

## *Board independence and firm performance in Southern Europe: A contextual and contingency approach*

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### **Abstract**

This study analyses whether or not the effect of board independence on a firm's strategic performance is moderated by family involvement in ownership and control. Moderation of the board's size and the independent director ratio are tested under quadratic specifications. The effect of CEO duality with family involvement on long-term sales growth is also measured. The empirical analysis is conducted in the Southern European context using a sample of publicly traded firms that have concentrated ownership structures. The main findings indicate that when nonlinearities are considered, family involvement moderates the relationship between the independent director ratio and firm performance. The optimal proportion of independent directors is lower in family businesses than in non-family ones. However, the results fail to support nonlinearities for board size. We find positive linear relationships between both board size and CEO duality with firm performance, which are not moderated by family involvement.

**Keywords:** board independence, family ownership and control, strategic performance, agency theory, stewardship theory

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### **INTRODUCTION**

The optimal corporate governance structure depends, among other factors, on the costs and benefits of governance practices, which vary between contexts (Boone, Field, Karpoff, & Raheja, 2007; Coles, Daniel, & Naveen, 2008; Linck, Netter, & Yang, 2008). Contingency and contextual perspectives are needed to assess the relationship between corporate governance and firm performance to demonstrate that in some contexts, certain board designs may be recommended, but in other contexts, other designs may be more suitable (Crossland & Hambrick, 2007; Andrés & Rodríguez, 2011; Minichilli, Zattoni, Nielsen, & Huse, 2012).

A key aspect of firm governance is ownership structure, including the typology of the firm's shareholders (La Porta, López-de-Silanes, & Shleifer, 1999; Thomsen & Pedersen, 2000; Maury, 2006; Bammens, Voordeckers, & Van Gils, 2010). As Eraković and Overall (2010) note, the relationship between the board and the owners in family businesses (FBs) versus non-family businesses (NFBs) is an important contingency variable.

Considering these potential relationships, the goal of this study is to assess whether or not the optimal level of board monitoring is lower for FBs than for NFBs. To this end, we adopt a contingency approach in which the impact of board independence (as a proxy for board monitoring)

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on a firm's strategic performance is considered to vary, depending on the context under analysis, particularly in terms of family involvement in ownership and control. Due to lower net agency costs and higher goal alignment between owners and managers in publicly traded FBs compared with NFBs (Anderson & Reeb, 2003; Villalonga & Amit, 2006), our basic premise is that the benefits and costs of board independence vary across firms, depending on family involvement, and thus the governance mechanisms should differ between these types of firms (Bartholomeusz & Tanewski, 2006; Chen & Nowland, 2010). These findings suggest the reconsideration and reshaping of widely held and traditionally evidenced beliefs regarding the empirical links between board independence and performance. Those beliefs, based on agency theory, lead to the postulate that more independent boards are always an adequate solution for corporate governance. We propose that board independence is limited in its effect on firm performance and that stewardship-based corporate governance structures may result in better performance. The current study uses board size, the independent director ratio and CEO duality as proxies for board independence, and it considers nonlinearities in the relationship between board independence and firm performance. Such nonlinear specification enables the reconciliation of inconsistent research outcomes by clarifying whether the relationship of our independent variables with firm performance is positive or negative. The moderation test allows examination of whether or not the context under analysis (family involvement) leads to changes in the inflection points at which the relationships switch from positive to negative.

Data from Southern European businesses enables us to analyse the impact of corporate governance on firm performance in a context in which the legal protection of minority shareholders is low, ownership concentration is high, and a significant number of firms are owned and controlled by family groups (La Porta, López-de-Silanes, & Shleifer, 1999; Rajan & Zingales, 2002)<sup>1</sup>.

To pursue our objectives, this article will proceed as follows: in the next section, we review previous research and subsequently offer hypotheses. In the third section, we define the sample, variables and methodology. The results, conclusions and implications of the study are discussed in the final sections.

## THEORETICAL FRAMEWORK

The importance of the board's monitoring role is grounded in agency theory, which is based on the premise that there is an inherent conflict between the interests of a firm's owners and managers that arises from the separation of company ownership and control (Fama & Jensen, 1983; Shleifer & Vishny, 1997). Agency theory implies that adequate monitoring mechanisms need to be established to protect shareholders from opportunistic behaviours on the part of management to maximise their own self-interest. From this perspective, the main function of the board of directors is consequently to reduce the principal-agent conflict between managers and shareholders (Jensen & Meckling, 1976).

In publicly traded FBs, controlling family shareholders have strong incentives to monitor management to protect family wealth (Anderson & Reeb, 2003; McVey, Draho, & Stanley, 2005; Barontini & Caprio, 2006), thereby mitigating the classical agency problem (Agency Problem I) (Villalonga & Amit, 2006). In these firms, the family's participation in ownership and management results in lower goal divergence between owners and managers (Jaskiewicz & Klein, 2007). Another type of agency cost, however, can be higher within publicly traded FBs relative to their non-family counterparts. Concentrated family ownership and control brings about the risk of abuse of power and the extraction of private benefits at the expense of non-family minority shareholders (Agency Problem II) (Villalonga & Amit, 2006). If the large shareholder is not a family (e.g., institutional investors, holding companies, banks, the state), the private benefits of control are diluted among several

<sup>1</sup> In Northern Europe, the processes of corporate governance reform have advanced the protection of minority shareholders and shareholding has indeed become more distributed and international.

independent owners. As a result, the large shareholder's incentives for expropriating minority shareholders are small, but so are its incentives for monitoring the managers. Thus, we revert to Agency Problem I. In contrast, if the large shareholder is a family, it has greater incentives for both expropriation and monitoring, which are thereby likely to lead the Agency Problem II to overshadow Agency Problem I.

Nevertheless, according to some scholars (Becker, 1974; Jensen & Meckling, 1976; Eisenhardt, 1989; Daily & Dollinger, 1992), FBs should be characterised by lower net agency problems than NFBs. This hypothesis has been tested and confirmed by Chrisman, Chua, and Litz (2004). The net positive effects induced by the presence of the owning family have been proved in public companies (Anderson & Reeb, 2003; Villalonga & Amit, 2006), where the institutional overlap between family and business is often carefully managed and the disadvantages of family involvement are overpowered by its benefits, contrary to what occurs in privately held FBs<sup>2</sup> (Sciascia & Mazzola, 2008).

In contrast to agency theory, which suggests that those in a position of power and who hold superior information will use these advantages to exploit others, stewardship theory posits that managers are essentially trustworthy individuals and are therefore good stewards of the resources entrusted to them (Donaldson & Davis, 1994). As Davis, Schoorman, and Donaldson (1997) note, the agency and stewardship theories do not seem to exclude each other; each theory is more applicable to certain settings and situations. High levels of goal alignment favour stewardship-based relationships whereas lower or absent levels of goal alignment support the predictions of agency theory (Jaskiewicz & Klein, 2007). Based on this argument, scholars have identified stewardship theory as being potentially highly applicable to the realm of FBs, which are characterised by involvement-oriented management philosophies, strong firm identification, low reliance on institutional power and personal and social fulfilment (Anderson & Reeb, 2003; Chrisman, Chua, & Litz, 2004; Corbetta & Salvato, 2004b; Lane, Astrachan, Keyt, & McMillan, 2006; Miller & Le Breton-Miller, 2006; Pieper, 2010). From this perspective, family members are expected to be altruistic towards each other, as a result of kinship obligations that are part of the axiomatically binding normative moral order in most cultures (Schulze, Lubatkin, Dino, & Bucchold, 2001; Chrisman, Kellermanns, Chan, & Liano, 2010; Huybrechts, Voordeckers, Lybaert, & Vandemaele, 2011). Family owners, free from short-term financial market demands, use their influence to benefit all the organisation's stakeholders. They are emotionally committed to the long-term survival and reputation of their firms because their fortunes, careers and personal honour, as well as that of their children and ancestors, are at stake (Le Breton-Miller & Miller, 2009). In this context, altruism leads to a transfer of experience-based knowledge about the business from generation to generation, increasing cooperation and communication within the company and reducing agency costs (Schulze, Lubatkin, & Dino, 2003). Therefore FBs, which are characterised by high goal alignment between owners and managers, might require less control from a board than NFBs (Muth & Donaldson, 1998; Sundaramurthy & Lewis, 2003).

Steward behaviour can allow governance mechanisms, such as boards, to serve different functions and roles (Lane et al., 2006). By emphasising the potential for pro-organisational attitudes among organisational decision makers and the board's role in supporting them, stewardship theory essentially

<sup>2</sup> Within privately held FBs, three other sources of moral hazard can be derived from the institutional overlap between family and business, which sets them apart from their non-family counterparts (Bammens, Voordeckers, & Van Gils, 2010): (1) the owning-family's pursuit of its own non-economic interests, which refers to the threat of owning-families pursuing non-economic family objectives (e.g., maintaining control of the company, firm survival, financial independence, family harmony) to the detriment of non-family stakeholders' interests (McVey, Draho, & Stanley, 2005; Voordeckers, Van Gils, & Van den Heuvel, 2007; Jones, Makri, & Gómez-Mejía, 2008); (2) the parental tendency to act in accordance with altruistic motives, which relates to the risk of self-control problems exacerbated by parental altruism (Schulze, Lubatkin, Dino, & Bucchold, 2001); and (3) the different nuclear family units' pursuit of their own interests, which refers to the moral hazard problems that may arise from intra-family interest divergence.

redirects the focus from board monitoring to board advising<sup>3</sup> (Davis, Schoorman, & Donaldson, 1997; Gubitta & Gianecchini, 2002; Bammens, Voordeckers, & Van Gils, 2010). From this perspective, the primary role of the board is to serve and advise, rather than to discipline and monitor, as prescribed by agency theory (Corbetta & Salvato, 2004a, 2004b; Le Breton-Miller & Miller, 2009). In this sense, Davis, Schoorman, and Donaldson (1997) argue that, in contrast to the viewpoint taken by agency theorists, the interests of managers and owners may actually be aligned. Hence governance devices designed and based on agency theory prescriptions may be redundant and even prove inefficient in FBs. Stewardship behaviour is expected to prevail in FBs, and effective methods to control or motivate an opportunistic manager may not be effective for controlling or motivating a steward (Muth & Donaldson, 1998; Jaskiewicz & Klein, 2007). The pro-organisational behaviour of family members leads FBs to be more effective wealth creators than NFBs (Anderson & Reeb, 2004). Any form of direct or indirect control may lower the motivation of stewards, negatively affecting their pro-organisational behaviour and leading to losses in terms of wealth creation.

Despite differences in the forms of agency costs among firms with different ownership and control structures and despite different conceptions of the behaviours of decision makers (economic perspective of agency theorists vs. pro-organisational perspective of stewardship theorists), corporate governance regulations generally recommend the same corporate governance practices for all types of companies. A common theme is the agency theory perspective, which seeks to strengthen the monitoring role of boards and leads to normative recommendations that boards should be independent. Thus, boards should have a relatively large size, a majority of independent directors and non-dual leadership structures (Zajac & Westphal, 1996a; Gubitta & Gianecchini, 2002; Corbetta & Salvato, 2004a). Within stewardship theory, however, control is viewed as potentially counterproductive and organisational structures that facilitate managerial power are preferred over those designed to constrain managerial power (Donaldson & Davis, 1994). From this perspective, larger boards with more independent directors and non-dual leadership structures could potentially reduce the stewardship behaviour of FBs (Jaskiewicz & Klein, 2007). In keeping with these arguments, stewardship settings involve relatively small boards that accommodate a higher ratio of executive directors who take on more of an advising role<sup>4</sup> as well as dual leadership structures (Gubitta & Gianecchini, 2002; Daily, Dalton, & Rajagopalan, 2003; Corbetta & Salvato, 2004b).

## HYPOTHESIS DEVELOPMENT

Most previous empirical studies focus only on the benefits of independent boards on the basis of their monitoring function (Coles, Daniel, & Naveen, 2008; Linck, Netter, & Yang, 2008; Adams, Hermlin, & Weisbach, 2010), thus testing linear relationships between board characteristics and firm performance. These studies assume that the optimal level of monitoring occurs at extreme levels of independence or that no optimal level exists (Chen & Nowland, 2010). The presence of conflicting results, as well as the existence of contrary arguments in the literature, has led us to suspect the presence of nonlinear relationships between corporate governance variables and firm performance. Therefore, in this study, we advance previous studies by considering both the benefits and cost of the monitoring board role, thus integrating the agency and the stewardship theories.

Our basic premise is that the level of goal alignment affects the relationship between board independence (as a proxy for board monitoring) and firm performance (Jaskiewicz & Klein, 2007).

<sup>3</sup> Whereas agency theory is the single most important theory underlying the significance of board control, the board's advisory role can be said to have a multi-theory basis (Bammens, Voordeckers, & Van Gils, 2010).

<sup>4</sup> As Adams and Ferreira (2007) note, the board should decide to play one role over the other (monitoring vs. advising). The more effort the board applies to its monitoring role, the less effort it applies to its advisory role. Close ties to agents in FBs encourage the provision of advice by boards (Corbetta & Salvato, 2004a).

In keeping with these ideas, no single optimal structure will fit all firms. Specifically, we propose that the benefits and costs of board monitoring are likely to be contingent on the type of controlling shareholder (as a proxy for goal alignment) (Aguilera & Jackson, 2003; Huse, 2005). Higher levels of goal alignment and lower net agency costs, which we assume occur in FBs, are expected to better reflect stewardship theory settings (board dependence). Lower levels of goal alignment and higher net agency costs, which we assume to apply to NFBs, are expected to reflect settings more reflective of agency theory (board independence). We develop our hypothesis by using three indicators of board independence, those being the board size, the independent directors ratio and the leadership structure.

### **Hypothesis on board size**

With respect to board size, there is no consensus regarding the direction of the relationship between board size and firm performance (see the meta-analytic review of Dalton, Daily, Johnson, & Ellstrand, 1999). The empirical literature provides some evidence of positive (Beiner, Drobetz, Schmid, & Zimmermann, 2006; Setia-Atmaja, Tanewski, & Skully, 2009), negative (Yermack, 1996; Andrés, Azofra, & López, 2005; Cheng, 2008; Kota & Tomar, 2010) and non-significant (Bonn, 2004; Jaggi, Leung, & Gul, 2009) relationships.

There are both advantages and disadvantages associated with larger or smaller boards. The CEO may find that a smaller board can be more manageable and more easily dominated due to the potential for social cohesion (Shaw, 1981), whereas a larger group of directors would require the CEO to invest more time and effort in building consensus for a given course of action. If the board is large, it is more independent in the sense that the CEO's influential power is diluted and it is more difficult for the CEO to be dominant (Muth & Donaldson, 1998). Larger boards may also provide advantages in terms of greater human capital (Pfeffer, 1972; Andrés & Rodríguez, 2011) and greater monitoring capacity (Jensen, 1993). However, oversized boards lead to increased costs associated with free-rider conflicts and problems related to coordination, control and flexibility in decision making, which negatively affect the effectiveness of board roles (Lipton & Lorsch, 1992; Jensen, 1993; Forbes & Milliken, 1999). Directors on a smaller board are more willing to participate in company affairs, have a clearer focus, build better relationships, cooperate more with directors (Eisenberg, Sundgren, & Wells, 1998), agree on a particular outcome and engage in genuine interaction and debate (Firstenberg & Malkiel, 1994).

Therefore, considering both the benefits and costs associated to board size, we propose that the relationship between board size and firm performance is concave and has an interior maximum. This inflection point is reached when the marginal benefits of larger boards equals their marginal costs. Within the context of FBs, boards that are too large reduce the stewardship behaviour within the family and increase agency problems. Therefore the board becomes more a symbolic entity and less a part of the management process. Lane et al. (2006) suggest that small boards may be more desirable, since larger boards may inhibit full family participation and individual responsibility. Larger boards in FBs will be associated with less cohesion among directors and can thereby impair board-monitoring ability (Corbetta & Salvato, 2004a). Other possible negative effects of larger boards include the possibility of FBs coming to be intimidated by boards; the establishment of merely cosmetic boards; and expense of board member remuneration, which most FBs would be reluctant to bear (Navarro & Anson, 2009). In summary, as a result of the moderating influence of family involvement, we expect the benefits of larger boards in FBs to be overtaken by their costs, even when FB boards are smaller than NFB boards:

Hypothesis 1: The inflection point at which the nonlinear relationship between board size and firm performance turns from positive to negative will be smaller in FBs than in NFBs.

### Hypothesis on independent directors

With regard to the impact of independent directors on firm performance, there are both benefits and costs associated with having more independent directors. Empirical research is far from conclusive, as shown by Dalton's, Daily's, Ellstrand's, and Johnson's, meta-analysis (1998). Various studies provide evidence of positive (Baysinger & Butler, 1985; Pearce & Zahra, 1992; Daily & Dalton, 1993), negative (Muth & Donaldson, 1998; Klein, Shapiro, & Young, 2005; Bhagat & Bolton, 2008) and non-significant (Hermalin & Weisbach, 1991; Villalonga & Amit, 2006) impacts of independent directors on firm performance.

Independent directors most effectively engage in monitoring on boards because they have few conflicts of interest (Jensen, 1993). Viewed from an agency perspective, executive directors may have varying objectives as a result of private motivations and their lack of independence from the CEO (Zajac & Westphal, 1996b; Dalton et al., 1999). Independent directors are more likely to support shareholder interests, reduce the influence of management on the board, exert control and monitor the execution of firm responsibilities (Fama & Jensen, 1983). Independent director appointments can also be relevant to the advisory role of the board, because such directors can provide comprehensive and complementary external knowledge (mostly based on university training and external work experience) that can be used by management teams in formulating and implementing strategies (Daily & Dalton, 1993). However, a board made up entirely of independent directors could not efficiently work to their combined capacity because of its lack of experience and knowledge of key aspects of the firm and its environment. Such a board would have difficulty acquiring this necessary firm-specific knowledge (Ford, 1992; McVey, Draho, & Stanley, 2005).

Stewardship theory provides a different perspective, by suggesting that directors and managers are not opportunistic and self-serving, but are motivated to act in the best interests of their organisations and to maximise shareholder wealth by improving organisational performance (Donaldson & Davis, 1991). Executive directors are thus seen as highly valuable to boards, because they spend their working lives at the company they direct. They have experience with business operations and are therefore expected to have greater firm-specific knowledge related to company operations than independent directors (Fama & Jensen, 1983). This experience and knowledge leads to better decision making (Donaldson & Davis, 1991; Bonn, 2004; Christensen, Kent, & Stewart, 2010) and allows boards to efficiently provide advice (Carpenter & Westphal, 2001; Raheja, 2005). Executive directors also facilitate the transfer of information between the board and the management team (Donaldson & Davis, 1991). Therefore, according to stewardship theory, less independent boards are expected to be associated with superior financial performance. Effectiveness of monitoring relies on access to information (Boone et al., 2007) and independence (as a proxy for monitoring) has costs in terms of information.

Considering both the benefits and costs associated to independent directors, we propose that the relationship between the independent directors ratio and firm performance is concave and has an interior maximum<sup>5</sup>. This inflection point is reached when the marginal benefit of more independent directors (and less executive directors) equals its marginal cost. Within the context of FBs, several studies show that FBs disclose less information to independent parties (external to the family) (Lane et al., 2006; Cheng, 2008). This higher information asymmetry leads board independence to reduce agency costs by a smaller amount in FBs than in NFBs (Chen & Nowland, 2010). Moreover, family owners associate a loss of control and discretion with very independent boards, and FBs tend to choose directors who are not truly independent (due to friendly or contractual relationships with the

<sup>5</sup> Because the maximisation of firm performance requires a board to perform effectively in all areas, an appropriate mix of executive and independent directors may be optimal (Baysinger & Butler, 1985).

company), thus compromising board independence and reducing the benefits of monitoring (Chen & Nowland, 2010). As Lane et al. (2006) note, independence status is largely irrelevant to achieving accountability in FBs. Finally, too many independent directors reduce the stewardship behaviour of family members, thus worsening the firm performance. Based on these arguments, our second hypothesis is as follows:

Hypothesis 2: The inflection point at which the nonlinear relationship between the ratio of independent directors and firm performance turns from positive to negative will be smaller in FBs than in NFBs.

### **Hypothesis on leadership structure**

Whether or not the role of the chairperson of the board should be separate from the role of the CEO has also been debated. Although a number of empirical studies have provided important insights into the relationship between leadership structure and performance, their results are also far from conclusive, as the meta-analytic review of Dalton, Daily, Ellstrand, and Johnson (1998) demonstrates. There is evidence that CEO duality has positive (Donaldson & Davis, 1994; Finkelstein & D'Aveni, 1994; Kota & Tomar, 2010), negative (Rechner & Dalton, 1991; Coles, McWilliams, & Sen, 2001) and non-significant (Baliga, Moyer, & Rao, 1996; Brickley, Coles, & Jarrell, 1997; Jackling & Johl, 2009) effects on firm performance. A recent meta-analysis conducted by Rhoades, Rechner, and Sundaramurthy (2001) indicates that leadership matters and the authors provide support for the contingency view that the context moderates the relationship between CEO duality and firm performance.

On the one hand, agency theorists argue that if the same person performs both roles, it can lead to the inefficient supervision of opportunistic behaviour by management and an increase in CEO entrenchment (Daily & Dalton, 1993; Jensen, 1993). The separation of the roles increases board independence because it dilutes the power of the CEO and increases the board's ability to properly execute its oversight role.

On the other hand, stewardship theorists argue that CEO duality is expected to positively affect firm performance because managers are inherently trustworthy and are good stewards of company resources (Donaldson & Davis, 1991, 1994) rather than opportunistic individuals. In addition to financial incentives, managers are also motivated by such non-financial motives as job satisfaction, advancement and recognition, respect for authority and work ethic. They seek intrinsic satisfaction by performing challenging work. Moreover, because supporters of stewardship theory advocate that the interests of managers are aligned with those of the owners, they believe that CEO duality could promote unified and strong leadership with a clear sense of strategic direction (Davis, Schoorman, & Donaldson, 1997; Braun & Sharma, 2007). As Adams and Ferreira (2007) suggest, if the CEO is also the chairperson of the board, specific knowledge about the business, as well as its strategic direction and investment opportunities, will be made available to directors, allowing them to more effectively provide advice, facilitating timely and optimal decisions (Brickley, Coles, & Jarrell, 1997) and improving firm performance (Donaldson & Davis, 1991).

Stewardship behaviour is expected to prevail in FBs, and effective methods to control or motivate an opportunistic manager may not be effective for controlling or motivating a steward (Muth & Donaldson, 1998; Jaskiewicz & Klein, 2007). The pro-organisational behaviour of family members leads FBs to be more effective wealth creators than NFBs (Anderson & Reeb, 2004). Any form of direct or indirect control, such as non-CEO duality, may lower the motivation of stewards, negatively affecting their pro-organisational behaviour and leading to losses in terms of wealth creation. Within the context of FBs, CEO duality is more likely to lead to situations in which the benefits that result

from information flow, as well as unity in decision making, exceed the drawbacks of agency problems (Donaldson & Davis, 1991; Davis, Schoorman, & Donaldson, 1997). The third hypothesis is stated as follows:

Hypothesis 3: In FBs, the benefits associated with dual leadership structures will outweigh their associated costs and the effect of CEO duality on performance will be positive. The opposite is expected in NFBs.

## RESEARCH METHODOLOGY

### Data and sample

The empirical analysis is conducted on data from a sample of publicly traded firms from Spain, Portugal and Italy, regarding the period from 2003 to 2007. We chose these countries because their legal systems were developed within the tradition of French civil law. Due to its lower protection of shareholder interests, both the ownership concentration and the proportion of family controlling shareholders tend to be higher in countries with this type of legal system than in countries whose legal systems originate from common law or Scandinavian or German civil law (La Porta, López-de-Silanes, & Shleifer, 1999).

We constructed a database of FBs and NFBs operating in the selected countries. This database was manually compiled, based on information provided by Bureau Van Dyk, a supplier of data on ownership structures, and public information on significant shareholders published by stock market regulators and/or company websites. Managerial and board information was collected from firms' financial and corporate reports. We used the Amadeus Database and the financial reports released by firms as sources of financial data.

We used the control chain methodology to identify the owners of firms (La Porta, López-de-Silanes, & Shleifer, 1999). Because our aim was to obtain a sample that was as homogeneous as possible, thus allowing us to link observed differences to the identities of the controlling shareholders, rather than to the level of property rights concentration, we only included firms with an ultimate owner. We considered a company to have an ultimate owner if the main shareholder directly or indirectly held a percentage of the company greater than or equal to 25% (García-Ramos & García Olalla, 2011)<sup>6</sup>. On the basis of these criteria, all the firms in our sample have a concentrated ownership structure. We divided the sample into two groups: FBs and NFBs. It should be noted that firms that are majority owned by a single individual were excluded from the sample. By adopting this criterion, we avoid the risk of classifying firms that are owned and run by an individual entrepreneur (those termed lone founder businesses by Miller, Le Breton-Miller, Lester, & Canella, 2007) as FBs because typical FBs are characterised as organisations that are usually controlled and managed by several family members (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Miller et al., 2007). The main shareholders in NFBs are institutional investors, holding companies, the state, banks, etc., but not families; in FBs the main shareholder is a family. Moreover, for a firm to be included in the final sample of FBs, we required family members to not only collectively control at least 25% of property rights but also be actively involved in controlling and/or managing the firm. With the application of these criteria, we ensured that our subsample of FBs had a family character in

<sup>6</sup> We chose this threshold for two reasons. First, whereas the existing literature focusing on the US context used levels of 10% and 20%, we tried to adjust to the more concentrated ownership structures present in most Southern European countries. Second, we sought to maintain consistency with the official definition of a FB in Europe as approved in 2008 by two international institutions representing FBs: the European Group of Owner Managed and Family Enterprises and the Board of the Family Business Network.



terms of management control and that family influences were present at the highest managerial levels. Moreover, we only included those firms for which information was available on all the considered variables over the entire 4-year period. After these filters were applied, the number of companies included in the sample was 247, of which 87 were FBs and 160 were NFBs.

## Variables and method

### *Dependent variable*

Consistent with Jensen and Meckling's (1976) assertion that agency relationships within the firm have a strong impact on its growth rate and following other studies of FBs (Schulze et al., 2001; Chrisman, Chua, & Kellermanns, 2009) and NFBs (Amason, Shrader, & Tompson, 2006; Titus, Covin, & Slevin, 2011), we define strategic performance in terms of sales growth<sup>7</sup>, which is assumed to reflect the fulfilment of the economic goals of the firm (Chrisman, Chua, & Litz, 2004).

In particular, we used long-term sales growth as our dependent variable. A firm's sales growth rate is essential for long-term survival and profitability; therefore, long-term sales growth is a better measure of performance than short-term sales growth (see, Schulze et al., 2001; Chrisman, Chua, & Litz, 2004; Chrisman, Chua, & Kellermanns, 2009). Moreover, the main determinants of stewardship behaviours (trust, altruism, relational contracts and non-financial family goals) take a relatively long time to exert their effects on firm performance. This is in line with the FB literature (James, 1999), which suggests that advantages related to family involvement should be measured over long time spans given the long-term orientation of most FBs. Hence, long-term sales growth may be a better dependent variable than short-term sales growth in models that aim to explain the determinants of value-enhancing organisational behaviour in FBs (Corbetta & Salvato, 2004a).

The average sales growth of each firm was calculated for the 4 years between 2004 and 2007 (Amason, Shrader, & Tompson, 2006; Titus, Covin, & Slevin 2011). Because sales revenues over the four calendar years were positively skewed, we used logarithms to minimise the skewness. Thus, the sales growth variable was measured by the differences in the logarithm of total sales revenue from 1 year to another (Chrisman, Chua, & Kellermanns, 2009). To account for differing growth rates in the industries and countries represented in the sample, the 4-year average industry growth rate per country was subtracted from each firm's 4-year average growth rate. This created a relative sales growth rate figure, controlling for industry and country, that was used as the dependent variable (Baysinger & Butler, 1985; Villalonga & Amit, 2006; Miller et al., 2007; Christensen, Kent, & Stewart, 2010; Titus, Covin, & Slevin, 2011). In Table 1, we present the sample distribution by country and by industry.

We incorporated industry effects because sector heterogeneity might affect firm performance due to differences regarding, for instance, the level of business risk, competition within the sector, industry standards, economies of scale or competitive intensity (Andrés, Azofra, & López, 2005; Braun & Sharma, 2007; Jackling & Johl, 2009). We adopted the Standard Industrial Classification of Economic Activities<sup>8</sup> (2003).

<sup>7</sup> This variable is a desirable performance metric for several reasons (Titus, Covin, & Slevin, 2011). First, growth is an indicator of the effectiveness with which firms exploit current or new product-market opportunities. Moreover, growth is a recognised generator of organisational slack, which can serve as a buffer against environmental shocks and thereby contribute to sustained organisational viability. Finally, growth-related measures tend to be more readily available and reliable than efficiency-focused performance measures such as return on assets (ROA). For instance, sales growth has the advantage of being free of distortion through the appropriation of rents by a firm's stakeholders.

<sup>8</sup> We omitted the financial sector because its corporate governance mechanism is highly specific and has its own regulation. Due to the relatively small number of companies in our sample, some industries are represented by a few companies per country. Related to this issue, industries were defined somewhat broadly, at essentially the 1-digit Standard Industrial Classification of Economic Activities level, which may have had the effect of reducing the magnitude of observed industry effects.

TABLE 1. SAMPLE DISTRIBUTION

Industry primary SIC codes	Spain	Portugal	Italy	Total firms
S1 Agriculture, forestry and fishing and S2 mining	3	0	0	3
S3 Construction	13	3	6	22
S4 Manufacturing	21	9	71	101
S5 Transportation, communication and public services	16	0	17	33
S6 Wholesale trade	4	0	6	10
S7 Retail trade	1	0	5	6
S8 Insurance and real estate	9	14	18	41
S9 Services	9	4	18	31
	76	30	141	247

Country effects were incorporated because there is evidence to suggest that country-specific factors, such as political and institutional factors, may affect firm performance relationships (Andrés, Azofra, & López, 2005; Guest, 2008). For instance, recent empirical evidence indicates that international differences in growth and productivity are related to differences in political, institutional and legal environments – that is, to the governance infrastructure of a country. Country effects are relevant as long as firms can be substantially affected by institutional settings prevailing in different nations, which are heterogeneous (Crossland & Hambrick, 2007). Although the systems in Spain, Portugal and Italy originated from the same legal tradition and are therefore very similar in terms of culture and institutional setting, there are also differences in national-level regulations (Bettinelli & Chugh, 2009; Minichilli et al., 2012).

### *Independent variables<sup>9</sup>*

Sales growth is regressed against the following variables, used as proxies for board monitoring:

- *Board size*: The total number of directors on the board of each company (Andrés, Azofra, & López, 2005; Huang, 2010; Kota & Tomar, 2010).
- *Independent directors*: The independent director ratio – that is, the number of independent directors divided by the total number of directors on the board of each company (Chen & Nowland, 2010; Huang, 2010; Fraile & Fradejas, 2012). Independent directors are those highlighted as ‘independent’ in the companies’ annual reports.
- *Leadership structure*: A dummy variable that takes a value of 1 when the CEO and the chairperson of the board is the same person and a value of 0 otherwise (Zajac & Westphal, 1996b; Braun & Sharma, 2007; Kota & Tomar, 2010).

### *Moderator variable*

- *Family*: A dummy variable that takes the value 1 if the firm is a FB (see definition in the ‘data and sample’ section) and 0 otherwise to control for differences in the *performance-board independence* relationship due to family ownership and control (Chrisman, Chua, & Kellermanns, 2009). The interaction variables were constructed by multiplying the *family* moderator variable by each of the independent variables.

<sup>9</sup> To be consistent with the long-term measure of the dependent variable, the average values of the independent variables over the period from 2004 to 2007 were used (Schulze, Lubatkin, Dino, & Bucchold, 2001).

TABLE 2. DESCRIPTIVE STATISTICS AND CORRELATIONS BETWEEN VARIABLES

	Mean	SD	1	2	3	4	5	6	7
1 Sales growth <sup>a</sup>	0.14	0.36							
2 Board size	9.17	3.50	.21***						
3 Independent directors	0.30	0.18	-.07	.17**					
4 Dual leadership structure	0.32	0.42	.21***	.01	.09				
5 Firm size <sup>a</sup>	13.45	2.45	-.12**	.38***	.02	-.14**			
6 Firm debt	0.58	0.20	-.03	.07	.10*	-.05	.39***		
7 Firm age <sup>a</sup>	3.24	0.95	-.20***	.10	-.14**	.00	.17**	.10*	
8 Family	0.35	0.47	.06	-.12**	.04	.12**	-.19***	-.03	-.00

Spearman's  $\rho$ .<sup>a</sup> Logarithmised (ln).\* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$ .**Control variables<sup>10</sup>**

Consistent with the work of Schulze et al. (2001, 2003) and others performing comparative studies (Chrisman, Chua, & Litz, 2004; Chrisman, Chua, & Kellermanns, 2009), we controlled for age, size and debt in our analysis to avoid any bias in the results:

- *Firm size*: The natural logarithm of the value of total assets. Previous studies have found that organisational size is related to organisational performance for various reasons, including diversification, economies of scale and access to less expensive funding, among others, which suggests that size should be included as a control variable (Andrés, Azofra, & López, 2005; Cheng, 2008; Huang, 2010; Kota & Tomar, 2010).
- *Firm debt*: The ratio of total debt to total assets. This figure was included because firm debt provided a mechanism for curbing agency costs (Andrés, Azofra, & López, 2005; Cheng, 2008; Jackling & Johl, 2009).
- *Firm age*: The natural logarithm of the number of years since the firm's founding. This figure was included to control for company life cycle and growth prospects (Forbes & Milliken, 1999; Anderson & Reeb, 2003; Miller et al., 2007).

We tested our hypothesis using an ordinary least squares (OLS) multiple regression model. It should be stressed that most of the papers on the role of the board of directors use this method. Furthermore, regression models are recommended for the analysis of moderating effects (Marquardt, 1980; Aiken & West, 1991). To ensure that the significance of the regression equation was not solely caused by the control variables, hierarchical regressions were run. Table 2 presents descriptive statistics for the sample and correlation matrix. Although the correlation coefficients are weak and do not violate the assumption of independence between the variables, the absence of multicollinearity was verified in each regression model for all variables including the interaction terms; no tolerance coefficient was close to 0 and no variance inflation factor (VIF) coefficient was higher than 10, meaning that multicollinearity is not a significant problem in our sample (Myers, 1990). It must be noted that to minimise correlations between the independent variables and their interaction terms, before the computations involving the interaction terms, the independent variables were centred as recommended by Aiken and West (1991) and Marquardt (1980).

<sup>10</sup> To be consistent with the long-term measure of the dependent variable, the average values of the control variables over the period from 2004 to 2007 were used (Schulze et al., 2001).

Hypothesis 1 and Hypothesis 2 propose that the nonlinear relationships between the independent variables and the dependent variable are contingent on the type of controlling shareholder. To test these hypotheses, we should derive the optimal levels of board size and independent directors at which firm performance is maximised depending on whether the firm is a FB or a NFB. To that end, we must obtain the first derivative of performance with respect to each of the board monitoring variables. Note that these are the inflection points at which the relation between board size and firm performance, as well as that between independent directors and firm performance, change from positive to negative. This step will only be possible if the results of the empirical analysis allow for it – that is, if the nonlinear relationships are confirmed.

## ANALYSIS AND RESULTS

Table 3 presents the results of the OLS regression models to evaluate the influence of board independence on the performance of the firms under consideration. Model 1 includes only the control variables. Model 2 incorporates the board independence and family influence variables. We also include the squares of the board size and independent director values to assess the existence of nonlinear relationships with the dependent variable. Models 3–5 incorporate the interaction terms used to test our hypotheses.

The regression models are all significant at the 0.001 level. Overall, the full regression model explains a modest amount of the variance in our dependent variable, sales growth (see adjusted  $R^2$  on Table 3). Of the five models, Model 4 is the strongest.

Model 1 shows that two of the control variables under consideration are statistically significant and thus are determined to affect sales growth: firm size and firm age have negative effects on sales growth ( $\beta = -0.016$  and  $p < .05$ ;  $\beta = -0.066$  and  $p < .001$ ). However, the contribution of firm debt is not statistically significant ( $\beta = -0.006$  and  $p > .1$ ).

In Model 2, the results indicate that the impact of board size on sales growth is positive, as shown by the coefficient of board size ( $\beta = 0.031$  and  $p < .01$ ). The coefficient of board size<sup>2</sup> is negative but this relationship is not statistically significant ( $\beta = -0.001$  and  $p > .1$ ). As for the second independent variable, the significance of the positive and negative coefficients of independent directors ( $\beta = 0.337$  and  $p < .01$ ) and independent directors<sup>2</sup> ( $\beta = -0.521$  and  $p < .01$ ) show an inverted U-shaped relationship between the proportion of independent directors and firm performance. The result for the third independent variable indicates that dual leadership structure is positively related to sales growth ( $\beta = 0.111$  and  $p < .001$ ). Although our hypotheses are concerned only with the moderating influences of family involvement, we included the family variable in this model because family influence may directly affect performance (Anderson & Reeb, 2003; Chrisman, Chua, & Kellermanns, 2009). However, the coefficient for family was not statistically significant ( $\beta = -0.020$  and  $p > .1$ ), indicating that family involvement, independent of the effects of the board of directors, entails no advantages or disadvantages for FBs in terms of sales growth.

Models 3–5 show the moderating effects of family involvement.

Hypothesis 1 proposes that the inflection point at which the nonlinear relationship between board size and firm performance turns from positive to negative will be smaller in FBs than in NFBs. Model 3 shows that the impact of board size on sales growth is positive, as shown by the coefficient of board size ( $\beta = 0.025$  and  $p < .05$ ). Although the coefficient of board size<sup>2</sup> is negative ( $\beta = -0.001$  and  $p > .1$ ), this trend lacks statistical significance so does not allow us to confirm the expected nonlinear relationship between board size and firm performance. As a consequence, it is not possible to derive the optimum board size. Moreover, the coefficient of the moderator term is not significant for board size ( $\alpha = -0.004$  and  $p > .1$ ) or board size<sup>2</sup> ( $\alpha = 0.001$  and  $p > .1$ ). Therefore, Hypothesis 1 was not supported; there is a positive relationship between board size and sales growth which is not moderate by family involvement.

TABLE 3. EMPIRICAL ANALYSIS RESULTS

<i>Sales growth</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Constant	.530***	.299**	.140***	.140***	.140***
Control variables					
Firm size	-.016*	-.016*	-.016*	-.015*	-.016*
Firm debt	-.006	-.009	-.009	-.008	-.005
Firm age	-.066***	-.057***	-.056***	-.058***	-.057***
Independent variables					
Board size		.031**	.025*	.022**	.023*
Board size <sup>2</sup>		-.001	-.001	-.001	-.000
Independent directors		.337**	.494**	.670***	.490**
Independent directors <sup>2</sup>		-.521**	-.675**	-.820***	-.681**
Dual leadership structure		.111***	.110***	.117***	.116***
Family		-.020	-.022	-.023	-.023
Moderator variables					
Board size × family			-.004		
Board size <sup>2</sup> × family			.001		
Independent directors × family				.612**	
Independent directors <sup>2</sup> × family				-1.096**	
Dual leadership structure × family					.042
Adjusted R <sup>2</sup>	6.04%	10.68%	7.79%	14.33%	7.83%
F	5.04***	6.12***	5.20***	6.72***	5.42***
N	247	247	247	247	247

Coefficients from the OLS regression are reported.

\* $p < .05$  (two-tailed); \*\* $p < .01$  (two-tailed); \*\*\* $p < .001$  (two-tailed).

Hypothesis 2 defends that the inflection point at which the nonlinear relationship between the independent director ratio and firm performance turns from positive to negative will be smaller in FBs than in NFBs. In Model 4, the results indicate that the contribution of independent directors to sales growth is nonlinear. The significance of the positive and negative coefficients of independent directors ( $\beta = 0.670$  and  $p < .001$ ) and independent directors<sup>2</sup> ( $\beta = -0.820$  and  $p < .001$ ) show an inverted U-shaped relationship between the proportion of independent directors and firm performance. Moreover, results indicate a significant interaction between independent directors and family influence. The coefficients of the moderator terms show that the incremental effect for FBs with respect to NFBs is positive and significant for independent directors ( $\alpha = 0.612$  and  $p < .01$ ) and is negative and significant for independent directors<sup>2</sup> ( $\alpha = -1.096$  and  $p < .01$ ). As these results indicate, family involvement moderates the inverted U-shaped relationship between independent directors and sales growth. Following the procedures by Aiken and West (1991) to plot the interaction effects, we optimally derive the inflection points at which the relation between independent directors and sales growth turns from positive to negative in FBs and NFBs. Overall, the optimal level of independent directors that maximises firm performance is ~27.92% in FBs and 40.87% in NFBs. These findings regarding inflection points lend support to Hypothesis 2.

Hypothesis 3 proposes that in FBs the benefits associated with dual leadership structures will outweigh their associated costs and the effect of CEO duality on performance will be positive, whereas the opposite is expected in NFBs. Model 5 indicates that dual leadership structure is positively related to sales growth ( $\beta = 0.116$  and  $p < .001$ ) and that the interactive effect between leadership structure and family influence is not statistically significant ( $\alpha = 0.042$  and  $p > .1$ ). Because family involvement does not moderate the relationship between leadership structure and sales growth, which is positive

for both FBs and NFBs, Hypothesis 3 was not supported. These results are examined in greater depth in the following section.

## DISCUSSION

The results for board size were not as expected. As we have previously explained, without a nonlinear relationship between board size and firm performance, Hypothesis 1, which states that the inflection point of the nonlinear relationship will be reached at a lower level of board size for FBs than for NFBs, is not supported – that is, the benefits associated with larger boards will be offset by drawbacks at a lower board size in FBs than in NFBs. The analysis shows that board size has a positive impact on sales growth. Moreover, the relationship between board size and firm performance is not moderated by family involvement in the business. This finding implies that sales growth in both NFBs and FBs increases according to board size, suggesting that for firms in our sample, larger boards are better for improving strategic performance. A larger group of directors would require the CEO to invest more time and effort in building consensus for a given course of action. With larger boards, the CEO's influential power is diluted and it is more difficult for the CEO to dominate. More directors on the board also imply greater monitoring capacity and more human capital. If a positive relationship between board size and firm performance exists, for both FBs and NFBs in our sample, all of these benefits appear to be higher than costs derived from problems with coordination, communication and flexibility in decision making associated with larger boards<sup>11</sup>.

The results for independent directors were as expected. Our study highlights the moderating effect of family involvement on the relationship between independent directors and sales growth. As shown in Figure 1, the contribution of independent directors to firm performance is nonlinear for both FBs and NFBs. This finding indicates that there is an optimal level of board monitoring in terms of board composition and reinforces the argument that an adequate combination of executives and independent directors is better than excessive independence as a means of helping firms to achieve better performance. However, there are significant differences between the two inverted U-shaped curves. The inflection point at which the relationship turns from positive to negative is reached at a lower level in FBs. More specifically, while sales growth in FBs is increasing in independent directors up to an optimum level of 27.92%, the overall inflection point for NFBs is close to 40.87%. Moreover, while pre-optimum level (low level of independent directors) benefits for FBs are higher than in NFBs, so are the costs beyond the optimum level (high levels of independent directors). Thus, although both FBs and NFBs incorporate similar proportions of independent directors (~30%) into their boards, their contribution to sales growth is not the same.

As we stated in the theoretical section of this paper, both independent and executive directors are necessary for effective board performance. However, although good governance recommendations essentially advocate having a majority of independent directors (Aguilera & Cuervo-Cazurra, 2004), having a majority of insiders is more desirable in FBs because having too many independent directors is perceived as a control mechanism and will lower the motivational levels of stewards. This finding reinforces the hypothesis that the knowledge provided by executive directors to a board is particularly

<sup>11</sup> It must be noted that the positive relationship between board size and firm performance that our analysis reports is not at all contrary to our expected non-linear relationship (Coles, Daniel, & Naveen, 2008). If we calculate the inflection point of the curve for board size (although the board size squared is not significant), in the aggregate, the optimum board size that maximises firm performance is ~15 members. The mean board size of our sample is 9, 17 (see Table 2). If deviations in the board size from the optimum are not random, but firms have a smaller than optimal board size, then only a part of the objective function is observed (left of the peak), preventing the negative relationship beyond the optimum from being empirically observed.

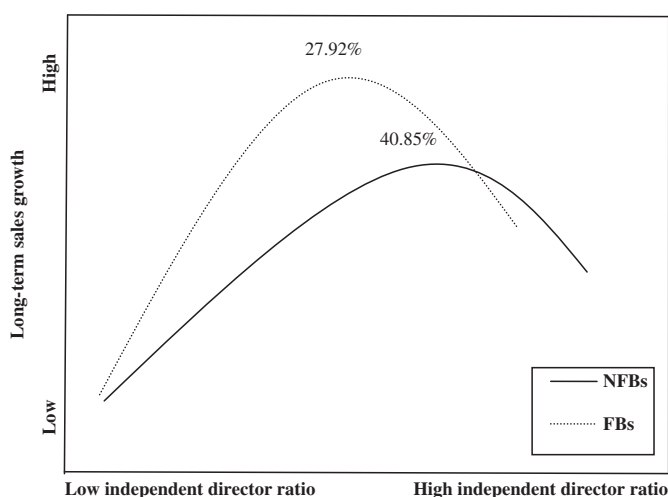


FIGURE 1. INDEPENDENT DIRECTORS AND FIRM TYPE

important for the achievement of better performances in FBs, in which the knowledge and experience of family directors contribute to the effective performance of the board's advisory role. Thus, the results only support the agency theory in the presence of low levels of independent directors and, consistent with stewardship theory, having a majority of insiders on the board has a positive effect on the performance of a FB (Sundaramurthy & Lewis, 2003). At low levels of board independence, the professional knowledge of independent directors with functional skills and experience that are lacking in the family may be essential for FBs (Jones, Makri, & Gómez-Mejía, 2008). This idea may explain why the slope of the curve is higher in FBs at low levels of board independence.

With regard to leadership structure, although we found that the effect of CEO duality on sales growth is not moderated by family involvement in the business, the results are quite revealing. The positive effect of CEO duality on long-term sales growth indicates the validity of stewardship theory over agency theory in both FBs and NFBs. Therefore, shareholders in our sample may benefit from the clear and unambiguous leadership afforded by a combined CEO-chairperson (Braun & Sharma, 2007) as stewardship theorists suggest, whereas the notion of separating leadership roles in a manner consistent with agency theory is not supported by the data in this study.

Even though our specific hypotheses received mixed support, the findings of this study tend to support the contention that the performance of FBs is better when board independence (as a proxy of board monitoring) is lower compared with NFBs, as our general hypothesis proposed. Finally, our results suggest that excluding the effects of board independence (as a proxy for board monitoring), the FBs and NFBs in our sample exhibit similar strategic performance as measured by long-term sales growth.

## CONCLUSIONS

This paper highlights the importance of suitably contextualising any assessment of a board of directors as a business governance mechanism. We adopt a contingency approach wherein the impact of board independence, as a proxy for board monitoring, on firm performance in Southern Europe, is observed as a relationship that varies depending on family involvement in ownership and control.

Recommendations regarding governance mechanisms are currently based on agency settings. However, the results of this research show that in FBs, where levels of goal alignment between owners

and managers are expected to be higher than in NFBs, more independent boards are not the best solution for corporate governance, and stewardship theory-based governance mechanisms, which essentially redirect the board's focus from monitoring to advising (Adams, Hermalin, & Weisbach, 2010; Bammens, Voordeckers, & Van Gils, 2010), lead to better corporate performance. Therefore, this research emphasises the need to consider not only the benefits of board independence but also its costs. The introduction of more formal monitoring settings into FB structures may negatively affect their steward behaviour and business culture, reducing the level of goal alignment (Corbetta & Salvato, 2004a). Strategic performance in FBs is better when monitoring by the board is lower compared with NFBs, suggesting that what works well to control or motivate an opportunistic manager may not work well to control or motivate a steward. To encourage long-term sales growth maximisation, shareholders may optimally elect a less independent board that does not monitor intensively. Indeed, fewer independent directors and dual leadership structures are associated with better FB performance in our sample.

Moreover, our findings support agency theory at low levels of board independence and stewardship theory when the proportion of independent directors surpasses 27.92%. This finding is important because in some cases, firms may demonstrate strong agency and stewardship characteristics in different contexts, which may create some challenges (Le Breton-Miller & Miller, 2009). This detail makes it even more obvious that no single theory is able to fully determine the nature of the relationship between corporate governance and performance. However, agency propositions advocating a majority of independent directors as well as non-dual leadership structures appear to be somewhat implausible in the high-ownership concentration context of Southern Europe. Among FBs, the governance structures that lead to better performances are those that empower management control (dependent boards). In our sample of NFBs, which also have concentrated ownership structures, governance solutions that empower board control (independent boards) are only partially supported. The most unexpected result for this group of firms shows that dual leadership structures improve long-term sales growth.

In summary, our results show that because agency problems and goal alignment vary depending on context, corporate solutions should also be different. Our main conclusion is that board independence (as a proxy for board monitoring) must be limited depending on the benefits and costs of board monitoring in each context. The reforms related to boards of directors being discussed in Southern European countries may be heavily influenced by those introduced in the United States and the United Kingdom for widely held firms without recognising that the separation of ownership and control is not a problem in the Southern European context, except in a very small number of companies (Aguilera & Cuervo-Cazurra, 2004). Consequently, many of the recommendations may actually be harmful or inefficient for Southern European firms that have concentrated ownership structures, particularly FBs. Our findings have implications for the development of codes of good governance, which we believe should not be homogeneous but instead should adapt to the very diverse body of listed companies, especially FBs (Navarro & Ansón, 2009).

Although the firms in our NFB subsample have concentrated ownership structures, they represent a very heterogeneous group in terms of the identities of their major shareholders (institutional investors, holding companies, banks, the state, etc.). Therefore, further research is needed to establish clearer conclusions about the prevalence of agency or stewardship propositions.

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