THE IMPACT OF STEWARDSHIP ON FIRM PERFORMANCE:

A FAMILY OWNERSHIP AND INTERNAL GOVERNANCE PESPECTIVE

A Dissertation

by

CURTIS LEONUS WESLEY

Submitted to the Office of Graduate Studies of
Texas A&M University
in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

December 2010

Major Subject: Management

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ABSTRACT

The Impact of Stewardship on Firm Performance:

A Family Ownership and Internal Governance Perspective. (December 2010)

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Current research in corporate governance focuses primarily upon minimization of agency costs in the shareholder-management relationship. In this dissertation, I examine a complimentary perspective based upon stewardship theory. The model developed herein leverages past research on socioemotional wealth to identify CEO attributes associated with stewardship behavior. I examine whether these attributes lead to positive firm performance. Moreover, I examine how family ownership and board of director characteristics influences the CEO stewardship – firm performance relationship. A 3-year unbalanced panel dataset using 268 S&P 1500 firms is analyzed using generalized least squares regression. All covariates lag the dependent variable by 1-year; constructs are included to control for popular agency prescriptions used to monitor, control, and incentivize executives.

I find no relationship between the hypothesized constructs related to CEO stewardship (board memberships, organizational identity, and board tenure) and firm

performance (Tobin's Q). However, results reveal family ownership positively moderates the relationship between the quantity of CEO board memberships and firm performance. Additionally, the presence of affiliated directors and community influential directors positively moderates the CEO board memberships-firm performance relationship. The presence of community influential directors also positively moderates the relationship between CEO organizational identity and firm performance.

Results from this dissertation provide moderate support for stewardship theory as a compliment to agency theory in corporate governance literature. There is evidence that family ownership and board of director attributes strengthen the relationship between those CEO stewardship constructs and firm performance. However, lack of a direct relationship between the CEO stewardship constructs and firm performance suggest a need more fine-grained constructs that measure stewardship.

A substantial amount of research exists in corporate governance using the principal-agent model. The research herein extends this research by using stewardship theory to compliment the dominant agency model. I hope this research encourages scholars to take an integrative approach by (1) taking a renewed look at alternate theories of corporate governance such as stewardship theory, and (2) continue work that focuses upon firm performance maximization through CEO stewardship as well as agency loss mitigation through monitoring and control of the CEO.

DEDICATION

I dedicate this dissertation to my supportive family. Without the enduring love and unwavering support of my wife, Kimberly, and “daddy’s babies”, Evan and Ellis, the pursuit of my doctorate would not have been possible.

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NOMENCLATURE

BoD	Board of Directors
CEO	Chief Executive Officer
FOB	Family-owned Business
GLS	Generalized Least Squares Regression
OI	Organizational Identity

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CHAPTER I

INTRODUCTION

The use of agency theory as a description of and prescription for monitoring and control of management activity has been the primary theoretical lens for corporate governance for the past 30 years. The central tenet of agency theory is that the divergent interests of owners and managers create situations where managers administer the owners' assets according to their own self-interest to the detriment of the interests of the owner (Fama 1980, Fama and Jensen 1983a and 1983b). Thus, diffusion of ownership and the delegation of management activity are the central concern of agency theory. The diffusion of ownership allows principals to mitigate their ownership risk more easily than the agents they employ leading their agents to take actions while managing the principal's firm that reduces their own risk (Eisenhardt 1989, Jensen and Meckling 1976). A review of corporate governance literature reveals a litany of inconclusive results and contradictory findings on agency prescriptions designed to control the agency loss of principals (see Dalton et al. 2008 for an excellent review). A reexamination of corporate governance using different theoretical lenses may lead to alternate descriptions of the ownership – management relationship and different prescriptions that maximize firm value.

This dissertation follows the style of *Organization Science*.

STEWARDSHIP AS A VIABLE CORPORATE GOVERNANCE THEORY

Relative to agency theory, stewardship theory has received limited attention as a theoretical model for explaining the relationship between firm managers and firm owners (Davis et al. 1997). Donaldson laments that corporate governance research relies too heavily on organization economics' (which agency theory and transaction costs theory are based upon) model of man that portrays human motivation and behavior too narrowly; organization economics discounts behavior of human beings that cannot be adequately explained by economic theory such as cooperative activity among people (Donaldson 1990). Human beings are seen as self-interested, opportunistic, utility maximizers whose primary focus is economic benefit (Jensen and Meckling 1976). A tension between principal and agent occurs as both parties cannot maximize their economic utility in the principal-agent relationship. Principals are more risk-seeking than their agents while agents possess more information about the firm they manage than their principals. This is problematic as principals have provided the capital that is at risk and are the primary residual claimant; meanwhile, the agent, who utilizes the capital to generate rents (and therefore the residuals), bears an employment risk that is perceived to be greater than the risk of capital as perceived by the principal. After all, principals can diversify their risk through their investment portfolio where as the agent must carry employment risk.

Stewardship theory addresses the underlying agency theory assumption that there is a tension between the risk propensity of principals and their agents whereby agents focus their actions upon mitigating their personal risk at the expense of principals. The

agency model posits that owners (principals) must recognize this tension and prevent agent activity related to moral hazard (Holmstrom 1979) by monitoring managers and developing mechanisms that align the interests of agents with principals and prevent opportunistic actions by agents (Eisenhardt 1989, Fama and Jensen 1983a and 1983b, Shavell 1979).

Stewardship theory assumes that managers behave as trustworthy stewards of the organization and focus on the collective good of the constituents in the firm regardless of the manager's self-interests (Davis et al. 1997, Donaldson and Davis 1991). The possibility of moral hazard is assumed away because the manager (steward) decides to work on behalf of the owners; thus, the risk differential between owner and manager that drives the hidden actions of managers in the principal-agent model are not acted upon by the steward manager. The steward manager believes ownership will equitably share the residual claims from the firm; thus, maximization of those claims for the owner maximizes the share of the steward manager. In other words, there is no misalignment between the interests of managers and owners because steward managers believe the pursuit of what is best for the organization is what is best for their constituents and themselves (Davis et al. 1997). Actions that benefit the organization and their owners are taken even if such actions are not in the steward's immediate self-interest. This underlying assumption of commonality between managers and owners runs counter to the assumption of the individualistic, self serving, opportunists that organizational economists have offered as the model of firm management in a market system (Donaldson 1990).

Stewardship research focuses on psychological factors and situational mechanisms that determine desirable manager behavior (Davis et al. 1997). The foundation of this research stream is not the economic theory of man promoted by organizational economics (Barney and Ouchi 1986, Williamson 1981) but is derived from human resource management and organizational behavior research that offer higher order explanations for the proposed steward behavior of managers. McGregor's (1960) development of Theory Y offers an early attempt to provide an alternate view of human nature in organizational settings. A major assumption of Theory Y states:

> "external control and the threat of punishment are not the only means for bringing about effort toward organizational objectives. Man will exercise self-direction and self-control in the service of objectives to which he is committed (McGregor 1960, p 65)."

Davis et al. (1997) build upon this human model by proposing stewards are concerned with the collective good, are intrinsically motivated, and possess a long-term orientation. Stewards can be identified based on personality traits attributed to them that often lead to the positive organizational behaviors they exhibit (Avey et al. 2009, Wright and Quick 2009). Table 1 provides a summary of current literature linking these personality traits and personal attributes to behavioral outcomes.

Stewardship theory development has followed two distinct but abbreviated tracks. The first stream of stewardship research focuses on the manager as the unit of analysis and the intrinsic motivation and situational contexts that determine stewardship behavior (Davis et al. 1997). The primary focus of this type of research is identifying

the antecedents of stewardship behavior. Donaldson (1990) develops the second theoretical stream by focusing on the contractual arrangement between principal and agent (steward) as the unit of analysis. He deems agency theory as primarily focused on the conflict of interest between the principal and the agent. When focused upon the principal-agent contract, the mitigation of agency loss through proper identification of where principal-agent interests misalign is paramount; Donaldson (1990) counters by proposing that there isn't any misalignment between the interests of steward managers and owners because steward managers believe the pursuit of organization goals is what is best for the principals and themselves.

Moreover, Donaldson (1990) takes a positivist view of stewardship theory by stating that owners who design governance structures that maximize the efficiency of steward CEO's pursuit of superior organizational performance will be rewarded. His opinion takes a normative aspect; Donaldson (1990) also declares the focus of owners should change to reflect this principal-steward assumption when they believe they employ a steward. Owners that believe their firm requires strong oversight of management should provide strong agency-prescribed governance structures; meanwhile, owners that believe (or consider) their firm's management require the latitude to make decisions independently and autonomously should ensure governance structures allow for maximum flexibility in management decision making.

For instance, Donaldson and Davis (1991) argue that steward CEOs who are stewards need corporate governance structures that give them high levels of authority and discretion (ex. CEO duality) in order to maximize firm performance. They found

moderate support for their assertion as their empirical model showed that shareholder return on equity was greater in firms led by CEOs who were board chairpersons versus firms led by independent board chairs. A stewardship theorist would argue the results are evidence that such leadership structures facilitate the proper CEO activities (Finkelstein and D'Aveni 1994) and counters the agency argument that such structures lead to moral hazards that adversely impact firm performance as in other studies (Daily and Dalton 1994, Rechner and Dalton 1991).

Likewise, previous research on executive power and managerial discretion often posit that more powerful CEOs have the ability to extract rents for themselves at the expense of shareholders (Finkelstein and Boyd 1998, Hayward and Hambrick 1997), take actions that minimize personal risk (Amihud and Lev, 1981, Lane et al. 1998, Shavell 1979), or entrench themselves as leaders of the firm (Finkelstein and D'Aveni 1994). For instance, the pursuit of firm expansion via acquisition has been linked to the pursuit of higher compensation and executive entrenchment by agency theorists (Hayward and Hambrick 1997, Lane et al. 1998). An alternate explanation yet to be investigated empirically is that the managerial power that preceded the executive entrenchment is necessary for managers to guide the firm into such strategic actions as mergers and acquisitions; higher compensation and manager tenure are consequences of these actions. Managerial power and discretion are necessary to empower firm leaders to take actions that lead to increased firm performance. Often, such activities require strong leadership and a high level of managerial discretion to execute properly. Normatively, if a steward CEO feels that such actions will enhance firm value, the firm's

shareholders (through the firm's board of directors) should facilitate such activity. As a consequence, Davis et al. (1997) acknowledge that both agency theory and stewardship theory have explanatory power, are not mutually exclusive, and are oft times situational. This observation may provide an explanation for the confounding and/or spurious results in past corporate governance research (see Shen 2003, for a theoretical argument).

Therefore, owners must assess the type of manager they employ throughout the manager's tenure and establish appropriate governance structures designed to maximize the efficacy of firm management to drive organizational performance. In this manner, owners who employ a steward manager can leverage this manager by establishing firm mechanisms and organizational structures that support the manager's activities to meet the needs of the organization (Galbraith 1973, Lawrence and Lorsch 1967); this leads to increased firm performance that enriches all parties with valid residual claims (Davis et al. 1997, Donaldson, 1990).

Stewardship theory can be further developed to identify situations where there is a higher likelihood that management stewardship behavior creates desirable organizational outcomes and a lessened likelihood that unprincipled agent behavior creates undesirable organizational outcomes. Moreover, the identification of stewardship situations will facilitate empirical testing and construct development to define the structural arrangements between management and owners, and organizational designs that are the antecedents and consequences of stewardship behavior.

Accounting for the warnings from Albanese et al. (1997) and Barney (1990) suggesting that the development of stewardship theory overly simplifies and confuses

the principal-agent problem and develops naïve viewpoints regarding the motivation of managers, I suggest that agency theory's application in corporate governance is too narrowly focused on self-interests and may not account for situations whereby managers act in ownership's best interest independent of agency theory prescriptions. I concurrently submit that solely utilizing stewardship prescriptions absent of some level of monitoring and oversight is naïve as well. A Middle East proverb states my position plainly: "trust in Allah, but tie up your camel!" Neither agency theory nor stewardship theory fully describe and predict managerial behavior in the context of diffused ownership. However, corporate governance research is lacking the complementary perspective on organizational life that can be provided by stewardship theory. Stewardship theory may provide additional explanation and support for long-term focused managerial activities that may benefit the shareholder and the firm. These may include a firm's interaction with its external environment by supporting corporate social responsibility projects, and firm strategic activity such as investment in research and development. Thus, corporate governance scholars can focus on contingency scenarios that describe and promote value creation independent of managerial opportunism while attempting to describe and remedy principal-agent goal misalignment to minimize agency costs.

RESEARCH QUESTIONS

Herein, I develop and test a theoretical perspective that attempts to explain the behavioral antecedents of stewardship and the relationship between CEO stewardship and firm performance. Specifically, I draw on socioemotional wealth research and

propose that socioemotional wealth is an antecedent of stewardship behavior. This allows for the development of constructs based upon the definition of socioemotional wealth that can be used to empirically test the relationship between CEO stewardship and firm performance. In an attempt to further develop this stream of research, I also present a theoretical model of how family ownership influences the proposed relationship between CEO stewardship and firm performance. Family business literature often links family ownership and control to actions associated with firm stewardship (See Table 2). Likewise, I present a model that builds on the assertion concerning a positive association between stewards that are provided supportive organizational structures facilitating resource access and firm performance. Specifically, this model shows how board composition that supports the CEO in the external operating environment positively influences firm performance. Each theoretical model is tested empirically. Figure 1 summarizes these relationships and the forthcoming hypotheses.

The research questions addressed in this dissertation are summarized as follows:

1. Is CEO stewardship through the use of socioemotional wealth constructs positively related to firm performance?
2. Does family ownership and control moderate the relationship between CEO stewardship and firm performance?
3. Does board composition designed to influence the external environment moderate the relationship between CEO stewardship and firm performance?

Using these research questions, I make several contributions to research in corporate governance. First, this research highlights the importance of providing

alternative theories of maximizing firm performance in addition to minimizing agency costs. Strategy scholars such as Mahoney (2005) assert that "modern agency theorists have become (overly) optimistic that various governance mechanisms (e.g. the market for corporate control, the market for managers) have solved agency problems (p 139)." Recent popular press and scholarly works provide an array of examples where tools based upon agency prescriptions not only did not have the desired effect but increased moral hazard among executives (O'Connor et al. 2006). We continue to observe a measure of truth in Ghoshal and Moran's (1996) prognostication that tools developed to provide more monitoring and control to owners only elicits more deviant behavior from unprincipled agents. Therefore, one can conclude two things: An alternate view may be required that focuses on maximization of firm performance through the identification of executives that behave as stewards of the firm; the alternative view must be utilized concurrently with the agency model to create a holistic model of corporate governance. I am attempting an initial step in the further development of an alternate governance model, i.e. stewardship theory, by identifying and testing constructs that are theorized to be associated with CEO stewardship.

Second, I test the implicit assumption in family business literature that families are stewards of their firms and the presence of family ownership should translate into better firm performance. Contrary to this assumption, the results are equivocal. Family firms have been shown to perform better than non-family firms because of lowered agency costs (Anderson & Reeb 2003); however, in other instances, family firms either performed more poorly than non-family firms (Perez-Gonzalez 2006) or the family

firm's performance was on par with its peers (Miller et al. 2007). Given these mixed results, I test whether family ownership and control positively moderates the CEO steward-firm performance relationship. This situation presents a principal-agent relationship that increases the goal congruence between the principal and the agent, and should yield a further refined test of the influence of family firm ownership and control on firm performance. Moreover, the model tests the underlying premise that goal congruence in the principal-agent relationship reduces agency costs, leading to better firm performance.

Third, this dissertation integrates stewardship theory and resource dependence theory in testing the influence of board roles on external stakeholder support for firm goals. Directors play an important role in acquiring resources for the firms they oversee as board members (Hillman & Dalziel, 2003). Given the roles that directors have to provide guidance and counsel to firm management, a model incorporating CEO stewardship is a natural extension of resource dependency theory and answers the call to provide another explanation for superior firm performance besides minimizing agency costs.

SUMMARY AND ORGANIZATION OF THE DISSERTATION

This dissertation proceeds in the following manner. In Chapter II, I develop theory that links CEO socioemotional wealth to CEO stewardship and establishes the foundation for constructs to be used in empirical analysis. CEO stewardship behaviors will be shown to be associated with steward-like organizational cultures within firms. Also, a review of family literature as it relates to CEO stewardship will occur,

culminating in the development of how family ownership and control positively influence the CEO stewardship – firm performance relationship. A final section within this chapter focuses on the resource provision and external influence capabilities of the board of directors and how the board's composition influences the CEO stewardship – firm performance relationship as well. Hypotheses will be developed concerning each part of the chapter. Chapter III provides the statistical methodology, variables, and data sources used in the study. In Chapter IV, I present the results of the statistical methodology while in Chapter V I conclude with a discussion of how the results relate to the theory developed in the dissertation. I also close with conclusions that can be drawn from this study and limitations to this dissertation.

CHAPTER II

THEORY DEVELOPMENT AND HYPOTHESES

The previous chapter provided an overview of stewardship theory, how it contrasts with agency theory, and how stewardship theory can be used with agency theory to complement existing corporate governance research. This chapter is concerned with the following questions:

1. How is CEO stewardship related to firm performance?
2. Does family firm ownership influence the CEO stewardship – firm performance relationship?
3. Does the role of directors influence the CEO stewardship – firm performance relationship?

SOCIOEMOTIONAL WEALTH AS AN ANTECEDENT TO STEWARDSHIP

Davis et al. (1997) discuss antecedents of intrinsic characteristics such as collectivism, trustworthiness, and pro-organizational behavior, positing that stewards are motivated by higher order needs, have a strong identification with their organization, have high self-efficacy, and possess a high level of power based on their relationships with peers, superiors and subordinates. Recently, Gomez-Mejia et al. (2007) used a similar description when introducing the concept of socioemotional wealth to explain motivations of family businesses to undertake or eschew certain strategic activities. They describe socioemotional wealth as “the non-financial aspects that meet the family’s affective needs, such as identity, ability to exercise family influence, and the perpetuation of the family dynasty (Gomez-Mejia et al. 2007, pp. 106).”

Family control is a high priority in running the firm because firm identity and family identity are highly interrelated in family firms. Family owners are not only concerned about personal and family enrichment as principals in the firm (Chrisman et al. 2007) but also protecting their socioemotional wealth associated with firm ownership (Gomez-Mejia et al. 2007). Gomez-Mejia et al. (2007) note that socioemotional wealth is strongly linked to the ability to exert authority and control (Schulze et al. 2003), the perpetuation of a dynasty (Casson 1999), and the development and sustenance of reputation and social capital (Westphal 1999). In the context of the family firm, the preservation of socioemotional wealth may be more important than extracting agency rents and growing personal (or family) monetary wealth (Gomez-Mejia et al. 2007). Executives operating outside the context of the family firm may also have similar non-financial motivations with respect to the companies they manage. Thus, a deeper investigation of the antecedents of socioemotional wealth and its link to stewardship is warranted; identifying executives with high levels of socioemotional wealth may be the key to identifying firms that are lead by managers who are likely behave as stewards of the firm.

"Wealth" in the term socioemotional wealth infers that socioemotional factors can be accumulated and lost (i.e. added and subtracted). Organizational identification (OI), social capital, and power are factors of importance in defining socioemotional wealth as they are the "wealth" constructs that can accumulate and be lost.

As defined by Gomez-Mejia et al. (2007), socioemotional wealth is closely associated with organizational identification.[1] At the micro level, OI is conceptualized in

the social identity of the individual (Ashforth et al. 2008). Tajfel's (1978) foundational definition of social identity is "that part of an individual's self concept which derives from his knowledge of his membership in a social group (or groups) together with the value and emotional significance attached to that membership (pp. 63)." Furthermore, Tajfel (1982) asserts this identity is defined by an individual's awareness of his/her identity, an evaluation of the identity against a set of values, and consequently, an emotional investment in the identity. Therefore, a person's social identify may be strongly associated with their occupation and place of employment; for senior executives such as the CEO of a firm, this association may be more pronounced and lead to behavior that reflects strong attachment to the organization.

Ashforth et al. (2008) expand upon the concept of identification by defining the core of identity (I am, I value, I feel) and the content of identity (I care about, I want, I believe, I can do) as well as linking it to behaviors associated with identity (pp. 330, Figure 1). The stronger a person's social identity is linked to their identification with an organization, the more organizational identification involves the core and content of identity leading to identity-induced behaviors associated with the organization. For example, Riketta's (2005) meta-analysis of OI found relatively high correlations between OI and positive behaviors associated with stewardship such as job involvement, in-role performance, and extra-role performance. It appears that when the link between a person's social identification and organizational commitment is very strong, an individual's stewardship behavior is likely to manifest itself.

Likewise, the deeper the link between a person's social identification and organizational identification, the more stable the identification is between the person and the organization (Ashforth et al. 2008). The consequences of such depth may not only encourage positive stewardship behaviors with respect to the organization but also institutionalize the link between OI and person's social identification. Therefore, an attempt to change the link between the social identification of a person and the characteristics of the organization that feed the person's organization identity is met with resistance by individuals (Aquino and Douglas 2003), and often leads to the individuals resisting organizational change (Bouchikhi and Kimberly 2003). As a consequence, individuals with high socioemotional wealth are more likely to preserve their socioemotional wealth tied to the organization's identity. Therefore, the preservation of socioemotional wealth will drive activity that develops organizational outcomes to which a person's social identity and organizational identity are linked.

The development of social capital by individuals within an organization is closely linked to the accumulation of socioemotional wealth associated with that organization. Arregle et al. (2007) define social capital "as the relationships between individuals and organizations that facilitate action and create value (p. 75)." The goodwill and resources made available via reciprocal relationships of trust (Adler and Kwon 2002) provide the basis for competitive advantage in the organization (Barney 1991) and can be accumulated. The individual's social network often overlaps with relationships developed within the organization; the internal relationships involving the individual become more interwoven with the professional relationships developed internal to the

organization. The depth and breadth of an individual's structural dimension of social capital would vary depending upon her/his roles and responsibilities within the organization. Likewise, the nurturing of the relationships of the interdependent actors would strengthen the relational dimension of social capital. These internal linkages among individuals (and groups) within the organization foster cohesiveness and collective action (Adler and Kwon 2002) producing individuals, groups, and an organization focused on the collective good (Pearson et al. 2008). In this manner, the accumulation of social capital is directly linked to an individual's stewardship behavior and an organization's stewardship culture.

The accumulation (and utility) of authority alluded to by Gomez-Mejia et al. (2007) is a description of power. Pfeffer describes power as "the capacity of social actors to exert their will and to achieve their goals in a relationship (Shen 2003: pp. 468)." Blau (1964) split the concept of power into formal power awarded by assuming a leadership role or position in an organization and informal power developed through interpersonal activity and social exchanges. Informal power can be considered in the context of interpersonal relationships and distinct from institutionalized power based upon organizational position (Davis et al. 1997).

The aggregate of an individual's power normally increases with time when the individual remains affiliated with a particular organization. For instance, Shen (2003) observed that "regardless of its sources, CEO power increases over time (p. 468)" and is often conceptualized by including CEO tenure as an indicator of CEO power. Moreover, informal power often is derived from the personal prestige and social status

of the individual (Finkelstein 1992). Social capital can accumulate based upon the length of tenure in an organization and become an important source of informal, personal power (Barkema and Pennings 1998, Greve and Mitsuhashi 2007, Shen and Cannella 2002). Individuals with longer tenure in organizations have more time and opportunity to develop interpersonal relationships and reciprocal obligations that allow them to amass social capital to affect organizational activities (Greve and Mitsuhashi 2007). Moreover, the prudent, impactful use of their power often delivers positive reputational effects that further builds upon the executive's social capital and personal power (Greve and Mitsuhashi 2007). Thus, an executive's power "depends upon the embeddedness in the firm and on the social relationships they have built up over the years" (Barkema and Pennings 2007: pp. 976).

An executive's socioemotional wealth is directly linked to the executive's organizational identity, organizational social capital, and organizational power. Steward executives may develop a strong link between social identification and OI and have most likely developed the social capital necessary to be powerful in their organization. An individual's socioemotional wealth builds by the strengthening of their identity with the organization, the amassing of social capital within an organization, and the development of power through role promotion and interpersonal relationships. Because a number of events (termination, reorganizations, hostile takeovers, bankruptcy, etc.) could diminish the amount of an individual's socioemotional wealth tied to an organization, an executive is motivated to nurture, protect, and develop the organization with which her/his socioemotional wealth is linked (Gomez-Mejia et al. 2007). Moreover, because

attributes associated with socioemotional wealth (organizational identification, social capital, and informal power) often amass with organizational tenure, executives who value this type of non-economic wealth will take a long-term view of the success of their organizations and focus on long-term profitability and firm value, akin to taking a steward's view of the firm. Based upon the aforementioned arguments that link stewardship to socioemotional wealth, I propose the following:

Hypothesis 1 (H1): CEO's socioemotional wealth is positively related to a firm's long-term performance.

STEWARDSHIP, ORGANIZATIONAL CULTURE, AND FIRM PERFORMANCE

An organization's culture is often driven by its leadership. Expressions of morality and trustworthy actions by firm employees are frequently discussed as consequences of stewardship behavior by a firm's executives. Often, the moral and trustworthy manner in which a CEO behaves leads to the CEO possessing a reputation of honesty and fair-mindedness with organizational stakeholders (Jones, 1995). Executives that behave as stewards are trusted by executives of other firms, by their owners, and by actors in the capital and product markets. Thus, steward-like behavior from managers at the top of the organization often promotes positive organizational citizenship behaviors throughout the firm.

Like descriptions of firm stewards and their behaviors, Zahra et al. (2008) describes stewardship cultures as pro-social, collectivist, cooperative, organizational environments which motivate employees who trust the organization. Employees are mutually interdependent yet autonomous, strongly identify with the organization, and

often provide discretionary contributions to the organization for the benefit of all (Zahra et al. 2008). A culture of stewardship within a firm facilitates employees to manage internal and external relationships with long-term orientations (Miller et al. 2008). This allows firms to focus upon the development of their core competencies to further expand their firm-specific advantages in the marketplace (Miller and LeBreton-Miller 2006) instead of using firm resources to manage employee-management relationships within the firm. This leads to the development of competitive advantage through intra- and interorganizational relationships based upon mutual trust (Jones 1995, Jones and Wicks 1999).

High stewardship cultures can develop competitive advantages based on strategic flexibility to develop core competencies and exploit firm-specific advantages (Zahra et al. 2008). Strategic outcomes of firms with such cultures include having better human resource practices and fewer downsizing events, greater investment in R&D leading to more firm patents, fewer unrelated acquisitions, and less risky strategic investments than firms without a stewardship culture (Miller and LeBreton-Miller 2006). The long-term orientation of firms with stewardship cultures results in more loyal customers, higher investment in nonfinancial projects (such as corporate social projects), and small, long-term supplier network (Miller and LeBreton-Miller 2006). Such activities are thought to lead to higher levels of long-term value for the firm. Moreover, theory development by Jones and colleagues suggests that steward-like behavior is necessary for efficiency and long-term profitability in a capitalist economic system (Jones 1995, Jones et al. 2007,

Jones and Wicks 1999). These behaviors can contribute to a firm's competitive advantage over less trustworthy firms (Jones and Wicks 1999).

While previous theory developed herein discusses the link between a CEO's socioemotional wealth and stewardship, a positivists' view of stewardship would focus upon firms led by CEOs who would likely possess stewardship attributes. The family-owned business (FOB) led by the family CEO may present researchers with the most parsimonious example of a steward-led firm. Therefore, CEO stewardship, its influence upon organizational culture and its relationship to firm performance is explained further in the context of the family firm.

The Family Firm: Evidence of the Steward CEO and a Firm's Stewardship Culture

CEOs of FOBs are often considered stewards of the firm they lead as they are commonly the founder or a relative of the founder (Chrisman et al. 2003). Consequently, they have a high personal stake in the firm's success (Beehr et al. 1997). Their position as owner and manager of the firm may also lessen the concern of goal incongruence between principal and agent as they can often be considered one and the same (Jensen and Meckling 1976).

FOB CEOs pro-organizational, collectivist behavior (see Table 2) can be attributed to the value of cooperating for the success of the family firm over defection to satisfy their economic self-interest (Gomez-Mejia et al. 2003). Moreover, FOB CEOs may value and protect their socioemotional wealth associated with firm ownership (Gomez-Mejia et al. 2007). The FOB CEO may be keenly interested in protecting and developing the family's influence and power (Schulze et al. 2003), organizational

and/or social identification of the family with the firm (Casson 1999), and the maintenance and strengthening of the family's social capital (Gomez-Mejia et al. 2007). The preservation of the family firm is of the utmost concern to the FOB family CEO and the preservation of socioemotional wealth may be more important than extracting agency rents and growing personal (or family) monetary wealth (Gomez-Mejia et al, 2007).

Existing family business research reveals a high likelihood that FOBs exhibit organizational attributes (such as possessing a clan-like, family feel) that are associated with a culture of stewardship (Sharma 2005). Corbetta and Salvatto (2004) comment that family firms with stewardship cultures have high levels of interorganizational and intraorganizational trust among their employees. Burden sharing, collaboration, and cooperation are the norm leading to a loyal, well-trained, empowered staff (Eddleston and Kellermanns 2007, Miller et al. 2008, Zahra et al. 2008) that produce valuable discretionary contributions from autonomous, independent workers (Zahra et al. 2008).

Family firms that possess organizational stewardship attributes have similar positive strategic outcomes. For instance, the Miller et al. (2008) study reveals that to broaden market share and enter into related markets, FOBs do more reputation development via a variety of marketing channels, develop a good working environment through their training and work policies, and place a strong emphasis on the development and management of customer and supplier connections. Such a long-term market focus leads to high client satisfaction and loyalty and strong ties with outside stakeholders, allowing management to invest in strategies that create a competitive advantage through the development of internal core competencies (Miller and LeBreton-

Miller 2006, Miller et al. 2008). In fact, Sirmon et al. (2008) conclude a family firm's strategic actions may be profitable because the firm benefits from family influence that produces steward-like decisions. Specifically, Sirmon et al. (2008) surmised that family firms with strong ownership positions but without majority ownership were not hampered by the agency costs associated with majority control. Often, large family firms have majority stakeholders who are not the families themselves even though the family often maintains management control of the firm. This scenario suggests that firms benefit from the organizational culture and management control of family ownership. Therefore,

Hypothesis 2a (H2a): Family firm ownership positively moderates the relationship between CEO stewardship and firm performance.

Furthermore, it is shown that FOBs being led by CEOs that exhibit behavior associated with firm stewardship often produce positive financial performance (Anderson and Reeb 2003, Kang 2000, Villalonga and Amit 2006). A study by Anderson et al. (2003) reveals that family firms have a lower cost of debt because the incentive and management structures in family firms are sufficient to protect the interests of debt holders (and is also a reflection of the stewardship behaviors of firm leadership). Likewise, when the FOB is managed by the CEO who is a family member versus an outside agent, the valuation of the family firm's equity is higher (Anderson and Reeb 2003). Results from these past studies imply that capital markets value the stewardship role of the family member CEO of a publicly traded FOB. As a consequence,

Hypothesis 2b (H2b): Being led by a family member CEO positively moderates the relationship between CEO stewardship and firm performance.

A STEWARDSHIP PERSPECTIVE ON INTERNAL GOVERNANCE

Boards of directors are charged with the oversight of management activity on behalf of firm shareholders (see Dalton et al. 2008 for a thorough review). Many research questions using agency theory seek an answer to how the boards of directors can effectively monitor managers to ensure managers make decisions in the best interest of shareholders (Duetsch 2005, Holmstrom 1979), do not shirk their duties (Eisenhardt 1989, Fama 1980, Holmstrom 1979) or consume unearned perquisites (Fama and Jensen 1983a and 1983b, Shavell 1979). Effective board monitoring is thought to lead to higher firm performance (Dalton et al. 1998, Rhoades et al. 2001, Zahra and Pearce 1989). Such inquiries often center on investigating the effects of board composition and the board leadership structure.

Agency theorists argue that the boards' willingness to monitor the actions of management is directly related to their independence from the firm's executives (Johnson et al. 1996). The current domestic governance structures required by the Sarbanes-Oxley Act of 2002 (SOX) and listing guidelines from the New York Stock Exchange (NYSE) and NASDAQ promote the notion that board independence is linked to some level of monitoring and internal control within the firm (Dalton et al. 2008). For instance, the SOX outlines independence for the purposes of service on the audit committee as not accepting any fees from the firm and not being affiliated with the firm

or its subsidiaries. Moreover, the New York Stock Exchange defines an independent director as a director not having a material relationship with the firm, partner, shareholder, or firm officer.

However, many theorists also effectively argue and reveal empirically that board independence is a fallacy (Hemalin and Weisbach 1988, 1991, Shivdasani and Yermack 1999). CEO's can influence the tenure of board members (Westphal and Zajac 1997) and effectively usurp or moderate the internal control of any remaining board members (Hemalin and Weisbach 1988, 1991). Likewise, inside directors report directly to the CEO making it unlikely that they would criticize the CEO (Baysinger and Hoskisson 1990, Weisbach 1988). Moreover, directors with direct business ties to the firm risk those business relationships if they offer criticism of the firm's leadership (Westphal and Zajac 1997). Even those directors deemed to be independent are viewed as sympathetic to the CEO as their tenure on the board is based on their ability to "get along" with the CEO and other board members (Sutton 2004). Likewise, director judgments can become more biased as their wealth associated through board service increases (Bebchuk and Fried 2006, Dalton and Dalton 2005) and their ability to have their directorship rescinded is reduced via the covenants that govern board elections (Bebchuk and Cohen 2005).

Conflicting results from past research on internal control of management may lead one to believe the link between board oversight and firm performance is spurious at best (Dalton et al. 1998, Rhoades et al. 2001). However, an alternate viewpoint has emerged whereby board members are viewed as strategic resources of the firms where they hold

directorships (Barney 1991, Wernerfelt 1984). The utility of the board member is based on the quality of the advice and counsel given to management and the quantity of resources made available to the firm and the CEO via the board member (Pfeffer and Salancik 1978, Hillman et al. 2000, Hillman and Dalziel 2003). The ability to support the firm's objectives is of value and the independence of the board member is of less importance. For instance, agency theorists argue that board member interlocks (Mizruchi 1996, 2004) and social ties (Westphal 1999) involving the CEOs of firms undermine the oversight capability of directors. Conversely, those who espouse a resource dependence view (Pfeffer and Salancik 1978) suggest that networking and knowledge diffusion associated with board interlocks and social ties are highly valued and drive subsequent firm performance (Davis 1991, Davis and Greve 1997, Geletkanycz and Hambrick 1997, Hillman and Dalziel 2003, Stearns and Mizruchi 1993). A study by Carpenter and Westphal (2001) revealed that when directors' social ties were strategically linked to the firm on which board they sat, they enhanced the firm's strategic decision making. More recently, McDonald et al. (2008) showed that outside director acquisition experience is positively related to the firm's acquisition performance.

Perhaps the influence of the board of directors is situational (Shen 2003) and a variety of structures are needed to produce positive results. Sirmon et al. (2008) noted that family influence in the management of the firm sans a controlling interest may allow the board of directors to *monitor and guide* executives, which positively influences strategic decisions and allows for profitable outcomes. As Hillman and Dalziel (2003)

and Sundaramurthy and Lewis (2003) point out, the role of the board encompasses monitoring and oversight (agency theory), and providing counsel and resources (resource dependency); thus, future research must close the gap of knowledge in the latter so that we have a complete account of the impact of board effects on firms.

Theory on stewardship is consistent with alternate views on corporate governance that focus on how a board supports management's attempt to drive firm performance. Owners are charged with the responsibility of providing an environment in which their steward managers can maximize their performance on the owners' behalf. Such activities begin with the selection of board members as the director's role focuses on providing the necessary resources and guidance to maximize the value of the firm (Pfeffer and Salancik 1978). As Pfeffer and Salancik (1978) have succinctly outlined, the primary benefits boards provide include (1) advice and counsel, (2) legitimacy, (3) channels of communication between the firm and external organizations, and (4) preferred access to external resources the firm may require. Therefore, consistent with the resource dependence view of corporate governance, board members will be selected by shareholders to maximize the effectiveness of having a steward CEO so that resources the directors provide can be maximized.

The Role of Directors as Counselors and Resource Providers for Steward CEOs

> Acting as stewards, [owners] may place outside directors (affiliates and independents) on the board to provide industry-specific expertise, objective advice, or generally act as advocates for corporate health and viability. Consequently, a relation potentially exists between the board's

> independence and firm performance because of the counsel and advice that outside directors offer, as opposed to their monitoring and control activities. (Anderson and Reeb 2003: p 211)

Directors as counselors for firm management. Board member experience is an important indicator of the quality of the advice and counsel they can provide. The roles board members play in their current and previous companies provide the background necessary to support the firm. Such qualities reflect the ability of the director to support the firm's goals. Kor and Sundaramurthy (2009) show that a director's experience contributes to the sales performance of a firm while McDonald et al. (2008) show a positive effect of a director's acquisition experience upon a firm's acquisition performance.

Directors possess two types of experiences valuable to the firm. Each director possesses firm-specific experience and industry-specific experience. Both sets of experience are valuable to shareholders seeking to provide support for management activities. Firm-specific experience accounts for the tenure the director has on the board and will reflect the team experience gained with the other directors and the managers. Upper echelons literature suggests such team experiences are valuable as they foster shared norms, common goals, organizational routines, coordination, and mutual commitment that enhance the efficiency of team decision making (Finkelstein and Hambrick 1990). A director with longer tenure is better equipped to understand firm-specific strategies and capabilities and will be able to more adequately support the CEO's strategic vision.

Industry-specific experience allows directors to be sensitive to critical issues within the firm's industry thus enabling the director to provide the proper guidance to the firm's executives. When directors gain experience through other industry directorships, they are able to accumulate human and relational capital that can be used to support the firm. Tenure as a director in the focal firm adds to the industry experience of the director specific to the focal firm and facilitates their ability to assess the firm's strategic activities in the context of other industry participants. Empirical studies have shown that more management industry experience leads to higher firm growth (Kor 2003), higher sales growth (Kor and Sundaramurthy 2009), higher market valuation during M&A activity (McDonald et al. 2008) and a higher likelihood of firm survival (Pennings et al. 1998).

The more industry experience directors possess, the more the director can be a resource to management facilitating their efforts to maximize firm performance. This is of utmost importance to the steward-led firm. The board's responsibility is to provide guidance to firm executives to maximize firm profitability and firm value. Under the framework of stewardship theory, this charge outweighs the requirement to actively monitor management to minimize agency loss. Therefore, I expect that director experience will have an additive effect on the link between CEO stewardship and firm performance. More formally,

Hypothesis 3 (H3): Director industry experience positively moderates the relationship between CEO stewardship and firm performance.

Directors as external resource providers for the firm. Directors influence a firm's ability to access resources through the board member's link to the external environment (Boyd 1990, Daily and Dalton 1994, Hillman et al. 2000, Johnson et al. 1996, Pearce and Zahra 1992). Corporate boards serve as a firm's mechanism for managing external dependencies (Pfeffer and Salancik 1978), reducing the firm's environmental uncertainty (Pfeffer 1972), and reducing transaction costs associated with environmental interdependency (Williamson 1981). Moreover, directors bring key strategic resources such as information, access to key industry constituents, and legitimacy to the firm (Gales and Kesner 1994).

Whether the resources provided benefit the firm is dependent on whether they assist the firm in managing the aforementioned external dependencies (Pfeffer and Salancik 1978). Past research by Daily and Schwenk (1996) and Hillman and Dalziel (2003) propose that an effective board provides resources that lead to firm profitability. Goodstein and Boeker (1991) show some support for the effectiveness of boards in resource acquisition while Hambrick and D'Aveni (1992) found that in the bankruptcy process outside directors provide credibility and legitimacy to their firms leading to firm survival. Consequently, the structure of a firm's board of directors is a direct reflection of the resource needs of the firm to support the strategic actions of the CEO. A study by Jones et al. (2008) found that, in family firms, affiliated directors use their close social ties with management to provide them with information from the external business environment that reduces the perceived risk of firm strategic actions. Thus, the presence of certain directors may confer different resources than other directors. Identifying and

selecting board members that can provide resources to the firm is important to firm ownership; it is especially important to a steward-led firm as owners place less importance on a board's monitoring function and emphasize creating a board that can provide the structure and environment necessary to support the CEO's efforts to create and maintain a profitable company (Davis et al. 1997).

Shareholders also value the ability of a board member to maintain or strengthen an existing business relationship in a steward-led firm. Such board members lessen information asymmetry between the firm's executives and potential suppliers in the firm's production value chain. This promotes a level of trust and facilitates collaboration between firms. Often, such board members are either managers or sit on the boards of companies that have existing business relationships with the firm. These board members are "affiliated directors" because they are not deemed independent of firm influence based on the existence of a preexisting relationship. Agency theorists regard affiliated directors as non-independent board members (in accordance with SOX) and propose that such directors are under the influence of management and cannot be trusted to exercise monitoring management with the same vigilance as an outside independent director (Dalton et al. 2008). Shareholders concerned with implementing effective controls on management avoid affiliated directors while owners seeking to support managers they believe are stewards of the firm embrace affiliated directors. Hence,

Hypothesis 4 (H4): The number of affiliated directors positively moderates the relationship between CEO stewardship and firm performance.

Another avenue for owners of steward-led firms to provide support to management via the board of directors is through specialized expertise the director brings to the firm (Hillman et al. 2000). "Support specialists" are decision supporters (Baysinger and Zardkoohi 1986) that "provide linkages in specific, identifiable areas that support the firm's strategies but do not form the foundation on which the strategy is built" (Hillman et al. 2000: pp. 241). These directors may lack general business management experience yet provide specific expertise and insight valuable for firm decision makers (Jones et al. 2008). They extend support in specialized areas that require concrete knowledge such as law, finance, capital markets, etc. The primary role of support specialists is to secure resources for the firm from outside entities (Jones et al. 2008) and/or provide consultative advice that reduces environmental uncertainty (Hillman et al. 2000, Pfeffer 1972). For instance, board members that possess backgrounds in finance have been found to help gain access to financial capital (Pfeffer 1972, Mizruchi and Stearns 1994, Stearns and Mizruchi 1993) while business lawyers provide valuable advice when industry regulations change (Hillman et al. 2000).

Boards structured to support the strategic direction of the steward CEO are more likely to have directors who are resources while boards whose primary concern is monitoring and control of management place less value on a board member without the

business management experience required for effective oversight of the agent CEO. Therefore, I propose the following:

Hypothesis 5 (H5): The number of directors who are support specialists positively moderates the relationship between CEO stewardship and firm performance.

Directors with community influence are of special value to steward-led firms to help assure that the interests of stakeholders outside the competitive product or supply markets are not abused or ignored (Hillman et al. 2000). Such directors include politicians, members of the clergy, university faculty and leaders of social or community organizations; previous research by Hillman et al. (2000) reveal that these types of directors are especially valued during times of environmental uncertainty.

Acquaah (2007) highlights the need for relationships with community leaders showing that communities served by businesses in emerging economies rely heavily on informal political systems that influence resource availability to the business operating in that environment. He states "the relationships developed by an organization's managers with community leaders provide the organization with valuable access to resources and information as the community leaders endorse the organization and its activities and refer it to their communities. This may enable the organization to obtain financial resources, enter new market segments or gain access to new customers, and/or acquire technological know-how. Thus, community leaders act as links to a broad marketplace, connecting organizations with their communities leading to the transmission of valuable information and resources (p. 1241)."

As a consequence, community influencers who serve as directors provide the firm with legitimacy to external constituents, provide expertise about and influence with powerful community constituents, and provide an external non-business perspective of firm activity (Hillman et al. 2000). Unlike firms with a principal-agent culture, stakeholder cultures that value stewardship principles are concerned with the perceptions and valid concerns of legitimate stakeholders such as community constituents (Jones Felps and Bigley 2007). Legitimate stakeholders such as community leaders provide access (or restrict access) to customers and resources that lead to firm profitability. Therefore,

Hypothesis 6 (H6): The number of directors that are community leaders positively moderates the relationship between CEO stewardship and firm performance.

SUMMARY

In this chapter, I proposed that through a CEO's socioemotional wealth in their firm, CEO stewardship is positively related to firm performance. Moreover, after a review of the family business literature as it relates to stewardship and organizational culture, I take a positivist's view of stewardship theory and propose family-owned business positively moderate the CEO stewardship–firm performance relationship. Finally, to support the normative view of stewardship theory presented, I propose board of director characteristics associated with influencing external stakeholders positively moderate the CEO stewardship–firm performance relationship as well. In summary, work within this chapter proposes uniting socioemotional wealth with stewardship,

extending family business literature’s link to stewardship theory, and creating an alternative theory on internal governance by leveraging stewardship and resource dependence theories.

CHAPTER III

RESEARCH METHODOLOGY

The hypotheses in the previous chapter propose a relationship between CEO stewardship and firm performance, and moderating effects of family ownership and board composition on this relationship. This chapter describes the research methodology used to test these relationships. First, I describe the study sample and afterward discuss measures used in the study. I close the chapter with description of the methods used to test the hypotheses.

SAMPLE

In order to evaluate these hypotheses, I evaluate a sample of firms from the S&P 1500 during 2004, 2005, and 2006. The S&P 1500 was chosen because it accounts for 85% percent of value of publicly-traded U.S. firms and thus reflects a sample that provides broad generalizability to large and medium-sized public corporations. A random sample of 300 firms from the S&P 1500 was selected. All financial and personal CEO data was collected from *The Corporate Library*, CRSP*/Compustat*, and *RiskMetric* databases. Subsequent missing values were collected via a variety of sources including company press releases and SEC filings. Those firm-year combinations remaining with incomplete data with respect to the dependent, independent, and control variables were dropped from the sample leaving 268 firms and 587 firm-years observations.

DEPENDENT VARIABLE

The theory development herein proposes that attributes associating CEO stewardship and socioemotional wealth lead to better firm performance. Measures of firm performance in strategy literature are most often based on accounting measures and stock market returns. *Tobin's Q* is used as a measure of firm performance in this study and is a measure of efficiency that divides firm market value by total assets (Chung and Pruitt 1994, Lee and Tomkin 1999). By using Tobin's Q, I incorporate investor perceptions of firm value (through the use of market value in the calculation) while normalizing firm performance measure based upon the firm assets. Moreover, this market-based measure also provides an indication of future firm performance. The value of Tobin's Q leads the independent and control variables. As an example, independent and control variables collected for the year 2004 (time, t) will have a firm's Tobin's Q reported from 2005 (t+1). This incorporates a lag of one year between the dependent variable and independent variables at the beginning of the time periods expected to influence firm performance.

INDEPENDENT AND MODERATING VARIABLES

Stewardship Variables

The socioemotional wealth accumulated by an employee is theorized herein to develop and build over time such that the longer an employee's tenure with a firm, the more socioemotional wealth is possessed by the employee. Time spent with the organization allows for the development of an employee's organizational identity, social capital, and informal power that create a high level of socioemotional wealth and lead to

behaviors associated with stewardship. CEOs with high levels of socioemotional wealth are theorized to take actions that reflect the CEO's stewardship of the firm. Thus, it is important to capture and utilize constructs associated with the building blocks of socioemotional wealth to describe CEO stewardship.

CEO director tenure is used to capture the length of time the CEO has been a senior employee of the focal firm and serves as a proxy for a CEO's informal power. CEO director tenure not only captures the formal structural power associated with CEO tenure (Finkelstein 1992) but also the informal power developed over the span of the career as an executive officer (and/or senior advisor) with the current firm. A negative value for this variable indicates that the CEO was not a member of the board of directors for a specific length of time. Three firm-year observations have negative values for CEO director tenure.

Social capital in the context of socioemotional wealth reflects the leveraging of personal business relationships that develop over the tenure of employment of the CEO. Past research has linked social capital with CEO attributes closely associated with human capital such as education level, elite education alumni, formal training, etc. (Belliveau et al. 1996). However, since the consequence of social capital in professional settings of top management teams is often the *number of board directorates*, I define a CEO's social capital based upon the network that develops as the CEO ascends into an executive role. This measure is consistent with Florin et al.' (2003) measure of the CEO's personal network and D'Aveni's (1990) use of the number of corporate boards sat on by the CEO to develop a top management team status construct.

The *CEO's organizational identity* was constructed by conducting content analysis of the annual letter to shareholder authored by the CEO in the firm's annual report. Past research in strategic management has shown that content analysis is a useful tool to capture the managerial cognition, perceptions, and beliefs of executives who have limited accessibility (D'Aveni and MacMillan 1990, Duriau et al. 2007, Short and Palmer 2008).

The shareholder letter was content analyzed via DICTION 5.0 (Hart 2000). DICTION was designed to focus on the subtleties of word count, word choice, and tone-based linguistics theory in the field of communications (Hart, 1984). The software package contains 31 predefined dictionaries containing over 10,000 words that can be used to analyze any text, including those from business texts such as annual reports, mission statements, speeches, and press releases. The Commonality master variable score is used to reflect the *CEO's organizational identity*. The Commonality master variable is one of five master variables used by DICTION to analyze text. "This variable examines language that highlights agreed-on values of a group and rejects idiosyncratic modes of engagement [and] may be useful to validate the assertions of strategy scholars who have suggested that communitarian characterizations will become increasingly popular in the strategic discourses of organizations (Short and Palmer 2008, p 732)."

The normal range for the Commonality score in DICTION 5.0 is 46.86 to 52.28. The Commonality score range of the sample's mean (50.55) and approximately +/- 1

standard deviation (2.18) falls within the normal range of analyzed texts using DICTION.

Family-owned Business Variables

Measures of family-owned businesses are required to test this economic organizational form's influence upon the impact of socioemotional wealth (stewardship). This study incorporates the definition of *family ownership percentage* by Miller et al. (2007) whereby a family firm is one where "multiple members of the same family are involved as major owners or managers, either contemporaneously or over time" (p. 836). The definition used in this study incorporates a family ownership percentage over 1% and the presence of at least one family member as a director or executive of the firm. Firms that meet these criteria (family blockholder ownership over 1%) will have their family's ownership percentage used as a primary variable of interest (Miller et al. 2007). This variable is coded as a continuous numerical value from 0.00 to 1.00.

Moreover, the model will include a *family CEO variable* that is defined as whether the firm's CEO is the founder, parent or sibling of the founder, or a direct descendent of the founder. This variable is coded as a dichotomous variable whereby a value of "1" reflects the aforementioned definition and "0" for CEOs who were not deemed to meet the definition. These data were collected from the focal firm's SEC filings (10-K, DEF14A).

Board of Director Composition

To test the impact of board of director characteristics on the relationship between a CEO's socioemotional wealth and a firm's-long term performance, the total amount of

director industry experience is included in the model, which serves as a proxy for the knowledge-based resources provided by the board to the firm's CEO (Hillman and Dalziel 2003). This variable is the summation of each director's experience as a member on the top management team (as listed in the focal firm's annual report and SEC filings) in any firm that operates in the same industries as the focal firm as defined by the first two digits of the primary and secondary SIC codes of the focal firm (McDonald et al. 2008). This measure also captures the total amount of the board's social capital through the personal networks of the directors as defined by Florin et al. (2003).

The number of board members who are considered by the SEC to be *affiliated directors* is theorized to influence the resource access of the focal firm through its business partnerships (Jones et al. 2008). Meanwhile, the number of *support specialist directors* and *community influencer directors* are included to test the hypotheses concerning the provision of resources by such directors to the firm's executive management. Support specialist directors include bankers, lawyers, public relations specialists, and insurance company representatives; these types of director are thought to provide legitimacy for the firm, provide expertise to management, and provide access to capital markets and government decision makers (Hillman et al, 2000). Community influencers, on the other hand, provide non-business expertise concerning operating in the business environment; these types of directors include politicians, clergy, academics, and community/civic leaders (Hillman et al, 2000).

Each firm director is coded dichotomously for each director classification (as the classifications are not exclusive) and the sum of each type of director for each firm is calculated for inclusion in the empirical model.

CONTROL VARIABLES

Control variables included in proposed model must account for firm characteristics and measures commonly used in corporate governance literature. All of the following variables were collected in databases such as *RiskMetrics, CRSP, Compustat*, and *The Corporate Library* or from the focal firm's SEC filings. Firm characteristics included in the models are firm size, as measured by the *annual sales* of the company, and *firm age* as the number of years since the firm was founded. A *relative industry performance* variable is also included to control for firm stock market performance specific to the industry of each sample firm. This variable is calculated as the difference between the focal firm's year-end stock market price and the focal firm's industry median year-end stock price within the focal firms leading 2-digit SIC industry. All data for this variable was sourced through the combined *CRSP/Compustat* database. *CEO age* is also included in the model as risk aversion in older CEOs may impact firm performance.

Corporate governance variables are used to control for the impact of agency theory prescriptions on CEO activities that are theorized to reduce agency costs and increase the firm performance. To control for internal governance prescriptions six common controls are included. The *number of board members* and *number of board meetings* are included to capture the ability and actions taken to monitor a firm's CEO, respectively (Dalton et al. 1999). The motivation to monitor the CEO is theorized to be directly linked to board

independence and is measured by *the percentage of outside board members* (Walsh and Seward 1990). Conversely, independent or not, many directors are entrenched board members based upon the staggered election cycle for blocks of directors. This ensures the entire board cannot be replaced en mass based upon poor management oversight or subpar firm performance. The level of board entrenchment as represented by a dichotomous *staggered board* variable (where a value of "1" signifies the existence of a staggered board) is included to capture whether mechanisms are in place to reduce director entrenchment and align the efforts of a firm's directors with the firm's owners (Dalton et al., 2008 reviews the impact of staggered boards in firm governance). Finally, a measure of CEO power over the board, *CEO duality*, requires inclusion to capture the consequences of firm monitoring being lead by the person requiring the monitoring (Fama and Jensen 1983, Finkelstein 1992, Mizruchi 1983). Likewise, the presence of the company *founder* as CEO and/or Board Chairperson also influences the goal alignment of firm management and is theorized to align the interests of the principal (often the founder) and the agent, especially if they are one and the same (Jensen and Meckling 1976).

Seven external governance mechanisms associated with the goal alignment of manager to those of firm ownership are included in the proposed model as well. The impact of the executive compensation system is controlled for with the inclusion of the following variables. *Annual cash compensation* for the CEO is included to capture the influence of annual short-term pay on long-term firm performance and is the sum of the annual salary and annual bonus of the CEO (Finkelstein and Boyd 1998). The *variable*

compensation ratio is a ratio of a CEO's base salary to the sum of value of all variable compensation such as bonuses, stock, stock options, and other compensation tied to firm performance. This variable controls the impact of variable compensation as a mechanism to align CEO actions to firm performance (Core et al. 2003). To measure and control for the accumulated impact of stock options, the *value of unexercised exercisable stock options* and the *value of unexercisable options* is included in the proposed model (Hall 2000). The impact of ownership as an external governance measure is also included in the model tested (Jensen and Meckling 1976). *CEO ownership percentage* and *insider ownership percentage* account for the goal alignment of the CEO, top management team, and directors by ensuring they carry similar ownership risk as the firm's stockholders (Jensen and Meckling 1976). Controlling for the monitoring activities of institutional owners is captured by *the percent of institutional ownership*; large ownership stakes by such owners often lead to increased motivation to monitor the activities of management (Dalton et al. 2008).

Finally, governance mechanisms commonly associated with the market for corporate control are aggregated in the Gompers et al. (2003) *governance index*. This index accounts for such management corporate control measures as poison pills, golden parachutes, greenmail, super majority votes, etc. The lower the number in the governance index, the better the corporate governance of the firm with respect to ownership rights and managerial power.

ANALYTICAL APPROACH

The hypotheses in this dissertation examine the relationships between CEO stewardship, family firm ownership and control, board of director composition, and firm performance. Data to test these hypotheses span from 2004 to 2006 (inclusive). Longitudinal data is important because it provides more power to detect causal relationships (Bergh 1993, Bergh and Holbein 1997), especially whether a relationship is stable or fluctuates over time. Likewise, longitudinal data is more robust against providing spurious relationships that may occur when using cross-sectional data and can be used to show how variables co-vary (Hitt et al. 1998). In addition, use of longitudinal data improves overall estimates by decreasing multicollinearity (Certo and Semadeni 2006), increases sample size and power, and controls for unobserved heterogeneity (Baltagi 1995, Hitt et al. 1998).

Ordinary least squares (OLS) regression is not appropriate for analyzing a longitudinal dataset as panel data often violate assumptions regarding the error terms be random, independent, normally distributed, and have a constant variance (Bergh and Holbein 1997; Certo and Semadeni 2006). Likewise, the error terms are time-specific heteroskedastic whereby the non-costant errors introduce bias the standard errors and increases the likelihood of a Type I error even though the slope estimates are still unbiased (Bergh 1993, Bergh and Holbein 1997). The standard error may also be biased due to autocorrelation in the error terms.

Fixed effects and random effects models are recommended methods for analyzing panel data as they produce unbiased estimates that correct for heterogeneity. Fixed

effects models investigate differences in intercepts while holding slopes and constants fixed across groups of observations. Unlike the fixed effects model, with random effects models the variation across entities is assumed to be random and uncorrelated with the independent variables included in the model. Often random effects models are used when there is reason to believe that differences across entities have some influence on the dependent variable. In addition, models that include invariant variables should use random effects modeling (Greene 1995, Sanders 2001). I used the Hausman specification test to evaluate the reasonable choice to use random effects models, given my panel data includes invariant variables (Hausman, 1978). As anticipated, the Hausman test revealed using a random effects model to test my hypotheses is a better choice ($p > 0.05$) than using a fixed effects model.

Since each firm could share directors and most directors hold multiple directorships, the residuals for dyads that included the same director could be correlated. To correct for non-independence of observations resulting from observation clustering, we estimated robust standard errors in our model (Mizruchi & Stearns, 2001; StataCorp, 2005). Since both firm- and time-specific effects are most likely present, a panel estimation procedure (Chamberlain 1982) including a White heteroskedasticity-consistent variance-covariance matrix is used (White 1980). Year dummy variables are also included to eliminate year-specific heterogeneity (Bergh 1993).

To ensure this study can be used to draw inferences with respect to temporal causality, the independent and control variables are lagged by 1-year with respect to the dependent variable. Post hoc analysis for potential of reverse causality in the study's

statistically significant relationships are conducted and reported later in this dissertation. Additionally, variables that are highly correlated to one another (r >0.60) and all variables included in interaction terms were centered at the grand mean to minimize multicollinearity (Aiken and West 1991). Post-estimation diagnostics reveal minimal evidence of multicollinearity in the tested empirical models.

SUMMARY

The present chapter provides information regarding the methodology used to test the hypotheses in Chapter II. Data is collected and managed as described in the chapter. Chapter IV presents the variable content of each model and the results of the model analysis.

CHAPTER IV

RESULTS

This chapter presents the results of the hypotheses expressed in Chapter II. Descriptive statistics of the variable and correlations are presented first. Afterward, the results of the hypotheses are discussed.

Table 3 presents the Pearson's correlation coefficients and Table 4 present the means and standard deviations. The normality and skewness of all variables were analyzed; variables were transformed (as applicable) as described in Chapter III. Tables 5-7 display the results of the forward-stepwise, multiple-regression model for pooled cross-sectional panel data using random effects and robust standard errors. Table 8 summarizes the results based upon the full hypothesized model (Model 8).

Model 1 contains the control variables commonly associated with agency theory research. The results from Model 1 support previous research in corporate governance.

CEO STEWARDSHIP AND FIRM PERFORMANCE

I propose a positive relationship between CEO stewardship and firm performance. Model 2 adds the socioemotional wealth variables proposed to be related to CEO stewardship to the control variable only model reflected in Model 1. The results shown in Model 2 of Table 1 suggest that the relationship between CEO stewardship and firm performance is not statistically significant. CEO board memberships (-0.006, $p > 0.10$), CEO organizational identity (-0.000, $p > 0.10$), and CEO board tenure (-0.003, $p > 0.10$) do not have a statistically significant relationship to the firm performance in Model 2. Therefore, these results do not support Hypothesis 1 (H1).

FAMILY OWNERSHIP, CEO STEWARDSHIP, AND FIRM PERFORMANCE

Hypothesis 2 (H2) states that family ownership and control positively moderates the relationship between CEO stewardship and firm performance. Following Aiken and West (1991) the family ownership percentage and family CEO variables are added to Model 2; Model 3 reflects this addition. Of note, family ownership percentage (0.517, $p > 0.10$) does not have a statistically significant relationship to firm performance and firms lead by family CEOs (-0.256, $p > 0.10$) are shown to have a negative statistically significant relationship to firm performance.

Next, the interaction terms are created from the appropriate hypothesized grand mean centered first-order variables (Aiken and West, 1991) and entered into Model 4. When examining the influence of family firm ownership and control constructs upon the relationship between theorized stewardship variables and firm performance, only a single interaction effect was statistically significant. Increased family firm ownership strengthens the relationship between the quantity of CEO directorships and firm performance as shown in Model 4 (0.343, $p < 0.05$). This result remains robust (0.402, $p < 0.05$) in the model incorporating all hypothesized relationships in this dissertation (Model 8); Figure 2 displays a graphical representation of this relationship based on the results from Model 8. Results from Model 4 and Model 8 marginally support Hypothesis 2.

BOARD CHARACTERISTICS, CEO STEWARDSHIP, AND FIRM PERFORMANCE

The remaining hypotheses in this dissertation examine the influence of board of director characteristics on the relationship between CEO stewardship and firm

performance. It is interesting to note that in the control variable only model (Model 1) the quantity of board members is negatively related to firm performance (-0.033, p <0.01) even though agency theory would suggest increased monitoring would lead to a positive relationship between quantity of board members and firm performance.

Following Aiken and West (1991) the cumulative director experience and the quantity of board members that are affiliated directors, community influential directors, and support directors are added to Model 2; Model 5 reflects this addition. The results from Model 5 reveal that there is not a statistically significant relationship between firm performance and the cumulative amount of director experience (-0.001, p > 0.10), the quantity of affiliated directors (-0.025, p > 0.10), the quantity of community influential directors (0.009, p > 0.10), and the quantity of support directors (-0.019, p > 0.10).

The interaction terms created from the appropriate hypothesized grand mean centered first-order variables (Aiken and West, 1991) entered into Model 6 to test the hypothesized relationships (H3, H4, H5, and H6).

Hypothesis 3 (H3) states that director industry experience positively moderates the relationship between CEO stewardship and firm performance. As Model 6 reveals, there lacks a statistically significant influence of director experience on the relationship between the stewardship constructs and firm performance. These results remain robust in the model incorporating all hypothesized relationships in this dissertation (Model 8). Therefore, Hypothesis 3 (H3) is not supported.

Hypothesis 4 states the quantity of affiliated directors present on a firm's board positively moderates the CEO stewardship – firm performance relationship. It appears

that the number of affiliated directors a firm possesses on its board positively moderates the relationship between the quantity of directorships a CEO holds and firm performance (0.033, $p < 0.01$). Likewise, Model 6 shows that the quantity of affiliated directors is a positive marginally statistically significant moderator of the relationship between CEO board tenure and firm performance (0.002, $p < 0.10$). The influence of the quantity of affiliated directors on the relationship between CEO organizational identity and firm performance is not statistically significant (0.000, $p > 0.10$). The positive moderation of the number of affiliated directors on the relationship between the quantity of directorships a CEO holds and firm performance remain robust (0.027, $p < 0.05$) in the model incorporating all hypothesized relationships in this dissertation (Model 8). Figure 3 displays a graphical representation of this relationship based on the results from Model 8. The other relationships used to test Hypothesis 4 are not statistically significant in Model 8. Therefore, Hypothesis 4 receives marginal support.

Hypothesis 5 suggests the quantity of support specialists a firm's board possesses positively moderates the CEO stewardship – firm performance relationship. Model 6 reveals a single marginally statistically significant moderating effect. It appears the number of support directors on a board marginally negatively moderates the relationship between CEO board memberships and firm performance (-0.010, $p < 0.10$). Otherwise, a statistically significant influence of the quantity of support specialists on the relationship between the remaining stewardship constructs and firm performance is lacking. The marginally statistically significant moderating effect of the number of support directors on the relationship between CEO board memberships and firm

performance do not remain robust in the model incorporating all hypothesized relationships in this dissertation (Model 8). The relationships used to test Hypothesis 5 are not statistically significant in Model 8. The totality of the results testing the aforementioned moderating effects provides no support for Hypothesis 5 (H5).

Hypothesis 6 predicts the quantity of community influential directors a firm's board possesses positively moderates the CEO stewardship – firm performance relationship. Model 6 reveals positive statistically significant moderating effects for the influence of the quantity of community influential directors on the relationship between CEO board memberships and firm performance (0.010, $p < 0.05$), and the relationship between CEO organizational identity and firm performance (0.008, $p < 0.05$). The influence of the quantity of community influential directors on the relationship between CEO board tenure and firm performance is not significant (-0.000, $p > 0.10$). The results from Model 6 with respect to H6 are robust in the model incorporating all hypothesized relationships in this dissertation (Model 8). Figure 4 displays a graphical representation of the influence of the quantity of community influential directors on the relationship between CEO board memberships and firm performance based on the results from Model 8. Figure 5 displays a graphical representation of the influence of the quantity of community influential directors on the relationship between CEO organizational identity and firm performance based on the results from Model 8. Given the results of Model 6 and Model 8, there is strong support for Hypothesis 6 (H6).

In addition, the interaction effects introduced in Model 8 produced a significant ΔR^2.

POST HOC ANALYSIS

A recent article by Henley et al. (2006) highlights the possibility of developing equivalent models whereby ambiguous directional causality undermines the interpretation of an empirical study. Therefore, the statistically significant results presented in Model 8 that support the hypotheses in this dissertation are tested for reverse causality to determine whether past firm performance is an antecedent to the statistically significant interaction effects. The statistically significant interaction variable is placed as the dependent variable in a model that includes the Tobin's Q from the year proceeding the year of interest for the remaining covariates, the control variables, the primary variables of interest, and the remaining theorized interactions. As an example, the independent, control, and interaction variables collected for the year 2004 (time, t) will have a firm's Tobin's Q reported from 2003 (t-1). This incorporates a lag of one year between firm performance and the remaining dependent and independent variables to test whether firm performance is an antecedent to strengthened relationships between CEO stewardship and family firm ownership, and CEO stewardship and board of director characteristics.

No empirical model testing reverse causality is found to have a statistically significant relationship between Tobin's Q (1-year lag) and the interaction relationship used as the dependent variable.

SUMMARY

This chapter presents empirical evidence that evaluates the relationship between CEO stewardship and firm performance, and the moderating effect of family ownership

and control, and board of director characteristics on the CEO stewardship – firm performance relationship. I found no support for a direct relationship between CEO stewardship and firm performance; likewise, support for the positive moderating effect of family ownership and control was marginal. The single supported relationship involving family firms was an increase in family firm ownership strengthens the relationship between the quantity of CEO directorships and firm performance.

The influence of board-of-director characteristics produced a number of significant results. The number of affiliated directors a firm possesses on its board positively moderates the relationship between the quantity of directorships a CEO holds and firm performance; the quantity of community influential directors positively moderates the relationship between CEO board memberships and firm performance, and the relationship between CEO organizational identity and firm performance.

In the next chapter I discuss these results and how they contribute to corporate governance and strategic management.

CHAPTER V

DISCUSSION AND CONCLUSION

The dominant theory of corporate governance in management and finance is agency theory. An agency relationship exists whenever one individual, the principal, depends on the actions of another, the agent. When a firm's owner hires managers to run the firm, the owner has relinquished control of the firm to the manager and establishes a principal-agent relationship. The principal's primary concern is that information asymmetry concerning the quality of the agent and the actions of the agent will create agency costs associated with the principal-agent relationship. Moreover, the goals and risk profile of the agent may be different from the principal's, thus the actions most desired by the principle may be not be similar to agent activity used to manage the firm. Efforts to minimize agency loss in the principal-agent relationship have motivated scholars and practitioners to develop prescriptions to align the interests of principals with their agents, specifically the shareholder-executive relationship of the modern corporation.

The attempt to develop contracts ex-ante via compensation practices such as increased cash payments, conferring equity stakes, generous pension plans, lucrative terms of management exit and variable compensation schemes such as stock options appear to have results that are inconsistent. Likewise, attempts to establish external ownership stakes and internal oversight through the board of directors to deter moral hazard via increased monitoring have had mixed results as well. The agency costs of establishing such ex-ante activities are expensive and costly to shareholders if they are

ineffective. Given the equivocal efficacy of such practices, the development of a viable alternative to agency theory prescription is a prudent course of action for corporate governance scholars. While other corporate governance theories have explanatory power (resource dependency and stakeholder theory), they do not provide a theoretical backdrop that challenges the dominant assumption that the interests of principals and their agents are misaligned. Stewardship theory provides an alternative to the economic man model that so heavily relies upon self-interest as a divisive influence on the principal-agent relationship.

This dissertation represents an attempt to expand upon the foundation developed in past corporate governance research by incorporating stewardship as a complement to agency theory. Early in this dissertation, I address the underlying assumptions of agency theory and stewardship theory. While they appear diametrically opposed to one another, if one views each theory on a behavioral continuum whereby the applicability of the goal misalignment assumption drives the efficacy of each theory's explanatory power, both the agency model and the stewardship model can adequately describe the principal-agent/steward relationship.

This contingency assumption advances the two agendas in this dissertation. First, the use of stewardship theory in modeling managerial attributes requires the development of constructs specific to managerial stewardship. I suggest that socioemotional wealth provides a foundation for stewardship construct development. Second, situational contexts must be identified where managerial stewardship is more

likely than managerial opportunism. I suggest that family firm ownership and board of directors provide such a context and developed a theoretical case for each.

Likewise, the contingency assumption drives the composition of the empirical model tested herein by requiring the inclusion of common corporate governance variables in addition to newly developed stewardship constructs based upon the theoretical decomposition of the socioemotional wealth construct. As a consequence, we have an empirical model that controls for agency-related issues while testing the stewardship constructs impact on firm performance.

The results from this dissertation assist us in better understanding the effects of CEO stewardship, family firm ownership and control, and board of director characteristics on firm performance. The rest of this chapter proceeds in the following manner. The first section discusses the findings of the study while the second section of the chapter examines the conclusions and implications of the results. The chapter concludes with a discussion of study limitations and areas of future inquiry.

DISCUSSION

CEO Stewardship and Firm Performance

This research hypothesized a positive relationship between CEO stewardship and firm performance. Based on family business studies linking CEO attributes and activities associated with stewardship, this study posits CEO stewardship leads to increased firm performance. CEO stewardship is defined by constructs developed from the research on socioemotional wealth (Gomez-Mejia et al. 2007).

The results from the theorized empirical model are mixed. The initial inferred assumption that CEO board memberships, CEO director tenure, and CEO organizational identity are related to one another based upon the definition of socioemotional wealth was not borne out based upon the results in the correlation matrix and subsequent testing using confirmatory factor analysis (see Table 9). This is not entirely surprising given the constructs are archival and should be free from any influence from common method bias. Each construct is included together to test the CEO stewardship – firm performance relationship. However, no main effect of CEO board memberships, CEO director tenure, and CEO organizational identity on firm performance is found. Given the lack of main effects, perhaps CEO stewardship (as reflected by the use of socioemotional wealth constructs) influences firm performance in specific contexts. Results testing the moderation effects of family firm ownership and control and board-of-director characteristics bear this out. CEO board memberships is the stewardship construct that is consistently linked to increased firm performance when tested in the context of family firm and firm board-of-director characteristics. CEO organizational identity enhances firm performance when tested in the context of firm board-of-director characteristics, as well.

Likewise, the significant ΔR^2 between Model 7 (family ownership & control and director characteristics main effects) and Model 8 (the proposed interaction effects) strengthens the broad assertion that stewardship attributes have a positive interaction effect on firm performance, suggesting the impact of stewardship is context specific.

Family Ownership, CEO Stewardship, and Firm Performance

Family ownership's positive influence on the relationship between CEO board memberships and firm performance supports the claim within family business literature that family-owned businesses conduct more external reputation development especially in their business customer and supplier channels (Miller and LeBreton-Miller 2006, Miller et al. 2008). Board memberships are often a result of longstanding relationships between the firm managers and board members, and the director. An increased amount of directorships held by the CEO reflects the breadth of such relationships; these relationships help the CEO positively influence the external environment for firm benefit. Likewise, these positive influences may be consequences of the relationships developed on other firm boards. Since "most of the commerce in the real world is conducted in longstanding relationships, and most production takes place in long-lived business institutions…, these arrangements not only reduce contracting and monitoring costs, they build trust, [and] facilitate the flow of information…" that leads to more profitable business arrangements (Pratt and Zeckhauser 1985, p 16). The increased profitability translates into performance that is valued by the equity marketplace.

While not formally hypothesized, also notable is the negative association with FOBs lead by a family member and firm performance. While there is a direct test of this relationship, the interaction results also support conclusions in a study by Sirmon et al. (2008). In this dissertation, the positive interaction between CEO board memberships and family ownership in combination with the lack of a resulting relationship between CEO board memberships and the family CEO can be interpreted as firm performance in

family firms is positively influenced by CEOs if they are not a family member. Sirmon et al. (2008) conclude family ownership positively influences long-term strategic actions such as research and development spending and international expansion; conversely, an increase in family control leads to “groupthink” and “strategic simplicity” that hampers the nimbleness of firms to react to a changing competitive landscape (Sirmon et al. 2008). Like Sirmon et al. (2008), this study’s findings suggest firms benefit from family ownership because family ownership lessens the goal incongruence and information asymmetry that leads to increased agency costs as reflected in firm performance. Conversely, direct family management as CEO may hamper the ability of management to develop new, diverse ideas and lessen the firm’s ability to innovate in product markets because of groupthink and organizational rigidity.

Board Characteristics, CEO Stewardship, and Firm Performance

The association between CEO board memberships and firm performance is positively influenced by board of director attributes associated with external partnerships. An increase in CEO directorships combined with an increase in affiliated directors could reflect the CEO’s efforts to manage the relationships of business partners by exchanging board seats on each firm’s board. This becomes more likely when each partner knows that the other cannot risk an adverse encounter that damages the firm’s reputation, even if the firm’s self-serving actions are economically reasonable. The reduction of information asymmetry between the CEOs engaged in dyadic firm partnerships promote a level of trust and collaboration not likely in more adversarial business relationships that solely focus on “the bottom line.”

Similar logic applies to the positive influence of community influential directors on the CEO board membership-firm performance relationship. The steward CEO also properly manages all important stakeholders to ensure maximum benefit for firm shareholders. The access and influence of community leaders in the business environment on behalf of the firm should strengthen when the firm's management (specifically the CEO) has a reputation of being trustworthy. Mahoney et al. (1994) argue that reputation and trust are necessary for a firm to operate profitably in the marketplace. "The social relationship is thus the relationship which must be society's basic socioeconomic tool" (Mahoney et al. 1994, p 157). Both formal and informal political systems rely upon trust to develop relationships that produce greater resource availability to the firm and legitimacy within the marketplace; in this manner, the firm increases the probability of higher firm profitability (Acquaah 2007). Community leaders associated with the firm provide the social relationships and are actors in the political systems that allow the steward CEO to positively influence firm performance.

Likewise, the CEO's outward communication of their personal organizational identity positively influences firm performance through the additional support of community influential directors. Community leaders can champion the communal messages communicated by the CEO in the marketplace, adding increased legitimacy that translates into more customers, favorable terms when negotiating with government entities, etc. The steward CEO's communication of a common purpose signals lower goal and risk incongruence to shareholders if community leaders support the veracity of the CEO's goal alignment and risk profile. Thus, community influential directors

provide the firm with legitimacy to external constituents, exert positive influence on powerful community constituents (Hillman et al. 2000), and amplify the CEO's personal identification with the firm to external stakeholders.

The lack of results with respect to certain theorized constructs need to be examined. The lack of support for the effects of CEO board tenure is unexpected. The construct is theorized to be positively associated with firm performance because many CEOs partially base their identity on continued, lengthy association with the firms they lead. Since CEO board tenure may be a construct with explanatory power with respect to agency and stewardship theories, its relationship to firm performance may vary based upon factors that move along the agent-steward continuum. For instance, CEO board tenure use with respect to agency theory may signal a significant level of undesirable power that allows a CEO to act opportunistically; future corporate malfeasance studies using the construct may bear this out. Conversely, lengthy board tenure may provide social rewards and serve as an incentive for performing well on behalf of the firm (Arrow, 1985). Nevertheless, in this dissertation, there lacked statistical evidence of either theory in the main or moderating effects tested.

Surprisingly, director attributes such as director experience and the quantity of support directors yielded no statistically significant effects. Resource dependence theory suggests that both constructs should have positive effects on firm profitability, especially when combined with a steward CEO. However, results were not forthcoming. These findings suggest that director experience matters little in firm performance and influences few factors associated with stewardship. Perhaps this is because director

experience has become commoditized to the point where every firm possesses the required expertise gained through years of experience by the directors that support firm management. Moreover, the cumulative quantity of experience may not be as important as the type of experience and the utilization of that experience by the focal firm.

Likewise, the presence of support directors on boards may be commoditized as well. A public firm may have a banker or investor on the board because this is their pipeline to funding sources, whether at IPO or as an established company with institutional owners protecting their investment. Discerning the likelihood of possessing a source of funding, its influence on other factors associated with stewardship, and firm performance may be futile given the commoditization of funding in the public capital markets.

Firm Performance Revisited

Statistically non-significant effects may be a symptom of how the dependent variable is defined. Potentially, firm performance as defined by Tobin's Q is not the proper dependent variable to test stewardship theory relationships. Davis et al. (1997) and Donaldson (1990) refer to firm value as being maximized by steward CEOs. The use of market-based data such as share price or market capitalization may be a more appropriate dependent variable given the focus of Davis et al. (1997) and Donaldson (1990) on firm value. In addition, they also allude to a long-term measure of performance. While there is an ongoing debate with respect to defining long-term performance, Tobin's Q is often considered a short-term performance metric. Therefore, the use of Tobin's Q as a performance metric may decouple the theoretical description of

firm performance (as long term) from the construct being used to define firm performance. Perhaps future inquiries using different time lag structures are required to allow for the theorized effects to materialize. The construct validity of long-term value or long-term performance as a dependent variable may preclude the proper testing of stewardship (socioemotional wealth) to firm performance.

IMPLICATIONS FOR THEORY AND RESEARCH

The results from this study have several implications for future research in corporate governance. First, results suggest that stewardship theory research can and should be conducted. While this assertion seems simplistic at face value, the dearth of stewardship research is troubling given that the prescriptions used to monitor, control, and incent managers are not consistently efficacious. Even Michael Jensen (2009) publicly laments the trend that started based upon his work to have principals rely on variable-equity compensation to align managerial incentives when it has become increasingly clear that such practice also introduces moral hazard among managers. While it is admittedly naïve to believe that monitoring, control, and incentive alignment have a minimal place in corporate governance practice, current research focuses almost exclusively upon the bad acts of a relatively few managers that lead to agency prescriptions for the masses. If Ghoshal and Moran (1996) are correct, the development of “new and better” alignment and monitoring techniques may only lead to agency loss in a different and more devious manner.

Moreover, reducing agency costs is but one side of maximizing shareholder returns as this assumption infers static firm values given a set of managerial actions. While

identifying CEOs operating as stewards should also minimize agency costs because of the lessened need to use agency prescriptions, identifying these CEOs can also increase the opportunities of firms to increase their revenues (Davis et al. 1997). Jones and Wicks (1999) remind us that firms whose managers establish and maintain cooperative relationships with stakeholders will achieve competitive advantage over those whose managers do not. Competitive advantage leads to increased revenues and/or lower monetary costs. These revenues may materialize through increased sales and decreased costs of goods and services.

Consequently, the second implication from this study is to provide a reasonable context for which corporate governance research can expand beyond the almost exclusive lens of agency theory. This study provides a complementary view by incorporating agency theory and stewardship theory in a managerial behavior continuum that may provide a more holistic approach to describing manager behavior and prescribing corporate governance solutions to fit a broader range of contexts. For instance, this study provides the dual contexts of an "external control perspective" in the context of family firm ownership and an "internal control perspective" of the firm's board of directors. Both corporate governance mechanisms can be used to support trustworthy steward managers.

The results in this dissertation reveal that both perspectives positively influence firm performance concurrently. Thus, both governance perspectives provide solutions to the primary concern of maximizing firm performance and may be one of many examples where scholars and practitioners can craft strategic solutions to corporate governance

problems facing firm shareholders. As an example, results from this study strongly imply that maximizing firm performance through the board of directors can occur by providing the CEO the opportunity to hold many directorships in conjunction with having directors for the firm that provide the CEO access to external stakeholders.

LIMITATIONS

This study is not without its limitations. A necessary requirement to conduct this study is the selection of variables that are not commonly associated with agency theory research yet are theoretically linked to stewardship. This condition creates two problems. First, if I am creating an empirical model based upon conditional assumptions, I should only use variables associated with the theory in use and the practical context. As a consequence, the models herein test agency and stewardship effects simultaneously instead of as applicable in the theoretical context. This makes it very difficult to disentangle the effects and interpret them. Second, the variables are linked to stewardship through the use of the socioemotional wealth construct instead of as constructs independently associated with stewardship. Of course, this is the point of this entire exercise; we must develop constructs related (in some way) to stewardship and independent of agency theory. The use of socioemotional wealth in developing such constructs may be the most parsimonious manner in which to empirically model stewardship.

Likewise, while a compelling case can be made that socioemotional wealth is linked to stewardship behavior in managers, a case can be made that socioemotional wealth can create situations that require agency prescriptions. In fact, Gomez-Mejia et al

(2007) suggest that the preservation of socioemotional wealth is associated with adverse economic outcomes related to risk seeking. Nevertheless, the context described in that study was narrow and the contribution from the study suggested that there are instances where the risk aversion assumption of family business is not valid. An additional issue related to the Gomez-Mejia et al. (2007) study theorized in this dissertation is that stewardship (through socioemotional wealth) increases firm performance even though the Gomez-Mejia et al. (2007) study suggests negative firm performance consequences of socioemotional wealth. This may provide an explanation for the lack of significant main effects and mixed significant results of the moderating effects.

An additional limitation of this dissertation is its reliance upon archival data to measure stewardship and socioemotional wealth. An alternative manner to establish stewardship (socioemotional wealth) constructs is by collecting survey data from executives. However, such a study is likely to have participation issues, response bias issues associated with the type of respondents, and concern about the veracity of their responses based upon a high desire to manage their public image; this may preclude the collection of primary data (D'Aveni and MacMillan 1990, Duriau et al. 2007, Short and Palmer 2008). Image management may also influence the utility of the CEO commonality variable even though previous research using shareholder letters suggests it is not a problem.

CONTRIBUTIONS

This dissertation attempts to make several contributions to corporate governance theory. An important contribution from this study is the theoretical foundation that is

laid for future empirical research using constructs associated with socioemotional wealth and the stewardship of an individual (in our case, the CEO). While this may be one of the initial studies that attempts to develop constructs for CEO stewardship, I do hope that this study serves to motivate others to conduct empirical research on stewardship regardless of the existing stewardship constructs. The opportunity exists for replicating past studies to ascertain stewardship theory's relationship to common topics in strategic management and corporate governance.

Moreover, the use of the stewardship constructs developed in this study tests the previously assumed positivist view that FOBs led by steward CEOs generate higher firm performance. The mixed results provided in this study suggest family business scholars and corporate governance scholars should reexamine their assumptions regarding family firms (e.g. Gomez-Mejia et al. 2007, Sirmon et al. 2008).

Likewise, the empirical model and results presented herein reveal that executive stewardship combined with director resource provision influence the external social environment thereby having a positive impact on firm performance. These results support a basic premise that owners can enhance firm performance by providing management resources and guidance via the firm's board of directors. This is consistent with the model presented by Davis et al. (1997) asserting that owners must provide the supportive environment necessary for the CEO to act in the best interest of firm stakeholders.

SUMMARY

In conclusion, favorable empirical results presented in this paper sustain the movement toward alternate corporate governance theories to describe executive behavior. Overall, this study provided support for some of the hypothesized relationships with a level of consistency regarding construct influence on firm performance. The results suggest there is a non-economic influence on firm performance based upon CEO attributes associated with stewardship, firm attributes associated with family firm ownership, and board of director attributes associated with resource provision. Examining the influence of CEO stewardship on firm performance via a variety of organizational contexts not only complements past agency theory research but will allow researchers to focus upon actors, actions, and activities that promote performance maximization instead of loss mitigation. I submit that while both views attempt to maximize shareholder returns and firm value, the direction and trajectory used by stewardship theorists in the future will provide new insights for corporate governance scholars.

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APPENDIX A

TABLES

TABLE 1

A Review of Individual and Organizational Attributes of Stewardship

Author	Publication	CEO Attributes	Organizational Attributes	Findings
Anderson and Reeb (2003)	JoF		Reputable	Family firms lead by family CEOs perform better than family firms lead by outside CEOs. 2. Agency II issues are not present in the sample tested.
Arthurs and Busenitz (2003)	ET&P	Organization centered Organizationally embedded		Stewardship theory fails to address the gaps left by agency theory in describing the VC-E relationship post funding.
Bennedsen (2007)	QJE	High tacit knowledge High firm specific knowledge	Interorganizational trust	CEO successions by family members lead to decreased firm performance and valuation.
Benz and Frey (2007)	AMR	Pro-organizational Long-term view		Private sector corporate governance should adopt governance mechanisms from the public sector that facilitate a long term view of the business (term limits)
Chrisman et al. (2003)	JBV	Selflessness Self-control Altruism Pro-organizational		Family business research in the field of entrepreneurship is incomplete wrt developing theory that has explanatory power.
Corbetta and Salvatto (2004)	ET&P	Pro-organizational Collectivist Altruism Trusting Innovative Proactive Self-actualizing	High trust Involvement oriented Empowering structures	Stewardship theory adds to family business literature.

TABLE 1(Cont'd)

Eddleston (2008)	ET&P	Idealized influence Inspirational motivation Intellectual stimulation Individualized consideration Strong organizational identity Self motivated Employee focused		Argues transformational leadership of the founder CEO enhances stewardship effects in the firm
Eddleston and Kellermanns (2007)	JBV	Trusting Affable Self-actualizing Collectivist Pro-organizational Responsibility Committed Self-restrained Powerful Motivated	Mutual trusting Involvement oriented Participative strategic process Intra-familial Clan-based collegiality Burden sharing Internal cooperation Participative decision making Collectivist culture Empowering culture Less political	Altruism led to less relational conflict and higher participative strategy processes in family firms. Participative strategy processes and low relational conflict led to desirable organizational performance.
Gomez-Mejia et al. (2007)	JOB	Organizational citizenship behaviors		Stewardship is not precluded in agency theory when the ownership and manager interests are aligned. Agency costs may occur based upon outcomes in stewardship relationships if there is incomplete communication or the belief in the manager's role is incongruent with the owner.
Gomez-Mejia et al. (2007)	ASQ	Organizational identity Powerful Self-referential wrt organization Altruistic	High status	Family firm CEO/TMT is risk seeking to protect socioeconomic wealth. Social, as well as economic factors, are involved in management decisions

TABLE 1(Cont'd)

Jones (1995)	AMR	Note: TMT and organization are assumed to be one and the same based upon contracting assumptions with stakeholders Honest Possesses Integrity Trustworthy Reputable	Reputable (to stakeholders) Corporate morality Trustworthy Cooperative	Advance argument that stakeholder view of governance is more appropriate than agency prescriptions. Behaving ethically instead of with opportunism has long term economic benefit.
Jones and Wicks (1999)	AMR	Concern for others Moral Fair Just	Instrumental (socially)	There is intrinsic worth in the claims of legitimate stakeholders. Morality and capitalism are compatible as efficient markets require a high level of moral parties. Firms whose managers establish and maintain mutual trusting and cooperative relationships with their stakeholders will achieve competitive advantage over those whose managers do not.
Jones et al. (2007)	AMR	Loyal Reliable Diligent Dependable	"corporate egoist" "instrumentally moral" "moral and altruistic"	Corporate cultures emanate from separate stakeholder views that vary from agency to shareholder to stakeholder.
Miller and LeBreton-Miller (2006)	ET&P	Long-term focused Tenured Mission focused Powerful	Few unrelated acquisitions Less risky investments More R&D Fewer downsizing events More nonfinancial projects (CSR) More patents Higher customer loyalty Better HR practices Flat org structure Few long term suppliers	Long term orientations of firms allow management to invest in actions that create a competitive advantage (such as trusting supplier relationships) by allow the firm to focus upon the development of its core competencies.

TABLE 1(Cont'd)

Lee and O'Neill (2003)	AMJ	Pro-organizational Collectivist Self-actualizing Self-managing Organizationally committed Value committed Organizational identification	CEO has job security	Agency adequately describes U.S. firms while stewardship adequately describes Japanese firms wrt R&D investing. Increased ownership stakes were associated with R&D investment. Stewardship and agency is situational.
Miller et al. (2008)	JMS	Long term focused Organizational identification Personal satisfaction Socially embedded Social fulfillment Self actualization	Community culture Motivated staff Well-trained staff Loyal staff Strong ties w/ outside stakeholders Emphasis on R&D Emphasis on reputation development Broadening the mkt and mkt share Transparent to build reputation Empowered employees Flexible, inclusive culture Gender neutral environment High client satisfaction and loyalty Marketing focused	FOBs do more reputation development via advertising in different media outlets FOBs develop good work environment through training and work policies FOBs develop and manage customer connections FOB stagnation hypotheses are not supported.
Sharma (2005)	ET&P		Collectivist Communal	Community culture and family structure is theorized to influence divestment decisions by family firms.
Tosi et al. (2003)	JMS	Responsible Intrinsically motivated Collectivist Pro-organizational Trustworthy Accountable Manager discretion		Lab experiments show that agency prescriptions led to profitable decisions while stewardship decisions led to less profitable decisions.

TABLE 1(Cont'd)

Wasserman (2006)	AMJ	Organizationally centered Intrinsic motivation Attachment Commitment Personal satisfaction Self-determination Powerful Tenured	Lack of organizational controls Trust between CEO and BoD	Founders receive less compensation than non-founders. Founder discount decrease with the size of the firm. Evidence of non-financial benefits of founders
Zahra et al. (2008)	ET&P	Intrinsic satisfaction Personal utility Unselfish concern Devotion to others Identification with the firm Organizational commitment Long-term orientation	Employee empowerment Mutual trust Intra-familial altruism Clan based collegiality Shared commitment Mutual interdependence Pro-social culture Pro-organizational behavior Motivated employees Autonomous, independent workers Employee social identity with firm Worker discretionary contributions Employee commitment Cooperative culture Organizational trust Collectivist culture	High stewardship cultures lead to higher strategic flexibility than low stewardship cultures.

Journal Abbreviations

AER: American Economic Review
AMR: Academy of Management Review
ET&P: Entrepreneurship Theory and Practice
JBV: Journal of Business Venturing
JFE: Journal of Law and Economics
JOB: Journal of Organizational Behavior
QJE: Quarterly Journal of Economics
AMJ: Academy of Management Journal
ASQ: Administrative Science Quarterly
JBR: Journal of Business Research
JCF: Journal of Corporate Finance
JMS: Journal of Management Studies
JOF: Journal of Finance

TABLE 2
Evidence of Stewardship among Family Firms

Author (Year)	Journal	Primary Subject	Findings
Anderson, Mansi, and Reeb (2003)	JFE	Ownership and Leverage	1. Founding family ownership is associated with a lower cost of debt financing. 2. Family firms provide incentive structures that minimize agency costs and protect the interests of debt claimants
Anderson and Reeb (2003)	JLE	Ownership, Diversification and Leverage	1. Family firms diversify less and use debt on par with non-family firms. 2. There lacks evidence for the Agency II assertion and minority shareholders benefit from ownership stakes in family firms.
Anderson and Reeb (2003)	JOF	Family firm performance (agency theory)	1. Family firms are 1/3 of the S&P 500 and perform better than non-family firms in the sample. 2. Firms with family CEOs perform better that outside CEOs 3. Study does not show presence of Agency II issues
Anderson and Reeb (2003)	ASQ	Board Composition (agency theory)	1. The most valuable public family firms are ones that have independent directors balancing firm representation. 2. Agency II conflicts are mitigated when independent directors balance the power of family directors and management.
Beehr, Drexler, and Faulkner (1997)	JOB	Role of Family Executive (Role theory)	1. Interpersonal issues in small family businesses are not more detrimental to firm performance than non-family business. 2. A family executive has more pressure to meet family expectations with respect to firm performance.
Bennedsen, Nielsen, et al. (2007)	QJE	Ownership and CEO succession (Agency Theory)	1. Family firm performance is negatively related to interfamily CEO successions
Chrisman, Chua, and Steier (2003)	JBV	Special Issue Introduction	1. One goal of the family entrepreneur is to build a business that is also a family institution.
Chrisman, Chua, et al. (2007)	JBR	Agency vs. Stewardship	1. Study found support for the use of agency based compensation mechanisms to align the interests of family managers. 2. Altruism doesn't blind families from reality that kinship doesn't unconditionally guarantee appropriate behavior by relatives 3. Better firm performance was linked to the use of incentives and control mechanisms.

TABLE 2 (Cont'd)

Corbetta and Salvatto (2004)	ET&P	Agency vs. Stewardship	1. Stewardship theory adds to family business literature where agency theory cannot adequately explain inter/intrafirm behavior.
Gomez-Mejia, Haynes, et al. (2007)	ASQ	Business Risk (Behavioral theory, agency theory)	1. Family firms may have greater organizational commitment and a long term orientation. 2. Socioeconomic wealth held within a firm may cause the family leadership to behave in a risk adverse and risk seeking manner.
Gomez-Mejia, Nunez-Nickel and Gutierrez (2001)	AMJ	CEO turnover (agency theory)	1. Family related contracting decouples CEO employment from performance and risk 2. The termination of CEOs with family relationships is positively related to firm survival and is met positively by equity markets. 3. Relational contracting is theorized to avert issues with moral hazard and the divergence of principal-agent interests.
Gomez-Mejia, Larraza-Kintana, and Makri (2003)	AMJ	CEO compensation (agency theory)	1. Family member CEOs receive lower total income than outsider CEOs, especially as family ownership concentration increases. 2. Family CEO compensation is less tied to total business risk but more sensitive to systematic risk because they are tied to the firm via family ties. 3. Family executives play the work role as steward of the firm and a non-work roles as protector of the family investment and obligations
Jaskiewicz and Klein (2007)	JBR	Board Composition (Agency theory)	1. When the values of the family small business owner (proxy for goal alignment) align with that of its managers, the board has fewer members, fewer outsiders, fewer family members and more affiliated members.
Miller and LeBreton-Miller (2006)	ET&P	Ownership (Agency Theory)	1. Long term orientations of family firms allow management to invest in actions that create a competitive advantage (such as trusting supplier relationships) by allow the firm to focus upon the development of its core competence
Miller, LeBreton-Miller, et al. (2007)	JCF	Ownership (Agency Theory)	1. Family firm research is sensitive to the definition of "family firm". 2. Only family forms managed by the lone founder (concentrated ownership) outperform the broader population.

TABLE 2 (Cont'd)

Perez-Gonzalez (2006)	AER	Ownership and CEO succession (Agency Theory)	1. Inherited CEO's have firms that perform more poorly (operating profit, market to book ratio) relative to firms that promote unrelated CEOs. 2. Performance is more pronounced when inherited CEO does not graduate from "selective" undergraduate institutions. 3. Nepotism hurts firm performance by limiting the scope of labor market competition.
Sharma (2005)	ET&P	Divestment (M&A) (Resource based view)	1. Divestment decisions are influenced by the breadth of family involvement and the collectivist nature of the family and community.

Journal Abbreviations

AER: American Economic Review
ASQ: Administrative Science Quarterly
JBR: Journal of Business Research
JFE: Journal of Law and Economics
JOF: Journal of Finance
AMJ: Academy of Management Journal
ET&P: Entrepreneurship Theory and Practice
JCF: Journal of Corporate Finance
JOB: Journal of Organizational Behavior
QJE: Quarterly Journal of Economics

TABLE 3
Correlation Matrix

Control Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Tobin's Q	1													
2. Relative Firm Performance	0.17*	1												
3. Firm Revenues	-0.04	0.02	1											
4. Firm Age	-0.05	0.19*	0.07	1										
5. Number of Directors	-0.26*	0.03	0.28*	0.30*	1									
6. Number of Board Meetings	-0.11*	0	0.02*	0.02	0.07	1								
7. Independent Director Pct.	-0.02	0.3	-0.02	0.15*	0.09*	0.07	1							
8. Staggered Board (Y/N)	-0.19*	-0 .08*	-0.16*	-0.01	0.15*	0.09*	0.05	1						
9. CEO Age	-0.12*	-0.03	-0.03	0.08*	0.03	-0.06	-0.04	0.03	1					
10. C EO Founder (Y/N)	0	-0.04	0	0.04	0.04	0.04	0.06	0.02	0.05	1				
11. CEO Duality	-0.12*	0.03	0.05	0.06	0.1	0.03	-0.01	0.01	0.01	0.14*	1			
12. CEO Compensation	0	0.09*	0.33*	0	0.19*	0.07	-0.02	0.01	0	-0.05	0.03	1		
13. Unexercised Exercisable Options	0.05	0.10*	0.18	-0.11*	0.15*	-0.02	-0.03	-0.02	0.03	0.06	0.09*	0.47*	1	
14. Unexercised Unexercisable Options	0.06	0.11*	0.13*	-0.05	0.17*	0.02	0	0.01	-0.1	0.08	0.09*	0.36	0.53*	1
15. CEO Variable Compensation Pct.	0	0	-0.03	-0.01	-0.08	0.03	-0.05	0	0.03	0.02	-0	-0.1	-0.1	-0
16. Institutional Ownership Pct.	0.17*	0.09*	-0.17*	-0.14*	-0.34*	-0.06	0.14*	0.05	-0	-0.05	0.06	0.01	0.10*	0.07
17. Insider Ownership Pct.	0.06	0.08*	0.08	0.04	-0.05	-0.11*	-0.34*	-0.08	0.12*	-0.04	0.10*	-0	0	-0
18. Governance Index	-0.13*	0.03	-0.18*	0.16*	0.22*	0.12*	0.17*	0.53*	-0	-0.05	0	-0.1	-0	-0
Independent Variables														
19. CEO Board Memberships	0.02	0.01	-0.02	0.04	0	-0.02	-0.05	-0.02	0.06	-0.12*	0.14*	0.16*	0.1	0.05
20. CEO Organizational Identity	-0.09*	-0.14*	0.06	0	0.05	0.06	0.06	0.05	0	0.01	0.07	0.07	0.03	-0
21. CEO Board Tenure	-0.06	0.11*	0.07	0.11*	0.05	0.01	-0.09	-0.03	-0.1	0.35*	0.37*	-0	0.02	0.01
22. Family Ownership Pct.	0.02	0.02	0.16*	-0.01	-0.03	-0.12	-0.36*	0	0.06	-0.03	0.07	0.03	0.03	0.04
23. Family CEO (Y/N)	-0.10*	-0.03	0	0.01	-0.02	-0.13*	-0.16*	0.03	0.02	-0.06	0	-0	0.02	-0
24. Director Experience	-0.12*	0.07	0.14*	0.22*	0.52*	0	-0.20*	0.02	0.15*	0.02	0.03	0.12*	0.13*	0.16*
25. Affiliated Director	-0.07	0.03	0.16*	-0.04	0.31*	0	-0.74*	0.06	0.01	-0.01	0.06	0.07	0.08	0.07
26. Community Influential Director	-0.02	0.23*	0.32*	0.28*	0.47*	0.11*	0.20*	-0.10*	-0	0.05	0.06	0.17*	0.10*	0.17*
27. Support Director	-0.13*	-0.03	0.14*	0.03	0.49*	-0.02	-0.07	0.09*	0	0.03	0.11	0.14*	0.18*	0.21*

TABLE 3 (cont.)

Correlation Matrix

Control Variables	**15.**	**16.**	**17.**	**18.**	**19.**	**20.**	**21.**	**22.**	**23.**	**24.**	**25.**	**26.**	**27.**
15. CEO Variable Compensation Pct.	1												
16. Institutional Ownership Pct.	-0.1	1											
17. Insider Ownership Pct.	0.04	-0.18*	1										
18. Governance Index	0.02	-0	-0.18*	1									
Independent Variables													
19. CEO Board Memberships	-0	0.06	-0	0.02	1								
20. CEO Organizational Identity	0.01	0.03	-0.09*	0.04	0.07	1							
21. CEO Board Tenure	-0	0.01	0.18*	-0.1	0.07	-0	1						
22. Family Ownership Pct.	0.16*	-0.27*	0.62*	-0.11*	0.01	0.01	0.13*	1					
23. Family CEO (Y/N)	0.01	-0.17*	0.34*	-0.1	-0	0.05	0.05	0.53*	1				
24. Director Experience	-0	-0.23*	0.19*	0.02	-0	-0.1	0.06	0.18*	0.17*	1			
25. Affiliated Director	0.03	-0.22*	0.27*	0.01	0	-0.1	0.14*	0.28*	0.04	0.33*	1		
26. Community Influential Director	-0.1	-0.10*	-0.12*	-0.09*	0.05	-0.1	0.04	-0.13*	-0.10*	0.21*	0.04	1	
27. Support Director	-0	-0.16*	0.02	0.06	0.04	0.02	0.07	0.02	-0.1	0.28*	0.26*	0.18*	1

TABLE 4

Descriptive Statistics

Control Variables	**Mean**	**S.D.**	**Min.**	**Max.**
Tobin's Q	1.25	0.93	0.05	6.82
Relative Firm Performance	1.1	2.13	-3.61	30.30
Firm Revenues ($B)	9.54	30.07	33.34 M	345.98
Firm Age	51.90	39.39	1	231
Number of Directors	9.87	2.57	5	23
Number of Board Meetings	7.11	2.61	3	19
Independent Director Pct.	0.69	0.15	0	1
Staggered Board (Y/N)	0.65	0.48	0	1
CEO Age	56.18	6.69	40	81
C EO Founder (Y/N)	0.09	0.27	0	1
CEO Duality	0.59	0.49	0	1
CEO Compensation ($M)	5.54	7.55	0.23	88.35
Unexercised Exercisable Options ($M)	12.99	29.975	0	306.01
Unexercised Unexercisable Options ($M)	3.06	6.87	0.00	101.46
CEO Variable Compensation Pct.	7.05	48.86	0	1110
Institutional Ownership Pct.	0.73	0.16	0.28	0.99
Insider Ownership Pct.	0.11	0.14	0	0.86
Governance Index	9.56	2.69	3	17
Independent Variables				
CEO Board Memberships	1.89	1.30	1	9
CEO Organizational Identity	50.55	2.18	43.00	57.91
CEO Board Tenure	10.93	9.53	-2	54
Family Ownership Pct.	0.04	0.10	0.00	0.51
Family CEO (Y/N)	0.15	0.35	0	1
Director Experience	123.99	55.25	15	355
Affiliated Director	1.29	1.34	0	9
Community Influential Director	2.58	2.22	0	12
Support Director	3.63	2.12	0	11

TABLE 5

Random Effects GLS Regression w/ Robust Standard Errors[a]: Results for Future Firm Performance (Tobin's Q) in Family Firm Models

	Model 1	Model 2	Model 3	Model 4
Control Variables	Control Variables	Steward CEO Hypotheses	Family Firm Variables	Family Firm Interaction Hypotheses
Relative Firm Performance	0.023	0.024	0.023	0.023
Firm Revenues	-0.000	-0.000	-0.000	-0.000
Firm Age	0.000	0.000	0.001	0.001
Number of Directors	-0.032*	-0.032*	-0.032*	-0.034**
Number of Board Meetings	-0.013	-0.014	-0.014	-0.015
Independent Director Pct. ©	-0.237	-0.243	-0.232	-0.229
Staggered Board (Y/N)	-0.274*	-0.280*	-0.276*	-0.280*
CEO Age	-0.009	-0.008	-0.009	-0.008
CEO Founder (Y/N)	-0.029	-0.029	-0.003	0.003
CEO Duality	-0.087	-0.072	-0.075	-0.081
CEO Compensation	0.000	0.000	0.000	0.000
Unexercised Exercisable Options	0.000	0.000	0.000	0.000
Unexercised Unexercisable Options	0.000	0.000	0.000	0.000
CEO Variable Compensation Pct.	-0.000	-0.000	-0.000	-0.000
Institutional Ownership Pct.	0.746**	0.765**	0.739*	0.734*
Insider Ownership Pct. ©	0.465	0.490	0.497	0.480
Governance Index ©	0.011	0.011	0.009	0.009
Independent Variables				
CEO Board Memberships		-0.006	-0.006	-0.005
CEO Organizational Identity		-0.000	0.001	0.000
CEO Board Tenure		-0.003	-0.003	-0.003†
Family Ownership Pct.			0.517	0.574
Family CEO (Y/N)			-0.256*	-0.274*
CEO Board Memberships x Family Ownership Pct.				0.343*
CEO Organizational Identity x Family Ownership Pct.				0.041
CEO Board Tenure x Family Ownership Pct.				0.019
CEO Board Memberships x Family CEO (Y/N)				-0.060
CEO Organizational Identity x Family CEO (Y/N)				-0.023
CEO Board Tenure x Family CEO (Y/N)				0.003
Constant	1.845***	1.700***	1.680***	1.685***
Wald χ^2	87.55***	88.95***	92.28***	97.72***
Δ Wald χ^2 (Δ d.f)		1.40 (3)	3.33 (2)	5.44 (6)
R^2	0.1469	0.1487	0.1648	0.1696
ΔR^2		0.0018	0.0161	0.0048

† $p < .10$ * $p < .05$ ** $p < .01$ *** $p < .001$

Year control variables have been excluded from table and are statistically significant to $p < 0.05$

Two-tailed t-tests for control variables; one-tailed t-tests for the independent variables.

All variables entered into interactions are centered.

[a] n = 587 firm-years (268 firms)

© : centered variable

TABLE 6
Random Effects GLS Regression w/ Robust Standard Errors [a]:
Results for Future Firm Performance (Tobin's Q) Director Model

	Model 1	Model 2	Model 5	Model 6
Control Variables	Control Variables	Steward CEO Hypotheses	Director Attribute Variables	Director Interaction Hypotheses
Relative Firm Performance	0.023	0.024	0.024	0.024
Firm Revenues	-0.000	-0.000	-0.000	-0.000
Firm Age	0.000	0.000	0.000	0.000
Number of Directors	-0.032*	-0.032*	-0.019	-0.020
Number of Board Meetings	-0.013	-0.014	-0.015	-0.017
Independent Director Pct. ©	-0.237	-0.243	-0.492	-0.454
Staggered Board (Y/N)	-0.274*	-0.280*	-0.274*	-0.237*
CEO Age	-0.009	-0.008	-0.008	-0.006
CEO Founder (Y/N)	-0.029	-0.029	0.002	-0.002
CEO Duality	-0.087	-0.072	-0.074	-0.088
CEO Compensation	0.000	0.000	0.000	0.000
Unexercised Exercisable Options	0.000	0.000	0.000	0.000
Unexercised Unexercisable Options	0.000	0.000	0.000	0.000
CEO Variable Compensation Pct.	-0.000	-0.000	-0.000	-0.000
Institutional Ownership Pct.	0.746**	0.765**	0.740*	0.740*
Insider Ownership Pct. ©	0.465	0.490	0.528*	0.439
Governance Index ©	0.011	0.011	0.011	0.005
Independent Variables				
CEO Board Memberships		-0.006	-0.006	-0.012
CEO Organizational Identity		-0.000	0.001	-0.005
CEO Board Tenure		-0.003	-0.003	-0.003
Director Experience			-0.001	0.001
Affiliated Director			-0.025	-0.026
Community Influential Director			0.009	-0.008
Support Director			-0.019	-0.026†

TABLE 6 (cont.)

Independent Variables	Model 5 Director Attribute Variables	Model 6 Director Interaction Hypotheses
CEO Board Memberships	-0.006	-0.012
CEO Organizational Identity	0.001	-0.005
CEO Board Tenure	-0.003	-0.003
Director Experience	-0.001	0.001
Affiliated Director	-0.025	-0.026
Community Influential Director	0.009	-0.008
Support Director	-0.019	-0.026†
CEO Board Memberships x Director Experience		0.000
CEO Board Memberships x Affiliated Director		0.033**
CEO Board Memberships x Community Influential Director		0.010*
CEO Board Memberships x Support Director		-0.010†
CEO Organizational Identity x Director Experience		-0.000
CEO Organizational Identity x Affiliated Director		0.000
CEO Organizational Identity x Community Influential Director		0.008*
CEO Organizational Identity x Support Director		0.004
CEO Board Tenure x Director Experience		0.000
CEO Board Tenure x Affiliated Director		0.002†
CEO Board Tenure x Community Influential Director		-0.000
CEO Board Tenure x Support Director		-0.000
Constant	1.69***	1.61***
Wald χ^2	96.86***	115.23***
Δ Wald χ^2 (d.f)	7.91 (6)	19.37 (12)
R^2	0.1483	0.1721
Δ R^2	-0004	0.0238†

† $p < .10$ * $p < .05$ ** $p < .01$ *** $p < .001$

Year control variables have been excluded from table and are statistically significant to $p < 0.05$

Two-tailed t-tests for control variables; one-tailed t-tests for the independent variables.

All interaction variables entered into interactions are centered

[a] n = 587 firm-years (268 firms)

© : centered variable

TABLE 7
Random Effects GLS Regression w/ Robust Standard Errors:[a]
Results for Future Firm Performance (Tobin's Q) Family Firm / Director Model

	Model 7	Model 8
Control Variables	Family Firm/Director Attribute Model	Family Firm/ Director Attribute Interactions
Relative Firm Performance	0.023	0.024
Firm Revenues	-0.000	-0.000
Firm Age	0.000	0.000
Number of Directors	-0.018	-0.020
Number of Board Meetings	-0.015	-0.017
Independent Director Pct. ©	-0.531	-0.556
Staggered Board (Y/N)	-0.269*	-0.240*
CEO Age	-0.008	-0.007
CEO Founder (Y/N)	0.002	0.004
CEO Duality	-0.078	-0.097
CEO Compensation	0.000	0.000
Unexercised Exercisable Options	0.000	0.000
Unexercised Unexercisable Options	0.000	0.000
CEO Variable Compensation Pct.	-0.000	-0.000
Institutional Ownership Pct.	0.716*	0.723*
Insider Ownership Pct. ©	0.521	0.422
Governance Index ©	0.009	0.005
Independent Variables		
CEO Board Memberships	-0.006	-0.013
CEO Organizational Identity	0.002	-0.003
CEO Board Tenure	-0.003	-0.003
Family Ownership Pct.	0.6141	-0.706
Family CEO (Y/N)	-0.277**	-0.279*
Director Experience	-0.001	0.001
Affiliated Director	-0.031	-0.039
Community Influential Director	0.010	0.010*
Support Director	-0.022	-0.028
CEO Board Memberships x Family Ownership Pct.		0.402*
CEO Organizational Identity x Family Ownership Pct.		0.055
CEO Board Tenure x Family Ownership Pct.		0.003
CEO Board Memberships x Family CEO (Y/N)		-0.064†
CEO Organizational Identity x Family CEO (Y/N)		-0.011
CEO Board Tenure x Family CEO (Y/N)		0.001
CEO Board Memberships x Director Experience		-0.000
CEO Board Memberships x Affiliated Director		0.027*
CEO Board Memberships x Community Influential Director		0.014*
CEO Board Memberships x Support Director		-0.007
CEO Organizational Identity x Director Experience		-0.000
CEO Organizational Identity x Affiliated Director		-0.001
CEO Organizational Identity x Community Influential Director		0.008*
CEO Organizational Identity x Support Director		0.004
CEO Board Tenure x Director Experience		0.000
CEO Board Tenure x Affiliated Director		0.002
CEO Board Tenure x Community Influential Director		-0.001
CEO Board Tenure x Support Director		-0.000
Constant	1.66***	1.66***
Wald χ^2	102.91***	133.63***
Δ Wald χ^2	13.96 (6)	31.89 (18)
R^2	0.1651	0.1897
Δ R^2	0.0164*	0.021*

† $p < .10$ * $p < .05$ ** $p < .01$ *** $p < .001$

Year control variables have been excluded from table and are statistically significant to $p < 0.05$

Two-tailed t-tests for control variables; one-tailed t-tests for the independent variables.

All interaction variables entered into interactions are centered

[a] n = 587 firm-years (268 firms)

© : centered variable

TABLE 8

Summary of Hypotheses Tested (Model 8)

Hypothesis Number	**Hypothesis**	**Results**
1	CEO Socioemotional Wealth → Firm Performance	*Not Supported*
2a	Family Firm Ownership positively moderates H1	*Moderate Support:* CEO Board Memberships
2b	Family Member CEO positively moderates H1	*Not Supported:* Negative Effect
3	Director Industry Experience positively moderates H1	*Not Supported*
4	Number of Affiliated Directors positively moderates H1	*Moderate Support:* CEO Board Memberships
5	Number of Support Specialist Directors positively moderates H1	*Not Supported*
6	Number of Community Influential Directors positively moderates H1	*Strong Support:* CEO Board Memberships CEO Organizational Identity

TABLE 9
Confirmatory Factor Analysis
Hypothesized CEO Socioemotional Wealth Variables

Variables	**Factor #1**	**Factor #2**	**Uniqueness**
CEO Board Memberships	0.171	0.166	0.944
CEO Organizational Identity	0.190	0.017	0.964
CEO Board Tenure	0.020	0.188	0.964

Orthogonal Varimax Rotation
Likelihood Ratio Test: $\chi^2 = 6.57$, $p = 0.087$

APPENDIX B

FIGURES

FIGURE 1

A Model of the Influence of CEO Stewardship, Family Ownership and Control, and Board of Director Characteristics on Firm Performance

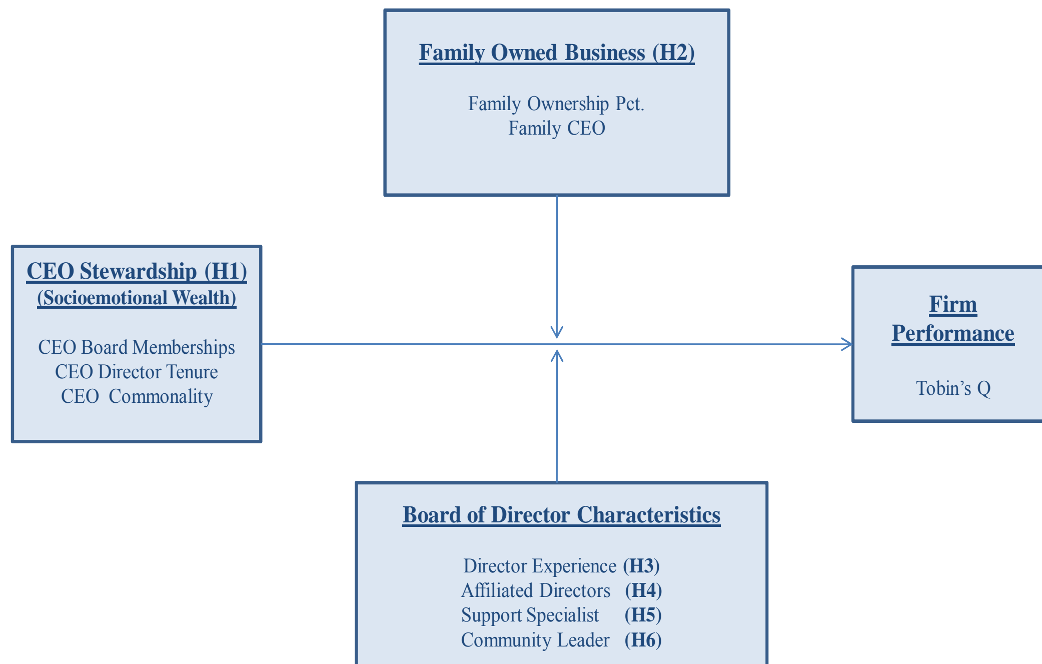


FIGURE 2

The Influence of Family Ownership Percentage on the Relationship between the Quantity of CEO Board Memberships and Firm Performance (1-Year Leading Tobin's Q)

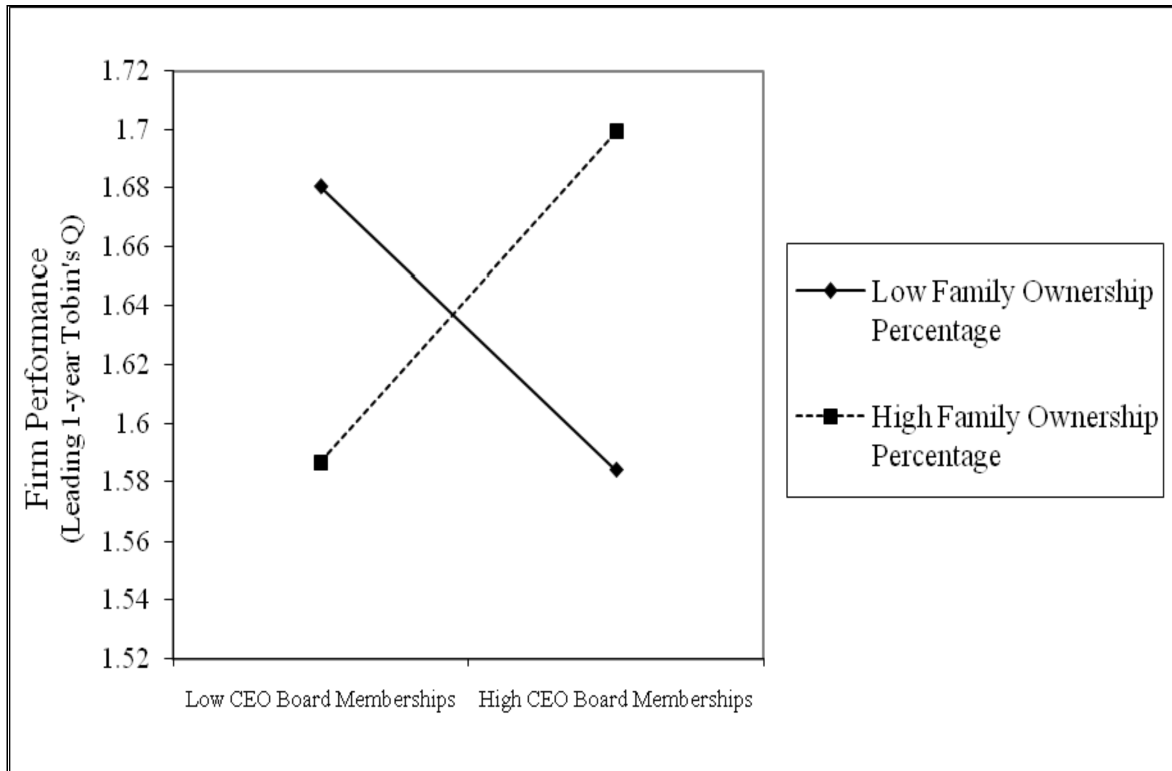


FIGURE 3

The Influence of the Quantity of Affiliated Directors on the Relationship between the Quantity of CEO Board Memberships and Firm Performance (1-Year Leading Tobin's Q)

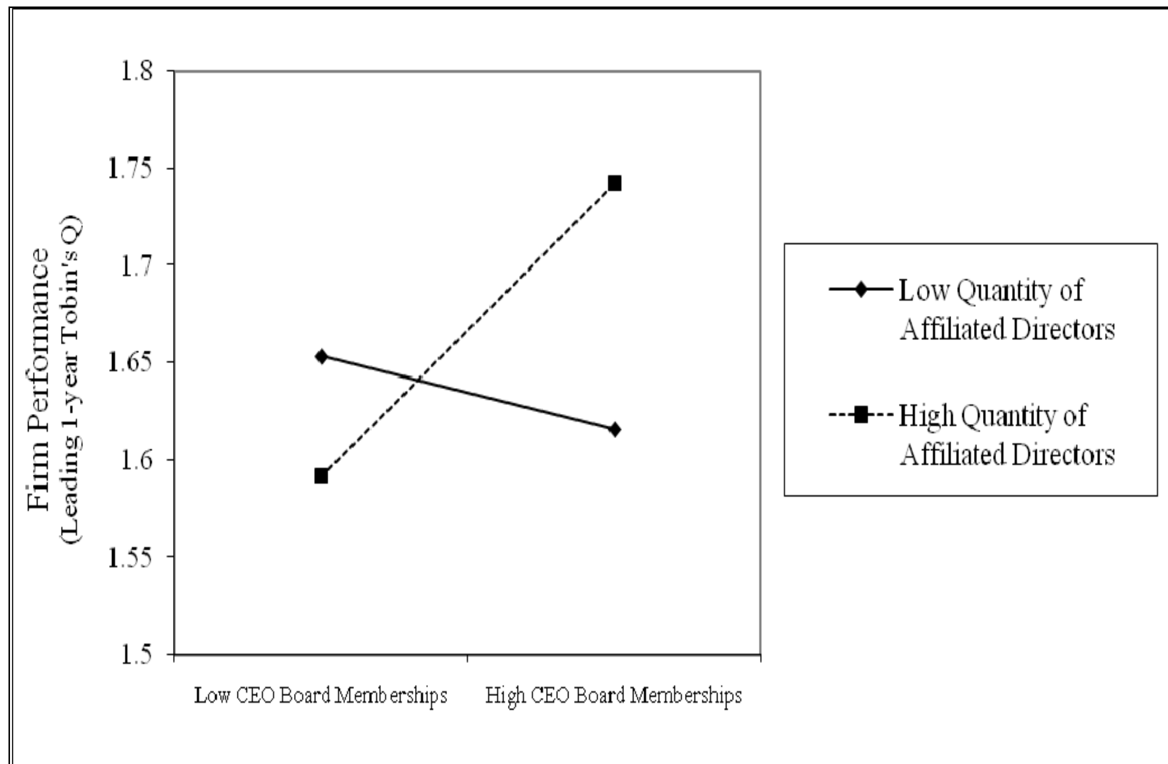


FIGURE 4
The Influence of the Quantity of Community Influential Directors on the Relationship between the Quantity of CEO Board Memberships and Firm Performance (1-Year Leading Tobin's Q)

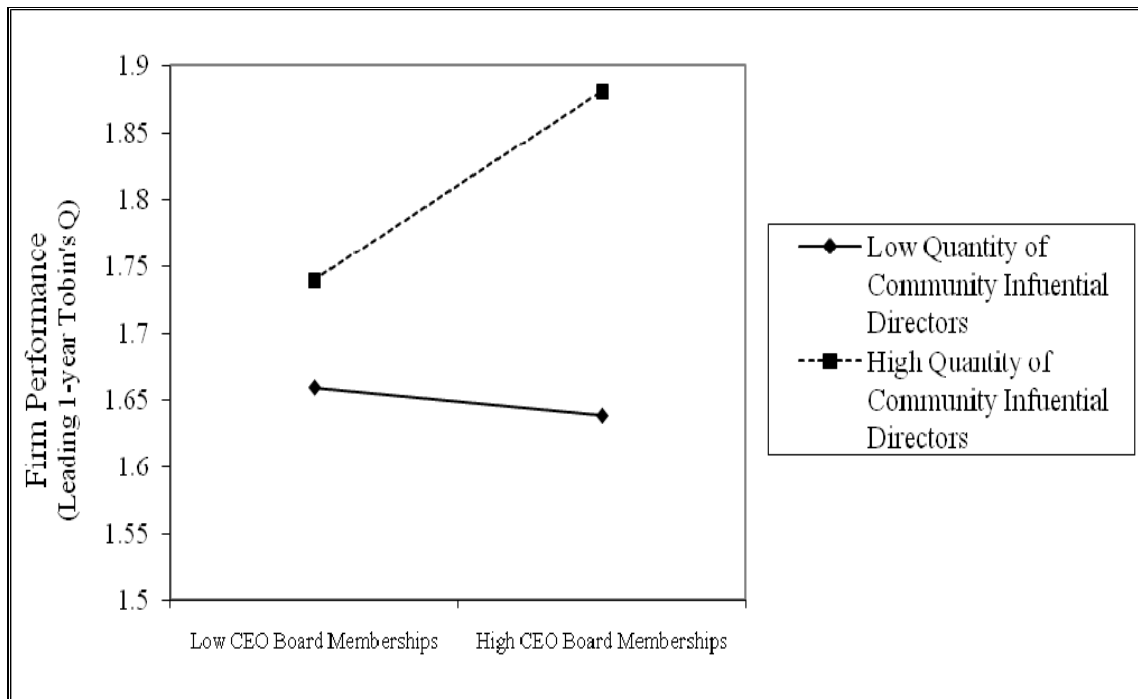
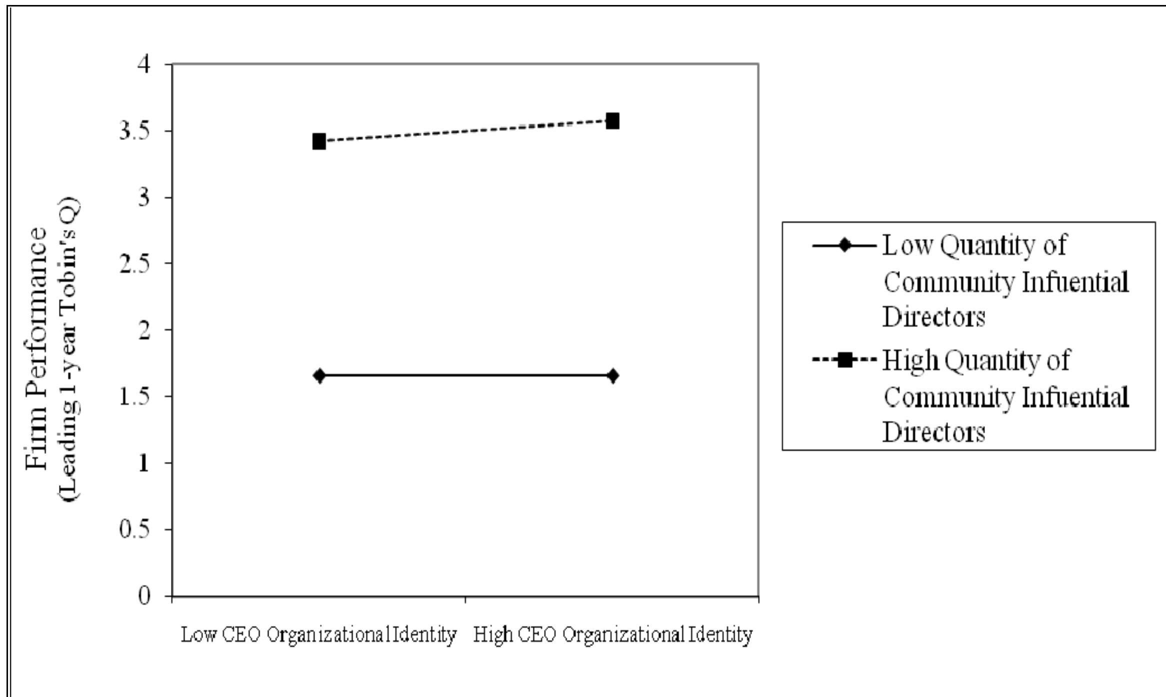


FIGURE 5

The Influence of the Quantity of Community Influential Directors on the Relationship between CEO Organizational Identity and Firm Performance (1-Year Leading Tobin's Q)



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