Family Involvement and the Use of Corporate Governance Provisions Protecting Controlling versus Non-controlling Owners

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Drawing on agency theory and corporate governance, we first classify the corporate governance provisions within the context of family firms. Then, we probe the influence of family involvement (i.e. family ownership and family management) in corporate governance on the use of governance provisions protecting controlling and non-controlling owners. Specifically, we suggest that family ownership affects the use of governance provisions protecting controlling and non-controlling owners. We also suggest that family management will moderate the relationships between family ownership and the use of these governance provisions. Finally, we discuss future research directions and insights for practitioners.

INTRODUCTION

Many corporations in the U.S. are controlled by a large shareholder group, typically founding families (Villalonga & Amit, 2006, 2009). This involvement occurs when a family exerts control over the firm through ownership and management (Chrisman, et al., 2004). Accordingly, family controlled publicly traded firms are those in which the founders or family members are officers, directors, or blockholders, either individually or as a group (Villalonga & Amit, 2009). When family involvement leads to pursuit of particularistic goals and strategies (Carney, 2005), family firm behavior and performance are expected to be distinct from those in nonfamily firms and other family firms as well. Given the inherent differences between family and nonfamily firms and among family firms themselves, examining family involvement in corporate governance and their propensity to use corporate governance provisions can improve our understanding of strategy processes in publicly traded family firms, which can affect firm performance and shareholder wealth.

This paper contributes to the literature in several ways. First, we highlight the importance of drawing upon agency theory and corporate governance to explain how families control corporations differently. By doing so, we contribute to a better understanding of the differences between publicly traded family and nonfamily firms. Second, we classify corporate governance provisions within the context of family firms considering the purpose of usage and the existence of different interest groups (i.e. controlling and non-controlling owners). Then, we focus on the interplay between family involvement (i.e. family

ownership and family management) and the use of governance provisions. Specifically, we suggest the moderation effects of family management on the relationships between family ownership and the frequency of the use of governance provisions protecting controlling and non-controlling owners. Thereby, we contribute to the literature by incorporating insights from agency theory with a focus on principal-principal agency problems and corporate governance into the developing theory of the family firm (Chrisman, Chua & Sharma, 2005).

The remainder of the paper will progress as follows. First, we will review agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) and corporate governance. To do so, we will focus on principal-principal agency problems (Shleifer & Vishny, 1997) and corporate governance concerned with family involvement and the use of corporate governance provisions (Becht, et al., 2005; Gompers, et al., 2003; Hart, 1995; Herman, 1981). Then, we classify governance provisions within the framework of family firms and develop our hypotheses. In the final section of our paper, we discuss promising future research directions and insights for practitioners.

AGENCY THEORY

Agency theory is a widely used theoretic framework in examining family business. Agency relationships occur when a principal hires an agent to perform services and often delegates authority to the agent (Jensen & Meckling, 1976). As a result, separation of ownership and control can lead to problems when the principal and the agent hold conflicting interests, especially when it is difficult for the principal to monitor the behavior of the agent (Eisenhardt, 1989). This can lead to principal-agent type of agency problem, whereas principal-principal type of agency problem occurs owing to the conflict between controlling and non-controlling shareholders (Ali, et al., 2007).

Agency Problems in Family Firms

Traditionally, researchers assumed that fewer agency problems would occur in firm governance depicting unified ownership and management (Chrisman, et al., 2004; Jensen & Meckling, 1976; Fama & Jensen, 1983), such as family firms. Aside from unified ownership and management, family firms' governance is characterized by alignment of interests, monitoring advantages, and increased concern for shareholder wealth. These conditions can reduce agency costs (Carney, 2005; Chrisman, et al., 2004; Schulze, et al., 2001).

Further, reciprocal altruism in family firms can mitigate some agency costs. Reciprocal altruism is a mutual moral value motivating individuals to act in a manner that would benefit other individuals without expecting anything in return (Schulze, Lubatkin & Dino, 2002). When family business members are reciprocally altruistic (Chrisman, Chua, & Sharma, 2005), their interests may be aligned with the interests of the family firm (Corbetta & Salvato, 2004) and family business members may hold business objectives above their personal objectives (Zahra, 2003). Given that reciprocal altruism facilitates bonding through trust, communication, respect and love (Lubatkin, Schulze, Ling & Dino, 2005); family firms can foster collectivistic behaviors rather than self-serving behaviors (Corbetta & Salvato, 2004).

Family relationships characterized by asymmetric altruism can lead to other agency problems such as owner-managers' taking actions that can harm themselves and others, adverse-selection (i.e. the principal hires an agent who is less able, committed, industrious, ethical, or whose interests are less compatible with those of the principal than expected), and moral hazard (i.e. "lack of effort on the part of the agent") (Chrisman, et al., 2004; Eisenhardt, 1989: 61; Jensen, 1994; Schulze, et al., 2001). Within the framework of agency theory, people are indeed motivated by nonmonetary factors such as altruism, and may harm themselves and others in the case of asymmetric altruism (Jensen, 1994). For example, when parents with nepotistic tendencies hire and promote offspring (or other kin) based on irrelevant criteria (e.g., kinship ties) in contrast to competence (Perrow, 1972), this leads to adverse selection and biased evaluation, and results in inertia in strategic decision making. These problems can harm long term survival and growth in family firms (Chua, et al., 2003; Dyer, 2006).

Principal-Principal versus Principal-Agent Agency Problems in Publicly Traded Family Firms

In publicly traded family firms, agency problems are expected to be different from those in nonfamily firms exhibiting more principal-agent agency problems, as well as from privately held family firms because of the existence of various groups of owners and/or managers with different and often conflicting interests (Gomez-Mejia et al. 2001). Given that family owners often hold management positions, the interests of owners and managers tend to be relatively more aligned than in nonfamily publicly traded firms. Additionally, direct involvement of family owners in management elevates the ability to monitor the managers (Maury, 2006). As a result, publicly traded family firms tend to exhibit less severe principal-agent agency problems that typically arise from the separation of ownership and management.

However, these controlling family owners and managers in family controlled corporations are likely to hold interests that are not identical to those of non-controlling shareholders, who have less power because of their relatively lower levels of ownership and no involvement in management. Hence, in publicly traded family firms, the concern is that when the management and board positions are dominated by the family, they may act for the controlling family by pursuing family-centered goals but not for the non-controlling owners in general (Morck & Yeung, 2003). Indeed, families' significant stock ownership and control over the board of directors may allow families to pursue their own interests, which may be different from those of non-controlling owners (Ali, et al., 2007; Maury, 2006). Some families may exhibit more interest for the private benefits of control; i.e. benefits appropriated by large shareholders at the expense of minority shareholders (Shleifer & Vishny, 1997) and the preservation of socio-emotional wealth to achieve noneconomic goals (Chrisman, et al., 2003, forthcoming; Gomez-Mejia, et al., 2007) than increasing shareholder wealth. For example, a controlling family may favor diversification to create jobs for its members and sustaining its control, even though the investment may not be profitable for the firm and may lower shareholder value. Therefore, some family firms exhibit more severe principal-principal agency problems arising between controlling and non-controlling owners.

Principal-principal agency problems are typically in the forms of expropriation of non-controlling shareholder wealth and managerial entrenchment. Expropriation occurs when governance is problematic, especially when large or majority owners control the firm and limit non-controlling owners' right to appropriate returns on their investments (Dharwadkar, et al., 2000; Young, et al., 2008). Concentrated control simplifies the task of monitoring agents (who may also be owners), but elevates the incentive and power of owners to expropriate minority shareholder wealth (Anderson & Reeb, 2003, 2004; Andres, 2008; La Porta et al. 1999). One way that controlling owners expropriate non-controlling shareholder wealth is by tunneling through non-arm's-length, related-party, and self-dealing transactions (Shleifer & Vishny, 1997; Young, et al., 2008). Management can also hold excessive cash within the firm, allowing the family to exploit it to their private benefit instead of investing or returning it to investors (Shleifer & Vishny, 1997). Managers' resistance to value-increasing takeovers in order to protect the private benefits of family control can also lower shareholder wealth (Mahoney, et al., 1996, 1997; Cremers & Nair, 2005). Therefore, family managers' anti-takeover actions, independent of the price offered, indicates managerial pursuit of self- and family-interest at the expense of shareholders (Jensen & Ruback, 1983). In fact, Gompers, et al. (2003) show that anti-takeover Governance Index provisions in the US are associated with lower firm value. Building on Shleifer and Vishny (1997), the problem of expropriation can be acute particularly when the controlling owners are wealthy enough and they simply prefer to maximize private benefits of control rather than wealth.

Besides the expropriation problem, higher levels of ownership and management can also result in managerial entrenchment of family members. Entrenchment occurs when a manager remains active in the company and resists transfer of control (Anderson, et al., 2002; Anderson & Reeb, 2003a). Entrenchment limits strategic change and results in inertia, which may harm firm performance. Entrenchment persists because managers obscure or hide negative attributes, hire consultants to legitimize decisions, influence the board to elude monitoring, manipulate information, make themselves indispensable by initiating projects that require their skills and abilities, and attribute poor firm performance to environmental factors (Gomez-Mejia, et al., 2001; Walsh & Seward, 1990). Gomez-Mejia et al. (2001) argue that family firms may be more prone to managerial entrenchment. The authors assert that family ties and emotions may

influence the perceived competence of the family executive(s), lowering the objectivity in monitoring and resulting in biased judgments of executive performance.

In sum, both expropriation and entrenchment of the controlling family are principal-principal agency problems which can harm non-controlling shareholder value. However, we still do not know enough about how family owners and managers may be expropriating and entrenching themselves in corporations controlled by families. The controlling families' tendencies to use different types of corporate governance provisions may be the key in understanding these phenomena. Indeed, the use of corporate governance provisions can enable and empower controlling owners to expropriate non-controlling shareholder wealth and entrench themselves, if they intend to. Therefore, in the next section, we discuss family involvement in corporate governance and the use of governance provisions within the context of publicly traded family firms, which may play a critical role in the prevalence of principal-principal agency problems in publicly traded family firms.

FAMILY INVOLVEMENT IN CORPORATE GOVERNANCE

Family firms are distinguished from nonfamily and other family firms by the level and type of influence they exert on firm behavior through ownership and management (Chrisman, Chua, & Sharma, 2005; Chua, et al., 1999). Family involvement is substantial "when a family owns all or a controlling portion of the business and plays an active role in setting strategy and in operating the business on a day-to-day basis" (Kelly, et al., 2000: 27). Ownership and management are important in determining the family's ability to exert its influence on an ongoing business (Sundaramurthy & Kreiner, 2008). Concentrated holdings by families in publicly traded firms tend to be universally common, despite legal restrictions on high levels of ownership (La Porta, et al., 1999; Shleifer & Vishny, 1997; Villalonga & Amit, 2009). An effective corporate governance can elevate both controlling and non-controlling shareholders' wealth and align their interests. The use of corporate governance provisions is an integral part of corporate governance, as we discuss in the following section.

Classification of Governance Provisions within the Context of Family Firms

Gompers et al. (2003) suggest that governance provisions generally allow management to resist shareholder activism, and prevent or delay takeovers, as can be seen in Appendix A. According to Danielson and Karpoff (1998), firms tend to use governance provisions in groups. In line with Danielson and Karpoff's (1998) argument, Gompers et al. (2003) divide governance provisions into five groups based upon the purpose of their usage: tactics for delaying takeovers (delay), director/officer protection (protection), voting rights (voting), state laws (state), and other takeover defenses (other). However, the authors do not differentiate between family and nonfamily firms nor consider the differences between controlling family and non-controlling owner groups and their distinct characteristics and interests within the context of family firms. For example, controlling owners can decide "what businesses to enter and exit, what companies to acquire, what assets to sell, how much to invest, what officers and directors to select, how much to pay them, and how much money (if any) to distribute themselves and minority shareholders", whereas non-controlling owners usually "participate in dividend or other cash-flow distributions (that controlling owners decide on), and benefit from capital gains (if there are any, and if the shares can be freely sold so that minority shareholders indeed realize those gains)" (Villalonga, 2009: 1,2). Controlling owners may pursue family-centered goals and strategies to achieve those goals, which may consequently be beneficial to the controlling family, but not to the non-controlling owners and the firm in general, which can consequently harm firm performance. Hence, it is important to identify differences between family and nonfamily firms, examine family firm owners, managers, directors, and non-controlling owners, and their propensity to use different types of governance provisions in order to have a better understanding of the corporate governance idiosyncrasies in publicly traded family firms.

Since the main purpose of this paper is to shed light onto the differential impact of family involvement in ownership and management on the use of governance provisions protecting controlling and non-controlling owners and the family firms involve these ownership groups with distinct interests,

we first classify the provisions based on the purpose of usage by different interest groups, as can be seen in Appendix A. Second, the propositions are developed concerning the impact of family involvement on the use of provisions protecting controlling and non-controlling owners, who are the main interest groups in publicly traded family firms.

Provisions Protecting Controlling Owners

These provisions enhance controlling owners' rights and power. They provide protection to the controlling owners by delaying the transfer of control to a raider or an acquiring firm through placing preferred stock with certain preferred shareholders, requiring a majority vote for the acquisition, requiring a waiting period for the raider company to acquire the target firm, making acquisition expensive or unattractive, diluting the potential acquirer's voting power, enhancing voting rights of controlling owners through concentrating controlling owners' votes or limiting non-controlling owners' rights, helping controlling owners elect directors, or elevating the value of controlling owners' shares, as can be seen in Appendix A and explained below.

These provisions are also sub-grouped based on different purposes of use such as enhancing voting rights (i.e. cumulative voting, unequal voting rights, and supermajority) and sustaining controlling status (i.e. poison pills, blank check, bylaw, charter, business combination laws, fair price, and anti-greenmail). According to Davis (1991), these provisions both indicate and enhance controlling owners' influence on the business. Controlling owners who are able to adopt them already have substantial voice, and by having them in place, they protect themselves from the market for corporate control by elevating the barriers to particularly takeover (Davis, 1991).

Controlling families often increase their power and voice by elevating their voting rights and creating a discrepancy between their voting rights and cash flow rights (Villalonga & Amit, 2006a, 2006b). Unequal voting rights can elevate the controlling family's voting rights while limiting the voting rights of non-controlling owners and cumulative voting can lead to family's concentrating their votes and electing directors. Mergers or acquisitions can also be delayed or prevented by using supermajority provision requiring majority voting for the approval of such activities.

Additionally, a controlling family aiming to preserve family control over the firm (Gomez-Mejia, et al., 2007) is expected to be willing to take anti-takeover actions such as delaying or preventing takeovers through issuing blank checks (i.e. placing preferred stock) for family members and/or family's well trusted particular business partners or investors. A required waiting period by business combination law can also prolong family control by delaying or preventing takeovers. Moreover, bylaw and charter amendment limitations restrict non-controlling shareholders' ability to amend the governing documents of the company, which is also beneficial for the controlling family in preventing a change that may result in the loss or a decrease in family control. In addition, poison pills allow the target firm's shareholders to buy the shares of the target firm at a discount, which makes the target firm unattractive for the raider and dilutes the voting power of the raider. Since shareholder approval is not required for the use of poison pills, the controlling family can utilize this provision through being influential over management, who has the full discretion over poison pill usage decisions. Another way for families to extend their control is to make their firm unattractive and expensive for potential raiders. For those purposes, the controlling family can use fair price provision to make their firm expensive by requiring the acquirer to pay the highest price to all shareholders or use anti-greenmail to discourage potential bidders from bidding for a takeover.

Provisions Protecting Non-Controlling Owners

These provisions (i.e. cash-out laws and secret ballot) increase value of non-controlling owners' shares in case of selling shares to a controlling owner, put an acquisition to a vote of shareholders, and ensure the secrecy of voting. Hence, they delay and prevent takeovers while increasing non-controlling owners' rights. However, since the use of these provisions can diminish controlling owners' power substantially while increasing non-controlling owners' rights, families preferring to maintain family control are expected to be less likely to use them than nonfamily firms.

Provisions Protecting Management and Directors

These provisions enhance management's and directors' power and rights. As can be seen in Appendix A and explained below, these provisions protect managers and directors' positions, protect their monetary benefits, and protect them against legal actions. These mechanisms do this by requiring extra time to replace the management and/or board of directors and providing monetary benefits to senior executives and directors in case of a change of control, limiting the managers' and directors' personal liability, and enabling the board of directors to reject or delay takeovers even though they may be beneficial to non-controlling shareholders. Classified board, director's duties, special meeting, and written consent delay or prevent takeovers or proxy fights. Compensation plans, golden parachute, and severance provide executives and directors monetary compensation and nonmonetary benefits that assure the continuity of their position in case of a change in control. Contracts, indemnification, and limitations on director's liability indemnify executives and directors from legal liabilities. Hence, these provisions are sub-grouped into provisions protecting managers and directors in terms of their positions in the firm and protecting them monetarily and legally.

Management in family and nonfamily publicly traded firms are likely to use different subgroups of the provisions protecting managers according to their distinct primary interests. Family firm managers and directors are expected to be particularly concerned with maintaining their positions in the firm owing to their long-term orientation (James, 1999a; Miller & Le Breton-Miller, 2005) and desire for preservation of family control in the business (Gomez-Mejia, et al., 2007), whereas nonfamily managers may be more concerned with monetary and legal protection. Additionally, the provisions protecting managers and directors in terms of their positions in the firm protect controlling owners indirectly since they delay or prevent takeovers. Indeed, the protection of managers' and directors' positions can enable the controlling family to continue to exert influence over the business through management.

Provisions Protecting Others (i.e. A Broad Group of Employees)

These provisions (i.e. pension parachute and silver parachute) provide severance payments and secure the pension fund to a broader group of employees of the target firm in case of an acquisition. Because these provisions make a takeover more expensive for the bidder, family firms are expected to utilize these provisions in order to protect controlling owners and management indirectly. The expected use of these provisions is also in line with research suggesting family firms' greater employee care and loyalty (Donckels & Frochlich, 1991; Habbershon & Williams, 1999; Ward, 1988). Family firms exhibiting greater concern for the employees' wellbeing and the positive image and reputation in public eye are likely to use these provisions more than nonfamily firms do (Habbershon & Williams, 1999).

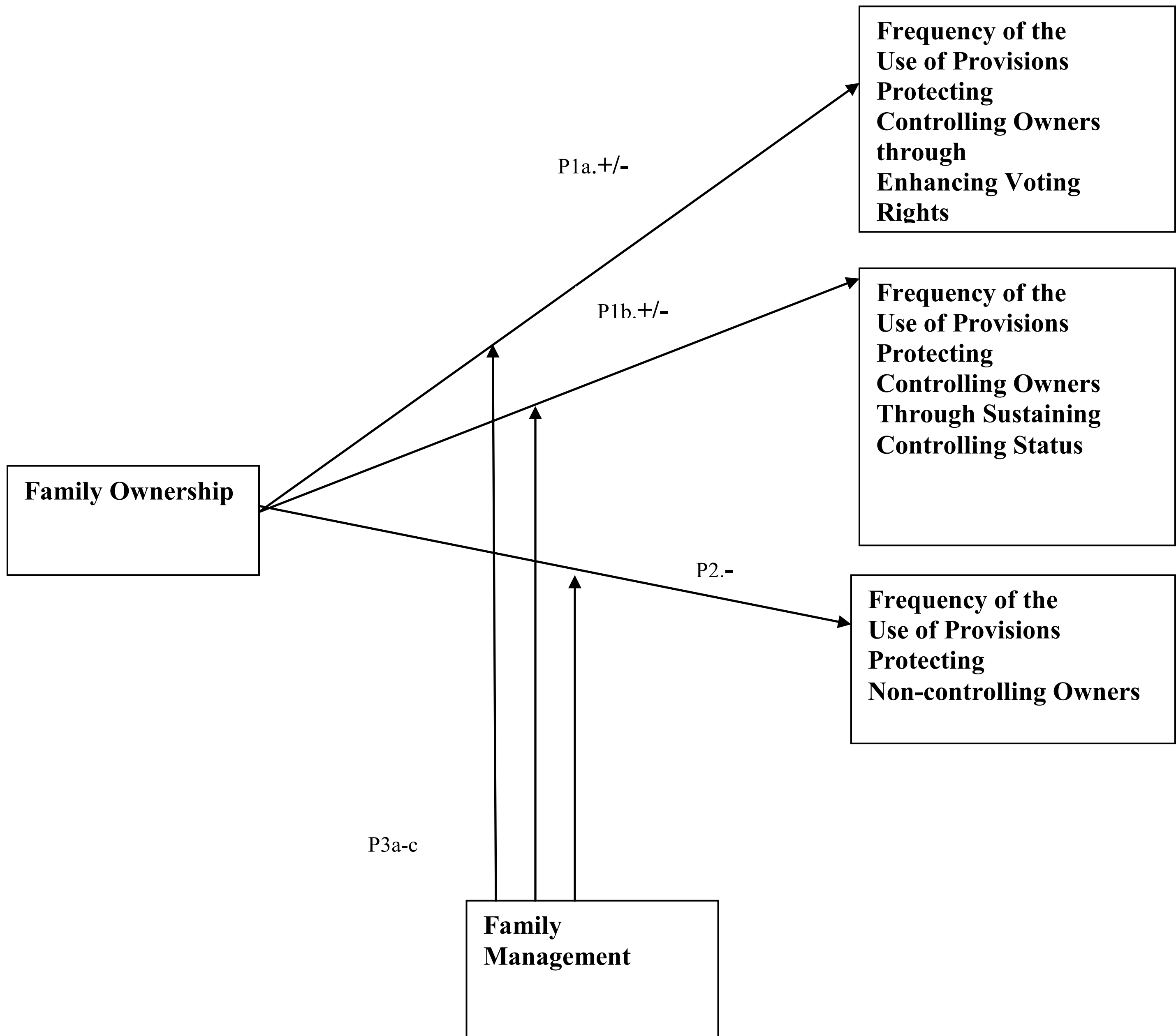
PROPOSITIONS DEVELOPMENT

In this section, the propositions for our conceptual model are developed. We focus on the links between family involvement (i.e. family ownership and family management) and the frequency of the use of provisions protecting controlling and non-controlling owners. The model illustrates how family ownership affects the frequency of the use of governance provisions protecting controlling and non-controlling owners and how family management moderates these relationships.

The use of governance provisions differ across firms owing to firm-specific and industry-level factors and different costs and benefits associated with them (Gillan, et al., 2003). Publicly traded family firms are expected to differ from nonfamily firms in terms of the frequency of the use of different types of governance provisions owing to different interest groups with distinct interests. There may be controlling owners and/or management in both family and nonfamily firms (Brecht, et al., 2005). Nevertheless, their composition in each firm context is different. In family firms, controlling owners are usually the family members and management is composed of family members and nonfamily members likely to be trusted by the controlling family (Brecht, et al., 2005). In nonfamily firms, management tends to control the firm since the shareholders are often dispersed (Berle & Means, 1936; Demsetz, 1983). When there is an

individual or institution as a blockholder, their interests are also likely to differ from those of a controlling family.

FIGURE 1
THE LINK BETWEEN FAMILY INVOLVEMENT AND PROVISIONS PROTECTING CONTROLLING AND NON-CONTROLLING OWNERS



Family Ownership and Governance Provisions Protecting Controlling Owners

In family firms, family members are often involved in ownership and management, and board of directors as well (Miller, et al., 2007). Higher levels of ownership and control endow families with substantial discretion to exercise property rights as they want (e.g. alter, modify, or destroy, and appropriate rents) (Gedajlovic, et al., 2003). In some cases, family owners may prefer to play only the role

of investor, without participating in management, or the family owners may prefer professional nonfamily managers if they are not able or willing to manage the firm themselves.

However, in nonfamily firms, ownership and management are often separated. Dispersed owners with relatively little ownership share usually do not participate in management and the board. Since there is no controlling owner, the management holds the control power (Morck, et al., 2005). In some instances, an individual or an institution may be a blockholder (i.e. large shareholder) in nonfamily firms (Brecht, et al., 2005) and this individual or group may be involved in management and/or board as well. Whether dispersed or blockholder, the ownership in nonfamily firms tends to possess different interests than the family-centered interests of controlling families in publicly traded firms.

In family firms, the controlling owners' interests are largely focused on the preservation of the ownership control of the family. In extreme cases of preservation of family control and socio-emotional wealth, families may even be willing to forego the possibility of higher firm performance (Gomez-Mejia, et al., 2007). To be able to pursue family-oriented goals and preserve family control, family owners are likely to attempt to insulate themselves from non-controlling shareholder activism through enhancing the controlling family's voting rights and sustaining their controlling status. Hence, family firms are expected to utilize control enhancing governance provisions, which can primarily elevate their power through voting rights in excess of cash-flow rights and sustain their controlling owner status in order to be able to reflect the family's vision into business practices and to pass their family legacy to future generations.

Conversely, nonfamily firms are likely to use provisions that protect their status, position, and power less frequently than family firms, owing to the shareholders' short-term orientation. Family owners' concern for the preservation of family control over the business is rooted in their long-term orientation with considerations for the family's future in terms of income, jobs, and security (Miller & Le Breton-Miller, 2005a, 2005b). In long-term oriented family firms, family members tend to refrain from the pursuit of short-term personal gains for the long-term well-being of the family firm and invest in the business for continued prosperity and growth (Gómez-Mejía, et al., 2007; Miller, et al., 2008, 2010). Owing to the concern for the long-haul and dynastic thinking (Bertrand & Schoar, 2006), family firm leaders often refrain from following faddish trends, instead envision a longstanding family firm with continuous family involvement and steadfast investment strategies.

However, after an optimum level of ownership is reached, families may not be concerned with the further enhancement of voting rights and controlling status since the higher levels of ownership will naturally provide them substantial voting rights and allow them to exert and maintain control over the firm. Hence, after a certain point of family ownership, family owners' frequency of the use of provisions protecting controlling owners' voting rights (i.e. unequal voting rights, cumulative voting, and supermajority) and controlling status (i.e. blank check, business combination laws, poison pill, bylaw, charter, fair price, and atigreenmail) is likely to diminish.

Proposition 1a. Family ownership will have an inverted u-shaped relationship with the frequency of the use of governance provisions protecting controlling owners' voting rights.

Proposition 1b. Family ownership will have an inverted u-shaped relationship with the frequency of the use of governance provisions protecting controlling owners' controlling status.

Family Ownership and Governance Provisions Protecting Non-controlling Owners

Governance provisions protecting non-controlling owners (i.e. cash-out laws, control-share acquisition laws, secret ballot, and antigreenmail) tend to empower them at the expense of the family owners' controlling power. Control-share acquisition laws requiring a vote of the shareholders for an acquisition can prevent controlling family's expansion into businesses which can be beneficial primarily to the family (e.g. job creation to the family members) through non-controlling owners' having a say and secret ballot placing confidentiality on shareholders' voting can enable non-controlling shareholders to make decisions against the controlling family's will.

Since the empowerment of non-controlling owners requires controlling owners to compromise control and power, family owners may not be willing to use them. Indeed, family owners tend to be generally unwilling or reluctant to dilute their control of the firm to nonfamily members (Gedajlovic, et al., 2004). Additionally, if non-controlling owners are empowered, they can initiate proxy fights (Hart, 1995) and replace top management team members and board of directors. Accordingly, Burkart et al. (2003) argue that families usually desire to maintain control as long as they can. However, they may be willing to let go of control in case of a need to raise capital, or the death of the founder, or to avoid high inheritance taxes (Burkart, et al., 2003).

In addition, the preservation of family control facilitates reputational benefits in both economic and political markets. If family control is diminished, the family may compromise its well established family firm image and reputation as well as political connections (Burkart, et al., 2003). These may constitute the rationale for families' "hanging on the control too long" (Cronqvist & Nilsson, 2003).

Hence, controlling family owners are expected to restrict non-controlling owners' influence on the firm and insulate themselves from non-controlling owners' activism through the relatively less use of provisions protecting non-controlling owners. However, in nonfamily firms, since the non-controlling owners are the majority with substantially less power than that of management, they may be more prone to have these provisions in place to enhance their voice over the dominant management.

Proposition 2. Family ownership will be negatively associated with the frequency of the use of governance provisions protecting non-controlling owners.

Moderation Effects of Family Management on the Relationships between Family Ownership and the Frequency of the Use of Governance Provisions Protecting Controlling and Non-controlling Owners

According to Schulze and Gedajlovic (2010), studies have not always distinguished between the different effects of family ownership and family management. On the one hand, family owners may desire to govern their firms in certain idiosyncratic ways. On the other hand, family's involvement in management can facilitate family owners' governing their firms in the ways they desire.

In some cases, family management may not always accompany family ownership. Indeed, some family owners may not be willing and/or able to be involved in management and prefer to play the investor role. However, it is uncommon for families to be solely involved in management without any ownership. Therefore, in this paper, family management is distinguished from family ownership and investigated as a moderator in the relationship between family ownership and the frequency of the use of governance provisions protecting controlling owners and non-controlling owners owing to its strengthening family owners' ability and willingness to adopt and utilize governance provisions that may primarily meet the family's needs.

Family involvement in management can legitimize family owners' authority and empower family owners to take actions benefiting the family. When more family members are involved in management and the board, the resistance of nonfamily managers or non-controlling owners to controlling family's decisions and actions will be less effective. Hence, family owners' and management's goals are expected be aligned (Chrisman, et al., 2010). This can enhance the owners' ability to protect their voting rights, controlling status while limiting non-controlling owners' rights through the adoption and the use of governance provisions serving these purposes.

Without active participation in management, family owners' influence over management and the board to adopt the provisions exclusively serving the family's needs may not be as substantial. Also, when family owners prefer not to use certain provisions, which may interfere with the sustainability of family control or may not be needed by the family owing to higher levels of equity ownership position, family's involvement in management will enable them not to use such provisions. For example, family management will strengthen the ability of family owners' use of provisions protecting controlling owners through voting rights up to an optimum ownership level and then after the optimum level, family management will strengthen family owners' ability not to use those provisions. Similarly, family

management will strengthen the ability of family owners' use of provisions protecting controlling owners through sustaining controlling status up to an optimum ownership level. Then, after this optimum level, family management will strengthen family owners' ability not to use those provisions since family owners simply may not need them at higher ownership levels. Hence, family management will strengthen the effects of family ownership on the frequency of the use of governance mechanisms. In inverted u-shaped relationships, this will result in a shift of the inverted u-shaped curve through a shift of the optimal point.

Proposition 3a. Family management will moderate the inverted u-shaped relationship between family ownership and the frequency of the use of governance provisions protecting controlling owners through voting rights, such that family management will strengthen the positive effects of family ownership on the frequency of these governance provisions up to an optimum level, and then strengthen the negative effects of family ownership on the frequency of the use of these provisions after the optimum level.

Proposition 3b. Family management will moderate the inverted u-shaped relationship between family ownership and the frequency of the use of governance provisions protecting controlling owners through sustaining their controlling status, such that family management will strengthen the positive effects of family ownership on the frequency of these governance provisions up to an optimum level, and then strengthen the negative effects of family ownership on the frequency of the use of these provisions after the optimum level.

Proposition 3c. Family management will moderate the relationship between family ownership and the frequency of the use of governance provisions protecting non-controlling owners, such that family management will strengthen the negative effects of family ownership on the frequency of the use of these governance provisions.

DISCUSSION AND CONCLUSION

Studies highlight the distinctive effects of family involvement (i.e. ownership and management) on the behavior of publicly traded firms (Anderson & Reeb, 2003, 2004; Claessens, et al., 2002; Villalonga & Amit, 2006a, 2006b, 2008). However, we still do not know enough about what leads to differences between publicly traded family firms and nonfamily firms and also among family firms themselves, idiosyncrasies in the ways they own and control corporations, and the outcomes of the family involvement in the businesses. In our paper, we draw attention to the use of control enhancing governance provisions since they may play an important role in corporate governance, consequently affecting firm performance and shareholder value (Gompers, et al., 2003).

Hence, this paper suggests that the theory of the family firm will be further developed by the investigation of the link between family involvement components (i.e. family ownership and family management) and control enhancing governance provisions particularly protecting controlling and non-controlling owners. These main interest groups in corporations may hold conflicting interests, which may cause principal-principal agency problems that are harmful to overall firm performance and shareholder wealth. Accordingly, this paper addresses the question of: How do family ownership and management differentially affect the use of governance provisions protecting controlling and non-controlling owners? Therefore, this paper first classifies corporate governance provisions within the context of family firms, and then develops a conceptual model linking family involvement (i.e. family ownership and family management) and the use of governance provisions protecting controlling and non-controlling owners. The reason for our focus on these provisions is that they may be associated with the exacerbation of principal-principal agency problems in family firms that can be detrimental to firm performance and shareholder value.

This paper contributes to the literature in several ways. First, this paper emphasizes the importance of family involvement within the context of corporations owing to the prevalence of corporations around the world exhibiting family ownership and management. Second, it explains how family ownership and family management differentially influence the frequency of the use of governance provisions protecting controlling and non-controlling owners. Specifically, we suggest that family ownership will have inverted u-shaped relationships with the frequency of the use of provisions protecting controlling and non-controlling owners. We also suggest that family ownership will moderate these relationships. This paper is one of the few attempts to use principal-principal agency and corporate governance perspectives to explain the impact of family dynamics on corporate governance. Third, the contributions of this paper move us forward in the advancement of the theory of the family firm (Chrisman, et al., 2005; Conner, 1991).

In this paper, the seven categories of governance provisions that group the 24 provisions identified by Gompers et al. (2003) according to the purposes of their usage by firms are formed by a judgment-based categorization (Perreault & Leigh, 1989). Validity of this categorization is assessed via expert judges. The judges assessed the degree to which provisions represent the categories (i.e. variables) (Netemeyer, et al., 2003). A list of provisions, definitions of provisions, and the categories were provided to the judges. We asked them to select the proper category for each provision and compared results to our categorization. The judges' categorizations were compatible with ours. Future research can provide further assessments of this classification.

Aside from the links between family involvement and the use provisions protecting controlling and non-controlling owners suggested in this paper, other links (i.e. family involvement and the use of governance provisions protecting managers and board members, and a broad group of employees) can be investigated. Furthermore, the effects of family involvement on the use of governance provisions might vary in family firms depending upon generational involvement, industry, and life-cycle phases. All these factors suggest additional applications of corporate governance to the study of family businesses.

In conclusion, this paper provides principal-principal agency and corporate governance perspectives to family involvement in publicly traded family firms. The differences between family and nonfamily firms as well as the model presented in this paper can help scholars, family business members, and investors better understand family involvement in corporate governance. If publicly traded family firms can elevate the positive effects of family involvement through the proper use of corporate governance mechanisms and lower agency problems, they can achieve long-term competitive advantages. Publicly traded family firms with proper use of corporate governance provisions will be sought after by the investors and reap the benefits of positive corporate publicity.

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APPENDIX A
CORPORATE GOVERNANCE PROVISIONS PROTECTING CONTROLLING VS. NON-CONTROLLING OWNERS

Provisions	Definitions (Gillan et al, 2003; Gompers, et al., 2003; Mahoney, et al., 1997)
Provisions protecting controlling owners through enhancing voting rights	
Unequal Voting Rights	To limit voting rights of some shareholders and expand those of others.
Cumulative Voting	Allows shareholders to concentrate their votes and helps minority shareholders to elect directors.
Supermajority	Voting requirements for approval of mergers.
Provisions protecting controlling owners through sustaining controlling status	
Blank Check	A preferred stock over which the BOD has broad authority to determine voting, dividend, conversion, and other rights. It is used to prevent takeover by placing this stock with certain friendly investors.
Business Combination Law	Requires a waiting period for transactions such as mergers, unless the transaction is approved by the BOD.
Poison Pills	Give the holders of the target firm's stocks the right to purchase stocks in the target at a discount and to sell shares at a premium if ownership changes. This makes the target unattractive.
Bylaw	Amendment limitations limit shareholders' ability to amend the governing documents of the company.
Charter	Limitations on making changes on the governance documents.
Fair Price	Requires a bidder to pay to all shareholders the highest price paid to any during a period of time before the commencement of an offer. This makes an acquisition more expensive.
Anti-greenmail	Prohibits a firm's controlling owners/managers from paying a raider 'greenmail', which involves the repurchase of blocks of company stock, at a premium above market price, in exchange for an agreement by the raider not to acquire the firm. Eliminating greenmail may discourage potential bidders from considering the target firm for a takeover. Hence, it can be used as an antitakeover device.
Provisions protecting non-controlling owners	
Cash-out Laws	Shareholders can sell their stakes to a controlling shareholder at a price based on the highest price of recently acquired shares. It works as fair-price provisions extended to non-takeover situations.
Secret Ballot	Confidential voting. Either an independent third party or employees sworn to secrecy count proxy votes and management does not look at proxy cards.
Provisions protecting management and directors' positions	

Classified Board	The board is split into different classes, with only one class up for election in a given year. Hence, an outsider who gains control of a corporation may need to wait a few years in order to be able to gain control of the board.
Special Meeting Limitations	Bidders must wait until the regularly scheduled annual meeting to replace BOD or dismantle takeover defenses.
Written Consent Limitations	Bidders must wait until the regularly scheduled annual meeting to replace BOD or to dismantle takeover defense.
Directors' Duties	Provides BOD with a legal basis for rejecting a takeover that would have been beneficial to shareholders.
Provisions protecting management and directors monetarily	
Compensation Plans	In case of a change in control, this provision allows participants of incentive bonus plans to cash out options or accelerate the payout of bonuses.
Golden Parachutes	Severance agreements that provide cash or noncash compensation to senior executives upon an event such as termination, demotion, or resignation following a change in control.
Severance	Agreements assuring executives of their positions or some compensation and are not contingent upon a change in control.
Provisions protecting management and directors legally	
Contracts	Indemnifies officers and directors from certain legal expenses and judgments resulting from lawsuits.
Indemnification	Indemnify officers and directors from certain legal expenses and judgments resulting from lawsuits pertaining to their conduct.
Limitations on Director Liability	Limit directors' personal liability.
Provisions protecting others	
Pension Parachutes	To prevent an acquirer from using surplus cash in the pension fund of the target firm.
Silver Parachute	To provide severance payments to a large number of firm's employees upon a change in control.