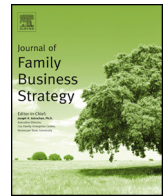




Contents lists available at ScienceDirect

Journal of Family Business Strategy

journal homepage: www.elsevier.com/locate/jfbs



Board role performance and faultlines in family firms: The moderating role of formal board evaluation

Alana Vandebek^a, Wim Voordeckers^{a,*}, Frank Lambrechts^a, Jolien Huybrechts^b

^aHasselt University, RCEF, Martelarenlaan 42, 3500 Hasselt, Belgium

^bMaastricht University, Tongersestraat 53, 6122LM Maastricht, The Netherlands

ARTICLE INFO

Article history:

Received 8 July 2016

Received in revised form 23 September 2016

Accepted 7 October 2016

Keywords:

Board composition

Board processes

Faultlines

Board evaluation

Family firms

ABSTRACT

Recent research on the actual behaviour of boards suggests that more attention should be given to group dynamics in boards of directors. Therefore, we investigate if faultlines are detrimental to the role performance of boards of directors in family firms. In contrast to previous studies that only focus on one attribute, we use a more encompassing measure of faultlines, which is based on three attributes simultaneously (family-membership, type of directorship, and gender). Furthermore, we investigate the moderating role of formal board evaluation. Findings suggest a negative relationship between faultlines and both board control and service role performance. Interestingly, our study indicates that in boards that use formal evaluations, the negative effect of faultlines on control role performance is reversed. We discuss implications for faultline theory and research on boards of directors.

© 2016 Elsevier Ltd. All rights reserved.

1. Introduction

A growing body of literature focuses on identifying the underlying mechanisms that explain differences in board role performance among family firms and calls for more research on the group dynamics that are present in these boards (Bammens, Voordeckers, & Van Gils, 2011; Collin & Ahlberg, 2012; Zattoni, Gnan, & Huse, 2015). In the specific setting of family firms, where the board can be composed of both family members and outsiders, the roles and behaviours of family versus other board members may be different due to possibly diverging viewpoints and interests (Bammens et al., 2011). For instance, Anderson and Reeb (2004) suggested that independent directors play a role in alleviating conflicts between shareholder groups and mitigating the family's power, which presented an opportunity for performance premiums for family-owned firms with higher levels of board independence. Moreover, families may nominate those outside directors to heighten the task-relevant skills of their board (Anderson & Reeb, 2004; Bammens et al., 2011; Zattoni et al., 2015). While this greater diversity in the boardroom seems beneficial for performance, owing to the increased availability of functional knowledge and skills, there are downsides to be considered as well.

One of these potential downsides, is the emergence of group faultlines, "hypothetical dividing lines that may split a group into subgroups based on one or more attributes" (Lau & Murnighan, 1998, p. 328). These faultlines may be grounded in demographic attributes, such as gender, as well as nondemographic characteristics, such as certain family attributes. The concept of faultlines is based on the alignment of several diversity attributes of individuals, and faultlines become stronger as more characteristics align themselves in the same way (Lau & Murnighan, 1998). For example, in a board composed of two female family executive directors and two male outside directors, based on the alignment of three attributes (i.e., gender, family membership and type of directorship) two homogenous subgroups are likely formed, creating a strong faultline. Family members are expected to create a highly committed "in-group" (Uhlener, Wright, & Huse, 2007), as they may prefer working with other members of the family and may trust them more than outsiders. Subgroup formation in turn could have a detrimental effect on board cohesiveness, which is linked to board role performance (Forbes & Milliken, 1999).

To our knowledge, only two studies have focused on faultlines in the context of family firms. Firstly, Minichilli, Corbetta, and MacMillan (2010) argue that the proportion of family members in the top management team (TMT) will lead to faultlines among factions of family and nonfamily top executives. They found a U-shaped relationship between the ratio of family members in the top management team and firm financial performance, with a faultline occurring when there is a "balanced" representation of

* Corresponding author.

E-mail addresses: alana.vandebek@uhasselt.be (A. Vandebek), wim.voordeckers@uhasselt.be (W. Voordeckers), frank.lambrechts@uhasselt.be (F. Lambrechts), j.huybrechts@maastrichtuniversity.nl (J. Huybrechts).

family and nonfamily members in the TMT. Another study, conducted by Basco and Voordeckers (2015), expected faultlines in the boards of private family firms between outside and inside directors, and found an inverted U-shaped pattern in the relationship between the outside director ratio and firm performance.

However, in spite of the important contributions of their findings, these studies link faultlines to firm performance. Governance studies have been focusing on finding a relationship between board demographics and firm outcomes (Daily, Dalton, & Cannella Jr, 2003; Johnson, Ellstrand, & Daily, 1996). However, contrasting findings and insignificant results (Dalton, Daily, Ellstrand, & Johnson, 1998; Pettigrew, 1992) have resulted in an ongoing search for the mechanisms that link input variables, such as board composition, to output variables, such as firm financial performance (Forbes & Milliken, 1999; Gabrielsson & Huse, 2005; van Ees, Gabrielsson, & Huse, 2009; Westphal & Zajac, 2013). To gain more understanding of the intervening processes through which board demographics influence firm performance, researchers must explore the effect of board demographics on board functioning and role performance. Moreover, our knowledge of the influence of complex group dynamics on board role performance in general, and especially in the specific setting of family firms, remains limited. We attempt to fill this gap in the literature by addressing the following research question: what is the effect of group faultlines on board role performance in family firms?

Previous studies either use the family ratio or outsider ratio to explain the phenomenon of faultlines in the specific context of family firms. In order to really capture the effect of faultlines, as first conceptualized by Lau and Murnighan (1998), a more precise way of measuring and identifying faultlines and subgroups in family firms is recommended. Therefore, we use the method of Shaw (2004), which assesses the extent to which categorical attributes are aligned within subgroups and deviate between subgroups. This provides us with a more encompassing measure of faultlines, since this method incorporates multiple attributes. More specifically, we will take the attributes “family membership” (i.e., part of the family or not), “type of directorship” (i.e., executive, nonexecutive or other) and “gender” into account.

Furthermore, there is still no general agreement about the effect of faultlines and resulting subgroups on group performance, as there are also scholars who argue that faultlines are not necessarily detrimental. For example, Bezrukova and Uparna (2009) claim that stronger faultlines can stimulate a culture shift from a desired to an actual culture of creativity in a team, which in turn might influence the team’s creativity and performance. These contradictory results may be the result of the highly contextual nature of the effect of faultlines (Meyer, Glenz, Antino, Rico, & González-Romá, 2014). That is, there may be some contexts where the faultline effects are exacerbated, or potentially mitigated.

An important attribute of the board’s context, which has been mainly overlooked in previous board research, is the formal evaluation of the board of directors. Indeed, board evaluations can serve as an opportunity to discuss potential faultline issues which could help counteract the detrimental effects of faultlines. In addition, board evaluation may have a positive effect on the identification of the members with the board as a whole, thereby stimulating board cohesiveness, which in turn has the potential to indirectly influence board role performance (Forbes & Milliken, 1999; Zona, 2015). As Edmondson, Dillon, and Roloff (2007) stated, low identification with the group as a whole, or low “collective team identification,” leads to difficulties when trying to capture the benefits of diversity for learning, which in turn is an important component of team effectiveness (Edmondson et al., 2007). Building on previous studies that assert the potential detrimental effect of faultlines on group-level outcomes (Bezrukova, Jehn,

Zanutto, & Thatcher, 2009; Choi and Sy, 2010; Rico, Molleman, Sanchez-Manzanares, & Vegt, 2007; Thatcher, Jehn, & Zanutto, 2003), our study aims at unravelling the implications of faultlines on board role performance in boards that use formal evaluations as well as in those that do not.

We provide several contributions to the field. First, we examine the effect of faultlines in the specific setting of family firms, as family characteristics may have important implications for the presence of faultlines (Bammens et al., 2011; Collin & Ahlberg, 2012; Zattoni et al., 2015). Second, by adopting principles from the organizational behaviour literature, this study contributes to the emergent dialogue on group dynamics in boards of directors. Our study responds to calls in the corporate governance literature to open up the “black box” of corporate boards (Huse, Hoskisson, Zattoni, & Viganò, 2011), as we investigate the faultline effect on the board level and gain a better understanding of the antecedents of board role performance in family firms. Third, we contribute by empirically testing the relationship between faultlines and board role performance, using a comprehensive method of calculating faultlines. By adding the variable “family membership” as an additional social category attribute, this study adds to the faultline literature, which has not yet considered this characteristic. Lastly, we investigate the effect of formal board evaluation on the relationship between faultlines and board role performance, which also contributes to practice, as board evaluation may represent a solution to bridge potential negative faultline effects.

2. Literature review and hypotheses

2.1. Board role performance: definition and level of analysis

Board role performance represents the degree to which boards successfully fulfill their control and service role (Forbes & Milliken, 1999; van den Heuvel, Van Gils, & Voordeckers, 2006; Westphal, 1999). The control role is important in family firms. As family owners’ wealth is often concentrated in one firm, they have a strong incentive to closely monitor top executives (Bammens et al., 2011). Indeed, even in case the top management team is composed of solely family members, research by Schulze, Lubatkin, and Dino (2003) and Lubatkin, Schulze, Ling, and Dino (2005) has shown the interests of family members need not be perfectly aligned. Moreover, there might also be stakeholders (e.g., minority shareholders) whose interests might differ from those of the controlling family, and who would depend on the board of directors for oversight on certain decisions and behaviours of the controlling family (Bammens et al., 2011; Zattoni et al., 2015). Board control tasks entail, for example: selecting new managers, determining the management’s salary or directing succession problems (van den Heuvel et al., 2006).

The service role is relevant as well, as board members bring important additional resources to the firm (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978; Zahra & Pearce, 1989) that could remedy potential shortcomings of the family managers (van den Heuvel et al., 2006). Indeed, as family members often possess more specific firm-related knowledge than general business knowledge (Bammens et al., 2011), a board composed of members that possess valuable and complementary points of view may provide additional expertise to the family management. Board service tasks entail, for example: building organizational reputation, networking or advising management (van den Heuvel et al., 2006)

2.2. Faultlines and board role performance

Various studies have investigated the impact of faultlines on group performance (e.g., Bezrukova et al., 2009; Homan et al., 2008; Thatcher et al., 2003). The majority of these studies show a

Download English Version:

<https://daneshyari.com/en/article/5110078>

Download Persian Version:

<https://daneshyari.com/article/5110078>

[Daneshyari.com](https://daneshyari.com)