

Entrenchment in publicly traded family firms: Evidence from the S&P 500

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Abstract:

Family involvement in corporate governance through ownership, management, and board membership presents a unique dilemma for understanding the strategic impetus and costs of entrenchment decisions. The presence of shared family ties and the family-centered goals of firm principals call to question the applicability of extant agency arguments regarding the nature and antecedents of managerial entrenchment. Exploring this, we develop and test a model of family firm-specific determinants (i.e., family ownership and family's involvement in management and governance) of entrenchment in publicly traded firms by drawing upon principal-principal agency theory. Findings of the empirical analysis of family owned S&P 500 firms suggest family firms are motivated to entrench managers when doing so supports the pursuit of family-centric goals. However, the extent to which entrenchment supports such goals varies at different levels of family ownership.

Keywords: Entrenchment | Family governance | Agency theory| Family firm heterogeneity

Article:

Introduction

Broadly defined, entrenchment encompasses phenomena that protect managers against disciplinary effects of board monitoring, the threat of dismissal, and performance based compensation (Berger et al., 1997; pg. 1411). Extant research has illustrated that entrenchment in public firms with dispersed ownership is generally related to decreased stakeholder returns resulting from free-rider problems and a propensity for agency conflict among majority and minority principals (Bebchuk et al., 2009). However, this relationship becomes less clear in publicly traded family firms where familial associations may grant various protections for family

owners akin to entrenchment that extant corporate governance research is not sensitive towards (Andres, 2008; Anderson and Reeb, 2004). Family controlled publicly traded firms are those in which members of the founder(s) family are officers, directors, or blockholders and allows for family members, either individually or as a group, to impact corporate governance (Villalonga and Amit, 2006, 2009). In family firms, familial influence over the firm through ownership and management may lead to the pursuit of particularistic goals and strategies that prioritize family outcomes (Chrisman et al., 2012) and direct resource investments in ways that may have unique impacts on shareholder wealth (Chrisman et al., 2004; Chen et al., 2013; Carney, 2005). These idiosyncratic goal sets represent a primary scholarly impetus for ongoing research in the strategic management of publicly traded family firms and call to question many of the logics underlying extant research on entrenchment and its outcomes in family owned firms. Specifically, while numerous research findings have recognized that family owners are more likely to be entrenched in their organizations when compared to their counterparts in non-family firms (Anderson et al., 2003; Claessens et al., 2002), the consequences of this entrenchment and their impact on firm value is less clear and not obviously aligned with extant research (Villalonga and Amit, 2006). These potentially incongruent findings are indicative of the complexity of entrenchment phenomena in this context and illustrate the need for further research refining our recognition of the distinctiveness of entrenchment in family firms.

The present research seeks to expand current understandings of the nature, role, and implications of entrenchment in family firms. In doing so, we explore the tendency towards entrenchment in family firms and the unique considerations for its study in ongoing discussions within this domain. Our findings suggest that while entrenchment may indeed be common in family firms, the methods and avenues used in reinforcing that entrenchment may not include the value-diminishing governance provisions most commonly attributed to its emergence, such as those represented in the entrenchment index (E-index; Bebchuk et al., 2009). We posit that these outcomes are primarily owing to the affective nature of familial governance and the tendency of family owners to pursue non-economic returns (e.g. socioemotional wealth; Gómez-Mejía et al., 2007), which are indicative of principal-principal agency conflict among family and non-family shareholders.

Owing to the presence of a shared social association, entrenchment may be particularly relevant to the acute principal-principal agency conflict in family firms (Bebchuk et al., 2009; Morck et al., 1998; Renders and Gaeremynck, 2012; Klein et al., 2005; Chen et al., 2015). Such conflict arises as families' significant stock ownership and control over the board of directors allow them to pursue particularistic interests, which are likely to differ from those of non-family and minority shareholders (Ali et al., 2007; Maury, 2006). Indeed, some families may prioritize the private benefits of control (i.e., benefits appropriated by large shareholders at the expense of minority shareholders; Shleifer and Vishny, 1997) and the preservation of affective endowments to achieve noneconomic goals (Berrone et al., 2010; Chrisman et al., 2003, 2012; Gómez-Mejía et al., 2007) over maximizing shareholder wealth. To facilitate this, family members tend to hold key management and board positions which must then be protected (Block et al., 2013; Maury, 2006). This suggests a unique predisposition towards entrenchment behaviors in family firms.

While the distinctive governance behaviors of family firms may exhibit informal social dynamics, traditional entrenchment mechanisms - namely those summarized by the E-index (Bebchuk et al., 2009) – rely on formal contractual provisions to protect managers and directors from removal, or the consequences of removal, regardless of their success or competence within their position. We posit that entrenchment, through either formal or informal mechanisms, is particularly instrumental for firms pursuing family-oriented goals. These governance mechanisms can also entrench a controlling family by strengthening the family's ability to pursue non-economic and economic goals that primarily benefit family members rather than other shareholders. Together, this suggests entrenchment tactics may hold a distinctive role as a strategic option for publicly traded family firms beyond what would be expected in their non-family counterparts.

By analyzing publicly-traded family firms in the S&P 500 between 2002 and 2006, we hypothesize and find that family ownership has an inverted u-shaped relationship with family's involvement in management and/or the board as well as with the employment of entrenchment provisions. Meanwhile, family's involvement in management and/or board membership is negatively associated with the employment of entrenchment provisions.

The present research seeks to contribute to the literature on family firms and corporate governance by enhancing our understanding of the role of entrenchment in family firms, particularly with regard to their propensity for incorporating idiosyncratic governance provisions. The present research enhances our understanding of the distinctive motivations, avenues, and consequences of entrenchment in publicly traded family firms, as well as how the unique principal-principal agency relationships in family firms may inform and clarify the emergence of these distinctive entrenchment behaviors.

Theoretical overview

Agency conflict in family firms

Seminal agency arguments suggest that fewer agency problems emerge in firms with unified ownership and management; such as in family owned firms (Chrisman et al., 2004; Jensen and Meckling, 1976; Fama and Jensen, 1983). Alignment of interests, monitoring advantages, and increased concerns for shareholder wealth owing to property rights tend to mitigate some agency costs (Zhang et al., 2011; Chrisman et al., 2004; Schulze et al., 2001). While family governance may ameliorate some degree of traditional agency costs, the characteristic reciprocal altruism underlying it provides an avenue for distinctly familial agency conflicts to emerge (Schulze et al., 2002; Lubatkin et al., 2005). Specifically the salience of non-owning family principal demands in the development of family firm strategy creates non-permeable principal groups between family and non-family owners, which are vehicles for principal-principal agency conflict and the appropriation of wealth from minority shareholders.

Such diverse agency concerns are particularly salient in family firms owing to the existence of various groups of owners and/or managers with different, and often conflicting, interests (Gómez-Mejía et al., 2001). Family owners and managers in family controlled corporations are likely to hold interests that are misaligned with those of non-family shareholders, who have less

power due to minority ownership and less active participation in management. Hence, in publicly traded family firms, distinctive agency concerns tend to arise when members of the controlling family dominate executive management and board positions. Specifically, as family managers act towards the interests of the controlling family, even when doing so comes at the expense of minority shareholders in general (Morck and Yeung, 2003).

In family firms, the owning family acts as a non-permeable pseudo-block holder, directing decisions towards those that pursue the interests of the owning family and outcomes that can disproportionately benefit the family and protect the private benefits of family control (Cremers and Nair, 2005). This creates distinctive avenues for benefit for family principals that non-family principals are not privy to, creating an agency context ripe for principal-principal conflict (Mahoney and Mahoney, 1993; Mahoney et al., 1996, 1997). While this agency conflict may not be grounded in guileful attempts of opportunistic deceit, it suggests a bounded reliability among family managers (Verbeke and Greidanus, 2009) and potential for minority wealth expropriation (Dharwadkar et al., 2000; Young et al., 2008). Owing to this, it is unsurprising that extant research shows that principal-principal agency problems tend to be more prevalent in publicly traded family firms (Ali et al., 2007; Chrisman et al., 2012; Miller and Le Breton-Miller, 2005; Villalonga and Amit, 2006). Simply put, while concentrated control simplifies the task of monitoring family agents, it increases the incentive and power of family owners to expropriate wealth from non-family shareholders (Anderson and Reeb, 2003b, 2004; Gilson and Gordon, 2003; Johnson et al., 2000; La Porta et al., 1999); suggesting a unique incentive for entrenchment in family firms.

Family ownership, family involvement, and entrenchment

When members of the owning family hold key management and board positions, it introduces a social dynamic that can be a root cause of principal-principal agency conflict between family and non-family principals (Gilson and Gordon, 2003). As a result, unique vehicles for minority wealth expropriation may exist for family principals that would not be relevant in general contexts. In order to effectively explore these relationships, we simultaneously draw from complementary agency and socioemotional wealth approaches (ala. Gomez-Mejia et al., 2014; Gomez-Mejia et al., 2017; Miller and Le-Breton Miller, 2014) to explore the agency conflict that can emerge among family and non-family principal groups in distinctive ways. Examples include nepotism, by appointing family members and acquaintances to key positions without proper evaluation of qualifications, implementing strategies that allow family agendas to be followed at the expense of firm performance (e.g. resistance to takeovers or little/lack of investment into R&D; Patel and Chrisman, 2014), and engaging in related-party transactions (Young et al., 2008). These unique behaviors of family firms are motivated, at least partially, by the tendency of family firms to pursue non-economic family centered goals.

Family owners may prefer to maximize the non-economic benefits of control with not much cost bearing associated with private benefits, which presents a divergence from the majority of extant research on entrenchment motivations. For example, in large US corporations, founding families appear to be the blockholders whose control rights on average exceed their cash-flow rights (Villalonga and Amit, 2009). The discrepancy between family's control rights and ownership

tends to exacerbate the agency problem of the expropriation of minority shareholder wealth since families with even low-to-medium levels of ownership bear only a fraction of the costs associated with the private benefits they reap (Claessens et al., 2002; Jensen and Meckling, 1976; Miller and Breton-Miller, 2006; Villalonga and Amit, 2006). Moreover, family firms are willing to accept greater performance hazard in order to preserve socioemotional wealth rooted in non-economic goals, diminishing minority shareholder returns (Chrisman et al., 2003; Gómez-Mejía et al., 2007). For example, Gómez-Mejía et al. (2007) show that family firms may be willing to accept risk to their performance to avoid the loss of socioemotional wealth, but at the same time be risk averse in making other business decisions. The prioritization of these affective endowments – such as the preservation of family harmony, identity, dynasty, social capital, reputation, and ability to be altruistic toward family members and exercise family influence (Berrone et al., 2010; Chrisman et al., 2012; Gómez-Mejía et al., 2007, 2010) – is more salient as family ownership increases and elevates the family's intention to sustain family control (Chua et al., 1999; Gómez-Mejía et al., 2007). This suggests the presence of non-linear relationships between not only family ownership and entrenchment, as well as distinctive relationships between family ownership, family management, and family governance.

Family owners in firms with low-to-moderate levels of family ownership desire both the employment of family members as managers and board members as well as their entrenchment, which facilitates the family's sustained influence over the business and thus the pursuit of family-centered goals. Thereby, we posit governance provisions promoting entrenchment indirectly serve the purpose of protecting family owners, even in cases when family ownership is not a dominant force in firm governance. Additionally, the controlling family with perceptions of top management team benevolence rooted in family ties and acquaintances may feel compelled towards familial altruism by using governance provisions that protect top management team and board members' positions in the firm in the long-run (Cruz et al., 2010). Hence, at low-to-moderate levels of family ownership, we posit that entrenchment provisions will become more common as family ownership increases. Further, family owners may perceive the benefits of these provisions even if they are not themselves managerial beneficiaries. Specifically, the long-term oriented family owners with socioemotional wealth concerns (e.g. Brigham et al., 2014) may benefit future family managers who may not be involved in the firm yet (Sciascia et al., 2014) but may join when they become more engrained in firm governance. As such, with low to moderate levels of family ownership, the family's benefit from incorporating entrenchment provisions should increase regardless of current levels of family involvement in management and without the threats of perceived nepotism that underlie principal-principal conflict in firms with more significant family ownership stakes (Nordqvist et al., 2014). Thus, we posit that the incorporation of entrenchment provisions may advance unhindered in firms with low to moderate levels of family ownership as the increasing rights of the family can provide more discretion and power to employ family members and incorporate entrenchment provisions.

We expect the positive relationship between family ownership and the employment of family managers and/or directors as well as their entrenchment indicated above to reach an apex at a moderate level of ownership. In this case, family owners have the requisite power, authority, and legitimacy to exert greater influence on the firm, but are still motivated to facilitate entrenchment

owing to their lack of dominant control. In other words, at this level, family principals are primarily motivated to secure and preserve control and influence, which can serve the multigenerational continuity of family legacy (Berrone et al., 2012), which in turn creates transgenerational incentives for incorporating entrenchment provisions; even if few family managers are to benefit from those provisions yet. In fact, family owners can achieve this goal by ensuring family members maintain a significant presence among governance positions, and protecting those positions through entrenchment provisions. As a result, we posit that the capacity for, and benefits from, family entrenchment are maximized at moderate levels of family ownership when more family members serve as managers and/or directors.

Finally, at higher levels of family ownership, the strategic impetus of solidifying the controlling status of family owners is less salient, verging on redundant. Since the family already has substantial equity and voting rights, allowing them to exert and maintain control over the firm unhindered, the strategic value of entrenchment is less obvious (Arteaga and Menéndez-Requejo, 2017), whereas the value-diminishing consequences of entrenchment remain unchanged. Hence, at moderate-to-high levels of family ownership, the need for explicit entrenchment provisions is likely to diminish as dominant family control allows owners to protect family managers without the need for contractual control (e.g. Firfiray et al., 2017; Luo and Chung, 2013). In such cases, family control is already protected and principal-principal conflict is less likely to threaten familial endowments as non-family principals have less power. In turn, family owners may prefer to hire professional non-family managers (e.g. Madison et al., 2017) for firm growth and higher economic returns.

These arguments suggest that family firms have distinct tendencies, motivations, and desired outcomes related to managerial entrenchment. When viewed together, we argue that these strategic idiosyncrasies create a landscape wherein family firms may be uniquely motivated to populate key management and board positions with family members and entrench themselves within those positions in order to ensure the continued use of the firm as a vehicle for pursuing particularistic family-oriented objectives. However, these behaviors are hindered by both capability and perceived necessity. Specifically, relating back to the seminal understanding of entrenchment motivations (e.g. Claessens et al., 2002), we expect that the owning family exists as an external stakeholder, the demands of which are salient among all family actors in the firm. Specifically, as family ownership levels increase from low to moderate levels, we expect family principals to gain the power and influence necessary for placing, and entrenching, family members in key management and/or board positions; suggesting a positive relationship between family ownership and the employment of family executives as well as the incorporation of entrenchment provisions. However, as family ownership becomes dominant, family owners have the unique ability to benefit from entrenchment by circumventing agency restrictions that protect against expropriation by having the family serve as a *de facto* blockholder (Aguilera and Crespi-Cladera, 2016; Franks et al., 2015), which diminishes the need for entrenchment provisions and non-owner family managers (Madison et al., 2017). Together this suggests that family ownership has a unique and non-linear relationship with regard to family management, board representation, and entrenchment. Hence:

Hypothesis 1a

Family ownership has an inverted u-shaped relationship with family's involvement in management and/or the board.

Hypothesis 1b

Family ownership has an inverted u-shaped relationship with the employment of entrenchment provisions.

Family management and/or board membership, and entrenchment

While family ownership has a distinct and non-linear relationship with entrenchment, the relationship between family management and entrenchment requires further investigation. We posit that, owing to the differences between family's active control through participation in management and the family's more passive role as a disengaged owner (Maury, 2006), family involvement may distinctly influence the motivations and costs of incorporating entrenchment provisions. According to Schulze and Gedajlovic (2010), studies have not always distinguished between the different effects between family ownership, management and/or governance. While family owners may desire to govern their firms in ways that promote family-centric outcomes (Chrisman et al., 2012), family managers may not possess the competencies or capabilities of their non-family counterparts which can limit access to valuable knowledge and human capital resources (Hauswald, Hack, Kellermanss, and Patzelt, 2016); threatening the sustainability of the firm in general. Indeed, some family owners may not be willing or able to be involved in management and prefer to maintain a primarily financial interest by relying on professional management and board members (Maury, 2006). Therefore, we find it necessary to distinguish family management from family ownership.

Family owners tend to pursue the long-term success and prosperity of the firm, often in pursuit of transgenerational ownership (Berrone et al., 2012). Unlike non-family managers who have limited and effectively unpredictable length of their tenure, family managers and/or board members tend to be tied to the firm throughout their life time owing to their familial association and emotional attachment to the firms (Gómez-Mejía et al., 2001, 2003), a phenomenon we expect to persist regardless of the entrenchment provisions awarded family managers. In other words, family executives and directors benefit from a vaguely de facto entrenchment shared by family principals and thus have less need for the protections provided by explicit entrenchment provisions (Gómez-Mejía et al., 2001). As such, we argue that as family firms increase their reliance on family managers, they are likely to prioritize on familial modes of entrenchment and less likely to incorporate value-diminishing E-index provisions.

Additionally, family firm leaders tend to make a concerted effort to build a positive organizational image and reputation and avoid questionable or irresponsible business practices (Dyer and Whetten, 2006), which can include entrenchment activity. Controlling families involved in management, compared to family members that are solely owners, are more visible in public eye and are particularly motivated to maintain a positive reputation devoid of perceived nepotism (Dyer and Whetten, 2006; Zellweger et al., 2011) which can be disproportionately

damaged by enacting entrenchment provisions that disproportionately benefit family managers. Unlike professional managers, family members cannot switch families if their family firm's reputation is damaged. This suggests family owners that are active in management are more sensitive to the risks of pursuing familial goals (Dyer and Whetten, 2006). Thus, individuals who strongly identify with their organization feel responsible for the organization and exhibit productive behaviors to their firms. This is aligned with the residual ownership rights granted to non-owner family managers (Chrisman et al., 2004), which we posit provides family managers principal claims in the management of the firm beyond their ownership stake. This suggests that within family firms, family managers are likely to possess higher levels of identification with the firm and thus are likely to have reduced needs for entrenchment provisions, a phenomenon we do not expect when family firms primarily rely on non-family managers.

In comparison, non-family managers in family firms may possess distinctive disincentives for tenure, owing to limited opportunities associated with the lack of familial association with the owning family and presence of principal-principal agency conflicts between family and non-family principal groups (Chrisman et al., 2004). To counteract this effect, providing increased protections via entrenchment to non-family managers so as to provide them de facto principal claims may become necessary to ensure non-family managers' on-going commitment to the firm. As a result, we posit that increasing entrenchment provisions in family firms may be helpful in attracting and retaining qualified non-family managers when there are relatively few family managers.

Together this suggests that while family ownership may have distinct and non-linear implications for both family management and entrenchment, the relationship between family management and entrenchment is clearer. In family firms, as the level of family involvement in management or board membership increases, so too does the legitimacy and security of family governance, and the visibility of family activity. Thus, the value of entrenchment provisions weakens while the costs remain the same or, when non-financial consequences are considered, potentially even increase. Even when the founding family installs few family members in management and/or board, it might be beneficial to the family if interest alignment incentives are provided to non-family managers in terms of entrenchment provisions. Hence;

Hypothesis 2

Family's involvement in management and/or board membership is negatively associated with the employment of entrenchment provisions.

Methods

Data and sample

We constructed our data sample by combining multiple data sources in several steps. First, among S&P 500 firms, we identify family business members by their last name and their generational differences by using the Hoover's database, annual reports in Mergent Online, firm websites, and company proxy statements. Measures related to corporate governance and family

business such as family ownership and family management are obtained from annual reports and proxy statements.

For each family, we looked up the founding and incorporation history to make sure that we correctly recorded the founding family's last name. Consistent with previous studies investigating publicly traded family firms, the sample comes from the firms listed in *S&P500* (e.g., Anderson and Reeb, 2003a, 2003b, 2004). Missing data lowered the sample size to 386. Data is analyzed on a restricted sample of firms based on publicly available data for the years of 2002, 2004, and 2006 regarding ownership, management, and control variables.

Second, we gathered firm-level data related to the E-index (Bebchuk et al., 2009) from the dataset of Gompers et al. (2003) which was updated with more data by Wharton Research Data Services with data from 2002, 2004, and 2006. Third, we matched the data in the first step with those of the second step by firm and year. We further obtained various firm level financial and accounting data, such as firm revenue, from Compustat, and match them with the dataset. Next, we retrieved information regarding institutional investors from the Thomson Reuters Institutional Holdings (13F) database and matched them with the dataset. Finally, we incorporated information of board size, board independence, average percentage of stock owned by directors, and industry adjusted ROA from data compiled by Bhagat and Bolton (2013). As a result, our final dataset includes a total of 941 observations of 386 firms in 2002, 2004, and 2006.

Measures

Dependent Variable. Our proxy for value-diminishing entrenchment and main dependent variable is the *E-index* (Bebchuk et al., 2009). Following Bebchuk et al. (2009), we calculate an aggregate measure of firms' status related to poison pills, classified boards, golden parachutes, supermajority requirements, limits to amend bylaws, and limits to amend the corporate charter (Gompers et al., 2003; see Appendix for definitions). The *E-index* is zero if none of the six governance rules are followed by a company. A score of six for the *E-index* means all six governance rules are observed. Prior research shows that high score of *E-index* is related to management entrenchment and has negative impact on firm value (Bebchuk et al., 2009).

Independent Variables. The proxy for the number of family executives and/or directors is *family member*, which reflects the influence of the founding family (Villalonga and Amit, 2009). It is coded as zero, if no founding family member serves as managers and/or directors. *Family member* serves as the endogenous continuous regressor which acts as the dependent variable in the first stage of our 2SLS-IV models which serve to address endogeneity concerns (Wooldridge, 2010). *Family share* is the total ownership of all family members in percentile and *family share2* is the square term of *family share*. If the founding family does not possess any shareholding positions, *family share* and *family share2* are coded zero.

Control Variables. We first control for relevant board characteristics. *Board independence* is the ratio of independent directors to board size (Anderson and Reeb, 2004). Independent directors who have no material connections with the company except for board membership (e.g. Anderson and Reeb, 2004) can directly influence the status of the E-index (Bebchuk et al., 2009). *Director Share* is the average stock ownership of directors. By incorporating the impact

of the ownership of directors into our analyses, we control for a potential argument that some directors could be more influential than others in the decision-making processes of the board (Bhagat and Bolton, 2013).

We then consider the impact of firm performance and various specific firm characteristics. *Adjusted ROA* (Bhagat and Bolton, 2013), is the difference between a firm's ROA of the current year and the industry average ROA of the same year. We employ *adjusted ROA* to account for the impact of firm performance on the corporate governance choices (Bhagat and Bolton, 2013). *Leverage* is defined as long-term debt divided by total common equity. Leverage can mitigate the managerial agency problems (Jensen, 1986) and therefore is an important factor related to firm value (e.g., Stráska and Waller, 2010). *R&D*, or R&D intensity is a common control variable in corporate governance research, calculated as R&D expense over revenue (Stráska and Waller, 2010). *Firm size* is the log of firm revenue and a proxy for firm size. We utilize *firm size* not only to control for a potential determinant of family influence but also to incorporate a firm-specific factor into our analyses of firms' choice regarding the E-index (Bebchuk et al., 2009). *Firm age* is measured as the number of years between the inception of the firm and the current year of observation. *Firm age* takes into account the impact of family tenure (Gómez-Mejía et al., 2007). *Delaware* is a dummy which equals to 1 if the firm is incorporated in the state of Delaware, and 0 otherwise. *Delaware* helps reflect the legislative regulations of takeover associated with the state of Delaware where a majority of Fortune 500 firms incorporated (Daines, 2001).

We further account for the impact of large institutional investors because they have the power to influence management (Johnson et al., 2010) and may play an active role in proposing corporate governance decisions regarding antitakeover defense (Gillan and Starks, 2000). Specifically, we employ *top5 institutional* and *top10 institutional* respectively to indicate the total ownership of the five and ten largest institutional investors.

In our analyses, we specifically incorporate the influence of generational majority in management and board since family influence tends to be weaker when later generations of the family are involved and family ownership becomes more dispersed (Schulze et al., 2003; Gómez-Mejía et al., 2007). *Second generation*, a dichotomous variable, takes the value of 1 if a majority of family members who are managers and/or directors are of second generation or later. Non-family firms and family firms that have a majority of first generation family managers and/or directors are coded as zero. *Second generation* also functions as the instrumental variable (IV) in our 2SLS-IV models. Prior literature suggests that family ownership is associated with the presence of family members in the management and board of directors (e.g., Villalonga and Amit, 2009). However, we have no theoretical reason to believe that family firms of the second generation or later will be significantly different from non-family firms in terms of their propensity to protect management. Therefore, we believe *second generation* is a viable instrumental variable.

Lastly, we control for industry and year fixed effects. We follow Chrisman et al. (2012) to measure industry fixed effects by classifying all firms into one of four industrial categories: (1) retail, (2) service, (3) manufacturing, and (4) other. We then employ three dummy variables

which are coded as 1 to indicate retail, service, and manufacturing firms respectively, and 0 otherwise. We use two dichotomous variables to respectively indicate that the current firm-year observation reflects information of 2002 and 2004, two years of our three-year total sample.

Estimation strategies

We adopt standard OLS model to test our baseline models which we assume to be free of endogeneity issues. To formally test our hypotheses, we rely on 2SLS-IV models with *family member* as the continuous endogenous regressor. In the first-stage of the models, *family member* serves as the dependent variable and other exogenous independent variables such as *family share*, control variables and *second generation* (instrumental variable) are put into analyses. In the second stage of the models, the predicted value of *family member* which we obtain from the first-stage is fitted as an independent variable along with other exogenous independent variables and control variables (Wooldridge, 2010). To overcome potential heteroscedasticity and firm fixed effects in our dataset, we use robust standard errors together with year and industry dummies (Peterson, 2009).

Results

Table 1 presents the descriptive statistics and a pairwise correlation matrix of main variables in Models 2 and 3. *Family member*, *family share*, and *family share2* respectively have a negative and significant correlation with the *E-index*. *Family member* positively correlates with *family share* and *family share2* at the 0.1% level. *Second generation* has a negative correlation with *family member* at the 0.1% level.

Table 1. Summary statistics and pairwise correlation table.

| | | Mea n | S.D . | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
|----|--------------------|----------|----------|-------------------|---------|---------|---------|---------|---------|---------|-------------------|-------|----------|-------------------|-------|----|----|
| 1 | E-index | 2.21 | 0.04 | | | | | | | | | | | | | | |
| 2 | Family member | 0.31 | 0.03 | -0.18** | | | | | | | | | | | | | |
| 3 | family share | 0.01 | 0.00 | -0.20** | 0.68*** | | | | | | | | | | | | |
| 4 | family share2 | 0.00 | 0.00 | -0.19** | 0.53*** | 0.93*** | | | | | | | | | | | |
| 5 | second generation | 0.12 | 0.01 | -0.18** | 0.71*** | 0.50*** | 0.36*** | | | | | | | | | | |
| 6 | firm age | 62.84 | 1.47 | 0.07* | 0.03 | 0.03 | 0.03 | 0.10*** | | | | | | | | | |
| 7 | firm size | 4.26 | 0.02 | -0.10* | 0.01 | -0.03 | -0.03 | 0.03 | 0.21*** | | | | | | | | |
| 8 | R&D | 0.03 | 0.00 | -0.09* | -0.11** | -0.10* | -0.08* | -0.10* | -0.22** | -0.26* | | | | | | | |
| 9 | Delaware | 0.57 | 0.02 | 0.03 | 0.00 | -0.03 | -0.02 | -0.03 | -0.19** | -0.01 | 0.13*** | | | | | | |
| 10 | board independence | 0.72 | 0.01 | 0.19*** | -0.32** | -0.28** | -0.22** | -0.23** | 0.12*** | 0.10** | 0.05 [†] | 0.03 | | | | | |
| 11 | director share | 0.01 | 0.00 | -0.23** | 0.42*** | 0.48*** | 0.42*** | 0.33*** | -0.09* | -0.08* | -0.05 | 0.01 | -0.40*** | | | | |
| 12 | adjusted ROA | 0.02 | 0.00 | -0.01 | 0.03 | 0.06 | 0.05 | 0.09 | 0.00 | -0.08* | -0.08* | 0.02 | -0.07* | 0.03 | | | |
| 13 | top5 institutional | 0.25 | 0.00 | 0.06 [†] | 0.00 | -0.09* | -0.09* | 0.02 | -0.12** | -0.15** | 0.01 | 0.07* | 0.06* | 0.05 [†] | -0.03 | | |

| | | | | | | | | | | | | | | | | | |
|----|---------------------|------|------|---------|-------|--------|--------|--------|--------|--------|--------|-------|--------|---------|---------|---------|-------|
| 14 | top10 institutional | 0.35 | 0.00 | 0.09** | -0.01 | -0.10* | -0.11* | 0.01 | -0.14* | -0.18* | 0.02 | 0.08* | 0.08** | 0.04 | -0.03 | 0.97*** | |
| 15 | leverage | 0.19 | 0.00 | 0.11*** | -0.04 | -0.07* | -0.05† | -0.06† | 0.07* | 0.08** | -0.24* | 0.01 | 0.13** | -0.09** | -0.17** | 0.10** | 0.08* |

† $p < 0.10$. * $p < 0.05$. ** $p < 0.01$. *** $p < 0.001$.

Table 2 reports the results of the OLS regression models and 2SLS-IV models which take *family member* as the endogenous regressor. Model 1 is an OLS model that has *E-index* as the dependent variable and analyzes the relationship among *family share*, *family member*, and *E-index*. The result suggests that none of these have a significant relationship with *E-index*, if we ignore the endogeneity issue, or the influence of family ownership on the number of family members who hold managerial and/or board positions. Model 2 is an OLS model that employs *family member* as the dependent variable and analyzes the relationship between *family share* and *family member*. The result of Model 2 is consistent with H1a: The coefficient of *family share* is positive and significant ($\beta = 15.06$, p -value $<0.1\%$) and the coefficient of *family share2* is negative and significant ($\beta = -30.74$, p -value $<0.1\%$).

Table 2. Results of empirical analysis.

| DV | Model 1 | Model 2 | Model 3 (2SLS-IV) | | Model 4 (2SLS-IV) | |
|--------------------|--------------------|---------------------|-------------------|--------------------|---------------------|---------------------|
| | (OLS) | (OLS) | Stage I | Stage II | Stage I | Stage II |
| | E-index | Fam. Member | Fam. Member | E-index | Fam. Member | E-index |
| Constant | 2.29*** (0.45) | 0.31 (0.19) | 0.36 (0.22) | 2.45*** (0.47) | 0.31 (0.19) | 2.45*** (0.48) |
| Family member | 0.04 (0.07) | | | -0.32*** (0.12) | | -0.47** (0.15) |
| Family share | 3.17 (3.03) | 15.06*** (2.39) | 6.72*** (0.89) | 1.23 (1.55) | 15.06*** (2.39) | 10.83* (4.29) |
| Family share2 | -16.19† (9.00) | -30.74*** (7.62) | | | -30.74*** (7.62) | -31.83** (11.06) |
| Firm age | 0.00* (0.00) | 0.00 (0.00) | 0.00 (0.00) | 0.00* (0.00) | 0.00 (0.00) | 0.00* (0.00) |
| Firm size | -0.31*** (0.09) | 0.01 (0.03) | 0.01 (0.03) | -0.31*** (0.09) | 0.01 (0.03) | -0.30*** (0.09) |
| R&D | -2.63*** (0.78) | 0.06 (0.26) | -0.08 (0.27) | -2.74*** (0.77) | 0.06 (0.26) | -2.60*** (0.77) |
| Delaware | 0.14 (0.08) | 0.05 (0.03) | 0.04 (0.03) | 0.15† (0.08) | 0.05 (0.03) | 0.17* (0.08) |
| Board independence | 0.99** (0.31) | -0.47** (0.16) | -0.48** (0.16) | 0.80* (0.32) | -0.47** (0.16) | 0.75* (0.33) |
| Director share | -20.78** (7.01) | 4.54 (3.22) | 4.11 (3.28) | -19.51** (6.55) | 4.54 (3.22) | -18.47** (6.61) |
| Adjusted ROA | 0.03 | -0.70** | -0.75** | -0.27 | -0.70** | -0.33 |

| | | | | | | |
|-------------------------|----------|----------|----------|----------|----------|----------|
| | (0.57) | (0.25) | (0.26) | (0.60) | (0.25) | (0.60) |
| Leverage | 0.26 | 0.13 | 0.10 | 0.28 | 0.13 | 0.32 |
| | (0.36) | (0.11) | (0.12) | (0.35) | (0.11) | (0.35) |
| Top5 institutional | -7.48*** | -0.70 | -0.86 | -7.89*** | -0.70 | -7.84*** |
| | (2.15) | (0.92) | (0.96) | (2.12) | (0.92) | (2.13) |
| Top10 institutional | 6.62*** | 0.54 | 0.70 | 6.96*** | 0.54 | 6.90*** |
| | (1.73) | (0.88) | (0.92) | (1.72) | (0.88) | (1.74) |
| Second Gen | -0.56** | 1.10*** | 1.28*** | | 1.10*** | |
| | (0.18) | (0.11) | (0.11) | | (0.11) | |
| Industry Dum. | Yes | Yes | Yes | Yes | Yes | Yes |
| Year Dum | Yes | Yes | Yes | Yes | Yes | Yes |
| F statistics | 8.56*** | 32.28*** | 32.73*** | 10.28*** | 32.28*** | 10.82*** |
| Adjusted R ² | 0.13 | 0.68 | 0.66 | 0.12 | 0.68 | 0.11 |

† p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001; Robust standard errors in parentheses.

Models 3 and 4 are two-stage least squares models with *family member* as the endogenous regressor. *Family member* acts as the endogenous variable in Models 3 and 4. In the first stage, *family member* is regressed against all exogenous regressors and *second generation*, the instrumental variable. In the second stage, the fitted value of *family member* derived from the first stage, together with other regressors of the first stage model except for *second generation* act as regressors of *E-index*.

Model 3 tests the direct effect of family ownership. The result suggests that *family share* does not significantly impact *E-index*, if we don't consider a potential curvilinear relationship. Model 4 confirms H1a as it shows that the relationship between *family share* and *family member* is an inverted U. On the one hand, the direct effect of *family share* on *family member* is positive and significant ($\beta = 15.06$, p -value < 0.1%); On the other hand, the curvilinear relationship between *family share* and *family member*, as represented by the coefficient of *family share*², is negative and significant ($\beta = -30.74$, p -value < 0.1%). In other words, the first stage of Model 4 shows that, on the one hand, at the low to medium level of family ownership, the number of family delegates as managers and/or directors increases with the level of family ownership; on the other hand, at the medium to high level of family ownership, less powerful family owners have relatively more delegates as managers and/or directors than their counterparts with more shareholding positions.

Moreover, model 4 considers the curvilinear relationship between family ownership and *E-index* and provides strong support for H1b. As indicated by the positive coefficient of *family share* ($\beta = 10.83$, p value < 0.05) and the negative coefficient of *family share*² ($\beta = -31.83$, p value < 0.01) in the second-stage model with *E-index* as the dependent variable, the relationship between family ownership and *E-index* shows an inverted U shape.

Fig. 1 illustrates the marginal effect of family ownership on *E-index*. As shown in the graph, when the firm has no family ownership, the predicted value of *E-index* is 2.15. When family ownership is at about the maximum value (the maximum family share in the dataset is 41.24%), the *E-index* is 1.24. The *E-index* reaches maximum value when family share is between 15% and

20%, the point where prior research usually suggests that a shareholder reaches control status (Shleifer and Vishny, 1997).

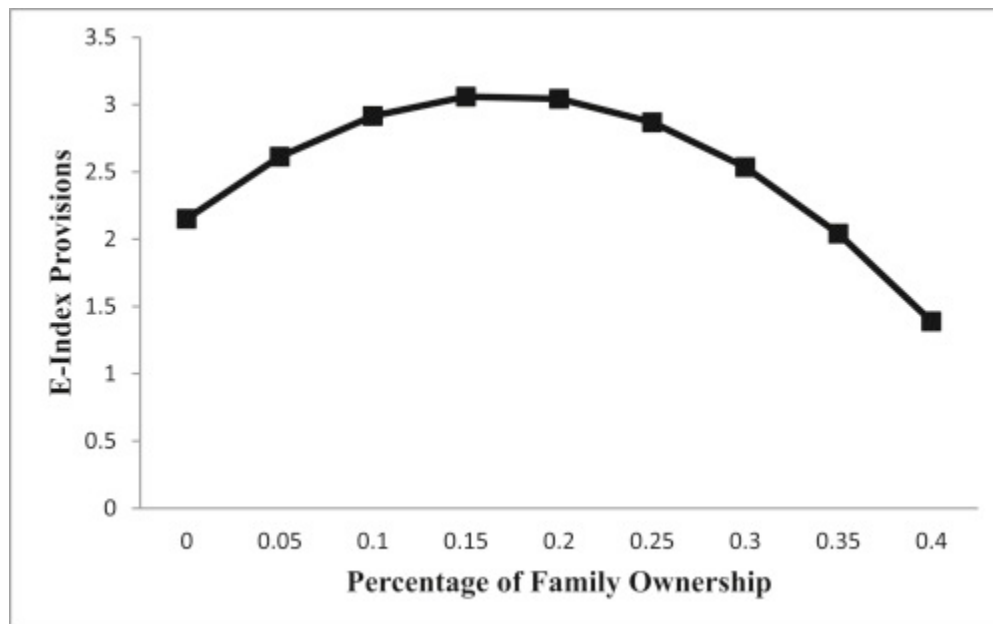


Fig. 1. Marginal effect of family ownership and E-index provisions.

In general, these findings suggest that firms with low-to-medium level of family ownership are more likely to engage in entrenchment than their counterparts with medium-to-high level of family ownership. Models 3 and 4 also support H2. In models 3 and 4, the coefficients of *family member* are negative and significant ($\beta = -0.32$, p value < 0.001 in model 3; $\beta = -0.47$, p value < 0.01 in model 4) in the second-stage of the models with *E-index* as the dependent variable respectively.

Fig. 2 illustrates the marginal effects of the number of family managers and/or board members on the presence of *E-index* provisions. Specifically, when a firm has no family member serving as managers and/or directors, the predicted value of *E-index* is 2.35. When a firm has 4 family members serving as managers and/or directors, the *E-index* is about 1. In our dataset, the maximum family member in the data sample is 6. Yet, the results of *family member* greater than 4 are not statistically significant.

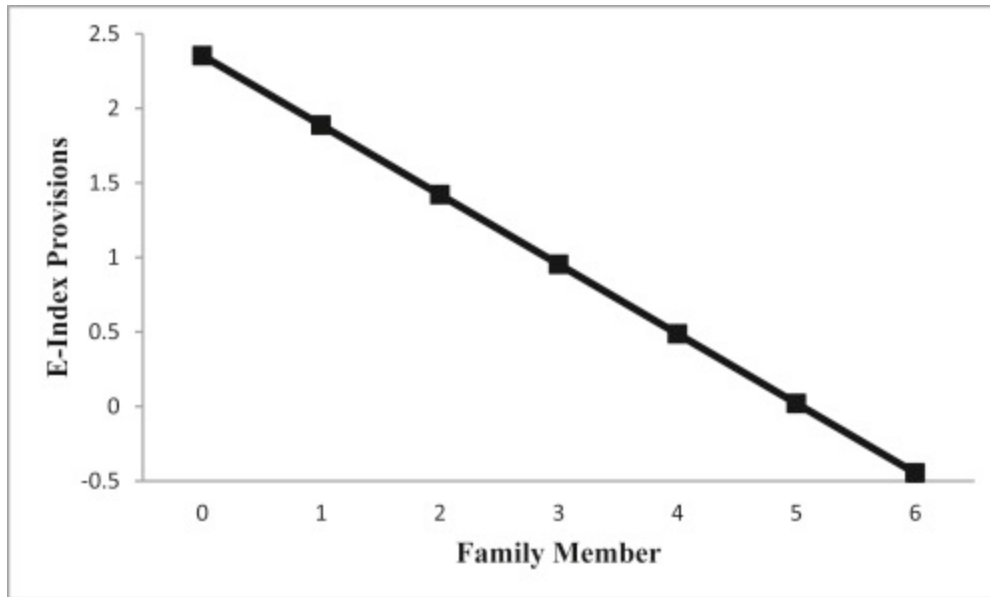


Fig. 2. Marginal Effect of Family's Involvement in Management and/or Board membership and E-Index Provisions. Note: The results of family member greater than 4 are not statistically significant. Family member is defined as the number of family executives and/or directors in the firm.

In summary, these results provide strong evidence that *family member* is negatively correlated with entrenchment measured by the *E-index*.

To ensure the robustness of our findings and in order to address endogeneity concerns regarding our independent variables, we conducted a series of tests to validate the specifications of our models. First, we conduct weak identification test by obtaining the Kleibergen-Paap Wald F statistic (Kleibergen and Paap, 2006) to check the validity of our instrumental variable, *second generation*. We then compare the result with the critical values suggested by Stock and Yogo (2005) and conclude that *second generation* is a valid instrumental variable. Second, we calculate the Kleibergen-Paap LM statistic (Kleibergen and Paap, 2006) to ensure our system of equations is correctly identified. The result rejects the null Hypothesis that our models are under identified. We then perform the Anderson-Rubin Wald test (Anderson and Rubin, 1949) to verify the significance of the coefficient of *family member*, the endogenous regressor. We find the results rejecting the null hypothesis that *family member* is not significant. Furthermore, we rely on the robust score tests, proposed by Wooldridge (1995), to confirm that our *family member* variable is indeed endogenous.

To verify the robustness of our estimation method, we rerun models 3 and 4 by replacing 2SLS – IV models with two-stage endogenous Poisson models in order to mitigate the concern that *E-index* can be considered as a count variable (Wooldridge, 2010). In unreported analyses, we obtain results that are very similar to those reported in models 3 and 4.

We further explore the robustness of our model specification and instrumental variable. Specifically, we rerun models 3 and 4 by dropping *top5 institutional* from the set of control

variables. The results are essentially the same as models 2 and 3 except that the coefficients of *top10 institutional* are no longer statistically significant.

Moreover, we explore the robustness of our instrumental variable and its applicability to reconcile endogeneity concerns. Following Semadeni et al.'s (2014) recommendation of using more than one instrumental variable, we add a second one obtained from the Thomson Reuters Institutional Holdings (13F) database. The variable is calculated as a Herfindahl index that represents the concentration of institutional shareholders (i.e., *institutional Herfindahl*). In unreported analyses, we find that both *second generation* and *institutional Herfindahl* are strongly correlated with *family member*, the endogenous independent variable, but are not correlated with the residuals of the dependent variable. Furthermore, we respectively test the exogeneity of *second generation* and *institutional Herfindahl* by calculating the difference-in-Sargan/Hansen statistic (Wintoki et al., 2012; Hayashi, 2000). The results fail to reject the null Hypothesis that either *second generation* or *institutional Herfindahl* is exogenous. In all, we conclude that our instrumental variable selection is valid and robust because a valid instrumental variable should be correlated with the endogenous variable, but should not be correlated with the residuals (Semadeni et al., 2014). Moreover, the exogeneity of our instrumental variables is confirmed.

While our primary arguments revolve around the notion that family owners are likely to perceive entrenchment through a social lens and thus discuss family ownership as exogenous to entrenchment, endogeneity concerns may exist. Endogeneity concerns are common in family business research and family ownership specifically is a complex variable with a variety of implications on corporate governance. In an attempt to address the potential endogeneity concern regarding the family ownership variable, we first rerun the 2SLS –IV analysis of model 4 but replace *family member* with *family share* which is the endogenous variable in the new model and do not consider the quadratic term of *family share*. In unreported analysis of the whole sample, we find that *family share* has a negative and significant coefficient ($\beta = -8.36$, p value < 0.01). We further conduct subsample analyses according to family ownership at various thresholds and find results consistent with our projected curvilinear relationship between family ownership and the E-index. For example, when we partition our data sample at the threshold of 10% for *family share*, we find that the coefficient of *family share* is positive but statistically nonsignificant for the subsample of firms with at least 10% family ownership. Meanwhile, *family share* has a negative and significant relationship with E-index for the subsample of firms with less than 10% family ownership. We consider these results consistent with the results of Model 4 and Fig. 1 even if they do not incorporate the non-linear effect of family ownership.

We further rerun the 2SLS –IV analysis of model 4 by taking both *family share* and *family member* as endogenous variables. Following Demsetz and Villalonga (2001), we also add a second instrumental variable which is the standard deviation of the firm's stock return of the last 60 months in this analysis. In unreported analysis, *family share* has a positive, but statistically nonsignificant relationship with *E-index* ($\beta = 17.65$, n.s.) and the coefficient of *family member* is negative, but nonsignificant ($\beta = -0.90$, n.s.). We also conduct 3SLS –IV analysis similar to that of Bhagat and Bolton (2013). We obtain results that are consistent with those of Model 4, but we

do not find the impact of *family member* and *family share* on *E-index* to be statistically significant. We take cautionary interpretation of the results of our last two robustness checks because the R^2 of those models is negative, putting a question mark on the model fit. While these findings do not wholly alleviate endogeneity concerns within our model, they represent current best practices in controlling for endogeneity threats in family business research and the evidence from these robustness checks provide no direct evidence contradictory to our main analyses.

Discussion

Recent research draws attention to the effects of family involvement (i.e. ownership and governance) on the behavior of publicly traded firms (Anderson and Reeb, 2003a, 2003b, 2004; Claessens et al., 2002; Villalonga and Amit, 2006, 2009). These efforts have resulted in an increased recognition of distinctive characteristics of family governance, but a general lack in terms of understanding the mechanisms employed by family owners that allow them to control corporations in the ways they do (Villalonga and Amit, 2006, 2009). For instance, controlling families' propensity to use different types of governance provisions is widely recognized conceptually (see Li and Wang, 2016), but still under researched in extant literature despite these recognized idiosyncrasies (Kumar and Zattoni, 2016). We posit that exploring the distinctive strategic impetuses of entrenchment provisions in family firms, as well as the relationship between family ownership and management, may shed light on the unique principal-principal agency relationships in family firms. In an attempt to further our understanding of these phenomena, the current research investigates the links among family ownership, family governance, and managerial entrenchment. We develop and test a model predicated on principal-principal agency theory and the socioemotional wealth perspective linking family ownership, family's involvement in management and/or board membership with their predilection towards entrenchment on a sample of 386 S&P 500 firms via panel data analysis, providing evidence supporting our hypothesized model and suggesting multiple implications.

As hypothesized, we found an inverted u-shaped relationship between family ownership and the employment of value-diminishing entrenchment provisions. At lower levels of ownership, family owners are more eager to have family managers and/or directors and engage in entrenchment activity than those with moderate-to high levels of ownership. However, at higher levels of family ownership, we find a noticeable reduction in entrenchment behaviors. This may be a result of the family already having substantial control over the business through high levels of equity and voting rights which protects their positions without the need for explicit entrenchment provisions. In such cases, family owners are less incentivized to be directly involved in firm management (e.g. Madison et al., 2017) and would gain relatively less protections from traditional avenues of entrenchment compared to firms with lower levels of family ownership. Additionally, firms with higher levels of family ownership are likely to be more concerned with the firm value owing to family's wealth at stake (Mullins and Schoar, 2016). Therefore, family owners with higher levels of ownership may rather prefer highly-competent professional non-family managers that can be removed in the case of agency conflicts, thus reducing the strategic value of entrenchment in general. This finding is in line with Maury (2006), suggesting that family ownership may be more beneficial to firm value in legal environments where minority

shareholders can protect themselves better against family opportunism and where family owners participate with significant cash flow rights.

Additionally, our findings illustrate that as family's involvement in management and governance increases, entrenchment provisions become less common. This is contrary to the general view in the literature that family firms may be more prone to entrenchment (e.g. Morck and Yeung, 2003; Sharma, 2004). We suggest this is owing to the fact that controlling families already have substantial power, authority, and legitimacy through their participation in the firm, providing a de facto protection without the costs and risks associated with explicit entrenchment provisions. Indeed, even relatively small percentages of management and board membership provide families with a high level of control compared to dispersed minority shareholders with very small percentage of ownership and no active participation in management in publicly traded family firms (Villalonga and Amit, 2006; Chrisman et al., 2004). This may naturally elevate family's representation, authority, power, and legitimacy in decision making (Chrisman et al., 2012), diminishing the need for the use of value-diminishing power enhancement tools, such as the E-index provisions. Additionally, family managers and directors may be less likely to use entrenchment provisions owing to the compatibility of their non-economic and economic goals (Stewart and Hitt, 2012). For example, non-economic goals such as reputation and continuity of family legacy can be complementary to economic goals since a failing and non-reputable business will not have much utility to the family.

In addition to the implications regarding the governance of family firms, our findings may also speak to a variety of other implications related to firms' tendency towards entrenchment and weak governance controls within family firms ostensibly illustrated by our findings. Weak corporate governance can result in stock price decreases which may trigger shareholder lawsuits, hostile takeovers, and institutional owners' criticisms in shareholder meetings (Claessens et al., 2002; Morck and Yeung, 2003); which may create the potential for increased liabilities for family principal groups that are overly reliant on family-oriented governance tactics. Accordingly, Peng and Jiang (2010) suggest that the impact of family ownership and control on firm value is associated with the level of shareholder protection embodied in legal and regulatory institutions of a country. When there is effective investor protection, family owners tend to dilute their equity to attract minority shareholders and delegate management to professional managers (Peng and Jiang, 2010). In this case, family owners and managers and/or directors do not have as much incentive to utilize entrenchment provisions to enhance family's power. However, when the legal system is weak, family owners want to maintain their control by participating in management and/or the board in order to mitigate potential principal-agent agency problems that can generate from professional managers' opportunistic behaviors (Peng and Jiang, 2010). This suggests a context distinct from our sample and a potential set of secondary outcomes not considered in the present research. Future research can build on our findings by investigating these phenomena in different regulatory contexts.

Limitations and future research directions

While we endeavored to ensure the validity and robustness of our research, we do recognize some limitations in the current study which can be used to inform future work in this domain.

First, as stated above, the regulatory context can affect the observed relationships and generalizability to the corporations around the world since the sample included S&P 500 firms headquartered in the U.S. Even though increased globalization tends to cause similarities in business conduct in world economies, different legal regimes (e.g. common versus civil law) in different countries can result in differences in corporate governance (Peng and Jiang, 2010). For example, the legal system prevents pyramiding in the US, whereas it is permissible even in many developed countries in Asia and Europe (Peng and Jiang, 2010). Hence, since legal context may be influential to the findings of this paper, future studies can test or extend the model in other countries with different legal systems.

Similarly, although our panel data analyses examine multiple years (2002, 2004, and 2006) which provide the most recent available data regarding relevant governance provisions were available, our findings may vary in other time periods (e.g. in 1990s) owing to the changes in the legal system. For example, the examined time periods in this paper involves the enactment of the Sarbanes-Oxley Act in 2002, also known as Investor Protection Act, as a reaction to corporate accounting scandals and the aftermath of its enactment. This act enhanced the reliability of financial reporting, transparency, and accountability through increased internal controls and auditing (Coates, 2007). Hence, future research can compare or contrast the findings of this paper to earlier periods. This can also show whether legislation affects corporate governance. On the other hand, we believe our hypotheses would be the same, if we were able to include data post 2006. Prior studies have found that firms keep antitakeover-defense-related governance provisions relatively stable after 2002 (e.g., Bebchuk et al., 2009). Bebchuk et al. (2013) document that the connection between governance indices and firm value persists during the post-SOX period. Therefore, family owners should have the same connections with the E-index provisions as we hypothesized because the impacts of the E-index provisions on the firm are unlikely to change.

Potential endogeneity concerns might exist in our analysis with regard to the use of family ownership as an exogenous independent variable to study entrenchment (the dependent variable) due to reverse causality. We believe that reverse causality is not a major threat to our research for two reasons. First, taking family ownership as exogenous is an established norm in the study of family business corporate governance (e.g. Zellweger et al., 2011). Second, and more importantly, the impact of entrenchment on family ownership is theoretically ambivalent and dependent on how entrenchment is measured relative to firm value and its corresponding impacts on the owning family. The entrenchment of the founding family can have two contrasting effects. On the one hand, entrenchment allows the founding family to pursue private benefits that hurts firm value and proportionally the wealth of the family; on the other hand, the private benefits that the founding family obtains as a result of entrenchment increase the wealth of the family. Therefore, whether entrenchment should prompt the founding family to increase or decrease its ownership should be dependent on the firm value impact of entrenchment rather than entrenchment itself. Thus, the impact of family entrenchment on family ownership is more likely an empirical concern. Moreover, the nature of E-index provisions allows us to believe that founding family ownership should be one of the antecedents of governance provisions such as the E-index provisions rather than the other way around (Field and Karpoff, 2002). Specifically,

major elements of the E-index such as classified board, supermajority requirement, limit to amend bylaw, and limit to amend corporate charter require shareholder approval (Sundaramurthy, 1996; Walsh and Seward, 1990). As a result, the founding family's attitude towards the E-index provisions should make the family rely on its ownership to influence the adoption of those provisions and the E-index provisions are unlikely to trigger the change of family ownership.

We also address the potential endogeneity concerns through post-hoc empirical tests. Specifically, we conduct a battery of post-hoc robustness tests using valid instrumental variables that suggest that endogeneity is not a major threat to our findings. While these tests reinforce the robustness of our findings, they do not completely eliminate endogeneity concerns. Therefore, future research may develop measures that may also reflect familial entrenchment practices not linked to the E-index which can provide further insight into these phenomena.

In this paper, the links between the components of involvement (i.e. family ownership and family's involvement in management and/or the board) and the use of the E-index provisions are examined. However, according to the *essence* approach in defining family firms, the intentions, vision, familiness, and/or behaviors may be the distinctive factors distinguishing a family firm from not only a nonfamily firm, but also other family firms (Chrisman et al., 2005). Since the elements of the essence approach are expected to lead to differences in corporate governance systems in family firms, the link between such family influence and the use of entrenchment behaviors can be investigated. Doing so would speak towards calls for investigating the heterogeneity of family firms in corporate governance research (e.g. Siebels and Knyphausen, 2012).

Conclusion

The present study applies agency theory, socioemotional wealth, and corporate governance perspectives to family ownership and family's involvement in management and/or the board in corporations and their entrenchment activity. The model examined in this paper enhances our understanding of the family dynamics that play an important role in corporations owned and/or managed by families within the scope of managerial entrenchment. Our findings contribute to on-going research regarding the corporate governance of family firms and suggest that entrenchment may possess a unique strategic impetus in family firms by providing an avenue for the pursuit of family-oriented outcomes related to retained control and power based on the entrenchment of family managers. However, as family governance becomes ubiquitous, the power of the controlling family lessens the need for explicit E-index entrenchment provisions.

Appendix.

Entrenchment Index (E-index) Provisions (Bebchuk et al., 2009)

| | |
|-------------------------------|--|
| Staggered Board | A board in which directors are divided into separate classes (typically three) with each class being elected to overlapping terms. |
| Limitation on Amending Bylaws | A provision limiting shareholders' ability through majority vote to amend the corporate bylaws. |

| | |
|------------------------------------|---|
| Limitation on Amending the Charter | A provision limiting shareholders' ability through majority vote to amend the corporate charter. |
| Supermajority to Approve a Merger | A requirement that requires more than a majority of shareholders to approve a merger. |
| Golden Parachutes | A severance agreement that provides benefits to management/board members in the event of firing, demotion or resignation following a change in control. |
| Poison Pill | A shareholder right that is triggered in the event of an unauthorized change in control that typically renders the target company financially unattractive or dilutes the voting power of the acquirer. |

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