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ARTICLE

Board composition and performance in Spanish non-listed family firms: The influence of type of directors and CEO duality☆

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Abstract This study analyzes the effect that certain characteristics of board of directors in Spanish non-listed family firms have on performance. The results of a hierarchical regression analysis on a database of 544 firms show a negative effect of a higher proportion of executive directors and a positive effect of CEO duality. No effects were found in relation to the diversity of family directors (executive or non-executive). In relation to the effect of outside boards, the influence on performance is negative except when this variable was considered in interaction with CEO duality. In this case, the effect on performance was positive.

Introduction

General literature on boards of directors includes numerous studies that attempt to identify the effect of certain variables related to the composition of the board of directors on company performance (for some recent contributions see Dalton and Dalton, 2011; Finegold et al., 2007; Kiel and Nicholson, 2007). However, few studies have dealt with boards of directors in family firms (Bettinelli, 2011; Uhlaner et al., 2007b). The review of the literature on boards and family firms shows that most empirical literature uses data of public family firms (e.g. Anderson and Reeb, 2004; Braun and Sharma, 2007; Chen and Hsu, 2009; García-Ramos and García-Olalla, 2011a,b; Lam and Lee, 2007; Leung et al., 2014; Prabowo and Simpson, 2011; San Martin-Reyna and Duran-Encalada, 2012) or uses combined samples of private and public family firms (e.g. Oswald et al., 2009). From the scant literature that focuses on boards in private family firms, some papers analyze the factors that determine a specific board composition (e.g. Bammens et al., 2008; Jaskiewicz and Klein, 2007; Voordeckers et al., 2007) and fewer studies specifically analyze the relationship between board composition and performance (e.g., Arosa et al., 2010; Maseda et al., 2014; Schulze et al., 2001; Westhead

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and Howorth, 2006). Appendix 1 presents an overview of the empirical studies on the relationship of board composition and performance in family firms.

Previous research has obtained mixed results when analyzing the link between board composition and performance, and this link is especially unclear in the case of private family firms (Maseda et al., 2014). However, boards can have a significant role in the performance of non-listed firms (Voordeckers et al., 2007), and could prevent failure in a significant number of them (Bammens et al., 2008). Therefore, it is important to study the function of boards in private family firms, so that the findings and recommendations of general studies on governance can be better defined and adapted to this specific type of organization (Bartholomeusz and Tanewski, 2006; Chen and Nowland, 2010; Chrisman et al., 2009; Uhlaner et al., 2007a).

The literature on boards of directors in family businesses highlight that the two main tasks of the board, as an internal administrative body, are the exercise of control and the provision of advice (Bammens et al., 2011) with agency and stewardship theories being the two main theoretical approaches (Bammens et al., 2011; Benavides-Velasco et al., 2011).

The exercise of control is based on the principles of the agency theory. From this point of view the aim of the board of directors is to mitigate the moral hazard problems specific to family firms. The sources of these problems are: the owning-family's pursuit of its own economic and/or non-economic interests thereby harming the interests of non-family stakeholders (mainly minority shareholders); the parents' altruism and the associated problems of self-control; and the intra-family divergence of interests associated to the generational evolution of the firms (Bammens et al., 2011).

However, according to stewardship theory (Davis et al., 1997) decision-makers can show certain psychological and situational factors such as strong firm identification and involvement, and needs for personal and social fulfillment. These motivations can lead decision-makers to show pro-organization behavior and not the opportunistic behavior explained in the agency theory and, therefore, the main board's task is to support and advise the management instead of controlling them (Bammens et al., 2011).

On these bases, the aim of this study is to provide new evidence on the scarcely researched relationship between board composition and performance in non-listed family firms, focusing on the special features of these firms. Thus we argue that stewardship behavior and psychosocial altruism (as opposed to asymmetric altruism and the agency related problems of self-control) are more likely in non-listed family firms than in their listed counterparts. These special features are expected to have an influence on the tasks of the board in private family firms, and therefore on its composition.

Concretely, we analyzed the proportion of executive directors and CEO duality. These issues are usually addressed in general research on board composition but barely studied in family firms, especially in non-listed ones. This is a gap in the literature because there is evidence that the presence of executive directors and the existence of CEO duality are particularly high in private family firms. (Arosa et al., 2010; Cabrera-Suárez and Santana-Martín, 2004) and therefore it is important to analyze the consequences on performance of these special features. We also analyze the diversity of family directors (executive and non-executive). This variable is considered to be relevant when studying board composition in private family firms because it can be expected that the majority of directors in these firms are family members and that differences between them may derive in specific agency problems. The literature addressing the problem of intrafamily divergence of interest has suggested analyzing this aspect which has not been empirically studied yet. Moreover, we have addressed the issue of independence of the board in terms of the majority presence of outside directors, that is, non-executive and non-family directors. The variable related to board independence has received a great amount of attention in general literature on boards and it is the most addressed variable by the few articles focusing on boards in private family firms (see Appendix 1). Even though empirical evidence is not conclusive, it seems that recommendation on good governance tends to support the idea that outside boards are more efficient (García-Ramos and García-Olalla, 2011a). However, this may not be the case for family firms, and especially for non-listed ones (Arosa et al., 2010). The influence of outside boards on performance has been analyzed in this study both in general and also in interaction with CEO duality and with the diversity of family directors.

In order to reach these goals, a specific database has been created for this study which includes 544 private family firms. Among others, we have obtained data related to the composition of the boards distinguishing the different types of directors (executives versus non-executives, family versus non-family). As far as we know this is the first study including such kind of data about the boards in private family firms.

The study is structured as follows. Firstly, the theoretical framework begins with a discussion of the special nature of the private family firm. Then, the analysis of the consequences of these special features on the roles of the board and on its composition allows the hypotheses of the study to be proposed. Secondly, the methodology used to obtain and process the data and define the variables is outlined. After the results are presented, the final section presents the main conclusions drawn from the discussion of the results and establishes the limitations of the study, making suggestions for future research.

Theory and hypotheses

The private family firm: stewardship and psychosocial altruism

Our line of argument, and consequently our hypotheses, is based on the premise that private family firms possess more defining characteristics of the essence of family firms than public family firms. Thus, private family firms correspond to what the literature considers typical family firms, with a concentrated shareholder base and family member insiders active in management and the board (Lane et al., 2006).

Privately held family businesses are often used as vehicles for sustaining the family's transgenerational economic and socio-emotional needs (Bammens et al., 2011; García-Ramos