue that the higher the level of family embeddedness, the more likely it is that the family's self-interested behavior will dominate over stewardship in business.
- (b) **Embeddedness of family executives within the family** – This is the extent to which a family executive is embedded in relations of loyalty and ties to the family. Strong family influence makes a family executive more susceptible to act in the family's interest rather than pursue the stewardship agenda.

Research Findings

The authors premised that stewardship would manifest in three closely interdependent dimensions of strategic behaviour, i.e., - investment, funding, and risk tolerance. Investment aspect of stewardship was measured by the ratio of R&D to sales and the ratio of capital expenditure to fixed assets. Funding was measured by cash holdings and 1 minus dividend payout ratio. Risk was measured as idiosyncratic market risk for the firm's shares.

From the list of Fortune 1000 companies, the authors examined data of 898 public firms, of which, 404 were family businesses. Their findings established the following –

I. **Stewardship behaviour** in a family firm, **decreases with** -

- (a) increase in number of family directors,
- (b) increase in number of family executives,
- (c) increase in breadth of vote dispersion in the family,
- (d) increase in family generations involved in the business

Stewardship behaviour has an inverted U-shaped relationship with family control, i.e. it is low if the family control is very low, then rises as family control increases (28% control was the inflection point) and then falls again.

II. No relationship found between stewardship behaviour and founder family CEO but significant negative relationship in case of a second generation family CEO.

Implications

This study shows that both stewardship and agency perspectives are real but exist in different governance conditions. Most striking finding of the study is that as embeddedness increases, the stewardship behaviour of family firm managements decreases. Higher degree of family embeddedness results in reduction of stewardship behaviours like investments in long-term initiatives such as R&D decrease, risk-taking also goes down. Therefore, family businesses would be served if they do not over emphasize on strengthening family embeddedness, which in turn, will enhance stewardship.

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