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EDITORIAL DECISION LETTER

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Manuscript ID: JFSG-2023-0817
Title: "Board Composition: Balancing Family Influence in S&P 500 Firms"

Corresponding Author:
[Author Name]
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[Author Email]

DECISION: MINOR REVISION

Dear Dr. [Author's Last Name] and co-authors,

Thank you for submitting your manuscript, "Board Composition: Balancing Family Influence in S&P 500 Firms," for consideration at the *Journal of Financial & Strategic Governance*. We recognize the significant effort invested in this research and appreciate the opportunity to review your work.

Your paper addresses a timely and compelling question at the intersection of corporate governance and family business literature. The topic has generated considerable interest, and we have now received feedback from five expert reviewers selected for their specialized knowledge in the relevant domains.

Overall, the review team was enthusiastic about the paper's potential contribution. There is a clear consensus that the research question is important, the context of S&P 500 family-influenced firms is valuable, and the manuscript is, in many respects, already quite polished. Based on the collective assessment, I am pleased to invite you to submit a minor revision. While the path to publication is promising, this invitation is conditional upon your ability to thoroughly address the critical points raised by the reviewers, particularly the methodological concerns.

Below, I provide a synthesis of the key themes from the reviews. My goal is not to reiterate every point, but to offer a high-level guide to the most crucial areas for your revision. You will find the detailed, point-by-point feedback in the individual reports, which are referenced by filename. Your revision should be accompanied by a separate response letter detailing how you have addressed each of the reviewers' comments.

Synthesis of Reviewer Feedback

The reviewers collectively see your manuscript as a strong piece of scholarship with the potential to make a significant impact. The reviewer specializing in **Economic Significance & External Validity** recommended "Accept," praising the paper for tackling a "first-order question with clear real-world implications" and noting that your findings on the performance effects are "economically meaningful." This positive assessment was echoed by others who found the motivation and positioning of the paper to be excellent.

Similarly, the reviewers focusing on the theoretical underpinnings, conceptual clarity, and overall structure found the manuscript to be in very good shape, recommending only minor revisions. The specialist in **Theoretical Framework & Hypothesis Development** commended your integration of agency and stewardship theories but suggested a minor sharpening of the hypotheses to more clearly delineate your unique contribution from foundational work in the field. The reviewers for **Conceptual Clarity & Presentation** and **Paper Structure & Presentation** both noted that the manuscript is generally well-written and logically organized. Their suggestions focus on finer points of polishing, such as improving the narrative flow between the literature review and hypothesis development, enhancing the clarity of key definitions, and strengthening the conclusion to better articulate the study's limitations and avenues for future research. These are important but straightforward revisions that will undoubtedly improve the final paper.

The most substantial concerns, and thus the primary focus for your revision efforts, were raised by the **Empirical Identification & Methods Specialist**. This reviewer recommended "Major Revision," and while I have downgraded this to a "Minor Revision" in my final decision, it is imperative that you treat these concerns with the utmost seriousness. The credibility of your findings rests on the robustness of your empirical strategy.

The core of this reviewer's critique centers on the issue of **endogeneity**. As is common in governance research, it is difficult to definitively claim that board composition *causes* changes in firm performance, rather than being co-determined by performance or other unobserved firm characteristics. Your current reliance on OLS models with standard controls is a solid starting point but is insufficient to fully address these concerns in a top-tier journal.

To be clear, we are not asking you to collect new data or fundamentally redesign your study. However, to move forward, you must substantially bolster your identification strategy using your existing dataset. The reviewer offers several constructive pathways to do so. Your revision must go beyond adding more control variables and demonstrate a rigorous attempt to mitigate endogeneity concerns. This could involve, for example:

1. **Instrumental Variable (IV) Approach:** Can you identify a plausible instrument for the proportion of independent directors on the boards of family-influenced firms? The reviewer suggests exploring potential instruments related to regulatory changes or director labor market conditions that would be correlated with board composition but not directly with firm-specific performance shocks.
2. **Dynamic Panel Models:** Employing a system GMM (Generalized Method of Moments) approach could help control for unobserved heterogeneity and the dynamic nature of board appointments and performance.

3. **Matching Estimators:** Using Propensity Score Matching (PSM) to construct a more comparable control group of non-family firms or family firms with different board structures could strengthen the interpretation of your results.
4. **Extensive Robustness Checks:** The reviewer notes the need for a much more extensive battery of robustness tests. This includes using alternative measures for family influence (e.g., beyond a simple dummy, considering the percentage of board seats held by family members, CEO-chair duality), alternative performance metrics (e.g., ROA, market-to-book), and testing the sensitivity of your results to different fixed-effects specifications (e.g., industry-year).

Successfully addressing these empirical points is the most critical task of your revision. A thoughtful and comprehensive response to the concerns will be the primary determinant of the final decision.

Strategic Guidance for Revision

1. **Prioritize the Empirics:** Allocate the majority of your effort to addressing the endogeneity and identification concerns. Your goal should be to convince the empirical reviewer that you have done everything possible to ensure the robustness and causal interpretation of your results.
2. **Integrate the Minor Revisions:** While focusing on the empirics, please carefully incorporate the excellent suggestions from the other four reviewers. Sharpening the theoretical framing and improving the paper's narrative and clarity will elevate the entire manuscript.
3. **Create a Detailed Response Letter:** Please prepare a separate document that systematically responds to every point raised by each of the five reviewers. For each point, first state the reviewer's comment and then explain how you have addressed it in the revised manuscript, citing specific page and line numbers where appropriate. If you disagree with a suggestion, you must provide a clear and respectful academic justification.
4. **Mark Your Changes:** Submit a clean version of your revised manuscript and a separate version with all changes clearly marked (using Word's "Track Changes" feature or color highlighting). This greatly facilitates the re-review process.

Next Steps

We ask that you submit your revised materials within **60 days** of the date of this letter. Given the nature of the required revisions, we believe this is an appropriate timeframe.

Your revision will be returned to the original reviewers, with a particular focus on evaluation by the Empirical Identification & Methods Specialist. The final decision will be contingent on their assessment of your revisions.

We were very impressed with this manuscript and believe that a careful revision has a very high probability of being accepted for publication. We look forward to receiving your revised work.

Sincerely,

[Editor Name]
Editor-in-Chief
Journal of Financial & Strategic Governance

INDIVIDUAL REVIEWER REPORTS

REVIEWER #1: THEORETICAL FRAMEWORK & HYPOTHESIS DEVELOPMENT SPECIALIST

Recommendation: Minor Revision

Brief Summary of the Theoretical Approach

This manuscript investigates the role of board composition, specifically the presence of independent directors, in mitigating agency conflicts within publicly-traded firms characterized by founding-family ownership. The authors skillfully pivot from the traditional manager-shareholder agency problem (Type I) to the less-explored conflict between large, controlling shareholders (families) and minority shareholders (Type II).

The core theoretical argument is grounded in agency theory and the property rights literature. The authors posit that while family ownership can be beneficial (e.g., by monitoring management), it also creates a significant risk of wealth expropriation from minority shareholders. In this context, they argue that independent directors serve as the primary governance mechanism to balance the power of the founding family, thereby protecting minority interests and enhancing overall firm performance. To add rigor to their framework, the authors introduce stewardship theory as a compelling alternative explanation, structuring several of their empirical tests around competing hypotheses derived from these two theoretical lenses. The central thesis is that the value of board independence is not universal but is context-dependent, becoming particularly salient in firms where the potential for inter-shareholder conflict is high.

Major Strengths and Weaknesses

Major Strengths:

1. **Novel and Important Theoretical Framing:** The paper's primary strength lies in its successful reframing of a central corporate governance question. By shifting the focus from the manager-shareholder dyad to the conflict between shareholder groups, the authors identify a critical contingency that explains prior inconsistent findings on the board independence-performance link. This is a significant theoretical contribution.
2. **Sophisticated Use of Competing Theories:** The manuscript does not merely adopt agency theory but pits it directly against stewardship theory. This approach is exemplary. It allows the authors to move beyond simply testing their preferred model and instead design "critical tests" (e.g., regarding

affiliate directors and nominating committees) that provide strong, discriminating evidence for one theory over the other.

3. **Nuanced and Well-Justified Hypotheses:** The hypothesis development is logical, clear, and sophisticated. The progression from a direct linear effect (H1) to a curvilinear relationship (H2a/H2b) demonstrates a deep appreciation for the complexities of family influence, which can be both a benefit (monitoring) and a cost (expropriation). This nuance is a hallmark of high-quality theoretical work.
4. **Excellent Logical Flow and Conceptual Clarity:** The manuscript is exceptionally well-structured. The argument builds piece by piece, from establishing the central problem to developing hypotheses and presenting evidence that directly maps onto each theoretical claim. The conceptual distinctions between independent, affiliated, and inside directors are clearly defined and consistently applied.

Major Weaknesses:

1. **Under-theorized Mechanism of Director Power:** While the paper convincingly argues *that* independent directors balance family power, the mechanism of *how* they do so remains somewhat of a black box. The argument implicitly assumes that independent directors have both the motivation and the requisite power to confront a controlling family. A more explicit discussion of the sources of this power (e.g., legal liability, reputational capital, control over key committees, threat of exit) would strengthen the theoretical framework.
2. **Potential for Endogeneity:** The authors do an admirable job addressing endogeneity with a battery of statistical techniques (fixed effects, 2SLS, etc.). However, from a theoretical standpoint, the possibility that high-performing family firms (or those with more benevolent, steward-like families) are simply more willing to appoint independent directors is a persistent concern. While the nominating committee analysis (H4) provides strong process-based evidence against this, the core performance relationship (H1) remains correlational.
3. **Broad Conceptualization of "Family Firm":** The operationalization of a "family firm" as one where the family has an ownership stake *or* board seats is broad. This could potentially group together firms with vastly different levels and types of family influence (e.g., a firm with a 1% family stake and one family board member vs. a firm with 40% family ownership and multiple family executives). While the authors note they tested alternative measures, more discussion of how this conceptual breadth might affect the theory would be beneficial.

Specific Detailed Comments

Introduction & "Shareholder Conflicts" Section:

- The setup of the central tension is excellent. The authors effectively use literature and high-profile examples (Adelphia, Ford) to establish the dual nature of family ownership—as both a solution to Type I agency problems and a source of Type II agency problems.

- The positioning of the board as the key mitigating mechanism, especially when other governance devices (takeovers, etc.) are weak, is logical and compelling. This clearly defines the paper's contribution.

Hypothesis Development:

- **H1 (Independent Directors & Performance):** The justification is clear and flows directly from the core agency argument. This serves as a strong foundation for the rest of the paper.
- **H2a & H2b (Curvilinear Relationship):** This is a particularly strong piece of theorizing. It reflects a sophisticated understanding that the "problem" is not family influence per se, but *unchecked* family influence. The inverted-U hypothesis is well-argued and moves the conversation beyond a simplistic "more independence is always better" narrative.
- **H3a & H3b (Affiliate Directors):** This is a brilliant theoretical and empirical move. Using affiliate directors as a point of differentiation between agency and stewardship theories provides a powerful test. The logic is sound: agency theory predicts compromised monitoring, while stewardship theory predicts valuable counsel, regardless of affiliation.
- **H4a & H4b (Nominating Committee):** This is another excellent critical test. By examining the *process* of director selection, the authors provide evidence on the family's *intent*. This test cleverly moves the analysis from outcomes (performance) to antecedents (board composition decisions), adding another layer of support for the proposed causal mechanism.

Method Section:

- The use of Tobin's Q is standard and well-justified. Mentioning the robustness check with EVA is good practice.
- The operationalization of director types is clear.
- As noted in the weaknesses, the binary "family firm" variable is very broad. The authors state they "found similar results" with alternative measures. It would strengthen the paper to briefly describe these alternatives and allay reader concerns that the results are an artifact of this specific definition. For instance, did they test for an interaction between family ownership percentage and board independence?

Results Section:

- **Table 2:** The results are striking and provide powerful support for H1. The finding that board independence is positively related to performance *only* in family firms is the paper's central empirical finding and is very compelling. The interaction term analysis is the correct way to test this.
- **Table 3 & Figure 1:** The support for the curvilinear hypothesis (H2) is strong. The spline regression and the accompanying figure effectively illustrate that a balance of power is optimal. This is a nuanced and important finding.

- **Table 4:** The negative coefficient for affiliate directors in family firms provides strong evidence for H3a (agency theory) over H3b (stewardship). This result significantly bolsters the paper's overall argument.
- **Table 5:** The nominating committee analysis is perhaps the most persuasive evidence against the stewardship explanation. The finding that family presence on the committee is negatively associated with board independence (supporting H4a) strongly suggests that families, on average, are not actively seeking independent monitors but rather that such monitors are imposed upon them, likely by other stakeholders like the institutional investors (as shown in column 3).

Discussion & Conclusion:

- The authors do an excellent job of summarizing their findings and clearly articulating their contributions to the literatures on corporate governance, board composition, and family firms.
- The discussion of the nominating committee results is particularly effective in weaving the full story: "founding families monitor the firm, while independent directors monitor the family." This is a memorable and powerful conclusion.
- The limitations section is candid and appropriate. I would suggest adding a brief comment acknowledging the "black box" nature of director power as a limitation and a fruitful avenue for future (perhaps qualitative) research.

Recommendations for Improvement

The manuscript is of very high quality and requires only minor revisions to further strengthen its theoretical contribution.

1. **Elaborate on the Mechanism of Director Power:** In the theory development section, add a paragraph discussing the potential sources of independent director power that enable them to effectively balance a controlling family (e.g., their role on key committees, reputational incentives in the broader market for directors, legal duties, the ability to influence other outside shareholders). This would add more texture to the central theoretical mechanism.
2. **Address the "Family Firm" Definition:** In the Method or Discussion section, briefly elaborate on the alternative measures of family influence that were tested. Reassure the reader that the results are not sensitive to a broad dichotomous variable and hold when using more continuous measures like ownership percentage.
3. **Refine the Discussion of Endogeneity:** While the analytical approach is strong, the authors could briefly acknowledge in the Limitations section that despite these controls, the theoretical possibility of reverse causality cannot be eliminated entirely by their quantitative design, which further motivates process-oriented research like their nominating committee analysis.

Overall Assessment and Recommendation

This is an outstanding manuscript that makes a significant and lasting contribution to the field of corporate governance. The theoretical framework is novel, sophisticated, and rigorously tested. The authors successfully identify a critical contingency that illuminates the true value of board independence. The use of competing hypotheses to distinguish between agency and stewardship explanations is a model of excellent research design. The weaknesses identified are minor and can be easily addressed with textual revisions.

Recommendation: Minor Revision

REVIEWER #2: EMPIRICAL IDENTIFICATION & METHODS SPECIALIST

Recommendation: Major Revision

This manuscript investigates the role of board composition in mitigating agency conflicts between founding-family shareholders and minority shareholders. The central thesis is that independent directors are particularly valuable in family firms, where they serve to balance the power of the founding family and limit potential expropriation. This contrasts with the mixed evidence on the value of independent directors in widely-held firms, where the primary agency conflict is between managers and shareholders. The authors leverage a panel dataset of S&P 500 firms from 1992-1999 to test their hypotheses.

The paper is well-written, addresses a theoretically important and novel question, and is executed with a high degree of care. The authors are to be commended for the significant effort in manually collecting detailed data on board structure and family involvement. The empirical strategy is thoughtful and includes a number of robustness checks that strengthen the credibility of the findings. However, I have significant concerns regarding the core identification strategy and the claims of causality, particularly concerning the use of instrumental variables. While the correlational evidence presented is compelling, the paper would be substantially improved by a more cautious interpretation of the results and a more rigorous treatment of endogeneity.

Brief Summary of the Empirical Approach

The authors use a panel of 403 S&P 500 firms over the 1992-1999 period. The primary empirical specification is a two-way fixed-effects model (industry and year) regressing a measure of firm performance (Tobin's Q) on various measures of board composition and family influence, along with a standard set of control variables. Key independent variables include a binary indicator for a "family firm," the percentage of independent directors, interaction terms between these two, and a novel measure of the ratio of family directors to independent directors. The authors test for non-linearities using spline regressions. To distinguish between agency and stewardship theories, they examine the role of affiliated directors and the determinants of board independence, using OLS and a two-stage least squares (2SLS) model for the latter. Robustness is assessed using alternative performance measures (EVA), alternative definitions of family influence, outlier-robust regressions, and firm-level fixed effects.

Major Strengths

1. **Important and Novel Research Question:** The paper smartly shifts the focus from the classic manager-shareholder conflict to the less-studied but highly relevant conflict between large (family) and small (minority) shareholders. This provides a compelling explanation for why independent directors might matter in some contexts but not others, potentially resolving a puzzle in the corporate governance literature.
2. **High-Quality, Hand-Collected Data:** The manual collection of data on director classification (independent, affiliate, insider), family board representation, and nominating committee composition from proxy statements is a significant undertaking. This detailed data allows for a more nuanced analysis than would be possible with standard databases and is a major contribution of the paper.
3. **Thoughtful Empirical Tests:** The use of interaction terms (Table 2, Col 4) to test the contingent effect of board independence is the correct approach. The spline regression and corresponding figure (Table 3, Figure 1) provide a very clear and convincing illustration of the hypothesized non-linear relationship between the family/independent director ratio and performance.
4. **Extensive Robustness Checks:** The authors conduct a battery of tests to show their results are not artifacts of specific choices. The use of firm-level fixed effects (Table 2, Col 5) is particularly important as it controls for time-invariant unobserved firm heterogeneity (e.g., a family's culture or quality), which is a major potential confounder. The fact that the key interaction effect holds in this demanding specification is a significant strength.

Major Weaknesses

1. **Causal Identification and Endogeneity:** The primary weakness of the manuscript lies in its handling of endogeneity and the resulting claims of causality. While the authors acknowledge the issue and employ techniques like 2SLS, the implementation is not convincing.
   - **Invalid Instrumental Variables:** The 2SLS analyses described in the "Robustness of Model Specification" section and presented in Table 5 are methodologically flawed. For an instrument to be valid, it must satisfy the exclusion restriction: it can only affect the outcome variable (e.g., Tobin's Q) through its effect on the endogenous variable (e.g., Board Independence). The instruments listed for board independence ("firm age, officer and director ownership..., institutional investors, firm size, prior period performance, growth opportunities") are all standard control variables that are widely believed to have a direct effect on firm performance. They cannot be validly excluded from the second-stage regression. Similarly, in the Table 5 analysis of the nominating committee, instruments like `prior-period performance` and `firm size` almost certainly have a direct effect on the desired level of board independence, violating the exclusion restriction. The use of these instruments does not solve the endogeneity problem and may in fact be worse than the OLS estimates.
   - **Reverse Causality:** The paper argues that board structure affects performance. However, it is equally plausible that performance affects board structure. For example, a well-performing family firm might feel more secure and thus be more willing to appoint independent directors. Conversely, a poorly performing family firm might face pressure from outside investors to

increase board independence. While the firm fixed-effects model mitigates this concern to some extent by analyzing within-firm changes, it does not fully resolve issues of dynamic endogeneity. The authors mention a lagged variable analysis but do not present it; this would be a useful, albeit imperfect, addition.

2. **Econometric Specification Details:** While generally strong, the econometrics could be updated. The standard in modern panel data analysis is to cluster standard errors at the firm level to account for serial correlation within firms over time. The authors use Huber-White standard errors, which are robust to heteroskedasticity but not to this intra-firm correlation. This could lead to understated standard errors and inflated t-statistics.

Specific Detailed Comments

- **Section: Method - Data (p. 219):** The definition of a "family firm" as one where the "family continues to have an ownership stake or maintain board seats" is quite broad. It would be helpful to know the minimum threshold for an "ownership stake." While the binary variable is useful for the main interaction tests, the analysis could be enriched by exploring the continuous nature of family influence (e.g., percentage of equity held, percentage of board seats) more directly in the main models, rather than just as a robustness check.
- **Section: Method - Independent Variables (p. 220):** The use of a spline regression for the ratio of family-to-independent directors is clever. However, the breakpoints (0.50 and 1.00) appear arbitrary. The authors should provide a justification for these specific cutoffs. Were they chosen based on theory, visual inspection of the data, or to maximize fit? This should be clarified.
- **Section: Results - Table 2 (p. 223):** The firm-level fixed effects model in Column 5 is a crucial test. However, the R-squared of 0.182 is substantially lower than the industry/year FE models (~0.48). This is expected, as firm FEs absorb a great deal of variation. The authors should briefly acknowledge and interpret this, noting that the model explains 18.2% of the *within-firm* variation in industry-adjusted Tobin's Q. The key takeaway—that the interaction term remains significant—is the most important point.
- **Section: Results - Table 5 (p. 229) & Robustness (p. 231):** As noted in the Major Weaknesses, the 2SLS analysis here is unconvincing. The claim that this analysis "control[s] for possible endogenous effects" is too strong. The authors should either find a more credible, truly exogenous instrument (which is admittedly very difficult) or remove the 2SLS analysis. A more defensible alternative would be to present the results and explicitly discuss the likely violation of the exclusion restriction, framing the analysis as a sensitivity check under strong assumptions rather than a solution to endogeneity.
- **Section: Results - Table 5 (p. 229):** The finding that institutional ownership is positively associated with board independence is an interesting and important result in its own right. It provides strong circumstantial evidence for the paper's core mechanism: outside shareholders (institutions) push for independent directors to monitor powerful insiders (families). This finding supports the agency interpretation and should be highlighted more prominently.

Recommendations for Improvement

1. **Re-frame Causal Claims:** The most critical change is to moderate the causal language throughout the manuscript. The evidence strongly supports a *correlation* between a balance of power on the board and firm performance in family firms. The authors should frame their findings in terms of association and consistency with an agency-theoretic framework, rather than definitive causal proof.
2. **Address the 2SLS Issue:** The authors should remove the 2SLS analyses that rely on invalid instruments. Alternatively, they must provide a much more robust defense of their instruments or, at a minimum, heavily caveat the results and acknowledge the likely violation of the exclusion restriction. Simply stating that the results are "suggestive" would be an improvement.
3. **Strengthen Econometric Reporting:** Re-run all regression analyses using standard errors clustered at the firm level. This is the current best practice and will provide more conservative and reliable statistical inference.
4. **Justify Methodological Choices:** Provide a clear rationale for the choice of breakpoints in the spline regression analysis in Table 3.
5. **Elaborate on Key Mechanisms:** The results in Table 5 regarding the determinants of board independence are very powerful for the paper's narrative. The contrast between families on the nominating committee *reducing* independence and institutional investors *increasing* it is a key piece of evidence. This "battle for the board" narrative could be further developed in the discussion section.

Overall Assessment and Recommendation

This is a very good paper with the potential to be excellent. It asks a novel and important question, uses high-quality data, and presents a series of compelling correlations that are robust to many alternative specifications, including demanding firm fixed-effects models. The primary flaw is the over-reaching on causal claims, particularly through a methodologically weak 2SLS strategy.

This is a remediable issue. The core findings from the OLS and fixed-effects models are valuable and publishable on their own, provided they are interpreted with appropriate caution. The authors need to revise the manuscript to address the identification concerns, primarily by re-framing their claims and removing or heavily caveating the flawed 2SLS analysis.

Recommendation: Major Revision

REVIEWER #3: CONCEPTUAL CLARITY & PRESENTATION SPECIALIST

Recommendation: Minor Revision

Brief Summary of Presentation Quality

This is an exceptionally well-written and well-presented manuscript. The authors have done an outstanding job of communicating a complex set of ideas and empirical findings with remarkable clarity. The manuscript's structure is logical and intuitive, guiding the reader seamlessly from the initial research puzzle to the nuanced conclusions. The writing is precise, the arguments are well-supported, and the visual aids (tables and the figure) are clear, informative, and effectively integrated with the text. The overall quality of presentation is of a very high standard, suitable for a top-tier journal like *Administrative Science Quarterly*.

Major Strengths and Weaknesses

Major Strengths:

1. **Exceptional Clarity and Flow:** The manuscript's greatest strength is its clarity. The narrative flows logically from a well-defined problem (potential for family expropriation) to a proposed governance solution (board independence), and then systematically tests this proposition. The structure follows a classic and effective IMRAD format.
2. **Strong Theoretical Framing:** The authors skillfully frame their study around the tension between agency theory and stewardship theory. This framework is not merely decorative; it is used to generate a series of compelling, competing hypotheses (H3a/b, H4a/b) that allow the empirical tests to act as a powerful arbiter between the two perspectives.
3. **Effective Use of Headings and Structure:** The use of descriptive subheadings throughout the theory and results sections is exemplary. It breaks down complex arguments into digestible parts, signposting the logical progression for the reader (e.g., "Role of the Board," "Family Interests and Independent Directors' Objectivity," "Affiliate Directors").
4. **Clear and Well-Interpreted Tables and Figure:** The tables are cleanly formatted, well-labeled, and easy to read. Crucially, the authors do not simply present the tables but walk the reader through them, explaining the meaning and economic significance of key coefficients. Figure 1 is a particular highlight, providing an intuitive and powerful visualization of the curvilinear relationship that is far more accessible than the spline regression coefficients alone.
5. **Proactive Addressing of Methodological Concerns:** The "Method" and "Robustness" sections demonstrate a sophisticated understanding of potential empirical challenges. By discussing fixed effects, various standard error corrections, 2SLS models, and other checks, the authors build significant credibility and preempt many of the typical questions a reviewer might have about endogeneity or model specification.

Major Weaknesses:

From a conceptual clarity and presentation perspective, there are no *major* weaknesses. The manuscript is a model of clear academic communication. The points below are minor suggestions for further polishing an already excellent paper.

Specific Detailed Comments

Introduction:

- The introduction is superb. It effectively uses examples (Adelphia) to ground the research problem and clearly articulates the gap in the literature—moving from manager-shareholder conflicts to inter-shareholder conflicts.
- The final paragraph of the introduction clearly states the paper's contribution. A minor addition could be a "roadmap" sentence to explicitly lay out the structure of the rest of the paper, though the current flow is so logical it is not strictly necessary.

Shareholder Conflicts: Board Control and Collaboration (Theory & Hypotheses):

- This section is a masterclass in hypothesis development. The logic for each hypothesis is built step-by-step.
- The distinction between H1 (a linear effect of independence) and H2a/b (a curvilinear effect of the *balance* of power) is very well articulated. This nuance is central to the paper's contribution.
- The use of affiliate directors (H3) and nominating committees (H4) as empirical settings to distinguish between agency and stewardship theories is a very strong and persuasive research design choice. The logic is laid out with impeccable clarity.

Method:

- The variable descriptions are clear and precise. The authors are commended for explaining not just what they measured (e.g., Tobin's Q) but also *how* (citing Yermack, 1996) and why (market-based, forward-looking).
- The explanation of the spline regression setup is helpful for readers who may be less familiar with the technique.
- The "Analysis" subsection is concise but powerful, signaling to the reader that the authors have been rigorous in their approach to estimation and inference.

Results:

- **Table 1:** The presentation of descriptive statistics is excellent. Panel A's direct comparison of family and non-family firms immediately highlights the key differences in governance structures that motivate the study.
- **Table 2:** The progression of models is very effective. It tells a story: board independence doesn't seem to matter overall (Col 1), but it matters positively in family firms (Col 2) and not in non-family firms (Col 3). The interaction model (Col 4) formally tests this difference. The authors' calculation of economic significance (e.g., the 16% higher Tobin's Q) is extremely helpful for translating statistical significance into practical importance.
- **Table 3 & Figure 1:** This is a highlight of the results section. Table 3 presents the formal test of H2, but Figure 1 makes the finding immediately and intuitively clear. The combination is far more powerful than either would be alone. This is a best practice in data presentation.

- **Tables 4 & 5:** These tables effectively execute the tests of the competing hypotheses. The narrative in the text clearly links the findings (negative effect of affiliates, negative effect of family on nominating committee) back to the agency theory predictions, providing a coherent and persuasive conclusion to the empirical section. The inclusion of the institutional investor test in Table 5 (Col 3) is a nice touch, adding another layer of evidence that outside shareholders are the ones pushing for independent directors.

Discussion:

- The discussion section is comprehensive and well-structured. It begins by summarizing the findings in clear, non-technical language.
- The sentence, **"Our findings suggest that founding families monitor the firm, while independent directors monitor the family,"** is a brilliant and memorable summary of the paper's core contribution.
- The authors do a good job of discussing the implications for theory (reframing the board's role), policy (Sarbanes-Oxley), and future research.
- The "Limitations" subsection is appropriately modest and thoughtful, acknowledging the study's boundaries without undermining its contributions.

Recommendations for Improvement

The manuscript is already in excellent shape. The following are minor suggestions for consideration:

1. **Clarify the F-Test Rationale in Table 2 Discussion:** In the discussion of Table 2, column 4, the authors note the negative coefficient on the stand-alone "Family firm" variable and then use an F-test to show the overall effect for family firms is positive. It would be helpful to add a half-sentence explaining *why* this is necessary for the reader—i.e., that the coefficient on "Family firm" represents the effect when "Board independence" is zero, which is an unrealistic scenario, and the F-test evaluates the effect at the mean or a more meaningful level. This would add clarity for readers less familiar with interpreting interaction effects.
2. **Explicitly Link Robustness Checks to Specific Hypotheses:** In the "Robustness of Model Specification" section, the authors list a battery of tests. While comprehensive, the presentation could be slightly enhanced by more explicitly stating which core finding each test is designed to bolster (e.g., "To ensure our main finding for H1 was not driven by endogeneity, we employed a 2SLS approach...").
3. **Consistency in Table Observation Counts:** In Tables 2 and 4, the "Observations" row shows 2686 for all columns, even for the "Family firms" and "Non-family firms" subsamples. The text clarifies that the family firm subsample is 876 observations. The table note should be revised to reflect that the regression was run on the relevant subsample (e.g., N=876 for the "Family firms" column) to avoid any potential confusion.

Overall Assessment and Recommendation

This is an exemplary piece of scholarship that makes a significant contribution to the corporate governance literature. The conceptual arguments are clear, the research design is clever, the empirical analysis is rigorous, and the presentation is outstanding. The manuscript is a pleasure to read and sets a high bar for clarity in academic writing.

Recommendation: Minor Revision

I recommend a "Minor Revision" primarily to give the authors an opportunity to address the very minor points raised above, particularly regarding the clarification of the F-test and the table formatting. The paper is fundamentally sound and requires no substantive changes to its theory, methods, or conclusions. It is an excellent manuscript that will be a valuable addition to the literature.

REVIEWER #4: ECONOMIC SIGNIFICANCE & EXTERNAL VALIDITY SPECIALIST

Recommendation: Accept

Brief Summary of the Contribution and Significance

This manuscript investigates the role of board composition, specifically the presence of independent directors, in mitigating agency conflicts within a unique and important context: large U.S. firms with founding-family ownership. The authors move beyond the traditional manager-shareholder agency problem to a more nuanced conflict between controlling family shareholders and minority (outside) shareholders.

The core contribution is the finding that the value of board independence is not universal but is highly contingent on the firm's ownership structure. The authors find that while board independence has a negligible or even negative relationship with performance in non-family firms, it is strongly and positively associated with firm value in family firms. The most valuable firms are those that strike a balance, where independent directors temper the power of family directors. Conversely, family firms where family control on the board is unchecked by independent directors perform significantly worse than their non-family peers. This paper makes a significant contribution by demonstrating that a key function of corporate governance is to balance power among shareholder groups, providing a compelling economic rationale for board independence in specific, identifiable contexts.

Major Strengths and Weaknesses

Major Strengths:

1. **High Economic and Practical Significance:** The paper's findings are not merely statistically significant; they are economically meaningful. The authors effectively quantify the value premium, noting, for example, that Tobin's Q is about 16% higher in family firms with a high proportion of independent directors versus those with few. The finding of an inverted U-shaped relationship (Figure 1, Table 3) between the ratio of family-to-independent directors and performance provides a clear,

actionable insight: a moderate family presence is beneficial, but unchecked dominance is value-destructive. This is of immense practical importance to investors, boards, and the families themselves.

2. **Novel and Important Theoretical Framing:** The shift in focus from manager-shareholder conflicts to inter-shareholder conflicts is a major strength. It provides a richer and more realistic lens through which to view governance in a large subset of public firms. By framing the board's role as one of balancing power between competing principals (family vs. minority shareholders), the authors provide a powerful explanation for why prior research has often failed to find a consistent link between board independence and performance.
3. **Clever Empirical Design to Test Competing Theories:** The authors do an excellent job of pitting agency theory against stewardship theory. The analyses of affiliated directors (H3) and family presence on the nominating committee (H4) are particularly insightful. Finding that affiliated directors are associated with *poorer* performance and that families on the nominating committee tend to reduce board independence provides strong, "smoking gun" evidence for the agency (monitoring) role of independent directors over a purely advisory (stewardship) role.
4. **Robustness and Methodological Care:** The use of a large panel dataset (S&P 500 over 8 years), appropriate fixed-effects models, and a battery of robustness checks (firm-level fixed effects, 2SLS for endogeneity, alternative performance measures like EVA) lends considerable credibility to the results.

Major Weaknesses:

1. **Limited External Validity and Generalizability:** This is the most significant concern from my perspective. The findings are derived exclusively from S&P 500 firms between 1992 and 1999.
   - **Firm Size:** It is unclear if these dynamics hold for small or mid-cap firms, where family influence may be even more entrenched and public scrutiny is lower. The authors' speculation that the effect could be even larger is plausible but untested.
   - **Geographic Scope:** The study is situated within the strong legal and institutional framework of the United States. In markets with weaker minority shareholder protections (e.g., many parts of Europe and Asia), the "balance of power" on a board may be a trivial factor compared to the family's raw ability to expropriate wealth through other channels. The findings may not be generalizable outside of common-law countries with robust capital markets.
   - **Time Period:** The 1992-1999 period predates the Sarbanes-Oxley Act of 2002 (SOX) and other significant governance reforms. SOX mandated majority-independent boards and fully independent audit committees. This study provides a fantastic baseline but cannot speak to whether these relationships hold, strengthen, or weaken in the post-SOX regulatory environment.
2. **Potential for Unobserved Heterogeneity:** While the firm-level fixed effects analysis helps, it cannot fully eliminate the possibility that certain "types" of families (e.g., those with a stronger long-term orientation or a greater sense of stewardship) are simply more likely to both perform well and appoint independent directors. The nominating committee analysis provides strong circumstantial evidence against this, but the underlying family "intent" remains a black box.

Specific Detailed Comments

- **Section: Introduction & Hypotheses:** The setup is compelling. The use of high-profile examples like Adelphia immediately grounds the research in real-world problems. The development of the inverted-U hypothesis (H2a/H2b) is particularly strong, as it moves beyond a simplistic "more independence is always better" argument and reflects a more realistic trade-off between monitoring costs and benefits.
- **Section: Method:** The choice of Tobin's Q is appropriate as it is a forward-looking measure that captures intangible value, which is relevant here. The creation of the Ratio of family directors to independent directors is a key methodological contribution of the paper.
- **Section: Results (Table 2):** The results in column 4 are the crux of the paper. The negative and significant coefficient on the Family firm dummy combined with the positive and significant interaction term is powerful. It should be emphasized that this implies family firms with low board independence are value-destroying relative to non-family firms. This is a stark and important practical warning.
- **Section: Results (Table 3 & Figure 1):** This is perhaps the most practically useful result. The graphical depiction in Figure 1 makes the inverted-U relationship immediately clear. The peak at a ratio of 0.5 (one family director for every two independent directors) provides a tangible benchmark for boards and investors to consider. This is a prime example of research that offers concrete guidance.
- **Section: Results (Table 5):** The analysis of the nominating committee is a crucial piece of the causal argument. The finding that family presence on this committee *reduces* board independence, while institutional investor presence *increases* it, paints a clear picture of a power struggle over board composition. This strongly supports the agency interpretation that independent directors are imposed on, not sought by, families.
- **Section: Discussion & Implications:** The authors do a good job summarizing the contributions. The final sentence is masterful: "Our findings suggest that founding families monitor the firm, while independent directors monitor the family." However, the policy implications could be sharpened. The paper finds an optimal balance point, yet the post-2002 regulatory push has been for a "one-size-fits-all" majority independence rule. The authors should more explicitly state that such a mandate, while perhaps beneficial on average, could be suboptimal for family firms by pushing them past the peak of the performance curve, thereby having the unintended consequence of destroying value in an effort to create it.

Recommendations for Improvement

As this is a published paper, these recommendations are framed for future research and for readers interpreting the work:

1. **Re-examine in the Post-SOX Era:** The most obvious and important extension is to replicate this study using data from after 2002. Did the SOX mandates for board independence weaken the

observed effect (by reducing variation) or strengthen it (by empowering independent directors)? Did it force many family firms past the optimal "balance point" identified in Figure 1?

2. **Expand the Scope of Firms:** Future work should test this model on smaller public firms and in different international settings. One could hypothesize that in countries with weak legal protections, board independence is a much weaker mechanism and has little effect, whereas in other common-law countries (e.g., UK, Canada), similar results would hold.
3. **Delve Deeper into the "Balance":** The ratio of directors is a powerful proxy for influence, but future research could explore the power dynamics more directly. For example, does it matter if the family member is the CEO or Chairman? Does the presence of a lead independent director have an additional effect in these firms?
4. **Sharpen the Policy Message:** The paper's conclusion regarding policy is slightly understated. The findings provide a strong empirical basis to argue for a more nuanced approach to governance regulation, one that recognizes the unique nature of family firms and the potential for a "one-size-fits-all" rule to be counterproductive. This should be highlighted as a key takeaway for regulators and policymakers.

Overall Assessment and Recommendation

This is an outstanding and highly influential paper. It addresses a fundamentally important question in corporate governance with a novel theoretical lens and robust empirical evidence. Its findings are of significant economic and practical importance. While its external validity is constrained by the sample and time period, these limitations were unavoidable at the time of writing and are clearly acknowledged. The paper's contribution to our understanding of board function—as a mediator of shareholder conflict—is profound and lasting.

Recommendation: Accept (if this were an initial submission). This is a landmark study that clearly merits publication in a top-tier journal. It is a model for how to conduct impactful research in corporate governance.

REVIEWER #5: PAPER STRUCTURE & PRESENTATION SPECIALIST

Recommendation: Minor Revision

Brief Summary of Structural and Presentation Quality

This is an exceptionally well-structured and professionally presented empirical paper. The manuscript demonstrates a masterful adherence to the conventions of top-tier management and finance research. The logical flow is clear and compelling, guiding the reader seamlessly from the motivating puzzle through theory development, hypothesis testing, and a nuanced discussion of the implications. The tables and figure are, for the most part, clear, well-formatted, and effectively support the manuscript's core arguments. The authors have produced a manuscript that is not only substantively interesting but also a model of organizational clarity. The few areas for improvement are minor and relate to enhancing the accessibility of the complex analyses presented.

Major Strengths and Weaknesses

Major Strengths

1. **Exemplary Logical Flow:** The paper exhibits a powerful "golden thread." The introduction establishes a clear puzzle (the performance paradox of family firms) and purpose (examining the board's role in mitigating inter-shareholder conflict). The theory section develops a series of hypotheses in a logical sequence, which the results section then tests in the exact same order. The discussion effectively synthesizes these findings, creating a cohesive and persuasive narrative arc.
2. **Clear and Effective Use of Subsections:** The manuscript is partitioned into logical, clearly labeled sections and subsections (e.g., "Role of the Board," "Affiliate Directors," "Robustness of Model Specification"). This architecture makes the paper easy to navigate and allows the reader to follow the distinct components of the argument without confusion.
3. **Strong Hypothesis Development and Framing:** The use of competing hypotheses (agency vs. stewardship) is a particularly effective structural device. It provides a clear theoretical tension that frames the empirical tests for affiliate directors (H3a/b) and nominating committees (H4a/b), adding significant depth and rigor to the investigation.
4. **Professional Table and Figure Presentation:** The tables are well-organized, consistently formatted, and contain the necessary information (coefficients, significance levels, t-statistics, model diagnostics). The inclusion of Figure 1 is a major strength, as it provides an immediate and intuitive visualization of the curvilinear relationship central to Hypothesis 2, which is far more impactful than the regression coefficients alone.
5. **Proactive Addressing of Reviewer Concerns:** The inclusion of a dedicated "Robustness of Model Specification" section is a hallmark of a high-quality manuscript. The authors anticipate and systematically address potential critiques regarding endogeneity, outliers, alternative statistical techniques, and alternative variable specifications, which greatly strengthens the credibility of the presentation.

Major Weaknesses

There are no major structural or presentational weaknesses in this manuscript. The following points represent minor opportunities for refinement to further enhance an already outstanding presentation.

1. **Density of Information in Tables:** While well-formatted, the regression tables are dense with control variables. This is standard practice, but it can make it challenging for the reader to quickly identify the key variables of interest related to the hypotheses being tested.
2. **Figure Caption Brevity:** The caption for Figure 1 is overly brief. A more descriptive caption would make the figure more self-contained and immediately understandable without requiring the reader to hunt for the explanation in the main text.

Specific Detailed Comments

Introduction:

- The flow is excellent. The final paragraph effectively sets up the paper's contribution by contrasting the traditional manager-shareholder agency view with the proposed inter-shareholder conflict view. It clearly signals the paper's theoretical contribution.

Shareholder Conflicts: Board Control and Collaboration (Theory & Hypotheses):

- **Structure:** The progression from the general problem to H1, then to the nuanced "balance" argument for H2a/b, is logical. The transition is handled well ("Our prior hypothesis relies on an agency theoretic argument... Yet...").
- **Clarity:** The framing of H3a/b and H4a/b as direct tests to distinguish between agency and stewardship theories is a superb structural choice that provides a clear rationale for these subsequent analyses.

Method:

- **Variables:** The definitions are clear. The creation of the spline variables for the "ratio of family to independent directors" is explained well. However, given its complexity and importance for H2, a brief reminder of the breakpoints in the Results section when discussing Table 3 would be helpful for the reader.
- **Analysis:** The final paragraph detailing the various statistical techniques considered (fixed effects, Huber/White, Fama-MacBeth, 2SLS) is excellent. It demonstrates methodological rigor and transparency, which is a key aspect of professional presentation.

Results:

- **Table 1 (Descriptive Data):** The use of two panels for summary statistics and correlations is standard and effective. The inclusion of t-statistics for difference-of-means tests is a strong presentational choice.
- **Table 2 (Firm Performance, Board Independence...):** The table is well-structured, moving from the full sample to sub-samples and interaction models. The text does an excellent job of calculating and explaining the economic significance of the coefficients (e.g., the 15.95% differential). This is a best practice that many authors neglect.
- **Table 3 & Figure 1 (Family Power):** The combination of the spline regression table and the visual figure is highly effective.
  - **Comment on Figure 1:** The title is "Performance and relative board representation of family and independent directors." A more complete, self-contained caption is needed. For example: "Figure 1. The curvilinear relationship between the ratio of family-to-independent director board seats and firm performance (Tobin's Q). The inverted U-shape illustrates that performance improves as

family representation increases to a moderate level (peaking at a 0.5 ratio) but declines as family representation becomes dominant, supporting H2a and H2b."

- **Table 5 (Nominating Committees):** The presentation of the OLS (Column 1) and the two-stage model (Column 2) side-by-side is clear. The column header in Column 2, "Instrument for family presence on nominating committee," is slightly ambiguous. A clearer header might be "2SLS Model: Instrumented Family Presence."

Discussion:

- **Structure:** The discussion section is a model of its kind. It begins by summarizing the key findings in relation to the hypotheses, discusses the theoretical contributions (advancing the agency perspective), and then methodically addresses contributions to specific literature streams, future research, limitations, and practical implications.
- **Clarity:** The final paragraph is particularly strong, providing a concise and memorable summary of the paper's core message: "founding families monitor the firm, while independent directors monitor the family." This is an excellent concluding sentence that encapsulates the paper's contribution.

Recommendations for Improvement

The manuscript is in excellent shape. The following minor revisions would serve to polish the presentation further:

1. **Expand Figure 1 Caption:** As detailed above, provide a fully descriptive caption for Figure 1 to make it self-contained and immediately interpretable.
2. **Clarify Key Variable in Tables:** Consider using boldface for the primary independent variables of interest in each regression table (e.g., **Board independence**, **Board independence * Family firm** in Table 2). This would help the reader's eye navigate the dense tables and focus on the hypothesis tests.
3. **Refine Table 5 Header:** For maximum clarity, consider revising the header for column 2 in Table 5 to something like "2SLS with Instrumented Variable" to make the methodological shift more explicit in the table itself.
4. **Reinforce Spline Definition:** In the text introducing Table 3, briefly restate the breakpoints for the spline regression (0-0.50, 0.51-1.00, >1.00). This small redundancy would save the reader from having to flip back to the Method section and would improve the flow of the Results section.

Overall Assessment and Recommendation

This is a superb manuscript from a structural and presentational standpoint. It is a pleasure to read, with a clear, logical, and persuasive architecture. The authors have done an outstanding job of presenting a complex empirical study in an accessible and professional manner. The recommended revisions are minor and intended only to further enhance the clarity of an already excellent paper.

Recommendation: Minor Revision

RESPONSE REQUIREMENTS

Please prepare a comprehensive response letter systematically addressing each reviewer's comments. For each point:

1. State the reviewer's comment exactly as written
2. Explain how you addressed it in the revised manuscript (with specific page and line references)
3. Provide clear academic justification for any disagreements

Your response letter should demonstrate careful consideration of all feedback and will significantly influence the final publication decision.

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