

**All in the Family? An Exploratory Study of Family Member Advisors and Firm Performance**

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## **All in the Family? An Exploratory Study of Family Member Advisors and Firm Performance**

### **Abstract**

This exploratory study investigates the relationship between family members serving in an advising capacity and family firm performance. Integrating the stewardship and agency perspectives, we predict an inverted U-shaped relationship between the number of family advisors and family firm performance. We argue that the generation in control moderates this relationship such that family member advisors have a positive relationship with performance in first-generation family firms and an inverted U-shaped relationship with performance in later-generation family firms. Our empirical analysis on a sample of 128 Swedish family firms confirms our hypotheses. In the concluding section, we discuss results, contributions, and future research directions.

## **All in the Family? An exploratory study of Family Member Advisors and Firm Performance**

As do many companies, family firms may use advisors<sup>1</sup> to obtain expertise, additional perspectives, or other types of input that their owners and/or managers are not able to provide. While advising non-family firms mainly requires addressing business needs, advisors to family firms must address both economic and non-economic goals of the company (Chrisman, Chua, Pearson, & Barnett, 2012) and cope with the family system as well as the business system (Barnett, Eddleston, & Kellermanns, 2009). As a result, specialized family firm advisor is a recognized profession (Astrachan & McMillan, 2006). Despite the influence of advisors on the development of family firms, academic research focusing on advising in family firms is scarce. According to Strike (2012, p. 156), “[a]lthough literature surveys find that advising family firms is a prevalent topic, the majority of articles are more a product of consulting practices rather than a result of rigorous academic study.” Most articles on advising are not based on qualitative or quantitative scientific methods (Dyer & Sánchez, 1998), which is unfortunate given that “[u]nderstanding advising is key to working with family firms...and may affect our ability to understand family dynamics, decision making, and firm performance” (Strike, 2012, p. 156). Thus, “what is still missing is a systematic database that can advance knowledge about advisors” in family firms (Reay, Pearson, & Dyer, 2013, p. 209).

Building on Boyd, Upton, & Wircenski (1999)’s work, family member advisors comprise those members of the owner family who are not employed in the business, but provide advice or guidance to the business on a formal or informal basis. Because they are often reluctant to provide non-family members access to information (Chua, Chrisman, &

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<sup>1</sup> For the purpose of this paper, we utilize the term advisor, although the terms advisors, consultants, and mentors have been used interchangeably (Strike, 2012, Boyd et al., 1999).

Sharma, 2003; Ward, 1997), family firms often rely on members of the owner family as advisors (Fiegener, 2010). It is unclear whether family member advisors have an impact on firm performance and under what circumstances it might occur (Dyer & Sánchez, 1998). The fundamental question of whether family member advisors add or not value to family firms (Bertrand & Schoar, 2006) is not addressed in the literature.

Our study attempts to shed light on the role of family member advisors in family businesses by investigating their impact on firm performance. Following Le Breton-Miller, Miller, and Lester (2011), and Le Breton-Miller and Miller (2009), we integrate two theoretical perspectives: stewardship and agency. Stewardship suggests that family members view themselves as stewards of the family firm, nurturing it for the support of future generations and maximizing performance. Agency, on the other hand, views family members as acting out of parochial preferences and purposes, and willing to under-invest in the firm, avoid risk, and extract resources to pursue personal family interests that penalize performance (Le Breton-Miller & Miller, 2009). We integrate these two perspectives and test our hypotheses on a sample of 128 Swedish family firms. We argue that an inverted U-shaped relationship exists between the number of family member advisors and firm performance and suggest that this relationship is moderated by the generation in control of the family business, a central moderator in family firm research (e.g., Beck, Janssens, Debruyne, & Lommelen, 2011; Casillas, Moreno, & Barbero, 2010; Cruz & Nordqvist, 2012; Eddleston, Kellermanns, Floyd, Crittenden, & Crittenden, 2013; Ling & Kellermanns, 2010; Mazzola, Sciascia, & Kellermanns, 2012).

Our study is the first empirical effort to shed light on family member advisors and their impact on firm performance, thus suggesting important implications for research and practice. By integrating the stewardship and agency perspectives, we show how these two theories complement each other, thus reconciling (Le Breton-Miller et al. 2011; Le Breton-Miller &

Miller 2009) their positive and negative effects on family firm performance. We also add to research on family firm heterogeneity (Eddleston et al., 2013; Westhead & Howorth, 2007) by showing that performance effects differ based on the generation owning the business. Lastly, we establish a first empirical basis for research on family member advisors, an important yet under-researched phenomenon (Strike, 2012).

## **THEORETICAL FRAMEWORK**

### **Stewardship and Agency Perspectives in Family Firms**

A family firm is an organization in which a group of persons related through common ancestry or marriage owns a substantial part of the business and exercises management control (Miller, Le Breton-Miller, Lester, & Cannella, 2007; Miller, Le Breton-Miller, & Scholnick, 2008). Family firms are emotionally charged organizations characterized by intense interactions (both personal and professional) among family members. Emotional attachment and rational judgment are inseparably intertwined, thus significantly impacting strategic decision-making processes (Olson, Zuiker, Danes, Stafford, Heck, & Duncan, 2003; Reay, 2009; Sirmon & Hitt, 2003; Zahra, Neubaum, & Larraneta, 2007; Zellweger, Kellermanns, Chrisman, & Chua, 2012). The essential qualities of family firms result in equally distinctive organizational behaviors and outcomes that allow family members to participate simultaneously in both family and business relationships in their personal and professional lives.

Miller and colleagues (e.g., Le Breton-Miller et al., 2011; Le Breton-Miller & Miller, 2009) highlight the positive and negative aspects of family firms within the stewardship and agency perspectives. Based on stewardship theory (for seminal contributions, see Donaldson 1990, Donaldson & Davis, 1991; Davis, Schoorman, & Donaldson, 1997), the family is viewed as a source of competitive advantage whose uniqueness derives from the integration of family and business life (Habbershon & Williams, 1999). Miller et al. (2008) find that

stewardship results in family firms striving for long-term continuity of the business, developing a community culture based on good relationships with staff and nurturing strong relationships with external stakeholders. Family-member owners and managers who view themselves as stewards align their motives with the objectives of the organization, which must be nurtured for the support of future generations (Corbetta & Salvato, 2004). Family members who are dedicated to the business tend to place the firm's objectives ahead of their own. Such steward behavior helps strengthen family relations by reducing relationship conflicts and fostering trust, interdependence, and commitment to the family's long-term success (Corbetta & Salvato, 2004; Eddleston & Kellermanns, 2007). Family firms may perform better because family managers are more visionary than managers of non-family companies, stimulating long-term investment policies, innovation, and commitment to customers (e.g., Eddleston, Kellermanns, & Sarathy, 2008; Miller et al., 2008; Uhlaner, Kellermanns, Eddleston, & Hoy, 2012).

On the other hand, according to agency theory (Fama & Jensen, 1983; Jensen & Mecklin, 1976), the literature suggests that family members are driven by self-interest and use the business for parochial purposes (e.g., Le Breton-Miller et al., 2011; Le Breton-Miller & Miller, 2009). Based on this view, although family firms may experience lower principal-agent costs (Anderson & Reeb, 2003; Le Breton-Miller & Miller, 2009), they are likely to be exposed to other agency costs. Family members may use the business to serve only the family and its needs at the expense of other shareholders (Schulze, Lubatkin, Dino, & Buchholtz, 2001). For instance, they may hire incompetent family executives (Lubatkin, Ling, & Schulze, 2007) or under-invest in the firm and extract resources for personal purposes (e.g., Le Breton-Miller et al., 2011; Le Breton-Miller & Miller, 2009). As a result, family members may avoid risk to preserve family assets and allow a constant flow of dividends.

As Le Breton-Miller et al. (2011) explain, if family decision makers “are risk averse and deploy significant resources for parochial purposes, they cannot invest adequately in the firm or in renewing its products and processes, physical plant, or capabilities” (p. 706).

Consequently, family firms will experience “inferior investment in the infrastructure and future of the business [...] scarce liquid resources due to abundant dividends or other expenses [...] and an insistence on lock-step earnings stability to cater to family risk aversion and financial needs” (p. 706). We argue that the stewardship and agency perspectives are complementary and can help explain the performance effects of family member advisors in family firms.

### **Advising in Family Firms and Family Member Advisors**

While advisors are important for any type of company, family firms’ distinctive character calls for specific advising needs and specific advising skills. Many family business scholars (e.g., Astrachan & McMillan, 2006; Bammens, Voordeckers, & Van Gils, 2008; Dyer, 1986; Dyer & Sánchez, 1998; Kaye, 1991; Kaye, 1996; Kaye & McCarthy, 1996; Kellermanns & Eddleston, 2006; Lansberg, 1988; Mathieu, Strassler, & Pearl, 2010) emphasize the ability of family firm advisors to recognize problems and encourage exploring new options. Advisors serving family firms face challenges that are different from those addressed by other advisors (Davis, Dibrell, Craig, & Green, 2013), since they have to work at the interface of family, business, and ownership. They must be aware of both process and content, deal with complex emotions, manage family and business conflicts, and balance conflicting stakeholder interests (Gersick et al., 1997; Hilburt-Davis & Dyer, 2003; Jaffe & Lane, 2004; Strike, 2013). Recent studies suggest that family firms need not only a high range of expertise, but also a great number of advisors: accountants, attorneys, family office consultants, financial services advisors, management consultants, family philanthropy managers, psychologists, and family therapists (Reay et al., 2013). Strike (2012) concludes

that, while research on the topic has increased in recent years, many issues still remain unresolved, such as advisor attributes, choice of advisors, advisory processes, and outcomes. She claims that most research relies on anecdotal accounts provided by advisors and that more emphasis needs to be placed on theoretical conceptualizations and rigorous research methods.

The role of family members as a distinct type of advisor has received scant attention. While Strike (2012) mentions them in her review, she does not elaborate on their specific role. Boyd et al. (1999), among the few who discuss family member advisors, assert that family members' inside knowledge, their trustful relationship to managers, and their understanding of family culture are important resources in advisory processes. On the other hand, family members' lack of an outside perspective and their personal involvement in family relationships may result in inertia and contribute to the firm's regression. Consequently, from a performance perspective, there are both positive and negative effects of involving family members as advisors. Our hypotheses more closely examine these effects.

## **HYPOTHESES DEVELOPMENT**

### **Family Member Advisors and Performance in Family Firms**

Due to the overlap of family, business, and ownership (Tagiuri & Davis, 1996), family firms' needs for advisory assistance is unique (Strike, 2012). A major challenge that advisors face in family firms is to understand the needs of family members within the overlapping family and business systems (Mathieu et al., 2010). A common strategy, and the focus of our study, is relying on family member advisors who are well acquainted with family and business needs (Strike, 2012).

As members of the owner family, family firm advisors are concerned about the firm "because it is part of their collective patrimony and is often the main asset of the family" (Arregle, Hitt, Sirmon, & Very, 2007, p. 84) and therefore act as stewards towards the firm. According to Davis et al. (1997), stewardship arises under certain conditions, such as



identification. As Davis and colleagues explain, individuals are more likely to behave as stewards when they can identify with the organization and see the performance of the organization as an extension of their own well-being. Family member advisors can be expected to be more engaged and to believe that they have a common family responsibility to see the organization prosper (Eddleston & Kellermanns, 2007) than other advisors who are not members of the owner family (Boyd et al., 1999). Another condition relates to the type of power that individuals have in the organization. Individuals are more likely to behave as stewards when their power emanates from personal relationships rather than from formal positions (Davis et al., 1997). The power of family member advisors is connected to their knowledge and family relationships (Boyd et al., 1999). Thus, we argue that bringing in family member advisors favors family firm performance. The presence of family member advisors may strengthen stewardship behavior towards the organization (Miller et al., 2008) and exhibit commitment to proactively search for innovative strategies, ensuring the continuity of the firm across generations (Miller & Le Breton-Miller, 2005; Miller et al., 2008).

Stewardship leads family member advisors to emphasize product research, market share, and reputation development. Intensive training programs may help family owners and managers coach employees to do their job well, create new products, and acquire new knowledge. To this end, family member advisors devote significant efforts to build “a group of talented, motivated and loyal employees” to guarantee the firm’s prosperity over time (Miller et al., 2008, p. 55). They may encourage family owners and managers to “build enduring networks and associations with clients and other suppliers of valuable resources,” reinforcing the company’s market share (Miller et al., 2008, p. 56) and enhancing performance by leveraging family firm specific assets.

There is a limit, however, to the number of family member advisors that a family firm can rely on to boost performance. We expect that the performance benefits stemming from stewardship behavior will be offset by monitoring and agency costs associated with high numbers of family advisors (e.g., Le Breton-Miller et al., 2011; Le Breton-Miller & Miller, 2009). We build our arguments on Chrisman, Chua, Kellermanns, and Chang (2007), who highlight the agency costs occurring among members of the same family, and on the literature on groups, which warns against the challenges presented by larger groups (Staats, Milkman, & Fox, 2012; Hackman, 2002; Levine & Moreland, 1998; Steiner, 1972).

Groups literature rooted in psychology has shown that an increasing group size can present challenges involving coordination, motivation, and conflicts (Staats et al., 2012; Hackman, 2002; Levine & Moreland, 1998; Steiner, 1972). The potential for coordination losses increases as the number of family advisors increases “because the number of communication linkages among members increases at a nonlinear rate” (Staats et al., 2012, p. 133). High numbers of family member advisors increase the risks of miscommunication and holding-up information (Mueller et al., 2012), which in turn require the implementation of monitoring mechanisms and enhance agency costs (Chrisman et al., 2007).

A second challenge involves advisors’ motivation to behave as stewards to the business. When there is a higher number of family member advisors, each advisor may experience decreased motivation to behave as a steward because his or her contribution to the well-being of the business is less identifiable (Steiner, 1972). Thus, a high number of family member advisors may amplify particularistic behaviors (for a discussion of particularism see Carney, 2005) and favor family-centric, self-interested conduct over stewardship. This conduct may include advising family owners to hire incompetent family members, extracting resources for family purposes, and avoiding taking business risks to preserve the family wealth (Le Breton-Miller & Miller, 2009; Lubatkin et al., 2007; Schulze et al., 2001). For instance, Le Breton-

Miller et al. (2011) found that “the higher the level of family embeddedness, [...] the more likely it is that a family’s self-interested behavior will dominate business stewardship” (p. 707).

A third challenge is the increasing potential for conflicts and rivalry among different family member advisors (Salvato & Corbetta, 2013). Family relations among the advisors can make these conflicts more difficult to resolve because these “relations [...] are likely based on emotions, sentiments, and informal linkages, which may result in less effective monitoring and disciplining” (Peng & Jiang, 2010, p. 258) of family member advisors. Conflicts can also result in the misuse of business resources to solve problems or avoid strife (Schulze et al. 2001). Conflicting relationships can frustrate family member advisors who attempt to behave as stewards, causing them to become agents (Chrisman et al., 2007).

Taken together, these arguments suggest that family member advisors can initially have a positive influence on firm performance. Once the number of family member advisors reaches a certain threshold, however, the emergence-- and increase-- of monitoring and coordination costs as well as the potential for group think and relationship conflict are likely to exceed any stewardship specific benefits, resulting in declining firm performance. We expect the relationship between the number of family member advisors and firm performance to be positive initially, but to become negative after reaching a certain point.

*Hypothesis 1: An inverted U-shaped relationship exists between the number of family member advisors and firm performance in family firms.*

### **The Moderating Role of Family Generation in Control**

In line with recent research (e.g., Beck et al., 2011; Casillas et al., 2010; Cruz & Nordqvist, 2012; Eddleston et al., 2013; Ling & Kellermanns, 2010; Mazzola et al., 2012), we suggest that the family generation in control, that is the generation of the founder’s family that owns the firm (Ling & Kellermanns, 2010), serves as an important moderator. The literature suggests that the founder’s generation and later generations have distinctive knowledge

endowments, different patterns of interpersonal relationships, and different approaches to management (Gersick et al., 1997; Lansberg, 1999). Following this logic, we argue that the non-linear relationship between the number of family member advisors and family firm performance is moderated by the generation in control of the family firm. The inverted U-shaped relationship will become positive as the number of family member advisors increases for first generation firms, and maintains an inverted U-shape for later generation firms.

In firms controlled by the first generation, the risk of adopting risk adverse behaviors is low since family creativity and entrepreneurial spirit are high (e.g., Salvato, Chirico, & Sharma, 2010) and there are no earlier generations of owner-managers who might want to preserve previous strategy. Similarly, family member advisors have no legacy from the past to preserve. With relatively few people involved in first generation family firms, agency costs resulting from information asymmetries tend to be lower. Yet, a business that is small, young, and has low product diversification needs the insights and knowledge of multiple family members, especially professional family member advisors, to thrive and grow (Churchill & Lewis, 1983; Gedajlovic, Lubatkin, & Schulze, 2004; Kellermanns & Eddleston, 2004; Greiner, 1972), as family members are usually acknowledged as holders of firm-specific tacit knowledge (Barbera & Hasso, 2013). Knowledge ranging from production efficiency to financial control is needed, and in addition, “the founders often hate to step aside” even if they lack knowledge in important areas (Greiner, 1972/1997, p. 403) and are reluctant to rely on professional management (Hall & Nordqvist, 2008). For this reason, family member advisors can play an important stewardship role by offering direction and providing mentoring in critical areas, thereby supporting the founder and other stakeholders in pulling the organization together and foster the growth of the new venture with a clear direction (Greiner, 1972/1997). Thus, we expect a positive relationship between the number of family member advisors and first-generation family firm performance. While a low number of family

member advisors is expected to have little or no positive impact on performance, a higher number of advisors will have greater effects on performance outcomes.

In later-generation family firms, however, we argue that there is an inverted U-shaped relationship. While an increase in family member advisors may have a positive effect initially (Eddleston & Kellermanns, 2007), negative effects are more likely with higher numbers of advisors. After a certain threshold, an increased number of family member advisors is more likely to represent the self-interest of different individuals and groups within the family, rather than promoting the development of the business (Le Breton-Miller et al., 2011) and, due to divergent family branches and internal politics, may create and amplify relationship conflicts and reduce advisors' motivation to behave as stewards (Eddleston et al., 2013; Gersick et al., 1997; Lubatkin, Schulze, Ling, & Dino, 2005). In contrast to the founding generation, later-generation family member advisors may preserve inherited wealth (Beck et al., 2011; Kellermanns, Eddleston, Sarathy, & Murphy, 2012) and become more risk averse (van Essen, Carney, Gedajlovic, Heugens, & van Oosterhout, 2011; Zahra, 2005). This effect is exacerbated by advisors' tendency (along with family owners and managers) to rely on past strategies due to their emotional attachment to ancestral values (Habbershon & Pistrui, 2002) in their attempt to protect the wealth built by the founding generation (Salvato et al., 2010). While these values may have been highly effective historically, they may become dysfunctional in a changed context, leading to the firm's regression (Gagliardi, 1986). We suggest that in firms controlled by later generations, an inverted U-shaped relationship exists (as described in Hypothesis 1).

***Hypothesis 2:*** *The generation in control of the firm moderates the relationship between the number of family member advisors and firm performance such that family member advisors have: a) a positive relationship with firm performance in family firms controlled by the first generation, and b) an inverted U-shaped relationship with firm performance in family firms controlled by later generations.*

## METHOD

### Sample and data collection

Our initial random sample of 500 firms, which was drawn from Statistics Sweden, comprises small- and medium-sized manufacturing firms in Sweden. Firms were surveyed by telephone and on-line. Out of the 171 firms that responded, 128 answered “yes” to the following questions: (1) Are ownership and management control of the company dominated by one family, and (2) do you consider your business as a family business? These 128 firms comprised our study sample and were matched with archival data. While the initial response rate was 34.2%, our final sample resulted in a response rate of 25.6 %.

Data on the independent and moderator variables were collected by telephone and on-line. To improve reliability, the targeted respondent was each company’s CEO. Data on the dependent variable were gathered from business registers (that is, Företagsfakta and Retrivier). For the control variables, we sought additional objective secondary data from Statistics Sweden and from Företagsfakta and Retrivier.

To test for non-response bias, we examined differences between respondents and non-respondents on known attributes. T-tests showed no significant differences based on return on assets (ROA) ( $T=0.83$ ,  $p>0.1$ ).

### Measures

#### *Dependent variable*

Firm performance was measured by average company ROA, one of the most commonly used and well-regarded measures of financial performance (Deephouse & Carter, 2005).

#### *Independent and moderator variables*

We measured *family member advisors* by asking respondents to report the total number of family members not employed in the business who acted as advisors to the business, either

on a formal or informal basis, over the previous three years. In order to assess the validity of our measure on issues of strategic importance, we examined the relationship between the reported number of family member advisors and a separate three-item, five-point scale capturing the extent to which members of the owner family not employed in the business acted as advisors concerning: (1) development of the company's strategy, (2) international expansion, and (3) selection of new board members ( $\alpha=0.81$ ). We found that the number of family member advisors was positively related to this scale ( $b=0.56$ ,  $p>0.05$ ), providing evidence of the validity of our measure.

Following prior studies (e.g., Beck et al., 2011), *generation in control* was measured by dummy coding whether the firm was controlled by the first generation or by later generations. This information was gathered during telephone interviews with the company's CEO.

#### *Control variables*

All control variables were drawn from archival sources. We controlled for the organizational variables that may affect performance: prior performance, size, and age (Zahra & Nielsen, 2002). *Past performance* was measured by ROA for the two years prior to the survey. *Firm size* was measured by dummy coding whether the firm was small- (9-49 employees) or medium-sized (50-249). Because of the highly skewed age distribution, *firm age* was measured by the logarithm of the number of years the firm has been in business. Since capital intensive industries might differ from knowledge intensive industries (Kleindorfer & Wu, 2003), we controlled for whether the firm is in a *capital intensive industry* to capture specific industry effects. We also controlled for the ratio of *family members in the Top Management Team (TMT)* and whether the *CEO is a member of the owner family* to account for family involvement in the business. Following prior research (Kraiczy, Hack, & Kellermanns, 2014), we constructed the ratio by dividing the total number of family members in the TMT by the total number of TMT members. We controlled for the *number of non-family member advisors*

by asking respondents to report the total number of non-family member advisors over the previous three years.

## **Results**

Table 1 shows the mean values, standard deviations, minimum, maximum, and correlations for the study variables. Before creating the squared and interaction terms, we centered the variables to mitigate potential multi-collinearity problems. Subsequent inspection of the variance inflation factors (VIFs) shows a mean VIF of 3.6 (Hair, Black, Babin, & Anderson, 2010), thus mitigating these concerns. We tested Hypothesis 1 using hierarchical regression analyses and entered control variables in step 1 (Model 1), independent variables (number of family member advisors and generation in control) in step 2 (Model 2), and the squared term of the number of family member advisors in step 3 (Model 3). Following Aiken and West (1991), the variable was mean-centered prior to the creation of the squared term. Our independent variable assumes non-zero values in only 30% of our cases, thus exhibiting a positively skewed distribution that also shows positive kurtosis. We do not believe, however, that this negatively affects the validity of our findings. We used robust standard error estimates to address potential violations of OLS assumptions. Such a distribution would lead to an underestimation of variance and diminish the likelihood of detecting a significant effect (e.g., Tabachnick & Fidell, 1996). The underestimation of variance tends to cease in the case of positive kurtosis at sample size of 200 (Wateraux, 1976). Our current sample is representative of the overall population of firms in Sweden, suggesting that the observed distribution is also representative of the distribution in the population, thus allowing us to make meaningful inferences. Hypothesis 1 suggests that there is an inverted U-shaped relationship between the number of family member advisors and family firm performance. The linear term for number of family member advisors is positive and significant (Model 2), whereas the squared term for the number of family member advisors is negative and



significant (Model 3), thus providing preliminary support for our hypothesis. To ensure the correct interpretation of our results, we assessed the significance of the inverted U-shaped relationship. First, we tested the joint significance of the direct and squared terms of number of family member advisors, following Sasabuchi's (1980) test for an inverted U-shaped relationship. Significant values, as in our case, indicate the presence of an inverted U-shaped relationship (*Lower bound slope*=5.752987; *t-value*=2.691332;  $P > |t| = 0.0040799$ ; *Upper bound slope*=-8.45281; *t-value*=-2.611258;  $P > |t| = 0.0051011$ ; *overall test of presence of an Inverted U-shaped relationship*: *t-value*=2.61;  $P > |t| = 0.0051$ ). To further assess whether the extreme point is within the upper and lower bounds, Lind and Mehlum (2010) propose the Fieller approach to estimating confidence intervals around the extreme points. If the confidence intervals are within the bounds of the low and high values of family member advisors, it provides further evidence of the inverted U-shaped relationship in the data. In our analysis, the estimated extreme point is 2.4, which is within the upper and lower bounds of family member advisors (95% Fieller interval for extreme point: [1.7214757; 3.3246015]).

To facilitate interpretation of the results, we plotted the relationship. Figure 1 provides visual support for Hypothesis 1.

-Insert Figure 1 About Here-

Hypothesis 2 suggests that the generation in control moderates the relationship between the number of family member advisors and family firm performance. We included the interaction terms between generation in control and number of family member advisors, and between generation in control and the squared term of number of family member advisors in Model 4. Both interaction terms are statistically significant, confirming that the generation in control moderates the relationship between number of family member advisors and firm performance.

To gain further insight into the moderating effect of generation in control, we plotted in Figure 2 the results obtained in Model 4. Hypothesis 2a is not supported. The relationship between family member advisors and firm performance is almost flat in firms controlled by the first generation. In support of Hypothesis 2b, the graph shows an inverted U-shaped relationship in firms controlled by later generations. To ensure the correct interpretation of our results, we assessed the significance of the inverted U-shaped relationship in firms controlled by later generations, by estimating the curvilinear effect of family member advisors on performance in the subsample of family firms that are controlled by later generations (N=78). Again, we tested the joint significance of the direct and squared term of number of family member advisors, following Sasabuchi's (1980) test for an inverted U-shaped relationship. Significant values, as in our case, indicate the presence of an inverted U-shaped relationship (*Lower bound slope*=16.07928; *t-value*=3.810928;  $P > |t| = 0.0001502$ ; *Upper bound slope*=-41.57377; *t-value*=-3.26391;  $P > |t| = 3.810928$ ; *overall test of presence of an Inverted U-shaped relationship*: *t-value*=2.61;  $P > |t| = 0.0008607$ ). Further, the estimated extreme point is 1.7, which is within the upper and lower bounds of family member advisors (95% Fieller interval for extreme point: [1.4035271; 2.1730004]).

We also estimated a model that considers family member advisor as a dummy variable. Results are substantially similar to those reported in Table 2. In another robustness test, we used profit margin and return on equity (ROE) as measures of firm performance. Results are consistent with those obtained with ROA.

-Insert Figure 2 About Here-

## DISCUSSION

Recognizing the promise of phenomenon based research (von Krogh, Rossi-Lamastra, & Haefliger, 2012), our study focuses on family member advisors. Our goal is to increase understanding of family member advisors by developing and testing a model that builds upon

and extends prior work on advising in family firms, which possess unique characteristics that may either support or inhibit firm performance. By integrating the stewardship and agency perspectives (Le Breton-Miller, Miller, & Lester, 2011; Le Breton-Miller & Miller, 2009), we provide theoretical support for our model. The inverted U-shaped relationship between the number of family member advisors and family firm performance, which supports Hypothesis 1, suggests that as the number of family member advisors increases up to two family member advisors, stewardship effects outweigh the negative effects of agency behavior. Family member advisors strengthen stewardship behavior towards the organization and proactively search for innovative strategies to ensure the continuity of the firm across generations (Miller et al., 2008). In particular, their strong identification with the business and power emanating from family relationships help them to act as stewards (Davis et al., 1997). More than two family member advisors, however, lead to agency and a negative effect on performance (Figure 1), with advisors favoring family-centric, self-interested conduct over stewardship behavior. This conduct may induce family owners to hire incompetent family members, extract resources for family purposes, and avoid taking business risks to preserve the family wealth (Le Breton-Miller & Miller, 2009; Lubatkin et al., 2007; Schulze et al., 2001). An increased number of family member advisors may create challenges related to motivation, communication, and conflicts (Staats et al., 2012).

We demonstrate that the relationship between the number of family member advisors and firm performance differs based on the generation in control. Interestingly, we only observe an inverted U-shaped relationship for later generation, while family member advisors in firms controlled by the first generation do not substantially boost performance (Figure 2). It is possible that the founder effect dominates any potential influences from advisors in first generation firms. Indeed, recent research has shown that founders let a firm outperform any other type of family firm (Miller, Minichilli & Corbetta, 2013). The dominance of a stronger

founder, who is still driving the decision making and is less susceptible to advice, may diminish any influences family member advisors may have.

However, we observed an inverted U-shaped relationship in firms controlled by later generations (Figure 2). This suggests, as argued, that given the tendency to protect the family legacy of previous generations (Salvato et al., 2010) and the potential conflicts that can arise amongst branches of the family (e.g., Gersick et al., 1997), as well as higher monitoring and coordination costs, higher levels of family member advisors can be detrimental to performance. Accordingly, our findings not only suggest that the number of family member advisors is important for performance, but also that the effect of family member advisors can differ dramatically depending on the generation in control.

Although the topic of advising in family firms is important for advancing the family firm field, our knowledge is limited, with much existing work based on anecdotal evidence (Strike, 2012). The lack of rigorous academic research on advising in family firms (Reay et al., 2013; Strike, 2012) is particularly true for family member advisors (for exceptions, see Boyd et al., 1999; Gillis-Donovan & Moynihan-Bradt, 1990). Our study thus represents the first empirical work to shed light on the complex relationship between the number of family member advisors and family firm performance, a previously neglected issue.

Our work reconciles stewardship and agency perspectives on family firm outcomes (Le Breton-Miller, Miller, & Lester, 2011; Le Breton-Miller & Miller, 2009) by showing that both agency and stewardship effects can be at place in a family business at the same time. Specifically, we argued that the benefits of stewardship can be outweighed by agency costs under certain configurations. We thereby extended the nomological network of this line of research to family firm advising. In particular, it addresses the call made by Le Breton-Miller et al. (2011) to extend family firm research on stewardship and agency “to the realm of smaller [and private] family businesses as the intimate and personal nature of such companies

Naldi, Chirico, Kellermanns and Campopiano, *Family Business Review*, forthcoming may make them ideal venues for stewardship” (p. 718). Our results suggest that in small- and medium-sized private firms, the prevalence of stewardship and agency behaviors and their resulting performance consequences depends on the number of family member advisors and the generation owning the business. Contrary to Le Breton-Miller, Miller, and Lester (2011), Le Breton-Miller and Miller (2009) as well as Miller et al. (2008), our findings suggest that the stewardship and agency perspectives should not be regarded as “either/or,” but as “both and more.”

By using the generation in control as a moderator, we demonstrate that family firms are not homogeneous groups. In line with existing literature showing that there are significant differences between founder- and later-generation family firms (e.g., Sonfield & Lussier, 2004; Westhead, Howorth, & Cowling, 2002), the effect of family member advisors on performance varies depending on the generation owning the business. Because stewardship and agency behaviors may coexist and vary over time, we answer the literature’s call to investigate heterogeneity and the related behavioral differences among family firms (Chrisman, Chua, & Sharma, 2005; Sharma, 2004).

### **Implications for Research and Practice**

Our findings follow prior evidence suggesting that first-generation family firms, especially, need to employ skilled and professional executives who are external to the family rather than relying solely on the knowledge and skills of family members (Casillas et al., 2010; Dyer, 1988; Martinez, Stöhr, & Quiroga, 2007). Gedajlovic et al. (2004), for example, refer to crossing the threshold from founder management to professional management to gain competitive advantage, thus showing the need and willingness to rely on external advisors that, to different degrees, may be embedded into the family business (Barbera & Hasso, 2013).

Our analysis may also facilitate scholarly efforts to better understand advising issues involving other organizational forms, since many features of the relationships that occur in a family firm context could be generalized (see Arregle et al., 2007). Close relationships in family firms may be similarly developed in other types of organizations that are influenced by a predominant social group.

For practitioners, that is, family members involved in family firms, externally recruited employees, or external advisors, our research highlights the need to be aware of both the benefits and the detriments of family member advisors. As both family members and outsiders have specific skills and resources that can add value to the advising process, choosing advisors is not an “either/or” question. Managers of family firms should try to find the right combination of the two categories. Although family member advisors, per se, do no harm in family firms, there is a significant risk that too much reliance on family member advisors by later generations may lead to agency problems and fail to solve family business issues.

Later-generation family firms must be more attentive to the personal preferences and dispositions of family member advisors than are first-generation family firms. Family members who are driven by the desire to preserve established structures or who are likely to allow personal conflicts to affect decision-making processes are probably not suitable as advisors. Otherwise, the risk of relying on path-dependent solutions will most likely become a routinized behavior with negative consequences for family firm performance.

### **Limitations and Future Research**

We did not consider succession or succession planning as a control. Because a succession event can be difficult in family firms and may lead to firm failure when not handled effectively, it can strongly affect a firm’s need for advising (Salvato & Corbetta, 2013) and its potential benefits. Likewise, we also did not control for actual family

relationships of the advisors. Depending on underlying dynamics, family relationships with the owner/managers of the firm may affect the ability of the family firm advisor to influence outcomes. We encourage future research to take a closer look at relationships among family members working in the firm, in general, as well as their relationships with family member advisors working in the firm. Although we do not directly measure either stewardship (for a measurement example, see Davis, Allen, & Hayes, 2010) or agency behaviors in the family firm, we indirectly assess their outcomes through the interaction of the number of family member advisors and the generation in control of the firm. Future research may try to assess stewardship and agency behavior more directly.

Our sample focused on small- and medium-sized enterprises. In larger firms, board of directors are more established (Pieper, Klein, & Jaskiewicz, 2008), and additional complex governance structures like family councils or family offices can be found (e.g., Melin & Nordqvist, 2007; Decker & Lange, 2013). Future research needs to investigate not only the effects of family member advisors on larger firms, but also the interplay between potential governance bodies as well as the interplay between family and non-family members that occur.

We focused on the effect of the number of family member advisors on firm performance, measured as ROA. Although we find support for our hypotheses, the cross-sectional nature of our study design does not infer causality or properly account for the lagged effects of family member advisors on firm performance. These limitations can be addressed by future longitudinal studies. Other measures of financial and non-financial performance as well as the existence of cognitive and relational conflicts among family members (including family member advisors) should also be considered. Building on the stewardship/agency framework, future studies may develop deeper arguments on family members' and advisors' (conflict) relationships, history, culture, and their potential effects on firm outcomes.

More fine-grained information on the qualifications of family member advisors may be worthwhile. For instance, because the effectiveness of family member advisors may be dependent on their experience inside and outside the family business, future research could consider human capital as a proxy for the quality of advice that may positively affect performance (Barbera & Hasso, 2013; Sirmon & Hitt, 2003). Family member advisors' effectiveness may also depend on the fact that family firms simultaneously have economic and non-economic goals, as has been suggested (see, for example, the concept of socio-emotional wealth, by Gómez-Mejía, Haynes, Núñez -Nichel, Jacobson, & Moyano-Fuentes, 2007). The relationship between family involvement and the organizational goals adopted by family firms is likely to be complex (Chrisman et al., 2012); therefore, future research should analyze the effect of family member advisors via the role played by the great diversity of family business goals.

We examined only a small number of firms with multiple family advisors. In order to ensure that our findings were not driven by extreme observations, we applied the usual diagnostic tests, that is, the studentized residuals, the Cook's D, and the DF-betas (Hair et al., 2010). These tests confirm that the results of our study are not driven by outliers. Still, our study is exploratory in nature and we encourage scholars to replicate and extend our findings with larger or more balanced samples. In addition, advising needs to be further contextualized. How effective are family vs. non-family advisors before or after a succession event or during periods of growth or decline? What type of advisor is more suitable for which problem? For example, in order to settle relationship conflicts, external non-family member advisors are often suggested as a remedy (Kellermanns & Eddleston, 2006), since family member advisors are likely to be less suited. Future studies may also utilize a qualitative approach to examine relationships among family members working in the business, family



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member advisors, and family members not involved in the business. A better understanding of how family member advisors interact with non-family advisors is necessary.

We hope this exploratory study serves as a basis for understanding the role of family member advisors and their impact on family firm performance. We encourage others to build on our findings and investigate how and when advisors to the family firm can have beneficial performance effects.

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**Table 1: Descriptive statistics and bivariate correlation matrix**

Correlation		Mean	SD	min	max	1	2	3	4	5	6	7	8	9
1	Performance	6.38	11.65	-55.08	28.69	-								
2	Past performance	5.42	10.77	-44.72	36.32	0.42*	-							
3	Small size	0.94	0.24	0	1	-0.02	0.11	-						
4	Firm age	25,80	11,24	4,98	40,99	-0.01	0.05	0.16	-					
5	Capital intensive industry	0.22	0.42	0	1	0.09	0.14	-0.02	-0.01	-				
6	Family members TMT	0.62	0.35	0	1.33	-0.02	0.25*	0.28*	0.09	-0.11	-			
7	Family CEO	0.78	0.42	0	1	0.07	0.23*	0.25*	0.14	0.10	0.42*	-		
8	Non-family members advisors	5.34	5.03	0	24	-0.02	0.06	0.12	0.01	0.16	-0.16	-0.25*	-	
9	Control by later generations	0.61	0.49	0	1	-0.10	-0.04	-0.01	0.43*	0.11	0.01	0.00	0.09	-
10	Family member advisors	0.47	0.93	0	6	0.06	-0.06	-0.11	-0.05	-0.06	-0.09	-0.22*	0.18*	0.04

\*Correlations  $\geq |0.18|$  are significant at  $p < .05$ ;  $N=128$

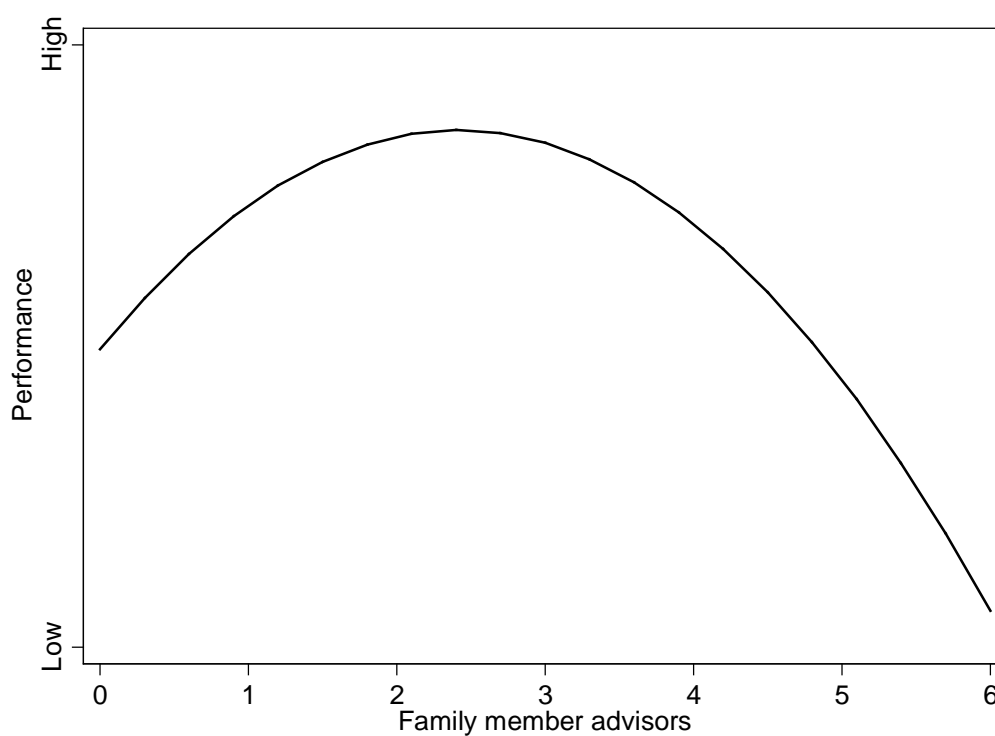


**Table 2: Regression analysis estimating firm performance**

	Model 1	Model 2	Model 3	Model 4
Past Performance	0.51*** (0.124)	0.50*** (0.123)	0.51*** (0.124)	0.57*** (0.115)
Small size	-1.37 (3.617)	-1.29 (3.638)	-0.45 (3.444)	0.50 (3.392)
Firm age (log)	-0.41 (1.746)	0.55 (1.904)	1.18 (1.943)	0.42 (1.795)
Capital intensive industry	0.52 (2.466)	1.04 (2.394)	0.88 (2.350)	0.25 (2.329)
Family members TMT	-4.78 (3.383)	-4.72 (3.324)	-4.96 (3.256)	-3.89 (3.138)
Family CEO	0.35 (2.680)	0.67 (2.672)	1.86 (2.721)	1.36 (2.509)
Non-family advisors	-0.16 (0.160)	-0.18 (0.165)	-0.29 (0.178)	-0.34+ (0.177)
Later generations in control			-3.12 (2.018)	3.17 (2.235)
Family member advisors		1.18 (0.922)	4.51** (1.708)	-3.81+ (1.988)
Family member advisors*Later generations in control		-2.24 (1.907)		15.08*** (3.354)
Family member advisors squared			-1.18** (0.434)	0.60 (0.433)
Family member advisors squared* Later generations in control				-5.66*** (1.363)
Constant	9.61+ (5.586)	7.72 (5.643)	6.48 (5.607)	4.68 (5.252)
R-squared	0.21	0.22	0.25	0.33
F-test	2.87**	2.30*	2.42*	4.15***

Note: N= 128; Robust standard errors in parentheses, \*\*\* p<0.001, \*\* p<0.01, \* p<0.05, + p<0.1

**Figure 1: Inverted U-shaped relationship between number of family member advisors and firm performance in family firms**



**Figure 2: The curvilinear relationship between number of family member advisors and firm performance in first-generation and later generations family firms**

