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IS FAMILY LEADERSHIP ALWAYS BENEFICIAL?

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There has been much debate concerning the performance of family firms and the drivers of their performance. Some scholars have argued that family management is to blame when family firms go wrong; others claim that family management removes costly agency problems and encourages stewardship. Our thesis is that these disagreements can only be resolved by distinguishing among different types of family firms. We argue that family CEOs will outperform in smaller firms with more concentrated ownership and underperform in larger firms with more dispersed ownership; they will do neither where firms are smaller and ownership is more dispersed or firms are larger and ownership is more concentrated. Copyright © 2012 John Wiley & Sons, Ltd.

INTRODUCTION

There has been abundant research on the performance consequences of family involvement in a business (e.g., Anderson and Reeb, 2003; Lee, 2006; Kowalewski, Talavera, and Stetsyuk, 2010; Maury, 2006; Miller *et al.*, 2007; Sraer and Thesmar, 2007; Villalonga and Amit, 2006). In attempts to understand this relationship, scholars have drawn on a range of theories such as agency theory (Schulze *et al.*, 2001; Schulze, Lubatkin, and Dino, 2003b), stewardship theory (Miller, Le Breton-Miller, and Scholnick, 2008), socioemotional wealth theory (Gomez-Mejia *et al.*, 2011), and the resource-based view of the firm (Habbershon and Williams, 1999; Sirmon and Hitt, 2003). There have also been attempts to reconcile these theoretical perspectives as they relate to the conduct and performance of family firms (Gomez-Mejia *et al.*, 2011; Le Breton-Miller and Miller, 2009; Miller, Le Breton-Miller, and Lester, 2012). Nevertheless, results to date have been mixed and conflicting, and despite the numerous empirical studies doubts remain as to whether family ownership and family management are good or bad for a business (Miller and Le Breton-Miller, 2006; Minichilli, Corbetta, and MacMillan, 2010).

Several shortcomings may contribute to such conflicting results. First, previous research with positive performance findings for family firms has focused on large, American, publicly controlled firms (Anderson and Reeb, 2003; Lee, 2006; McConaughy *et al.*, 1998; Villalonga and Amit, 2006). However, the supposed benefits of family involvement in the business have been questioned in other contexts and different samples, including those of smaller firms (e.g., Cucculelli and Micucci, 2008; Gomez-Mejia *et al.*, 2007; Holderness and Sheehan, 1988; Sciascia and Mazzola, 2008). Second, previous studies diverge significantly in how they define a family firm (Westhead

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and Cowling, 1998): there are definitions based on ownership, family involvement in the business, and some combination of the two. Much of this research has taken the percentage of family ownership as a defining characteristic, however, with very different ownership thresholds and criteria (see e.g., Miller *et al.*, 2007 and Villalonga and Amit, 2006 for reviews). A final shortcoming of previous studies is that they have neglected the importance of some key differences among family firms such as differences in size and ownership structure, both of which, we shall argue, may influence how the dimensions of family governance affect performance.

Based on a unique and original collection of data on medium and large family-controlled companies in Italy,[1] our study seeks to understand the performance consequences of family leadership. We first draw conflicting predictions from agency and stewardship theories concerning the efficacy of family leadership. We then reconcile these opposing views by proposing how firm size and ownership concentration may determine when family leadership might augment or erode firm performance. Our findings demonstrate the significant impact of size and ownership and their interaction on the family chief executive officer (CEO)- firm performance relationship. They also show how the joint consideration of these two dimensions can specify the contexts under which family leadership outperforms or underperforms non-family leadership. In so doing, our study helps to reconcile key disagreements in the research on family business performance in both the realms of theory and empirical inquiry.

THE LITERATURE AND THE QUANDARY

Conceptual controversy

Agency theory: owner-manager agency theory (AT1) vs. owner-owner agency theory (AT2)

Agency theory is double-edged in its appraisal of family firms and family leadership. On the one hand, it has been used to suggest that firms run by family executives will benefit from lower agency costs as there exists an alignment of interests and minimal information asymmetry between owners and managers (Chrisman, Chua, and Litz, 2004; Gomez-Mejia, Nickel-Nuniez, and Gutierrez, 2001; Jensen and Meckling, 1976). Since family owners and managers may make excellent and motivated monitors of their companies, we designate this *agency advantage* as AT1. On the other hand, family executives are said to be able to use their superior positions and knowledge to exploit less influential owners and to benefit only themselves at the expense of the company—the so-called principal-principal agency problem (Morck, Wolfenzon, and Yeung, 2005). In this case, family owner-managers might use the business to serve personal interests (Schulze *et al.*, 2001; Schulze, Lubatkin, and Dino, 2002) through free riding and shirking behavior, as well as diversion of firm resources to personal use. All such agency costs we designate AT2 (Chrisman *et al.*, 2004).

Stewardship theory: stewardship over the business (ST1) or over the family (ST2)

Stewardship theory also admits a Janus-faced interpretation as it applies to family firms and family leaders—depending on the *object* of the stewardship (Corbetta and Salvato, 2004). Some scholars argue that family executives are especially attached to their firm and loyal to it. They view it as a legacy of family effort, a source of personal and family pride, and a vehicle for the financial support of current and later generations. So they are highly motivated managers, working assiduously to 'manage for the long-run' by investing generously in capabilities, employees, and stakeholder partnerships (Miller and Le Breton-Miller, 2005; Miller *et al.*, 2008). We designate this organizational *stewardship advantage* as ST1. Other theorists have maintained that family executives will be stewards not of the business but of their immediate family (Bloom and Van Reenen, 2007; Bertrand and Schoar, 2006; Schulze *et al.*, 2001; Gomez-Mejia *et al.*, 2011). Thus, family CEOs may behave with unrequited altruism toward family members, who may not deserve their positions or their rewards, and such unrewarded beneficence can harm a business (Schulze *et al.*, 2001). We designate this *costly stewardship* as ST2.

[1] To the purpose of this study, we consider the whole population of Italian family-controlled firms with revenues of over €50 million in the fiscal year 2008, for a total of 2,522 firms. Further details on the criteria we adopted to identify those firms are provided in the methods section.

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Advantage or disadvantage?

Both types of agency and stewardship theories have been argued to apply with particular accuracy to family businesses and family executives. There are even conflicting representations of the soundness of family firms drawn from the resource-based view, largely based on the arguments from agency and stewardship theories we have just presented. Some scholars have pointed to the superiority of family firms in their ability to amass resources such as financial and social capital, special capabilities, and good reputation, in part because of their agency and stewardship advantages (Habbershon and Williams, 1999; Miller *et al.*, 2008; Sirmon and Hitt, 2003). Others view these firms as being resource deprived due to the tendency of family owners to divert or 'appropriate' resources for personal or family purposes (Morck *et al.*, 2005; Morck and Yeung, 2003). There are excellent arguments and, as we shall see, empirical evidence to support each position. We now turn to that evidence.

Empirical controversy

Anderson and Reeb (2003) discovered a positive association between family CEOs and financial performance in large publicly traded U.S. companies, especially if the CEO was a founder. Chrisman *et al.* (2004) found similar results for small privately held U.S. firms, as did Minichilli *et al.* (2010) for medium and large sized family-controlled firms. Villalonga and Amit (2006) showed that family involvement in management enhances or hinders firm performance depending on whether the CEO is a founder or descendant. These results have been extended to other performance measures and contexts. Lee (2006) discovered that family involvement in management enhances profitability, employment, and revenue growth. Sraer and Thesmar (2007) confirmed these results in French firms.

However, as in the case of the theoretical perspectives, there is little consensus on the issue. Bennedsen *et al.* (2007), Bloom and Van Reenen (2007), Claessens *et al.* (2002), Cronqvist and Nilsson (2003), Holderness and Sheehan (1988), Maury (2006) and others have found that family management can often detract from financial performance and erode firm valuations. They agree that family actors may expropriate business resources to serve the family or that family firms suffer from nepotism and managerial entrenchment, to the ultimate cost of the business.

Sometimes the picture gets more complicated. Following the predictions of Miller and Le Breton-Miller (2006), Sciascia and Mazzola (2008) found a negative curvilinear association between family involvement in top management and firm performance in their sample of Italian small and medium sized enterprises. Similarly, another analysis of medium-to-large public and private Italian family firms found an inverse U-shaped association between the ratio of family members in the top management team and financial performance (Minichilli *et al.*, 2010), supporting the contention that 'there not be *too many* family members involved in the business, as that opens the door for conflict and can drain funds' (Miller and Le Breton-Miller, 2006: 80, emphasis in original; see also Le Breton-Miller *et al.*, 2011).

TOWARD A RECONCILIATION

These conceptual and empirical controversies suggest the utility of a context-based investigation of the performance effects of family managers. Indeed, it is not so much a matter of deciding which of these theoretical perspectives or sets of empirical findings are most correct, but rather of determining just where they actually apply. That has been difficult to do to date given the nature of most previous studies, which have either combined too many types of firms without distinguishing among them, or have analyzed a very homogeneous sample.[2] Based on this evidence, we show how conceptual disagreements can be mitigated by recognizing the relevance of firm size and ownership concentration in predicting the impact of family executives on performance. We also conclude that such disagreement can be appropriately

[2] There has been an overwhelming focus on large, public companies, especially in the United States, and on family ownership more than family management (see the review by Miller *et al.*, 2007). Also, there is significant heterogeneity within studies as many have combined firms not only of different sizes but also of different ownership structures. While at times these studies may control for such dimensions, that practice may simply disguise or average out the effects of family management under different conditions. Finally, the overwhelming tendency has been to compare family to non-family firms—a practice that may obscure important intra-family firm differences, particularly as they apply to family management.

addressed by simultaneously considering size and ownership in defining different 'types' of family firms.

We have focused on the family CEO position as the one most central to the administration of the company and the key board interface (Finkelstein, Hambrick and Cannella, 2009). CEOs typically have a great deal of power to influence the evolution, strategy, and, therefore, performance of their businesses. They also try to influence, and are generally influenced by, the board. Where the CEO is a family member, it is he or she who may decide whether or not to do the bidding of the family in running the company or dealing with the board. Thus, it is no surprise that the figure most frequently studied in rigorous empirical research into family firm performance is the CEO (e.g., Anderson and Reeb, 2003; Le Breton-Miller *et al.*, 2011; Miller *et al.*, 2007; Villalonga and Amit, 2006; and many others).

Firm size, family leadership, and firm performance

Family executives often associate with their businesses closely, intimately, and for a long time. In many cases, they are founders or later generation executives who have spent enduring apprenticeships within their firms. This provides them with useful information as administrators in choosing whom to promote, which clients to pursue, which company strengths to build on, and what strategies to adopt (Miller and Le Breton-Miller, 2005). Indeed, their ability to 'speak for the firm' makes family CEOs ideal parties to form close relationships with clients, suppliers, and employees alike (Miller *et al.*, 2009), a capability that constitutes a useful form of social capital (Sirmon and Hitt, 2003). Closeness to and familiarity with a company may also enhance attitudes of stewardship over the business that for these executives often represent the valued and emotionally meaningful attachments to employees, customers, and other stakeholders inside and outside the company (Gomez-Mejia *et al.*, 2007). These stewardship *advantages* are consistent with ST1.

Familiarity also gives family executives a good deal of *tacit* knowledge of the business and its unwritten rules, customs and informal culture—knowledge that would be difficult for a non-family executive to possess and that represents a critical resource (Cruz, Gomez-Mejia, and Becerra, 2010; Gomez-Mejia *et al.*, 2001; Hall and Nordqvist, 2008; James, 2006; Miller *et al.*, 2009). An intimate knowledge of operations also minimizes owner-manager information asymmetries that may otherwise incur agency costs, creating an AT1 agency *advantage*. Both ST1 and AT1 *advantages* are especially apt to accrue in smaller companies.

As a firm grows in complexity, however, cognitive limitations may become a greater concern (Lin and Hu, 2007). In larger companies, *firm size* is an important indicator of administrative complexity. Greater administrative complexity encompasses the number of employees who must be managed, the number of levels of administrative hierarchy and departments, functional specialization, the geographic reach of the business, the breadth or complexity of product lines sold, and the number of rules, procedures, job definitions, and formal routines required. It is also related to the need for more complex control and monitoring systems. All of these factors elevate the skill requirements of an executive and may reduce the AT1 advantage (Galbraith, 1995; Mintzberg, 1979). They also may create an emotional and physical distance between a family CEO and his or her firm's stakeholders, thereby reducing ST1 advantages.

Many family CEOs have served as founders of a small business or as second generation executives who are in their position in part because of family membership rather than skill (Lansberg, 1999). In complex administrative situations, the need for more formalized managerial skills and the mastery of management practices surpasses the benefits of the tacit knowledge that family members may possess (Miller *et al.*, 2009). Hence, the inexperience of family members may put them at a disadvantage *vis-à-vis* outside non-family CEOs who are chosen from among a much larger pool of candidates on the basis of their competence alone (Claessens *et al.*, 2002; Mehrotra *et al.*, 2009; Salvato, Minichilli and Piccarreta, 2012). This expectation is, in part, simply a question of numbers: it is more likely that someone chosen from a large pool of professionals on the basis of talent will be better at managing complexity than one chosen from the far smaller internal labor market of the family (Van den Berghe and Carchon, 2003). Further, as a business becomes larger, it is less possible for a family CEO to form personal relationships and attachments to employees, suppliers, and clients.

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There develops, as noted, an emotional distancing from the company that may cause a family executive to become more loyal to owner-relatives than to the business itself—in other words, stewardship might gravitate from the business (ST1) to the family (ST2). In short, the challenge of large size erodes AT1 agency and ST1 stewardship *advantages* of a family CEO and creates disadvantages associated with ST2 stewardship *costs*. Another problem is that even when family executives begin to perform poorly because of their cognitive limitations, they are hard to remove because of their significant ownership or their influence with other family owners. This is the well-known problem of entrenchment (Morck and Yeung, 2003), to which we have alluded in discussing AT2 agency costs.

With size also comes an advantage (or diminishing liability) of non-family executives. First, non-family CEOs in situations that are administratively challenging are easier to dismiss than family CEOs if their performance deteriorates—an agency advantage. Moreover, as firms grow larger and become more professionalized and family-oriented (versus business-oriented) owners leave, it may become less necessary for non-family CEOs to be accepted by all family members or to partake of the family culture (Hall and Nordqvist, 2008; Steier and Miller, 2010).

In short, as a firm grows, the ST1 and AT1 advantages of having a family CEO decline, while the costs associated with ST2 stewardship and AT2 agency grow. Based on the above arguments, we believe family CEOs have an advantage in smaller, less complex firms and are at a disadvantage in larger companies:

Hypothesis 1: Firms with family CEOs will outperform other firms when they are small and underperform when they are large.

Concentration of ownership, family leadership and firm performance

Gomez-Mejia *et al.* (2011) and Miller and Le Breton-Miller (2005) have argued that family managers are particularly caring about their firms for a variety of reasons. The business supports the economic needs of a close family nucleus, and the reputation of the family is tied to the business (Landes, 2006). Also, the business may exist in part in order to provide career opportunities and security for later generations (Lansberg, 1999). The firm may also represent a cherished family legacy and source of family pride (James, 2006). Thus, it constitutes a socioemotional resource for the family, one that evokes real commitment from family owners and managers alike and that may well elicit a general attitude of stewardship (Gomez-Mejia *et al.*, 2007; Miller *et al.*, 2008). Therefore, a family CEO is apt to behave as a vigilant and caring leader of the company—someone whose 'heart' is in his or her job. Hence, when ownership is concentrated, family CEOs' closeness to family owners will induce them to be good stewards of the business. In short, concentrated ownership may lead to ST1 stewardship advantages for family CEOs.

When ownership is more diffuse and there are family ownership factions present in the firm, family CEOs may become a liability (Lubatkin *et al.*, 2005; Schulze *et al.*, 2002, 2003b). As the number of generations and the number of family members involved in the ownership of a business increase, there is a greater likelihood that factions will form, that some family owners will not get along, that conflicts will arise, and that the emotional distance of a family CEO from his or her business will grow. Indeed, Le Breton-Miller *et al.* (2011) found that families were more likely to appropriate funds from the firm and to pursue unsuccessful harvest strategies as the number of family owners and directors increased. This can occur as ownership moves from a few close relatives, generally from a nuclear family, to more dispersed ownership by an extended family. Under such conditions, one branch of the family may become at odds with another, and a family CEO may feel his or her extended family owners are reaping rewards in the business without doing much work or having paid any 'sweat equity' (Gersick *et al.*, 1997; Ward, 2006). Here ST1 stewardship advantages give way to ST2 disadvantages for family CEOs.

Because conflicts are more frequent in extended families (Gersick *et al.*, 1997; Le Breton-Miller *et al.*, 2011), a family CEO may try to quell these by using assets of the business. That may take the form of paying inordinate dividends, hiring or keeping in employ family incompetents, and according privileged compensation to family members (Bertrand and Schoar, 2006; Kets de Vries, 1996; Morck *et al.*, 2005). In conflict situations, the kinship ties of CEOs may cause them to make business decisions based on family sentiment rather than economic or competitive requirements

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(Kets de Vries and Miller, 1984). Such unrequited altruism toward the family can be costly to the business (Schulze *et al.*, 2002; 2003b), invoking ST2 and AT2 disadvantages.

When ownership is more dispersed among family members, it is less likely that a family CEO will be motivated to serve remotely related owners, and more motivated to pursue personal perks rather than a firm's best interests (consistent with AT2); and stewardship may suffer (consistent with ST2). Conversely, non-family CEOs in these firms usually are able to be more objective in their dealings with the family, being less emotionally attached to it (Gomez-Mejia *et al.*, 2007). As they are not associated with any one branch of the family, they are less apt to incite family factionalism. Being from outside the family nucleus also makes them less of a lightning rod for family conflicts or political contests (Ocasio, 1994). It also makes them less apt to favor one branch of the family over another, and more likely to focus on business-related than kinship-related issues. In short, as ownership dispersion within the family increases, the ST1 advantages of family CEO stewardship decrease, while ST2 and AT2 costs increase.

Hypothesis 2: Firms with family CEOs will outperform other firms when family ownership is concentrated among family members, but underperform where family ownership is dispersed across family members.

It might be argued that ownership dispersion even to those beyond family members will also distance family CEOs from their companies, thereby eroding their attitudes of stewardship over the firm and inducing them to exploit non-family shareholders—in other words, ST2 and AT2 costs may increase with all-inclusive ownership dispersion (Morck and Yeung, 2003). We shall test for this possibility in our analyses.

Interaction between ownership dispersion and firm size

Any attempt to reconcile the conceptual and empirical controversies we began with, demands that we simultaneously consider the effects of ownership concentration and size on the performance of family CEOs. In small, concentrated family firms, the lesser administrative complexity and more tightly held ownership will reap AT1 and ST1 advantages, and family CEOs will outperform. Conversely, in larger more dispersedly owned firms, AT2 and ST2 *disadvantages* will accrue due to the greater administrative complexity and more contentious ownership situation, and family CEOs will underperform.

However, where firms are smaller but ownership is more dispersed, or firms larger but ownership is more concentrated, the AT1 and ST1 advantages will be counterbalanced by the AT2 and ST2 advantages. Here the tensions between agency and stewardship advantages and disadvantages render it difficult to anticipate any clear relationships between family leadership and firm financial performance.

We hypothesize a multiplicative interaction effect because we believe that the advantage of having a family CEO will disappear with *either* large size *or* dispersion of ownership. That is, a dispersed ownership situation will be sufficient to negate the advantages of family ownership even in a small firm. Conversely, large size and the consequent administrative challenges are expected to be enough to nullify the advantages of concentrated ownership.

Hence, we predict the following, (see also Figure 1):

Hypothesis 3: Family CEOs will outperform in smaller and more concentrated firms, underperform in larger and more dispersed firms, and be no different than their counterparts in intermediate 'types' of family firms, that is, in smaller and ownership dispersed firms, and in larger and concentrated ones.

METHODS

Sample

Our sample is drawn from Bocconi University's *Italian Observatory of Family Firms*. The Observatory incorporates the entire population of Italian family-controlled firms with turnover of over €50 million, as identified from public sources such as AIDA (*Italian Digital Database of Companies*)—the Italian branch of *Bereau van Dijk* European Databases. AIDA incorporates complete financial information for the most recent 10 years for all public *and private* firms in Italy. It obtains this information from official sources such as the

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1. Small size, concentrated ownership *Superior family CEO performance due to AT1 agency and ST1 stewardship advantages and few AT2 and ST2 disadvantages*	**2. Small size, diffuse ownership** *Neutral family CEO performance due to offsetting agency and stewardship advantages and disadvantages*
3. Large size, concentrated ownership *Neutral family CEO performance due to offsetting agency and stewardship advantages and disadvantages*	**4. Large size, diffuse ownership** *Inferior family CEO performance due to AT2 agency and ST2 stewardship disadvantages and few AT1 and ST1 advantages*

Figure 1. Four types of family firms

balance sheets and income statements that all companies in Italy are obliged to deposit annually with the Chamber of Commerce. The comprehensiveness of this database makes it a unique asset in studying a vast assortment of private family and non-family firms, large and small. In following existing studies (Anderson and Reeb 2003; Barth, Gulbrandsen, and Schøne, 2005), we defined family control as the fractional equity ownership of family members that allows control over the company. We defined as family controlled those private firms in which a family owns an absolute majority (i.e., 50 percent) of shares. Because privately held firms in Italy have ownership structures characterized by a limited number of shareholders with very large blockholdings, a 50 percent stake is needed to achieve control (Bennedsen and Wolfenzon, 2000). Consistent with studies in other European countries (e.g., Amore, Minichilli, and Corbetta, 2011; Andres, 2008), this threshold was reduced to 25 percent for firms listed on the Milan stock exchange, assuming *de facto* control at similar thresholds due to collective action and/or the use of control-enhancing mechanisms.

We identified 4,221 family-controlled firms out of the entire population of 7,663 companies. We sampled only the parent company for firms in business groups operating in the same two-digit national industry classification (ATECO), as boards and leadership structures of the controlled companies are almost always identical to those of the parent firm. In such cases, we used consolidated financial information for the whole group. However, for business groups operating in more than one two-digit industry (usually financial holding companies) we analyzed the controlled companies separately, as required skills and leaders tended to vary across subunits. Thus, the number of firms sampled dropped to 2,522. Ownership, governance and economic performance data were collected over the 2000–2008 period, making for a total of over 22,000 observations.

Descriptive analyses on the entire population showed a great deal of variation in leadership models. Specifically, at the end of 2008, 37.1 percent of firms sampled had more than one CEO,[3] 29.5 percent of firms were led by a single CEO, 15.6 percent by an executive chairperson, and 17.8 percent by a lone leader without a formal board of directors. For the purpose of this study, and to be consistent with previous studies and with our arguments and hypotheses, we selected only firms led by a single CEO. This criterion, and missing data, resulted in a final usable sample of 4,592 firm/year observations. However, to establish the robustness of our findings we replicated all analyses on a much larger sample that includes firms having multiple CEOs.

Our sample shows considerable variation both in ownership characteristics and firm size. Family control ranged between 25 percent (for listed companies—50 percent for unlisted) and total control. Only one percent of our firms have less than 50 percent family ownership; 18.6 percent of firms have family shares between 50 percent and 75 percent; 19.1 percent of firms show family control between 75 percent and 99.9 percent of the shares; 61.3 percent of firms were totally controlled by the family. Listed firms averaged only 7.3 percent of the sample. The average number of shareholders for our sample was 4.9: 14.0 percent

[3] In Italy it is also possible to have two or more formal CEOs with the same duties and legal responsibilities.

of firms have only one shareholder, 40.1 percent have one or two shareholders, 59.0 percent have three or fewer, 72.2 percent have four or fewer, 80.2 percent have five or less, 84.9 percent have six, 88.5 percent have seven, and 90.9 have eight shareholders or less. The remaining 9.1 percent have more than eight shareholders and a maximum of 112 shareholders. Our firms ranged in revenues from €50 million to €20.8 billion—a much larger range than that exhibited in the Fortune 500 or the Fortune 1000.

Data collection procedures

Data was collected in 2009 and 2010. Data on ownership structure and ownership characteristics were collected from public official filings at the *Italian Chamber of Commerce*. Such filings represent the definitive source of information for small and medium-sized firms in Italy. They document all changes in ownership structures, governance characteristics, and firm leadership. Our research team reconstructed all the ownership and governance characteristics of a given firm based on information included in these reports. In doing so, all family-related actors were identified by surname affinity with that of the controlling family. As noted, financial information was obtained from AIDA, which represents the most comprehensive source of such information for Italian firms.

Variables and measures

The dependent variable was *return on assets* (ROA)—net operating income before extraordinary items divided by total assets. ROA has been commonly used to assess top executive and family impact on firm performance (e.g., Anderson and Reeb, 2003; Cannella and Shen, 2001; Carpenter, 2002; Geletkanycz and Hambrick, 1997; Henderson, Miller, and Hambrick, 2006).

Our independent variable is the presence of a *family CEO*, coded 1 if the CEO was a member of the controlling family and 0 otherwise. The familial nature of the CEO has been determined by surname affinity with that of the controlling family, as recorded in Chamber of Commerce filings. We included the following control variables in all regressions: *firm age, public listing, R&D/sales ratio*, and *debt/equity ratio* (Anderson and Reeb, 2003; Miller *et al.*, 2007), as well as the previous year's financial performance (ROA_{n-1}). Both firm age and R&D to sales were log transformed to achieve normality. We also controlled for the *generation* of the leader, and for the *percentage of non-executives* on the board of directors (Villalonga and Amit, 2006), as well as for the *share of the largest shareholder* (Morck, Shleifer, and Vishny, 1988; Schulze, Lubatkin, and Dino, 2003a). For the interaction analyses, all components of the variables *firm size*concentration, family CEO*firm size, family CEO*concentration* and *family CEO*concentration*firm size* were standardized prior to multiplication. Additionally, all the variables in the main Table 3 have been standardized in order to plot findings from three-way interactions.

To test our hypotheses, we used a combination of analytical techniques. Specifically, we relied on both panel regression analyses using interaction terms, and subsample (quadrant) analysis representing different 'types' of family firms according to size and ownership criteria. Specifically, we defined the quadrants using: a) firm size, measured as yearly revenues; and b) Herfindahl ownership concentration, measured according to the sum of squares of each family shareholder's percentage of shares held. The Herfindahl concentration index was calculated following Schulze *et al.* (2003a) as: $H = \sum_{i=1}^{n} S_i^2$ where n is the number of family shareholders (shares were recorded for the seven largest family shareholders, since almost 90% of our firms had seven shareholders or less), and S is the amount of shares held by the i^{th} family shareholder of the firm. A concentration index close to 1 indicates strong concentration (the maximum being 100 percent of shares in the hands of one shareholder). In order to establish the robustness of our findings, we also calculated the same type of Herfindahl index across *all* large shareholders–family and non-family. We median-centred both yearly revenues and the Herfindahl index[4] to identify the four quadrants—smaller size and more concentrated ownership (both revenues

[4] As a result of median-centering, firms have been classified respectively as: a) smaller firms, with revenues ranging between €50 and 90.5 million; b) larger firms, with revenues from €90.5 million to €20.8 billion; c) concentrated firms, with a Herfindahl index from 0.37 to 1; d) less concentrated (or dispersed) firms, with a Herfindahl index lower than 0.37. For the robustness tests including all major shareholders of the company, both family and non-family, the Herdindahl index ranged from 0.50 to 1 for concentrated firms, and below 0.50 for less concentrated (or dispersed) firms.

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and Herfindahl below median), smaller size and more dispersed ownership (revenues below median and Herfindahl above), larger size and more concentrated ownership (revenues above median and Herfindahl below), and larger size and more dispersed ownership (both revenues and Herfindahl above median). Descriptive statistics for both the overall population and the four quadrants are presented in Table 1.

Analyses and results

Table 2 provides means, standard deviations and correlations among our variables. There was no evidence of multicolinearity.

To test our hypotheses, we used panel regression fixed-effects estimations of the impact of family leadership on firm performance (ROA) (Table 3). Hausman tests performed for each model yielded statistically significant results ($\chi^2 = 544.59^{***}$ in Model 1, $\chi^2 = 544.85^{***}$ in Model 2, $\chi^2 = 570.57^{***}$ in Model 3, and $\chi^2 = 590.54^{***}$ in Model 4), suggesting that fixed-effect models were more appropriate than random-effects models. The inclusion of firm fixed effects allowed us to control for time-invariant unobserved firm-level attributes, which could have influenced the results. Thus, it was unnecessary to control for variables such as industry or location. Specifically, Model 1 of Table 3 introduces control variables only, as well as the effect of family CEO alone; Model 2 presents the interaction with firm size; Model 3 presents the interaction with ownership concentration; Model 4 presents a three-way interaction considering firm size and ownership concentration.

As shown in the Table, whereas the effect of CEO leadership alone is positive for the aggregated sample (see e.g., Anderson and Reeb, 2003, Minichilli *et al.*, 2010; Villalonga and Amit, 2006), interaction terms for both family CEO dummies * size (negative) and family CEO dummies * ownership concentration (positive) were significant and in the expected direction. Hence, Hypotheses 1 and 2 were supported.

In order to test Hypothesis 3 about the 'types' of family firms, we computed a three-way interaction term between family CEO, firm size, and ownership concentration (Model 4, Table 3). Although notoriously difficult to interpret due to their multicolinearity, our results confirm the need to simultaneously take into account size and concentration effects. However, to provide more exact findings on the effects predicted by Hypothesis 3, we also performed additional quadrant-specific analyses, thereby revealing the conditions under which family CEO leadership is functional, dysfunctional, or neutral in impact.

To this purpose, we employed the fixed-effects panel models of Table 4 using separate identical models for each of the four quadrants. Hausman tests performed for each quadrant yielded statistically significant results ($\chi^2 = 320.57^{***}$ in Quadrant 1, $\chi^2 = 56.03^{***}$ in Quadrant 2, $\chi^2 = 210.99^{***}$ in Quadrant 3, and $\chi^2 = 91.56^{***}$ in Quadrant 4), again suggesting that fixed-effect models were more appropriate than random-effect models.

The results of Table 4 provide consistent support for a positive effect of family CEO leadership on financial performance in smaller and more concentrated firms (Column 1), and its negative effects in larger firms with diffuse ownership (Column 4). Coefficients for the intermediate quadrants (smaller firms with diffuse ownership—Column 2, and larger firms with more concentrated ownership—Column 3) are not significant. Again, Hypothesis 3 is supported.

The simple plots of Figures 2a and 2b graphically illustrate financial performance for different levels of ownership concentration in a) small vs. large firms with family CEOs, b) small-versus large firms with non-family CEOs. Figure 2c plots the different size-dispersion combinations for firms with family and non-family CEOs. All of the plots are based on standardized coefficients from Table 3. As is evident from Figure 2a, firms with family CEOs show superior performance in concentrated ownership situations. However, concentration has the most positive effect for small firms. By contrast from Figure 2b, we can see that firms with non-family CEOs do best when ownership is dispersed, with the greatest relative benefit of dispersion going to small firms. Indeed, these firms outperform if they are large and ownership is dispersed, while they do most poorly under small and concentrated conditions. From Figure 2c that combines these interaction effects, we see that non-family CEOs are particularly apt to outperform family CEOs in large and dispersed companies, whereas family CEOs outperform their non-family counterparts in small, concentrated firms. These plots further confirm the hypothesis that family CEOs outperform in smaller

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Table 1. Descriptive statistics on industry, firm characteristics, ownership and CEO/board in the population and the four quadrants

	Population		Small concentrated		Small dispersed		Large concentrated		Large dispersed	
	Mean	S.D.	**Mean**	S.D.	**Mean**	S.D.	**Mean**	S.D.	**Mean**	S.D.
Industry										
Agriculture and fish	**0.01**	0.07	**0.00**	0.00	**0.00**	0.04	**0.00**	0.00	**0.01**	0.09
Manufacturing	**0.45**	0.50	**0.49**	0.50	**0.46**	0.50	**0.46**	0.50	**0.48**	0.50
Utilities	**0.01**	0.11	**0.02**	0.15	**0.00**	0.06	**0.01**	0.12	**0.01**	0.09
Construction	**0.04**	0.20	**0.06**	0.23	**0.04**	0.19	**0.05**	0.21	**0.03**	0.18
Commerce	**0.26**	0.44	**0.28**	0.45	**0.34**	0.47	**0.21**	0.41	**0.20**	0.40
Transportation	**0.03**	0.17	**0.01**	0.12	**0.03**	0.17	**0.04**	0.19	**0.04**	0.19
Food services	**0.01**	0.07	**0.00**	0.00	**0.00**	0.00	**0.01**	0.11	**0.01**	0.10
Media and communication	**0.02**	0.16	**0.01**	0.10	**0.03**	0.16	**0.03**	0.16	**0.04**	0.21
Insurance	**0.04**	0.19	**0.02**	0.15	**0.02**	0.15	**0.03**	0.16	**0.05**	0.22
Real estate	**0.03**	0.18	**0.03**	0.18	**0.03**	0.16	**0.04**	0.19	**0.02**	0.13
Professional services	**0.09**	0.29	**0.07**	0.25	**0.05**	0.22	**0.11**	0.32	**0.10**	0.30
Health services	**0.00**	0.05	**0.00**	0.03	**0.00**	0.04	**0.00**	0.06	**0.01**	0.07
Other services	**0.01**	0.08	**0.01**	0.08	**0.00**	0.07	**0.01**	0.07	**0.00**	0.05
Firm characteristics										
Firm size (million euros)	**272.8**	888.2	**52.8**	22.2	**53.4**	20.5	**450.9**	1,331.2	**595.5**	1,221.7
Firm age (years)	**26.8**	19.5	**22.8**	17.3	**27.2**	17.1	**26.9**	19.9	**32.1**	23.1
Listing	**0.07**	0.26	**0.01**	0.07	**0.03**	0.18	**0.02**	0.14	**0.27**	0.44
ROA	**5.52**	6.99	**4.87**	8.58	**5.34**	6.14	**5.90**	7.00	**6.13**	6.29
Ownership										
Number of shareholders	**4.9**	12.4	**3.8**	21.9	**5.5**	6.5	**3.3**	11.9	**6.8**	12.2
Total family control (direct and indirect)	**0.89**	0.16	**0.98**	0.06	**0.88**	0.16	**0.97**	0.06	**0.79**	0.20
Herfindahl concentration index (family)	**0.44**	0.33	**0.71**	0.23	**0.17**	0.12	**0.73**	0.24	**0.16**	0.13
Largest shareholder's share	**0.63**	0.27	**0.76**	0.20	**0.45**	0.23	**0.80**	0.19	**0.51**	0.26
CEO/board characteristics										
CEO founder (I generation)	**0.17**	0.38	**0.26**	0.44	**0.19**	0.39	**0.16**	0.37	**0.09**	0.29
CEO family	**0.69**	0.46	**0.67**	0.47	**0.79**	0.41	**0.58**	0.49	**0.66**	0.47
CEO age	**53.9**	11.6	**53.4**	12.2	**53.3**	11.8	**54.4**	10.9	**54.4**	11.1
CEO tenure	**8.8**	7.0	**8.5**	7.4	**9.6**	6.8	**8.4**	7.0	**9.1**	7.1
Percentage of non-executive directors	**0.55**	0.26	**0.54**	0.24	**0.54**	0.26	**0.55**	0.26	**0.61**	0.24

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Table 2. Descriptive statistics and correlation analysis

	Mean	S.D.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1.ROA	5.37	7.95	1											
2. ROA (n-1)	5.52	6.99	0.58	1										
3. Ln age	3.00	0.84	0.07	0.09	1									
4. Listing	0.08	0.27	−0.00	−0.00	0.07	1								
5. R&D/Sales	0.01	0.12	−0.07	−0.06	−0.02	0.03	1							
6. Debt/Equity	1.89	26.57	−0.03	−0.03	−0.01	−0.02	0.02	1						
7. I generation	0.17	0.38	0.05	0.03	−0.28	−0.05	0.01	−0.00	1					
8. % non-executives	0.55	0.26	0.04	0.05	0.01	0.16	0.02	−0.02	−0.03	1				
9. Largest shareholder	0.63	0.27	0.00	−0.00	−0.14	−0.07	0.01	−0.01	0.04	−0.03	1			
10. Family CEO	0.69	0.46	0.06	0.06	0.04	−0.08	0.00	0.01	0.29	0.01	−0.07	1		
11. Firm size (Ln Sales)	11.50	1.22	0.13	0.11	0.09	0.28	−0.02	−0.03	−0.10	0.09	0.03	−0.14	1	
12. Concentration (family)	0.44	0.33	−0.00	−0.05	−0.08	−0.07	0.02	−0.01	0.07	−0.04	0.64	−0.01	0.00	1

Note: n=4085; correlations greater than 0.04 or less than −0.04 are significant at $p < 0.05$.

and more concentrated firms, while they underperform in large and dispersed companies.

Robustness checks

To assess the robustness of the above results and to evaluate potential problems of autocorrelation, we employed Arellano-Bond generalized method-of-moments (GMM) dynamic panel estimators. These estimations have been performed for the panel models of Table 3, as well as for quadrant-specific regressions in Table 4. A first-differenced one-year lagged dependent variable (ROA) was computed with its past levels (Busse and Hefeker, 2007). Results, available on request from authors, strongly confirm those from the parallel fixed-effects models.

Further, since fixed-effects estimation accounts for within-firm variation over the years, and although Hausman tests for all our models indicated fixed-effect estimations as being appropriate, we also performed random-effects estimations for all models presented. These results, available from authors, again confirm those from the fixed-effects models, and confirm that the effects we found for family leadership are valid both at the cross-sectional and within-firm levels.

We wished to determine whether the fixed-effects models of Table 4 were influenced by endogeneity. Following Greene (2003: 787–790) and Villalonga and Amit (2006), we corrected for endogeneity by running treatment-effect regressions for each quadrant. We used the *treatreg* command in Stata, which implements the Heckman two-step procedure. The first stage of the procedure is a probit model for the presence of a family CEO, while the second stage relies on the predicted values for a family CEO to estimate the dependent variable (ROA). We used the same controls as for the fixed-effect panel models, plus five other variables that may influence family CEO presence. They are *firm size, cash holdings* (Miller *et al.*, 2007), and the presence of family members as owners (*family is the largest shareholder*), directors (*percentage of family directors*), and/or chairpersons (*family chairperson*). The rationale for the inclusion of these five variables is that more familial characteristics of ownership and governance may favor the presence of a family CEO. Table 5 presents the findings for the treatment-effects models, and they too confirm the results of Table 4.

As noted, we wished to establish the robustness of our findings across several additional variations: the computation of ownership dispersion across both large family *and non-family* owners, and the inclusion of firms with multiple CEOs in our analyses. Although, as expected, the three-way interaction finding did weaken somewhat when including non-family owners, all other findings continued to bear out our hypotheses (these results are available from the authors). We also reran the analyses of Tables 3 to 5 while controlling for changes in industry ROA. Again, the results did not change in any material way (again, these results are available from the authors).

In summary, there was robust support for our hypotheses and the performance implications of having a family executive are, indeed, quite significant. Family CEOs do better than non-family

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Table 3. Panel regressions of performance on family leadership-context interactions

Column	(1) Base Model	(2) Firm size	(3) Ownership concentration	(4) Three-way interaction
ROA(n-1)	2.16***	2.05***	1.99***	1.93***
	(0.188)	(0.189)	(0.189)	(0.189)
Firm age (LnAge)	−3.82***	−3.58***	−3.52***	−3.56***
	(0.571)	(0.571)	(0.569)	(0.568)
Listing	−1.41	−1.20	−1.67	−1.24
	(4.372)	(4.354)	(4.341)	(4.331)
R&D/Sales	0.09	0.11	0.12	0.16
	(0.156)	(0.156)	(0.155)	(0.155)
Debt/Equity	−0.52	−0.59	−0.68	−0.71
	(0.827)	(0.824)	(0.821)	(0.819)
I generation	0.09	−0.04	−0.45	−0.30
	(1.268)	(1.263)	(1.262)	(1.259)
Board % of Non-Exec	−0.42	−0.53*	−0.46	−0.43
	(0.293)	(0.292)	(0.292)	(0.291)
Largest shareholder's share	−0.72	−0.71	−0.62	−0.81*
	(0.489)	(0.487)	(0.486)	(0.486)
Firm size	3.32***	4.33***	4.38***	4.74***
	(0.292)	(0.348)	(0.347)	(0.357)
Concentration	−0.22	−0.27	−1.56***	−1.36**
	(0.489)	(0.487)	(0.562)	(0.562)
Firm Size * Concentration	0.16	0.41**	0.40**	1.09***
	(0.198)	(0.203)	(0.203)	(0.258)
Family CEO	1.54**	1.77**	1.36*	1.54**
	(0.696)	(0.694)	(0.697)	(0.697)
Family CEO * Firm Size		**−2.19*** **	**−2.26*** **	**−2.35*** **
		(0.414)	**(0.413)**	**(0.413)**
Family CEO * Concentration			**2.13*** **	**2.09*** **
			(0.468)	**(0.467)**
Family CEO * Concentration * Firm Size				**−1.50*** **
				(0.351)
Constant	5.29***	5.05***	5.44***	5.19***
	(0.452)	(0.541)	(0.547)	(0.549)
Fixed effects	Y	Y	Y	Y
R-squared	0.10	0.11	0.11	0.12
F	28.65***	28.82***	28.42***	27.89***
RootMSE	5.63	5.61	5.59	5.58
Observations	4,085	4,085	4,085	4,085
Number of firms	911	911	911	911
ObsGroupmin	1	1	1	1
ObsGroupmax	9	9	9	9

Note: Standard errors in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

CEOs when firms are smaller and family ownership is more concentrated, they underperform non-family CEOs when firms are larger and family ownership is more diffuse. In between—that is when firms are smaller and ownership is diffuse, or when firms are larger but ownership is more concentrated—family CEOs neither outperform nor underperform non-family CEOs. That these findings are reproduced with fixed-effects and random-effects panel models, Arellano-Bond GMM estimations for general panel regressions, and quadrant-specific analyses, attests to their robustness. Additional treatment-effect panel regressions on quadrant-based analyses that take into account endogeneity further strengthen the reliability of the results.

DISCUSSION

Our findings are especially noteworthy as they help to resolve both conceptual-theoretical and

Table 4. Panel regressions of performance on family member leadership for the four quadrants

Column	Dependent variable: ROA			
	Small concentrated firms (1)	**Small dispersed firms** (2)	**Large concentrated firms** (3)	**Large dispersed firms** (4)
ROA(n-1)	0.30***	−0.01	0.21***	0.24***
	(0.031)	(0.058)	(0.037)	(0.036)
Firm age	−1.35	−1.77	−1.44*	−2.75**
	(1.079)	(2.022)	(0.858)	(1.268)
Listing	0.00	0.00	−8.31**	−3.72
	(0.00)	(0.00)	(3.894)	(3.104)
R&D/Sales	−0.11	−0.07	0.03	0.07
	(0.100)	(0.131)	(0.062)	(0.059)
Debt/Equity	−0.14**	−0.00	−0.01	−0.23***
	(0.067)	(0.007)	(0.018)	(0.049)
I generation	−1.80	−3.39	−1.67	2.30
	(2.211)	(5.167)	(2.363)	(3.173)
Board % of non-executives	−3.45*	0.74	2.30	0.26
	(1.848)	(2.502)	(1.747)	(1.756)
Largest shareholder's share	−4.45	−17.65***	−1.50	0.82
	(3.718)	(5.340)	(2.548)	(2.913)
Family CEO	**8.82*** **	2.97	0.43	**−2.92*** **
	(1.569)	(2.157)	(1.091)	**(0.976)**
Constant	7.00	16.03**	9.48***	15.97***
	(4.539)	(6.990)	(3.491)	(4.524)
Fixed effects	Y	Y	Y	Y
R-squared	0.15	0.02	0.07	0.13
F	20.51***	1.75*	4.82***	10.03***
RootMSE	5.59	7.38	3.54	3.58
Observations	1,243	1,035	876	926
Number of firms	332	296	259	286
ObsGroupmin	1	1	1	1
ObsGroupmax	9	9	9	9

Note: Standard errors in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

empirical disputes about the utility of family CEOs in family firms. Evidence from our analyses indicates that, whereas larger firms usually perform better than smaller ones, the advantages of scale are negatively moderated by a family CEO. It confirms that the negatives referenced by both agency and stewardship theories may apply when administrative complexity associated with size increases. Conversely, the negative effects of ownership concentration are positively moderated by a family CEO, as then congruence between ownership and management may reduce agency costs (Jensen and Meckling, 1976). This result also suggests that when firms with concentrated ownership are run by outside executives, agency problems are more likely (Chrisman *et al.*, 2004; Gomez-Mejia *et al.*, 2001).

Our findings indicate a need to discriminate among different 'types' of family firms. Family business researchers should carefully consider *the complex contexts* of family firms in addressing conceptual and empirical controversies in the field (Miller *et al.*, 2007, 2008). As we have shown, neither firm size nor ownership concentration alone can determine whether family leadership is beneficial. The 'winning' Quadrant 1 of Figure 1 suggests that not one but two conditions are required for family CEOs to outperform their non-family counterparts. First, these CEOs do best only when the firm is of smaller to moderate size and hence where administrative complexity is modest. Under such situations, the tacit knowledge of a family CEO who is intimately familiar with the business may trump any 'professional management' expertise of an outsider. Knowledge needs may be less sophisticated, and the personal details mastered by an insider may count for more. In addition, family CEOs most outperform non-family

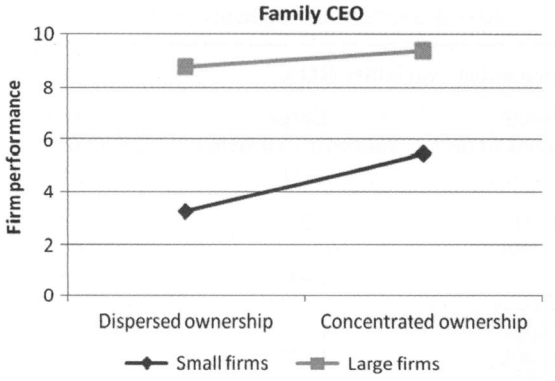

Figure 2a. Plots of ROA for firm size and ownership concentration (family CEO leadership)*

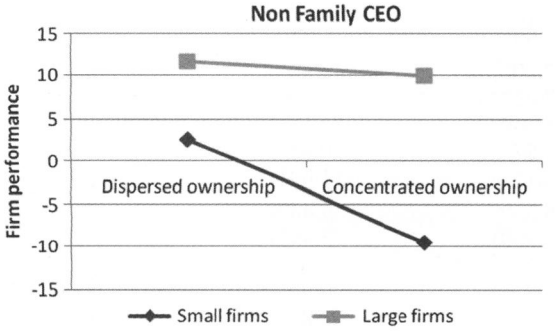

Figure 2b. Plots of ROA for firm size and ownership concentration (non-family CEO leadership)*

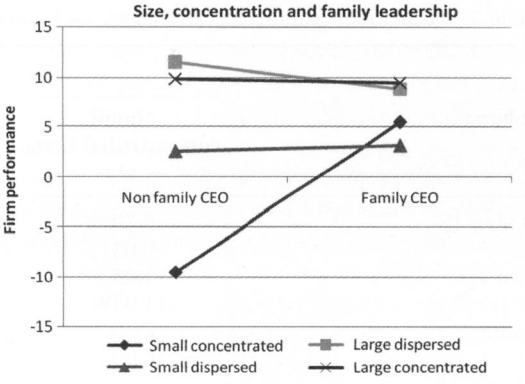

Figure 2c. Plots of ROA for all the interactions*

CEOs when ownership is very tightly concentrated among a few family members. Such concentration reduces the social burden that might have been imposed on family CEOs had governance conditions been more complex. Under concentration, the personal closeness of the CEO to the few other owners also may be quite motivating as, for example, when a family CEO works to ensure the security of other family members. What is notable is that *both* smaller size and concentrated ownership are required to make for superior family CEO performance.

The 'losing' Quadrant 4 (of Figure 1) is in some ways even more interesting. It suggests that underperformance among family CEOs might require a kind of 'double-whammy'—a curse from both size and dispersion that renders the task of a family CEO not only too challenging in its scale and scope, but also politically undermining as threats of family conflict become more likely. Firm scale tends to coincide with administrative complexity and the need for a 'professional manager.' A family insider chosen because of family membership may be at a disadvantage compared to an outsider chosen from a large pool and selected on the basis of exceptional management skills. We had expected also that ownership dispersion within a family would result in social complexity. Under those circumstances, the CEO may require agreement among various owners to gain approval for strategic actions. Moreover, a multiplicity of owners may place different social and financial demands on the CEO, bargaining for perquisites, family jobs, and the like (Kets de Vries, 1996; Kets de Vries and Miller, 1984). This interpretation must, however, remain in question as there was little difference in the performance of family vs. non-family CEOs in firms with *dispersed* ownership—perhaps because ours was a sample in which ownership was quite concentrated. It may be that the high levels of concentrated family ownership even among our 'dispersed' firms were sufficient to reduce the chances of political turmoil. More research is needed into this issue.

Quadrants 2 and 3 show a null result for family CEO performance. This indicates that advantages and challenges of cognitive and emotional complexity may offset each other, so that there is neither any advantage nor disadvantage to family management in firms that are smaller with dispersed ownership or larger with concentrated ownership. It is in such situations that family firms may wish to pay particular attention to the axis that compromises family executive performance. Taking on one challenge—either by specific aid to the

* ROA figures in the plots are based on regressions that include all control variables of Table 3.

family leader or by hiring an outsider, or by buy-outs that concentrate ownership—is far easier than dealing with both.

Implications for theory and research

Previous studies have tended to focus on agency or stewardship theories of family business (Chrisman *et al.*, 2004; Lubatkin *et al.*, 2005; Schulze *et al.*, 2002, 2003a) or on reconciling the two via governance arrangements (Cruz *et al.*, 2010; Le Breton-Miller and Miller, 2009; Le Breton-Miller *et al.*, 2011; Minichilli *et al.*, 2010). Unfortunately, they have ignored the *joint* effects of the administrative and ownership contexts of a family business. Our analysis supports both agency and stewardship theories' portrayals of the qualities of family leadership, and indeed, both versions of agency and stewardship theory that we differentiated at the beginning of this study—but with some considerable qualification concerning the circumstances within which each applies.

This finding is consistent with a contextual approach to theorizing about organizations. Context has been defined as 'the surroundings associated with phenomena which help to illuminate that phenomena, typically factors associated with units of analysis above those expressly under investigation' (Cappelli and Sherer, 1991: 56). The incorporation of context in managerial research can lead to more cumulative research results (Johns, 2006). In family business research, the effectiveness of organizational practices, and family leadership in particular, is apt to vary according to the nature of the administrative and ownership context (Ketchen *et al.*, 1997; Ketchen, Thomas, and Snow, 1993; Miller and Friesen, 1984; Short, Payne, and Ketchen, 2008). Blanket prescriptions have tended to have a short life in organization science, in part because they are overgeneralized and lead to conflicting outcomes. Indeed, our results suggest that agency and stewardship relationships depend on the context of ownership and management, the related socioemotional attachments of principals and agents to their firm (Gomez-Mejia *et al.*, 2007), and the complexity of social and administrative job demands.

Our findings suggest directions for further research. First, there may be a *socioemotional connection* between a family executive and his or her business. Paradoxically, that connection may evoke stewardship over the business in the context of concentrated nuclear family ownership—where the business *is* the family, that is, owned by cherished family members (Berrone, Cruz, and Gomez-Mejia, 2012; Gomez-Mejia *et al.*, 2011)—however, it may evoke stewardship over only the nuclear family in the context of dispersed family ownership—where the business is owned by more distant family members or other parties (Delgado-García and De La Fuente-Sabaté, 2010). This is an area worthy of further study, as is the more general issue of how executive emotions may influence firm performance.

Building on the previous point, our results indicate the need for an *appropriate fit between a leader and his or her organizational context*. Upper echelon research, although it has ignored family firms (Le Breton-Miller and Miller, 2009), has focused mostly on the impact of a leader's characteristics on performance (Hambrick and Mason, 1984; Hambrick, 2007; Finkelstein *et al.*, 2009). It has not explored the fit between top executive characteristics and a firm's sociopolitical context and job demands. Our study suggests that such fit may well be just as important as the characteristics of the CEOs themselves. This consideration of contextual dimensions supports John's (2006) plea to *call off the obsessive search for universal results*. This is of particular relevance to family firms, which are extremely diverse in nature.

Implications for practice and limitations

Our study has implications for practice. First it calls attention to the importance of the fit between types of leaders and the nature of the firms they are called upon to lead. It is not a question of whether family executives fare better or worse than professionals, but rather to ask under what conditions that is the case. Second, our study shows how, as they grow and as ownership diffuses, family firms must be able to adapt their leadership structure. This is especially pertinent given family managers' tendency to resist retirement.

We must point out three limitations of this study. First, Italy has a less developed and efficient managerial labor market for smaller firms. Highly trained and well-educated executives are concentrated in large Italian firms. Thus the effects of firm size on performance may be unusually strong in Italy due to the lack of qualified managerial resources for smaller companies. Another limitation is our reliance on single-country data. Thus it

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Table 5. Treatment-effects models of performance on family member leadership for the four quadrants

Column	Small concentrated (1)	Small dispersed (2)	Large concentrated (3)	Large dispersed (4)
Step 2: DV ROA				
Family CEO	**1.55****	−2.27	0.14	**−3.16*****
	(0.762)	(1.988)	(0.605)	**(1.180)**
Roa(n-1)	0.70***	0.41***	0.80***	0.66***
	(0.024)	(0.063)	(0.023)	(0.030)
Firm age (LnAge)	−0.04	1.32**	0.32	0.11
	(0.262)	(0.543)	(0.227)	(0.252)
Listing	−1.68	−1.74	0.14	−1.57***
	(1.732)	(2.344)	(0.648)	(0.584)
R&D/Sales	−0.01	0.00	−0.03	0.00
	(0.056)	(0.106)	(0.045)	(0.045)
Debt/Equity	−0.10**	0.00	−0.02	−0.19***
	(0.046)	(0.008)	(0.017)	(0.042)
I generation	0.64	1.29	0.65	1.02
	(0.471)	(1.041)	(0.501)	(0.639)
Board % of non-executives	0.73	1.78	0.15	0.07
	(0.721)	(1.459)	(0.641)	(0.817)
Largest shareholder's share	−0.52	2.75	1.24	0.87
	(0.947)	(2.990)	(0.922)	(1.505)
Step 1: DV Family CEO				
Firm size (LnSales)	0.06	−0.05	−0.03	−0.10
	(0.062)	(0.069)	(0.065)	(0.069)
Cash holdings	0.00	0.00	−0.00**	0.00
	(0.000)	(0.000)	(0.000)	(0.000)
1st shareholder family member	−0.55**	−0.59	−0.13	−0.30
	(0.241)	(0.464)	(0.278)	(0.471)
Board % of family members	2.58***	2.42***	2.93***	2.02***
	(0.181)	(0.248)	(0.230)	(0.275)
Family chairman	0.34***	0.18	0.32**	0.33*
	(0.125)	(0.168)	(0.149)	(0.168)
Hazard				
Lambda	−0.43	2.20*	0.12	0.95
	(0.522)	(1.270)	(0.434)	(0.752)
Constant	0.66	−2.06	−1.42	4.42***
	(1.437)	(3.092)	(1.231)	(1.647)
Wald chi	1002.27***	56.97***	1248.49***	593.69***
Observations	1,242	761	880	595

Note: Standard errors in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

will be important for future studies to attempt to replicate our findings in other countries. A third limitation is our use of established family proxies to capture leadership behavior. Future studies should investigate such behavior, and collect more detailed information on leaders' emotions and political processes.

CONCLUSION

This article has attempted to reconcile agency and stewardship perspectives in the widely investigated realm of family firms. Beginning with both theoretical and empirical controversies, our study has adopted a context-based approach, in taking firm size—which we associated with administrative complexity—and ownership dispersion—which we associated with social complexity—as key differentiators of different *types* of family firms. Our results showed how these variables, individually and jointly, influenced the performance consequences of family leadership, and were robust to multiple analytical methods and estimates. Our study advances our understanding of family firms

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and suggests the importance of more contextualized research designs.

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