

# Coexisting Agency and Stewardship Governance in Family Firms: An Empirical Investigation of Individual-Level and Firm-Level Effects

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## Abstract

This article theoretically and empirically intertwines agency and stewardship theories to examine their distinct and combined influences on family firms. Primary matched triadic data from CEOs, family employees, and nonfamily employees in 77 family firms suggest that agency and stewardship governance affects individual-level behavior and firm-level performance. Specifically, agent behavior is highest under conditions of coexisting low agency governance and high stewardship governance and is lowest when agency and stewardship governance coexist at high levels. Furthermore, when high levels of agency and stewardship governance coexist, family firm performance is the highest. Theoretical implications and future research directions are discussed.

## Keywords

family firm performance, agency theory, stewardship theory, governance, organizational behavior

## Introduction

Governance systems are important drivers of behavior and performance in family firms (Miller & Le Breton-Miller, 2006). Yet agency and stewardship theories make competing predictions about governance and the mechanisms needed to motivate desired behavioral outcomes (see Jensen & Meckling, 1976; Davis, Schoorman, & Donaldson, 1997). Agency theory research contends that self-interested agent behavior exists in family firms (Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholtz, 2001) and can be reduced by the use of agency governance mechanisms, such as control and monitoring activities, and compensation incentive systems, to facilitate increased firm performance (Anderson & Reeb, 2003; Chrisman, Chua, Kellermanns, & Chang, 2007). Conversely, stewardship theory research suggests that steward behavior is prevalent in family firms (Davis, Allen, & Hayes, 2010; Pearson & Marler, 2010; Vallejo, 2009) and can be enhanced and maintained by the use of stewardship governance mechanisms, such as participative management and

involvement-oriented work environments, to facilitate increased firm performance (Craig & Dibrell, 2006; Eddleston & Kellermanns, 2007; Eddleston, Kellermanns, & Zellweger, 2012).

Robust support of each theory has created a dispute among scholars attempting to understand family firm behavior and performance. Insightful work by Miller and Le Breton-Miller (2006) takes stock of the literature to reveal why these disputes exist. They contend that family-related governance dimensions (e.g., family ownership, management, control, involvement) influence the agency or stewardship outcomes that ultimately affect family firm performance. For example, high family ownership and the presence of a family

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chief executive officer (CEO) create high levels of stewardship and higher expected financial returns, whereas an independent board of directors creates an agency environment that allows for better monitoring of the business and thus better financial returns (Miller & Le Breton-Miller, 2006). In essence, examining family-related dimensions provides important insight into why agency *or* stewardship governance exists in family firms but fails to move beyond the dichotomous treatment of agency and stewardship theories (Madison, Holt, Kellermanns, & Ranft, 2016).

Our research complements and extends Miller and Le Breton-Miller (2006). Instead of offering a conceptualization of the antecedents of agency or stewardship governance, the purpose of our research is to theoretically and empirically intertwine these theories to investigate the individual-level and family firm-level outcomes of agency *and* stewardship governance. Several contributions derive from this investigation. First, we provide new insight into the utility of governance, helping illuminate how governance affects both behavior and performance inside family firms. Family firm governance research tends to focus on firm-level performance outcomes, thereby neglecting to consider the effects on organizational behavior (Madison, Li, & Holt, 2016). Our research considers both levels of analysis by examining how governance can change the way employees behave and also change the performance of the family firm. Second, our research utilizes matched primary triadic data, collected from family firm CEOs, family employees, and nonfamily employees from 77 family firms. The use of a multi-informant method is rare in family firm research (Holt, Madison, & Kellermanns, 2017) and provides rigor by capturing data from both sides of the principal–manager relationship<sup>1</sup> necessary to test agency and stewardship theoretical predictions. Third, despite the divergent assumptions of agency and stewardship theories, recent scholarship (i.e., Madison, Holt, et al., 2016; Verbeke & Kano, 2012) proposes that these theoretical perspectives may coexist in the same organization, manifested through their governance system. We model and test coexisting governance predictions, thereby providing theoretical and empirical support for their coexistence and predictive power while answering a call to examine agency and stewardship theories side by side (Chrisman et al., 2007). Because of our rare focus on organizational behavior and governance, coupled with our unique research design, we are able to extend theory by evaluating within-theory, across-theory,

and integrated-theory relationships, representing a novel theoretical contribution to both the family firm literature and the broader management literature.

## Theoretical Framework and Hypotheses Development

Our study intertwines assumptions of agency and stewardship theories to investigate the behavior within and the performance of family firms. Specifically, the first set of hypotheses predicts within-theory behavioral outcomes by examining the beneficial impact of agency governance on agent behavior and stewardship governance on steward behavior. The next set of hypotheses predicts across-theory behavioral outcomes by examining the negative consequences of agency governance on steward behavior and stewardship governance on agent behavior. The last set of hypotheses integrates theory to predict behavioral and firm-level performance outcomes for family firms with coexisting agency and stewardship governance. We argue that coexisting governance theoretically catalyzes the benefits of each governance system while reducing their respective consequences in isolation.

### *Within-Theory*

*Agency Governance and Agent Behavior.* Agency governance represents the principal's adoption of agency governance mechanisms, such as the presence of a board of directors (Anderson & Reeb, 2004; Braun & Sharma, 2007), monitoring activities (Chrisman et al., 2007), and compensation incentive plans (Chrisman et al., 2007; Schulze et al., 2001; Schulze et al., 2003), that are theorized to reduce agent behavior. Following prior theory, we characterize agent behavior as counterproductive and deviant behavior that threatens the organization's well-being (Martinko, Gundlach, & Douglas, 2002). Deviant behaviors can include opportunistic behavior such as free-riding or shirking. In contrast, productive work behavior allows the organization to function better and includes behavior typified by effectiveness, efficiency, and effort (Pritchard, 1995).

First, the board of directors' primary role is to monitor managers of the organization to ensure that the goals of the principal are being met and the free-rider problem is minimized (Donaldson & Davis, 1991; Daily, Dalton, & Cannella, 2003; Fama, 1980). The board performs control tasks such as evaluating the performance of key

managers and the firm itself (Fama & Jensen, 1983). Specific to family firms, the board's control tasks also take the form of reducing agency problems, such as asymmetric parental altruism (Basco & Voordeckers, 2015) and restraining family opportunism (Anderson & Reeb, 2004), thereby ensuring the long-term survival of the business for the family. Because the survival of small privately held family firms is often dependent on the behaviors of a small number of employees, the impact of their opportunistic agent behavior is even greater (Chrisman, Chua, & Litz, 2004). As such, the presence of a board of directors serves as a mechanism in these firms to control and reduce opportunistic behavior across all employee levels (Munyon, Summers, Buckley, Ranft, & Ferris, 2010). Second, monitoring activities are implemented as an additional form of governance to ensure that managers act in the interests of the principal (Chrisman et al., 2007). Monitoring activities control observable behaviors (Chrisman et al., 2007) and can take many forms, can be used on various types of employees (Hillman & Dalziel, 2003; Munyon et al., 2010), and have been shown to be successful in family firms (Chrisman et al., 2007). Monitoring serves the intended purpose of controlling agent behavior because employees behave in a more productive and less risky manner when they know they are being monitored (e.g., Weigold & Schlenker, 1991; Wright & Kroll, 2002). Third, compensation incentives motivate managers to curb their opportunistic behavior by aligning the financial interests of the agent with the firm objectives of the principal (Becker & Huselid, 1992). According to Barringer and Milkovich (1998), "Outcome-based contracts provide powerful incentives for agents to be as productive as possible" (p. 310).

We argue that the more these agency governance mechanisms are used within the family firm, the more likely opportunistic agent behavior is curbed. In contrast, with little to no agency governance mechanisms in place to monitor or control agent behavior, agent behavior is likely to flourish. This is because of agency theory's assumption that individuals will behave in a self-serving manner when afforded the opportunity (Jensen & Meckling, 1976). For instance, ineffective monitoring is shown to increase moral hazard agency problems and decrease productivity (Block, 2012). Accordingly, within agency theory, we hypothesize:

**Hypothesis 1a:** Agency governance is negatively related to agent behavior.

*Stewardship Governance and Steward Behavior.* Stewardship governance represents the principal's adoption of stewardship mechanisms, such as the presence of an involvement-oriented (Eddleston et al., 2012; Eddleston & Kellermanns, 2007) and collectivist work environment (Dibrell & Moeller, 2011; Le Breton-Miller & Miller, 2009; Zahra, Hayton, Neubaum, Dibrell, & Craig, 2008), for the purpose of facilitating and empowering steward behavior (Davis et al., 1997). Steward behavior is theorized as organizational value commitment (e.g., Davis et al., 1997; Vallejo, 2009), which is defined as "identification and alignment with the business, specifically with the beliefs and values that it represents" (Davis et al., 2010, p. 1096; see also Angle & Perry, 1981). Employees with high levels of organizational value commitment view the organization as an extension of themselves, accept the organization's goals, and work toward accomplishing them (Davis et al., 2010; Mayer & Schoorman, 1992; Pieper, Klein, & Jaskiewicz, 2008).

The theorized purpose of stewardship governance is "to engage and bond members to the organization" (Zahra et al., 2008, p. 1036). An involvement-oriented work environment consisting of high levels of information exchange and social interaction empowers steward behavior. Empowerment refers to "an employee's feelings of competence, meaningfulness, choice, and impact in their job or work role" (Wall, Cordery, & Clegg, 2002, p. 147). When employees find meaning in their jobs, other-serving steward behaviors increase (Madison & Kellermanns, 2013). Collectivist work environments empower employees to behave as stewards with a focus on the social system, rather than a focus on self-interested goals (Davis et al., 1997; Lee & O'Neill, 2003). Germane to a family firm environment, involvement-oriented cultures tend to deemphasize the power and status of the family, providing an opportunity for employees to participate in decision making, which strengthens their commitment to the organization and the values it represents (Dyer, 1988).

Accordingly, high levels of stewardship governance in the family firm will result in higher levels of steward behavior. In contrast, low levels of stewardship governance will result in lower levels of steward behavior. When employees do not perceive their work environment as involvement-oriented or collectivistic, they are less likely to view the organization as an extension of themselves, thereby hindering their level of organizational value commitment (Carmon, Miller, Raile, & Roers, 2010). Therefore, within stewardship theory, we hypothesize:

**Hypothesis 1b:** Stewardship governance is positively related to steward behavior.

### *Across-Theory*

*Agency Governance and Steward Behavior.* Agency governance may curb the opportunistic behavior of agents, but might have different effects on stewards (Wasserman, 2006). Stewards are motivated to behave in the best interest of the organization (Davis et al., 1997; Donaldson & Davis, 1991; Lee & O'Neill, 2003). However, stewards perform best in a governance system typified by empowerment, autonomy, and trust because it motivates them to strive for the realization of organizational goals above self-interested goals (Davis et al., 1997). In contrast, agency governance exists to control self-interested behavior, rather than to empower other-interested behavior. Research suggests that agency governance “will inhibit the motivation of a steward and be counterproductive” (Tosi, Brownlee, Silva, & Katz, 2003, p. 2056; see also Chrisman et al., 2007; Davis et al., 1997). Extrapolating further, the use of monitoring and control mechanisms can offend and betray stewards, and may also “result in a narrowing focus on individual goals to the exclusion of value-enhancing cooperation with coworkers” (Becker & Huselid, 1992, p. 337). Furthermore, the use of extrinsic rewards, such as compensation incentives, may result in counterproductive behavior as managers are incentivized to behave in a self-interested manner to maximize personal financial gains (Munyon, Jacobs, Carnes, & Bohle, 2016). Thus, we offer the following across-theory hypothesis:

**Hypothesis 2a:** Agency governance is negatively related to steward behavior.

*Stewardship Governance and Agent Behavior.* Stewardship governance may empower stewards' other-serving behavior, but it might have different effects on agents. Agent behavior is more likely to increase under stewardship governance, depicted by an involvement-oriented and collectivist work environment (Davis et al., 1997; Dibrell & Moeller, 2011; Eddleston et al., 2012; Eddleston & Kellermanns, 2007; Zahra et al., 2008). Indeed, implementing stewardship governance on agents is “analogous to turning the hen house over to the fox” (Davis et al., 1997, p. 26). Considerable time and effort invested in social interactions may increase counterproductive behavior and may not be cost effective

(Molina-Morales & Martínez-Fernández, 2009). In family firms, especially, social interactions may be dominated by discussions of family affairs rather than business affairs (Zhang, Cone, Everett, & Elkin, 2011). Such collectivist work environments can also increase counterproductive behavior due to social loafing, defined as “the reduction in motivation and effort when individuals work collectively compared with when they work individually” (Karau & Williams, 1993, p. 681). Additionally, a culture of camaraderie and cooperation among employees can have negative consequences, such as employee complacency, sentiment-based, rather than fact-based decision making, and an increased tolerance for social loafing (Griskevicius, Ackerman, Van den Bergh, & Li, 2011). This line of research leads us to predict the following across-theory hypothesis:

**Hypothesis 2b:** Stewardship governance is positively related to agent behavior.

### *Integrating Theory*

Thus far, our theorizing exposes the limits and counterproductive effects of agency and stewardship theories in isolation (cf. Arthurs & Busenitz, 2003). Specifically, agency governance mitigates undesirable agent behavior, but also might create a context in which desirable steward behavior is reduced. Similarly, stewardship governance encourages and facilitates steward behavior, but also creates a more relaxed monitoring environment and lack of incentives in which agent behavior can flourish (Munyon et al., 2016). Given these constraints, we now consider the integration of agency and stewardship theories.

Agency theory is fundamentally a control system (Eisenhardt, 1989), where inputs and outputs are monitored and controlled to curb dysfunctional organizational behavior. Conversely, stewardship theory exerts control in an indirect manner by creating a normative context in which desirable behavior is encouraged (Davis et al., 1997). Given that agency and stewardship theories approach governance through different mechanisms, it is reasonable that these governance forms can coexist, and that such coexistence can affect agent behavior, steward behavior, and family firm performance to a different extent than one type of governance in isolation. Furthermore, we suggest there are four broad configurations in which agency and stewardship governance can coexist: high level of agency governance and high level of stewardship governance (Configuration I); high level

of agency governance and low level of stewardship governance (Configuration II); low level of agency governance and high level of stewardship governance (Configuration III); and low level of agency governance and low level of stewardship governance (Configuration IV). Figure 1 illustrates this typology and is presented in more detail in the results and discussion sections.

*Coexisting Governance and Agent Behavior.* We propose that the coexistence of agency and stewardship governance affects agent behavior to a varying extent compared with when agency governance is used in isolation. In isolation, high agency governance provides the incentives and monitoring needed to curb opportunistic behavior. Therefore, and in accordance with our within-theory hypothesis, we expect the lowest levels of agent behavior in family firms with high agency governance (e.g., Configurations I and II). We also expect the highest levels of agent behavior in family firms with low levels of agency governance (e.g., Configurations III and IV) because this type of environment provides an opportunity for self-interested behavior to flourish (Block, 2012; Jensen & Meckling, 1976). In other words, we expect higher levels of agent behavior in family firms in Configurations III and IV than in Configurations I and II.

However, more variance in agent behavior is expected across these two pairs of configurations when agency governance coexists with stewardship governance. Based on our across-theory arguments, agent behavior is more likely to increase under stewardship governance (Davis et al., 1997). Therefore, when low agency governance coexists with high stewardship governance (Configuration III), we expect higher levels of agent behavior when compared with low agency governance coexistence with low stewardship governance (Configuration IV). When high agency governance coexists with high stewardship governance (Configuration I), we expect higher levels of agent behavior compared with high agency governance coexistence with low stewardship governance (Configuration II).

Specifically, because it influences behavior indirectly through relational mechanisms and group norms (Davis et al., 1997), high stewardship governance enables opportunistic individuals with an increased frequency of interaction to others in power, ironically enabling agent behavior at higher levels than when high agency and low stewardship governance coexist. Group norms are also malleable, and may be influenced by opportunistic employees working in isolation or coalitions (Munyon,

Summers, Brouer, & Treadway, 2014). Similarly, goal research suggests that individuals can focus only on limited priorities at once (Austin & Vancouver, 1996). When applied to an organization with multiple high governance systems in Configuration I, it is possible that managers may become distracted from key monitoring and outcome mechanisms, enabling individuals to pursue higher levels of self-interested agent behavior than when organizations employ only high agency governance. Finally, theory (Mitchell, Agle, Chrisman, & Spence, 2011) suggests that family firms tend to emphasize normative influence (i.e., group norms), meaning managers in these firms may prefer to rely on stewardship governance, rather than agency governance, weakening the effects of agency control mechanisms when both are deployed at high levels and available. Conversely, when high levels of agency governance are paired with low levels of stewardship governance, we would expect a clear focus on monitoring and outcome-based productivity, providing opportunistic individuals with fewer opportunities to influence desired ends. Summarizing these integrated-theory arguments:

**Hypothesis 3a:** Agency and stewardship governance interact to affect agent behavior. Specifically, agent behavior will be highest for firms with low agency governance and high stewardship governance (Configuration III), followed by firms with low agency and low stewardship governance (Configuration IV), then high agency and high stewardship governance (Configuration I), with the lowest level of agent behavior in firms with high agency governance and low stewardship governance (Configuration II).

*Coexisting Governance and Steward Behavior.* We also predict that the coexistence of agency and stewardship governance affects steward behavior to a varying extent when compared with stewardship governance in isolation. As described in our within-theory arguments, stewardship governance mechanisms motivate other-oriented behavior and signal trust and commitment from principals to managers (Davis et al., 1997). Therefore, we expect family firms with high stewardship governance (e.g., Configurations I and III) to have higher levels of steward behavior than family firms with low stewardship governance (Configurations II and IV).

When integrating stewardship governance with agency governance, however, we get a more nuanced

understanding of the variance in steward behavior. Across-theory arguments predict that steward behavior will decrease with the use of agency governance (Davis et al., 1997; Tosi et al., 2003). Specifically, the direct control mechanisms of agency governance focus employees on outcomes that are monitored and rewarded, which could “crowd out” otherwise-desirable stewardship behavior (see Latham & Locke, 2006, for discussion). Therefore, we expect family firms in Configuration III to have higher levels of steward behavior than family firms in Configuration I. In other words, for family firms with high stewardship governance, steward behavior will be higher in those firms with coexisting low agency governance than coexisting high agency governance. Similarly, we expect Configuration IV family firms to have higher levels of steward behavior than Configuration II family firms. Therefore, we offer the following integrated-theory hypothesis:

**Hypothesis 3b:** Agency and stewardship governance interact to affect steward behavior. Specifically, steward behavior will be highest for firms with high stewardship and low agency governance (Configuration III), followed by firms with high stewardship and high agency governance (Configuration I), then low stewardship and low agency governance (Configuration IV), with the lowest level of steward behavior in firms with high stewardship and low agency governance (Configuration II).

*Coexisting Governance and Family Firm Performance.* Aside from modifying behavior within the family firm, coexisting agency and stewardship governance may also contribute to variance in family firm performance. Increased firm performance is the theorized outcome of both theories because managers are motivated to act in the best interest of the principal, whether extrinsically through agency theory or intrinsically through stewardship theory (Davis et al., 1997). Separately, agency governance (e.g., Anderson & Reeb, 2004; Braun & Sharma, 2007; Chrisman et al., 2007) and stewardship governance (e.g., Craig & Dibrell, 2006) have been shown to increase performance in family firms. When family firms have coexisting high levels of both agency and stewardship governance, they are able to reap the performance benefits of both. Accordingly, we suggest that the highest level of firm performance will be found in Configuration I family firms.

The governance combination we argue would lead to the second highest firm performance level is for those family firms with a low level of agency governance and a high level of stewardship governance (Configuration III). Family firm success may be due in part to their lower agency costs, because they are able to use the excess resources not spent on agency governance mechanisms to invest in the business’s long-term survival (Le Breton-Miller & Miller, 2009). When integrated with low agency governance, a high level of stewardship governance further enhances family firm performance. Although much of the extant family firm stewardship literature focuses on noneconomic outcome variables (e.g., Davis et al., 2010; Miller, Le Breton-Miller, & Scholnick, 2008; Pearson & Marler, 2010; Zahra et al., 2008), the theorized outcome of stewardship theory is superior performance (Davis et al., 1997). The tenets of stewardship theory are more pronounced in family firms (Corbetta & Salvato, 2004; Madison, Holt, et al., 2016), and research demonstrates that stewardship increases innovation (Craig & Dibrell, 2006), strategic flexibility (Zahra et al., 2008), and firm performance (Eddleston & Kellermanns, 2007). According to Miller and Le Breton-Miller (2006), family firms “do best when they take advantage of the potential for lower agency costs and elicit attitudes of stewardship” (p. 83).

We predict family firms configured with a high level of agency governance and a low level of stewardship governance to have the third highest firm performance level (Configuration II). Agency theory has long been associated with economic performance outcomes, and therefore, the relationship between agency governance prescriptions and family firm performance is frequently examined and supported in the literature (e.g., Anderson & Reeb, 2003, 2004; Chrisman et al., 2004; Chrisman et al., 2007; Schulze et al., 2003; Schulze et al., 2001). However, family firms with a high level of agency governance coupled with a coexisting low level of stewardship governance are being denied the performance benefits associated with having a high level of stewardship governance.

Last, when compared with the other governance configurations, family firms with coexisting low agency and stewardship governance (Configuration IV) will have the lowest firm performance. The low level, or lack thereof, of agency and stewardship governance creates an organizational environment where neither the performance benefits of agency governance nor stewardship governance are realized. To summarize these integrated theory arguments:

**Hypothesis 3c:** Agency and stewardship governance interact to affect firm performance. Specifically, family firm performance will be highest for firms with high levels of both agency and stewardship governance (Configuration I), followed by firms with low agency and high stewardship governance (Configuration III), then high agency and low stewardship governance (Configuration II), with the lowest level of family firm performance for firms with low levels of both stewardship and agency governance (Configuration IV).

## Method

### *Sample and Procedures*

Primary data were collected from multiple respondents as part of a wider study to capture governance, behavior, and robust firm performance estimates. Respondents included the CEO, a family employee, and a nonfamily employee of the family firm. As such, three surveys were developed, one for each respondent type. The CEO survey contained questions about firm-level characteristics, such as age, size, industry, governing board, and generations involved. It also included scales to capture firm performance and perceptions of employee agent and steward behavior. The family and nonfamily employee surveys contained scales to ascertain perceptions of agency and stewardship governance. Scale items are provided in the appendix.

We compiled a mailing list of 2,024 family firms by soliciting contact information of known family firms from business students at a large public university in the southeastern United States, attending community forums for family business owners, and searching newspapers and Websites for articles about family businesses. We mailed survey packets to each of these firms; the packet included a cover letter with distribution instructions and the three surveys. Each survey had a postage paid return envelope stapled to it to ensure anonymity (e.g., Eddleston & Kellermanns, 2007; Eddleston, Kellermanns, & Sarathy, 2008) and to increase response rates (Kanso, 2000). The surveys were numbered alike for each business in order to match multiple responses to the same family firm once returned (e.g., Eddleston et al., 2008; Eddleston & Kellermanns, 2007).

After initial and follow-up mailings, we received 408 completed surveys representing 192 distinct family firms for a total organizational response rate of 9.5%. Of the completed surveys returned, 167 were from CEOs, 118

were from family employees, and 123 were from nonfamily employees. We required data from matched triads; that is, a survey must have been received from the CEO, a family employee, and a nonfamily employee of the same family firm because we needed responses from both sides of the principal–manager relationship (i.e., CEO and employee) and from both employee types (i.e., family and nonfamily) to ensure accurate perceptions of the family firm environment. This constrained our sample to 77 matched organizational triads. On average, family firms in our final sample have been in business 36 years, have 64 employees, and 70% have transitioned beyond the first generation. Of the employee respondents, 111 (72%) held positions of manager or below such as office manager, secretary, and dental hygienist. The remaining 43 (28%) employee respondents held positions of director or above, such as director of human resources and vice president.

We performed checks for potential nonresponse bias. Because research shows that late respondents are more similar to nonrespondents than they are to early respondents (Kanuk & Berenson, 1975), we divided respondents into two groups, either early or late, based on the average number of days to respond. As an additional check, we compared our sample data with the data collected that could not be used in the analysis (i.e., respondent data not part of a matched organizational triad) to ensure the final sample was similar to the complete sample of respondents. We found no significant differences in the means of the research variables on either of these splits, suggesting that nonresponse bias is not an issue in this study.

To minimize the threat of common methods bias, we obtained most of the predictor and criterion variables from different sources (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). As a precaution, however, we performed a Harman's single-factor statistical test, which is frequently used in family firm survey research to assess common method bias (e.g., Eddleston & Kellermanns, 2007; Kellermanns, Eddleston, Barnett, & Pearson, 2008; Memili, Eddleston, Kellermanns, Zellweger, & Barnett, 2010). In our factor analysis, eight factors emerged accounting for 72.57% of the variance, with the first factor explaining 20.29%. Therefore, statistical results also inform us that common method bias is not an issue in this study.

### *Measures*

**Agent Behavior.** To our knowledge, a measure of agent behavior has not been used in the family firm literature.

Conceptually, agent behavior refers to situations when employees lack effort or are unproductive in the scope of employment (Eisenhardt, 1989; Ross, 1973). Accordingly, we measured agent behavior as unproductive behavior, captured by reverse coding Nyhan's (2000) three-item scale assessing employee productivity. The level of agent behavior exhibited by employees was indicated by the CEO on a 7-point scale ( $\alpha = .78$ ).

**Steward Behavior.** There is not an existing valid and accepted measure of steward behavior (Davis et al., 2010; Neubaum, Thomas, Dibrell, & Craig, 2017). Family firm scholars have used various proxies, such as altruism (Eddleston et al., 2008), attitudes toward the natural environment (Craig & Dibrell, 2006), and identification with the family firm (Vallejo, 2009) to measure steward behavior. Theoretically, however, steward behavior is depicted by employees' level of value commitment to the organization (Davis et al., 1997). Accordingly, we operationalized steward behavior by using a previously validated four-item scale that measures organizational commitment and identification (Nyhan, 2000). The level of steward behavior exhibited by employees was indicated by the CEO on a 7-point scale ( $\alpha = .87$ ).

**Family Firm Performance.** CEOs indicated if the family firm's financial and nonfinancial growth was much worse, about the same, or better compared with their competitors on a 7-point scale ( $\alpha = .83$ ; Eddleston & Kellermanns, 2007). Growth is an important dependent variable in family firms because of the desire for transgenerational sustainability and to accommodate the growing family (Miller, Le Breton-Miller, & Lester, 2012). Additionally, subjective measures are reasonable indicators of family firm performance because they correlate highly with objective measures which are often unavailable and tend to lower the survey response rate (Kellermanns et al., 2008; Ling & Kellermanns, 2010).

**Agency Governance.** We collected data on the perceived level of monitoring activities and the actual control and incentive systems in the family firm. First, we asked family and nonfamily employees, via a previously validated five-item, 7-point scale, how often the leader of the firm uses monitoring methods to obtain information on their activities and performance (Chrisman et al., 2007;  $\alpha = .84$ ). Family and nonfamily employees had shared perceptions of monitoring activities, supported by an  $r_{wg}$  of .87 (James, Demaree, & Wolf, 1984).

Second, to ascertain the existence of additional agency mechanisms, we asked the CEO if the family firm was governed by a board of directors and if there was a compensation incentive plan for family employees and nonfamily employees. An overall index was then created to represent the overall level of agency governance present in the family firm. Because firms may choose to implement a variety of agency mechanisms, the absence of one does not necessarily mean the absence of agency governance (Chrisman et al., 2007). Therefore, this index was calculated by summing four z scores: (a) the level of monitoring activities, (b) the presence of a board of directors, (c) a compensation incentive plan for family employees, and (d) a compensation incentive plan for nonfamily employees. This index captures the level of agency governance in the family firm, with higher scores indicating higher levels of agency governance.

**Stewardship Governance.** Because stewardship governance depicts a work environment that is involvement-oriented and encourages interaction and cooperation (Davis et al., 1997; Eddleston et al., 2012), we operationalized it as the level of interaction between family and nonfamily employees, ascertained from five questions. Two items captured the level of interaction from an information exchange perspective, defined as "the amount of interaction among team members, whether face-to-face or through telephone, written communication, and emails" (Ling & Kellermanns, 2010, p. 327). Three items captured the level of social interaction between family and nonfamily employees (Mustakallio, Autio, & Zahra, 2002). Shared perceptions of stewardship governance from family and nonfamily employees were indicated by  $r_{wg}$  values of .83 for information exchange and .87 for social interaction (James et al., 1984). Responses from the five items were averaged, with higher scores indicating higher levels of stewardship governance ( $\alpha = .81$ ).

**Controls.** Our study considers outcomes at the individual and firm level; therefore, we used control variables from both levels of analysis. Consistent with family firm-level empirical studies, the firm's industry, age, size, and generations involved serve as control variables. Industry conditions may affect firm performance (Craig & Dibrell, 2006); age may also affect firm performance. Research suggests that younger firms may have higher growth potential (Memili et al., 2010) and that older firms survive because of successful performance (Schulze et al.,



2001). Organizational size not only affects firm performance, it potentially affects agency and stewardship variables in the research model. Related to agency, Pieper et al. (2008) suggest that larger organizations are more complex than smaller organizations, thereby making boards of directors necessary. As for stewardship, Davis et al. (2010) suggest that organizational size affects the amount of social interaction within a firm; the larger the firm, the less likely the interaction. Additionally, we captured generations involved in the family business as a binary variable, with 0 indicating the family firm is a first-generation firm and 1 indicating the family firm has transitioned to the second or later generation. The generation in charge may affect variables in our research model to the extent that they may bring different governance into the firm (Hoopes & Miller, 2006; Miller et al., 2012). Furthermore, the family firms in our sample are privately held, thereby controlling for agency and stewardship issues stemming from either the presence or absence of family involvement (Chrisman et al., 2004).

We used two individual-level control variables for each of the three types of respondents. We controlled for whether the CEO was the founder because family firm founders may affect the firm's strategy and performance differently than nonfounder CEOs (Miller et al., 2012). This was captured as a binary variable, with 0 indicating a nonfounder CEO and 1 indicating a founder CEO. We also controlled for the family and nonfamily employee's position within the family firm, with 0 indicating the employee was a manager or below and 1 indicating the employee was a director or above. The employee's position may affect the perception of governance in the family firm; it also may affect firm performance because, perhaps not all positions in the firm are able to lead and make changes that translate to variance in firm performance. We also controlled for the tenures of the CEO, the family employee respondent, and the nonfamily employee respondent because tenure affects commitment, other-serving steward behaviors, and firm performance (Miller & Le Breton-Miller, 2006).

### Data Analyses

We analyzed matched triad data using ordinary least squares (OLS) hierarchical regression and one-way, between-groups analysis of variance (ANOVA). In order to do so, we aggregated employee responses to the organizational level so that all variables would be at the same level of analysis. As described, aggregation was justified

by acceptable  $r_{wg}$  values. These values also demonstrate that individual perceptions of the work environment (i.e., agency and stewardship governance) are shared across both family and nonfamily employees in the family firm. This is also important from a methodological and theoretical viewpoint because researchers have questioned the use of single-respondents in family firm survey research because the views of family may be different from the views of the nonfamily in the firm (Madison & Kellermanns, 2013).

As a robustness check, we also tested the interactions hypothesized in this study using the PROCESS macro developed by Hayes (2013). Specifically, we tested Hypotheses 3a, 3b, and 3c using Model 1 of PROCESS, including estimates using the Johnson–Neyman (J-N) technique (Johnson & Neyman, 1936), which defines the region of significance of the moderator, or range within which a simple slope of  $y$  on  $x$  significantly differs from zero.

### Results

Descriptive statistics and bivariate correlations are provided in Table 1. The data provide preliminary support for our within-theory assumptions that agency governance is negatively and significantly correlated with agent behavior, and stewardship governance is positively and significantly correlated with steward behavior. Both agency and stewardship governance are also significantly correlated with firm performance in the direction expected. Some of the variables in our study are correlated; however, the highest variance inflation factor statistic estimated in conjunction with each hierarchical regression model was 3.13 and the most extreme condition index statistic was 10.42. Both are below the threshold indicating multicollinearity, therefore alleviating that concern in our study (Hair, Anderson, Tatham, & Black, 1998).

Table 2 provides the OLS regression results of the within-theory and across-theory hypotheses tests. Within agency theory, we find that firm size is a significant predictor, such that the larger the firm, the greater the agent behavior ( $\beta = 0.30, p \leq .05$ ). Additionally, we find a significant negative relationship between agency governance and agent behavior ( $\beta = -0.33, p \leq .01$ ). Thus, Hypothesis 1a, which argued that higher levels of agency governance will result in lower levels of agent behavior, is supported. Within stewardship theory, we find a significant positive relationship between stewardship governance and steward

Table I. Descriptive Statistics and Bivariate Correlations.

	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Firm Performance	4.81	0.97	1.00															
2. Agency Governance	0.09	2.37	.23*	1.00														
3. Stewardship Governance	0.35	0.16	.25*	-.13	1.00													
4. Agent Behavior	2.22	0.91	-.18	-.24*	.17	1.00												
5. Steward Behavior	5.67	1.05	-.09	-.19†	.22*	.69***	1.00											
6. Firm Age	36.14	27.33	-.25*	-.03	-.05	.24*	.05	1.00										
7. Firm Size	63.73	165.92	.18†	.29**	.05	.22†	.13	.31**	1.00									
8. Retail Industry	0.27	0.45	-.06	-.07	.15	-.16	-.24*	.14	.09	1.00								
9. Services Industry	0.26	0.44	.21†	.02	.03	-.05	.18	-.17	-.08	-.36***	1.00							
10. Generations Involved	0.70	0.46	.01	.02	.17	.20†	-.09	.28**	.20†	.08	-.26*	1.00						
11. CEO Founder	0.56	0.50	.20†	.03	.01	-.36***	-.15	-.67***	-.33**	.02	.11	-.36**	1.00					
12. CEO Tenure	22.77	13.20	-.25*	.17	-.14	.03	-.06	.64***	.38***	.12	-.25*	.34**	-.32**	1.00				
13. Family Employee Position	0.39	0.49	.13	.20†	.18	-.06	-.08	-.17	.11	-.01	.20†	-.12	.17	-.10	1.00			
14. Family Employee Tenure	12.03	10.38	-.26*	.09	-.08	-.08	-.14	.21†	.05	.12	-.08	-.01	-.11	.42***	.28**	1.00		
15. Nonfamily Employee Position	0.17	0.38	.14	.03	-.05	-.06	-.13	.04	.37***	.11	.05	-.01	.05	.17	.07	-.11	1.00	
16. Nonfamily Employee Tenure	9.88	9.52	-.17	.20†	-.16	.15	.08	.31**	.25*	.01	-.11	.14	-.36***	.39***	.01	.28**	.16	1.00

Note. N = 77 matched triads.

†p ≤ .10. \*p ≤ .05. \*\*p ≤ .01. \*\*\*p ≤ .001.

**Table 2.** Within-Theory and Across-Theory Ordinary Least Squares Regression Results.

	Within-theory				Across-theory			
	Agent behavior		Steward behavior		Agent behavior		Steward behavior	
	Controls	Main effect	Controls	Main effect	Controls	Main effect	Controls	Main effect
Controls								
Firm Age	0.21	0.15	0.03	0.01	0.21	0.20	0.03	-0.03
Firm Size	0.20	0.30*	0.22	0.20	0.20	0.18	0.22	0.31*
Retail Industry	-0.20†	-0.22†	-0.15	-0.20†	-0.20†	-0.24†	-0.15	-0.17
Services Industry	-0.08	-0.08	0.14	0.12	-0.09	-0.10	0.14	0.15
Generations Involved	0.12	0.11	-0.14	-0.22†	0.12	0.07	-0.14	-0.15
CEO Founder	-0.15	-0.12	-0.08	-0.08	-0.15	-0.15	-0.08	-0.05
CEO Tenure	-0.25	-0.18	-0.04	0.02	-0.25	-0.22	-0.04	0.03
Family Employee Position	0.01	0.06	-0.08	-0.14	0.01	-0.03	-0.08	-0.03
Family Employee Tenure	-0.06	-0.08	-0.15	-0.14	-0.06	-0.05	-0.16	-0.18
Nonfamily Employee Position	-0.08	-0.14	-0.22†	-0.20	-0.08	-0.07	-0.22†	-0.27*
Nonfamily Employee Tenure	0.08	0.14	0.12	0.16	0.08	0.10	0.12	0.17
Independent variables								
Agency Governance		-0.33*** (H1a)						-0.30* (H2a)
Stewardship Governance				0.31** (H1b)		0.18 (H2b)		
Adj. R <sup>2</sup>	0.090	0.181	0.044	0.125	0.090	0.109	0.044	0.112
R <sup>2</sup>	0.222	0.310	0.182	0.263	0.222	0.250	0.182	0.252
ΔR <sup>2</sup> (change from controls model)		0.089**		0.081**		0.028		0.070*
F statistic	1.68†	2.40***	1.32	1.91*	1.68†	1.77†	1.32	1.80

Note. Standardized regression coefficients are shown. N = 77 matched triads.

†p ≤ .10. \*p ≤ .05. \*\*p ≤ .01. \*\*\*p ≤ .001.

behavior ( $\beta = 0.31, p \leq .01$ ), thereby supporting Hypothesis 1b, which argued that higher levels of stewardship governance will result in higher levels of steward behavior. We predicted across-theory behavioral consequences of misaligned governance. Hypothesis 2a argued that higher levels of agency governance would result in lower levels of steward behavior; this hypothesis was supported by the data ( $\beta = -0.30, p \leq .05$ ). Hypothesis 2b argued that higher levels of stewardship governance would result in higher levels of agent behavior; this hypothesis was not supported ( $\beta = 0.18, n.s.$ ). We elaborate on these findings in the discussion section.

Table 3 displays the OLS hierarchical regression results of the theoretical integration hypotheses. Additionally, Figure 1 displays the results of the ANOVA, which allows for a finer grained analysis of coexisting governance configurations and their associated outcomes. We coded each family firm as having either a high or low level of agency governance using the sample mean of 0.09 as the dividing point. We also coded each family firm as having either a high or low level of stewardship governance using the sample mean of 0.35 as the dividing point. We then coded each family firm into one of the four governance configurations described.

Hypothesis 3a predicted that agent behavior would be affected by coexisting agency and stewardship governance. Indeed, we found initial support for this hypothesis ( $\beta = -0.23, p \leq .05$ ), and as Figure 2 illustrates, the highest level of agent behavior occurs when agency governance is low and stewardship governance is high (i.e., Configuration III). A simple slopes analysis indicates the interaction is significant for mean ( $\beta = -0.03, p \leq .05$ ) and high ( $\beta = -0.06, p \leq .01$ ) stewardship slopes. Finally, the J-N method found that the region of significance for stewardship governance ranges from a lower bound of .03 ( $p = .01$ ) to an upper bound of .34 ( $p = .00$ ). This suggests that when stewardship governance is above  $-.002$ , there will be a significant difference of agency governance on agent behavior, and 48.9% of the family firms in our sample fell below this significance threshold.

Furthermore, the between-groups ANOVA indicates there is a statistically significant difference in agent behavior for the different configurations:  $F(3, 73) = 3.23, p \leq .05$ . The effect size, calculated using eta squared, is 0.12 which falls in the medium to large range (Cohen, 1988). The Tukey honest significant difference test indicates that the mean level of agent behavior for family

firms in Configuration III ( $M = 2.74, SD = 1.15, n = 19$ ) is significantly different and higher than agent behavior in family firms in Configuration I ( $M = 2.15, SD = 0.92, n = 18$ ), Configuration II ( $M = 2.09, SD = 0.61, n = 18$ ), and Configuration IV ( $M = 1.92, SD = 0.73, n = 22$ ). Thus, agency and stewardship governance interact to affect agent behavior, and agent behavior is highest for firms with low agency governance coexisting with high stewardship governance, as predicted. However, there was not a significant difference in agent behavior for family firms in Configurations I, II, or IV; therefore, our predictions about the order and level of agent behavior following Configuration III family firms were not supported.

Hypothesis 3b predicted the coexistence of agency and stewardship governance would affect steward behavior. Although isolated agency governance ( $\beta = -0.25, p \leq .05$ ) and isolated stewardship governance ( $\beta = 0.27, p \leq .05$ ) have a direct effect on steward behavior, the coexistence of agency and stewardship governance is not a significant predictor of steward behavior ( $\beta = -0.13, n.s.$ ). However, the between-groups ANOVA indicates there is a statistically significant difference in steward behavior for the different configurations,  $F(3, 73) = 2.76, p \leq .05, \eta^2 = 0.10$ . We predicted that Configuration III family firms would experience the highest level of steward behavior; however, the Tukey HSD test indicates that the mean level of steward behavior for family firms in Configuration III ( $M = 5.12, SD = 1.26, n = 19$ ) is significantly different and lower than family firms in Configuration II ( $M = 5.93, SD = 0.70, n = 18$ ) and Configuration IV ( $M = 5.93, SD = 0.80, n = 22$ ) but not different from family firms in Configuration I ( $M = 5.65, SD = 1.20, n = 22$ ). Therefore, Hypothesis 3b is not supported.

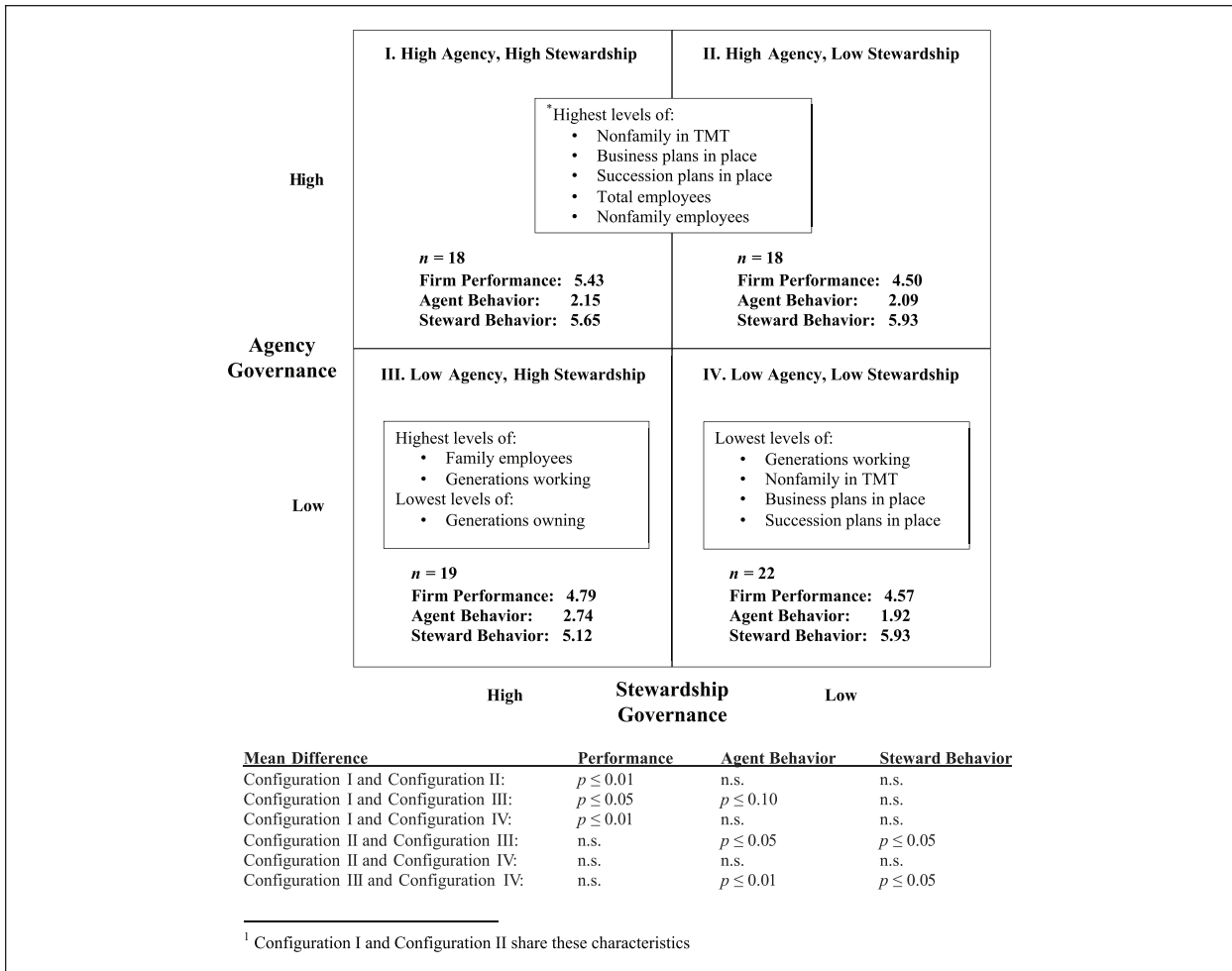
Hypothesis 3c predicted that coexisting agency and stewardship governance configurations would have a direct and differing impact on family firm-level performance. Results of the main effects model with firm performance as the dependent variable show that both agency governance ( $\beta = 0.25, p \leq .05$ ) and stewardship governance ( $\beta = 0.20, p \leq .10$ ) have a direct and positive effect on family firm performance. Furthermore, results of the interaction model show that coexisting agency and stewardship governance is positively associated with firm performance ( $\beta = 0.28, p \leq .01$ ), providing initial support for Hypothesis 3c. The significant interaction is plotted in Figure 3, which illustrates that family firm performance is highest when agency and stewardship governance are both

**Table 3. Integrating-Theory Ordinary Least Squares Regression Results.**

	Agent behavior			Steward behavior			Performance		
	Controls	Main effects	Interaction	Controls	Main effects	Interaction	Controls	Main effects	Interaction
Controls									
Firm Age	0.21	0.14	0.16	0.03	-0.03	-0.02	-0.01	0.02	0.00
Firm Size	0.20	0.28*	0.26*	0.22	0.27*	0.26*	0.34**	0.25†	0.28*
Retail Industry	-0.20†	-0.25*	-0.25*	-0.15	-0.21†	-0.22†	-0.01	-0.03	-0.02
Services Industry	-0.08	-0.09	-0.11	0.14	0.13	0.11	0.16	0.14	0.17
Generations Involved	0.12	0.08	0.02	-0.14	-0.21†	-0.24†	0.17	0.13	0.19
CEO Founder	-0.15	-0.12	-0.13	-0.08	-0.06	-0.06	0.22	0.20	0.21
CEO Tenure	-0.25	-0.16	-0.13	-0.04	0.07	0.08	-0.25	-0.27	-0.29†
Family Employee Position	0.01	0.03	0.04	-0.08	-0.09	-0.08	0.05	-0.03	-0.05
Family Employee Tenure	-0.06	-0.07	-0.10	-0.15	-0.16	-0.17	-0.12	-0.10	-0.06
Nonfamily Employee Position	-0.08	-0.12	-0.16	-0.22†	-0.24*	-0.26*	0.03	0.09	0.13
Nonfamily Employee Tenure	0.08	0.15	0.12	0.12	0.20	0.18	-0.06	-0.08	-0.04
Independent variables									
Agency Governance		-0.31**	-0.24*		-0.25*	-0.21†		0.25*	0.16
Stewardship Governance		0.14	0.11		0.27*	0.26*		0.20†	0.24*
Interaction									
Agency Governance x Stewardship Governance			-0.23*(H3a)			-0.13 (H3b)			0.28** (H3c)
Adj. R <sup>2</sup>	0.090	0.187	0.227	0.044	0.172	0.177	0.143	0.202	0.267
R <sup>2</sup>	0.222	0.326	0.369	0.182	0.313	0.328	0.267	0.338	0.402
ΔR <sup>2</sup>		0.104**	0.043*		0.131**	0.015		.071*	0.064**
F statistic	1.68†	2.34**	2.59**	1.32	2.21*	2.16**	2.15*	2.48**	2.98**

Note. Standardized regression coefficients shown. N = 77 matched triads.

†p ≤ .10. \*p ≤ .05. \*\*p ≤ .01. \*\*\*p ≤ .001.

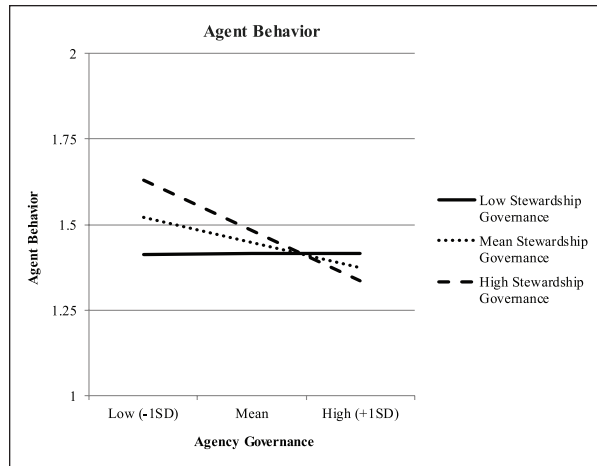


**Figure 1.** Results of coexisting agency and stewardship governance configurations.

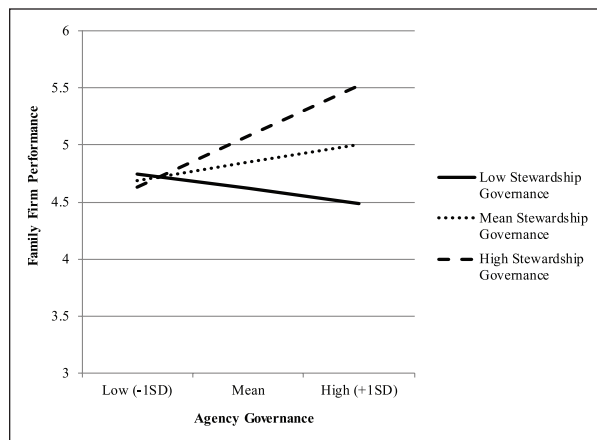
high. The simple slopes analysis found that the interaction is significant for high ( $\beta = .19, p \leq .01$ ) stewardship governance slopes. Finally, the J-N method found that the region of significance for stewardship governance ranges from a lower bound of .032 ( $p < .05$ ) to an upper bound of .34 ( $p = .00$ ). At this region of significance, 41.6% of the family firms in our sample fall below the significance threshold.

Additionally, results of the between-groups ANOVA show a statistically significant difference in family firm performance for the different configurations:  $F(3, 73) = 3.88, p \leq .01$ . The effect size is 0.14 and is therefore considered large (Cohen, 1988). The highest family firm performance level occurs in Configuration I ( $M = 5.43, SD = 0.85, n = 18$ ), which

is significantly different and higher than the performance of family firms in Configuration II ( $M = 4.50, SD = 1.10, n = 18$ ), Configuration III ( $M = 4.79, SD = 0.68, n = 19$ ), and Configuration IV ( $M = 4.57, SD = 1.00, n = 22$ ). Thus, agency and stewardship governance interact to affect firm performance, and family firm performance is highest for firms with high levels of both agency and stewardship governance, as predicted. However, we also predicted that there would be variation in performance levels across the other three governance configurations. There was not a significant difference in the performance between family firms in Configurations II, III, or IV; therefore, those predictions were not supported.



**Figure 2.** Interaction of agency governance and stewardship governance on agent behavior.



**Figure 3.** Interaction of agency governance and stewardship governance on family firm performance.

### Post Hoc Analyses

As a post hoc examination, we explored CEO and firm characteristics within these configurations to see if any patterns emerged in their characteristics that could provide further insight into our results. Based on a means comparison, there are no significant differences in CEO characteristics (e.g., gender, age, education, tenure, founder status) between the configurations, but there are significant differences in firm characteristics. Configuration I and II are similar in that 72% of these firms have nonfamily top managers, 89% have business plans, and more than two-thirds

have succession plan. These firms have high agency governance, but differ in their level of stewardship governance and in their level of firm performance. Configuration I family firms have a higher level of stewardship governance and a significantly higher level of firm performance, implying that high stewardship governance is driving performance because all other characteristics are equal. This is further supported in that Configuration II and IV firms have low performance and also low stewardship governance.

Family firms in Configuration III have the greatest number of generations currently working in the business, implying that the more generations of family involved in the family firm, the more prevalent a high stewardship and low agency governance. This aligns with and provides empirical support to the conceptual research of Miller and Le Breton-Miller (2006). Also of notable interest, the family firms with high stewardship governance, regardless of their level of agency governance (Configuration I and III), have the greatest number of family employees. This implies that the presence of family members within the firm creates an environment where stewardship prescriptions can prevail (Miller et al., 2009; Miller, Le Breton-Miller, & Scholnick, 2008). Taken together, these findings support contentions that tenets of stewardship theory are more pronounced in family firms (Corbetta & Salvato, 2004).

### Discussion

Our research intertwines the governance and behavioral components of agency and stewardship perspectives to make predictions within theory, across theory, and in the integration of theory. Taking our within-theory and across-theory results together, increased levels of agency governance reduce agent behavior, enhance family firm performance, but also decrease steward behavior. Increased levels of stewardship governance increase steward behavior, enhance firm performance, but have no effect on agent behavior. These results highlight the benefits of agency and stewardship governance in isolation, but also illuminate the negative behavioral effects.

Therefore, to counter these negative effects, and further enhance the positive effects, we considered the impact of coexisting agency and stewardship governance. When family firms are configured with a high level of agency governance and a high level of stewardship governance, the negative behavioral consequences across theories are negated and firm performance is enhanced. Configuration I family firms have a low level

of agent behavior, a high level of steward behavior, and a high level of firm performance. This finding implies that family firms will have beneficial behavioral and performance differentials when they have governance mechanisms in place that both control and monitor agent behavior while simultaneously empowering steward behavior. Family firms with other governance configurations face challenges and trade-offs in agent and steward behavior that ultimately affect their performance.

For instance, agent behavior is highest in family firms with low agency governance coupled with high stewardship governance. In this configuration, the low level of agency governance provides an ideal environment for agent behavior to manifest and flourish, and the high level of stewardship governance further acts as an enabler of agent behavior. A closer inspection of the stewardship governance mechanisms highlights why this effect occurs, as face-to-face meetings, relational influence, and significant interpersonal interaction all enable opportunistic individuals to gain and capitalize on information that is personally useful. With coexisting low agency mechanisms (i.e., monitoring and goal-aligned rewards), moral hazard risks increase as individual leverage these informal control mechanisms to pursue opportunistic ends (Munyon et al., 2016). Thus, this governance combination provides employees with little accountability or goal congruence, while maximizing their opportunity to pursue self-interested ends. The net effect is a maximization of agent behavior as people attend to their personal ambitions. This also explains why agent behavior is lower in Configuration IV; opportunistic individuals have less opportunity to gain information and exert influence over others in these environments than they do in Configuration III. Similarly, agent behavior is lower in Configurations I and II because the high agency governance actually works in managing moral hazard and principal-agent problems.

Interestingly, coexisting agency and stewardship governance did not affect steward behavior as we predicted. Stewardship governance continues to exert a direct effect on steward behavior inside the organization, after the interaction is entered in the regression analyses. Contrary to our theory, this means that the predictive efficacy of stewardship governance on steward behavior is not affected by variance in the levels of agency governance. However, configuration results did indicate that the significantly lowest level of steward behavior occurs in Configuration III. This is perhaps

because stewards who may normally exhibit steward behaviors in the presence of high stewardship governance may become confused and betrayed by the coexisting high level of agency governance.

### *Contributions*

Our research makes several contributions to both the family firm literature and the general management literature. First, we blend the organizational behavioral component into governance research. Agency and stewardship are governance theories but diverge in their assumptions and depiction of human and organizational behavior (Davis et al., 1997). Extant empirical research, however, neglects to consider or measure the behavioral aspect of these theories (Madison, Li, et al., 2016). Our research empirically supports the behavioral assertions of both theories finding that agency governance does indeed curb counterproductive agent behavior and stewardship governance does increase pro-organizational behavior. Furthermore, results support our theorizing about the negative behavioral consequences that can arise when principals have incorrect assumptions about their managers' motives (Madison, Holt, et al., 2016). We demonstrate that when principals implement agency governance mechanisms on steward managers, steward behavior decreases. These behavioral insights provide a more comprehensive understanding of the value and destructiveness of governance.

Second, despite the divergent assumptions of agency and stewardship theories and the dichotomous treatment of these theories in extant literature, our research demonstrates that theoretical integration is possible. We theoretically and empirically reveal that agency and stewardship governance can coexist and that agent and steward behavior can coexist in the same organization at the same time. The different configurations of coexisting governance explain additional variance in the level of agent behavior, steward behavior, and performance of the firm. As such, this research contributes to literature and practice by highlighting the challenges and trade-offs that firms face when determining the most appropriate governance configuration to elicit the desired level of behavior and performance.

Additionally, we contribute to the literature by introducing the first family firm study to capture and analyze data from matched triads. Our multi-informant matched design strengthens the quality of inferences by incorporating CEO, family, and nonfamily responses for each



analyzed firm. The sampling plan was theoretically informed and allowed us to test family firm governance, behavior, and performance using unique informants with unique vantage points within each family firm. This is a significant methodological improvement over prior empirical studies relying on single informants (Holt et al., 2017). It also allowed us to represent from both sides of the principal–manager relationship, which is a necessary, but rare, attribute of agency and stewardship research.

### *Limitations and Future Research*

In spite of these contributions, however, our research is not without limitations. Although having multiple respondents per firm is a stronger design than commonly found in the family firm literature, the resulting sample size may limit the external generalizability of findings. Multiple respondents per firm also allowed us to capture the independent variables from employees and the dependent variables from the CEOs, with the exception of the objective firm-level data from the CEO that was used to capture a portion of the agency governance measure. Although the common methods test did not reveal issues, future research can improve on this design.

Another limitation is that our study was cross-sectional in nature, representing a restriction on causal inferences. Although the causal specifications employed are theoretically informed, it is possible that the causal relationship between governance and behavior is reversed or even recursive across time (Madison, Holt, et al., 2016). Therefore, the actual behavior of employees within the firm could trigger the principal to implement aligned governance rather than governance affecting employee behavior. Furthermore, governance and behaviors within family firms may not be static (Karra, Tracey, & Phillips, 2006). Our cross-sectional study would not capture the possible dynamic quality of these relationships unfolding over time.

We also must acknowledge the limitations in our measures of agent behavior and steward behavior. Extant empirical research does not capture actual agent and steward behavior; therefore, we relied on our interpretation of the theoretical concepts to measure agent behavior as unproductive behavior and steward behavior as organizational value commitment. Future research is needed to capture agent and steward behavior in a more ideal way. For example, scale development research may be needed to introduce validated measures

of these behaviors so that future research can build from the same foundation. Extrinsic motivation and making external attributions for organizational outcomes are psychological factors of agency theory while intrinsic motivation and internalizing attributions are psychological factors of stewardship theory (Davis et al., 1997). Starting with these psychological factors would be ideal for scale development. Alternatively, conjoint analysis may provide a way to assess respondents' actual behavior in an indirect and nonintrusive way. Conjoint analysis allows researchers to examine how respondents process decisions (Hair et al., 1998). Decisions can be framed as a choice between alternatives that focus on extrinsic motivations or attributions versus intrinsic motivations or attributions. This type of experiment is rarely used in family firm research and can mitigate the biases inherent in survey research (Evert, Martin, McLeod, & Payne, 2016). Furthermore, researchers may consider conducting in-depth qualitative field studies so that agent and steward behaviors can be directly observed.

Aside from future research that would address our methodological limitations, there are other promising research opportunities. The integration of agency and stewardship theories on different outcome variables is worthy of investigation. For example, it may be appropriate to consider social or psychological outcomes rather than firm performance outcomes. Given that agency theory is rooted in economics and stewardship theory is rooted in sociology and psychology, future research should consider more than just economic outcomes. Because socioemotional wealth generation is important to family firms (Gómez-Mejía, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007), it may be useful to determine how integrated agency and stewardship governance and behaviors are linked to this noneconomic outcome.

Future research could investigate the relationship between group behavior and performance, or perhaps mediators or moderators in that relationship. For example, both agency and stewardship theories assume that governance mechanisms affect employee behavior, but they do not account for the presence and operation of accountability as an intervening mechanism (Lerner & Tetlock, 1999). Future research is needed to explore how accountability changes as a result of governance, and how these changes influence employee behavior and firm performance in family and nonfamily firms. Other potential mediators could include process

variables, such as cohesion or conflict within the family firm, which might then be linked to firm performance (Holt et al., 2017). Alternatively, firm-level moderators, such as having a clear and compelling strategic vision, may be potential areas for investigation in relationship to governance and accountability. For example, it is assumed that stewards act in the best interest of the firm, but if the best interest of the firm is unknown or misinterpreted, steward behavior may be counterproductive to the firm's goals and/or the family's goals (Madison, Holt, et al., 2016); more research is necessary to understand the impact of this potentially "dark side" of stewardship.

To our knowledge, this research is the first to investigate the integration of agency and stewardship perspectives on the behavior within and the performance of family firms. Our sample of family firms were grouped based on their configuration of coexisting agency and stewardship governance. A post hoc analysis found that family firms clustered within each configuration are similar on characteristics other than just their governance, such as the presence of a succession plan, business plan, and nonfamily top managers, just to name a few. Qualitative case studies of family firms in each of these governance configurations would help

us uncover behavioral and performance patterns among different variables not examined in our research. The use of latent profile analysis may also be a fascinating direction for future research to capture more complex family firm patterns (see Stanley, Kellermanns, & Zellweger, 2017).

## Conclusion

In recent years, family firm literature has attempted to reconcile the dispute of whether agency or stewardship theory is most applicable to the family firm context (Le Breton-Miller & Miller, 2009; 2009; Miller et al., 2008; Miller & Le Breton-Miller, 2006). Our research theoretically and empirically demonstrates that agency and stewardship governance can coexist within firms, helping explain unique variation in individual- and firm-level outcomes. Specifically, family firms with coexisting high levels of both agency and stewardship governance have superior performance, lower agent behavior, and higher steward behavior. We encourage scholars to build on this foundation, as this integration has the potential to provide significant contributions to theory and to the field (Le Breton-Miller & Miller, 2009).

## Appendix

### Scale Items.

Variable	Measure source	Data source
<i>Firm Performance</i>	Eddleston and Kellermanns (2007)	Principal (family firm CEO)
How would you rate your firm's performance as compared with your competitors on the following?		
1. Growth in sales		
2. Growth in market share		
3. Growth in the number of employees		
4. Growth in profitability		
<i>Agency Governance</i>	Monitoring (Chrisman et al., 2007)	Manager (family and nonfamily employees)
	Board of directors (Chrisman et al., 2004)	Principal (family firm CEO)
	Compensation incentives (Schulze et al., 2001)	Principal (family firm CEO)
1. How often are the following methods used to obtain information on your activities and performance?		
1. Personal direct observation		
2. Regular assessment of short-term output		
3. Progress toward long-term goals		
4. Input from other managers		
5. Input from subordinates		
2. Does this family firm have a compensation incentive plan for family members?		
3. Does this family firm have a compensation incentive plan for nonfamily members?		
4. Does this family firm have a governance board?		
<i>Stewardship Governance</i>	Information exchange (Ling & Kellermanns, 2010)	Manager (family and nonfamily employees)
	Social interaction (Mustakallio et al., 2002)	

(continued)

## Appendix (continued)

Variable	Measure source	Data source
How often do family members and nonfamily members of the firm?		
1. Have face-to-face meetings	4. Know each other on a personal level	
2. Have telephone conversations	5. Attend company functions (e.g., picnics, parties, get-togethers)	
3. Maintain close social relations		
<i>Agent Behavior</i>	Productivity—reverse coded (Nyhan, 2000)	Principal (family firm CEO)
1. Everyone is busy in the organization; there is little idle time.		
2. Work quality is a high priority for all employees.		
3. Everyone in the organization gives his/her best efforts.		
<i>Steward Behavior</i>	Organizational commitment (Nyhan, 2000)	Principal (family firm CEO)
1. Leadership makes everyone feel like “part of the family” in this organization.		
2. Employees would be very happy to spend the rest of their career with this organization.		
3. Employees talk up this organization to their friends as a great place to work.		
4. Employees really feel as if the organization’s problems are their own.		
<i>Control Variables</i>	Firm Age (number of years in existence)	Principal (family firm CEO)
	Size (number of employees)	
	Industry (retail, services, other)	
	Generational Involvement	
	CEO Founder	
	CEO Tenure	
	Employee Position	Manager (family and nonfamily employees)
	Employee Tenure	

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### Note

1. Agency and stewardship theories both focus on the principal–manager relationship (Davis et al., 1997; Jensen & Meckling, 1976). A principal is one who delegates work to a manager, regardless of the manager’s actual position within the organizational hierarchy (Eisenhardt, 1989; Ross, 1973). Accordingly, we define the *principal* as the family firm CEO and the *manager* as either a family or nonfamily employee of the family business.

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