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Exploring nonlinear effects of family involvement in the board on entrepreneurial orientation☆

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ABSTRACT

Family business research suggests that family involvement in the board (FIB) may have both positive and negative effects on entrepreneurship. To reconcile these conflicting views, this study builds on stewardship theory, agency theory, and the resource-based view and proposes a nonlinear relationship between FIB and entrepreneurial orientation (EO) to explore how board task performance moderates this relationship. Using a sample of 208 Belgian private family firms, the findings show an inverted U-shaped relationship between FIB and EO, with EO declining beyond moderate levels of FIB. Furthermore, board monitoring task limits the negative effects of high FIB on EO, whereas the board service task does not have any significant effect. This study offers a more nuanced view of the governance conditions that affect EO in the context of private family firms, an overlooked topic in the family business field.

1. Introduction[1]

Many studies over the past few decades examine entrepreneurship in family firms (Randerson, Bettinelli, Fayolle, & Anderson, 2015) and the strategic role of the board of directors (Brenes, Madrigal, & Requena, 2011; Pugliese, Minichilli, & Zattoni, 2014; Wu, 2008). While most research into boards of directors focuses on listed family firms (Amit & Villalonga, 2014), researchers neglect the effect of family involvement in the board (FIB) on private family firms' entrepreneurial orientation (EO), that is, the propensity of the firm to engage in innovation through proactive risky initiatives (Miller, 1983). This question is important because private family firms represent the engine of entrepreneurial growth (Memili, Fang, Chrisman, & De Massis, 2015), and families in business need to understand the governance conditions that enable them to turn family influence into a useful resource for entrepreneurship.

Unfortunately, prior works analyzing the governance circumstances under which family firms are most entrepreneurial leads to inconsistent findings (e.g. Kellermanns, Eddleston, Sarathy, & Murphy, 2012; Sciascia, Mazzola, & Chirico, 2013) and theoretical confusion (Le Breton-Miller, Miller, & Bares, 2015). In an attempt to reconcile these empirical and conceptual disparities, this study adopts a multi-theoretical perspective to address the effect of FIB on EO by combining insights from stewardship theory (Davis, Schoorman, & Donaldson, 1997), agency theory (Jensen & Meckling, 1976), and the resource-based view (RBV) (Barney, 1996; Grant, 1991; Wernerfelt, 1984) that contrast the positive and negative effects of family involvement on EO. Specifically, this study suggests that the relationship between FIB and EO is curvilinear, with EO declining beyond moderate levels of FIB.

Furthermore, since focusing exclusively on the relationship between board characteristics and firm-level outcomes neglects the importance of board dynamics and processes (Basco & Voordeckers, 2015; Van den Heuvel, Van Gils, & Voordeckers, 2006), the moderating effect of board task performance, that is, the degree to which boards actually succeed in fulfilling their responsibilities (Gabrielsson, 2007), this study explores how the board's actual behavior explains variations in the entrepreneurial posture of private family firms with the same degree of FIB. Specifically, this study considers board monitoring and services tasks as moderators in the relationship between FIB and EO.

With consistent findings from a sample of 208 private family firms in Belgium, this study contributes to the family entrepreneurship and governance literatures. The multi-theoretical perspective helps to reconcile the debate about the governance conditions that foster EO in private family firms, which few studies address (Le Breton-Miller et al., 2015). Introducing board monitoring and service tasks as moderators of the relationship between FIB on EO answers a recent call for more research that considers the role of the board's actual behavior to explain variations in firm-level entrepreneurship (Zattoni, Gnan, & Huse, 2015). This study also complements prior works investigating how various types of family involvement affect entrepreneurial behaviors (Sciascia & Bettinelli, 2013).

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2. Theoretical background and hypotheses development

2.1. Family involvement in the board (FIB) and entrepreneurial orientation (EO)

Numerous studies examine the EO concept without providing a single definition of the construct (Basso, Fayolle, & Bouchard, 2009). The most popular conception of EO is the composite dimension approach (George, 2011). This conceptualization is closer to Miller's (1983) seminal work and suggests that EO has three dimensions: innovativeness, proactiveness, and risk-taking, symbolizing a unidimensional strategic orientation toward entrepreneurship (Covin & Wales, 2012). This view considers these three dimensions as interdependent and covarying, such that changes in EO result in changes in each dimension (Covin & Slevin, 1989). Although a large debate surrounds the question of whether EO refers to an entrepreneur's attitude or a firm-level outcome, most studies adopt the latter perspective (George, 2011). This study takes the composite view of EO through an investigation of how the board's composition and tasks affect EO as a firm-level outcome in the context of private family firms.

In the private family firm context, FIB is a common demographic feature arising from the willingness of family owners to preserve their control and influence over the organization (Voordeckers, Van Gils, & Van den Heuvel, 2007). Belonging to the owner-family can affect directors' willingness to develop EO since factors such as risk aversion, desire to improve firm reputation, concentration of control, and other elements of family influence may affect entrepreneurial choices (Randerson et al., 2015). In that sense, several scholars provide theoretical arguments supporting both a positive and a negative relationship between FIB and EO (Corbetta & Salvato, 2004; Le Breton-Miller et al., 2015).

From the stewardship perspective, private family firms possess unique characteristics that foster organizational members' collectivistic attitudes, psychological commitment, trustworthy behaviors, and devotion to the organization (Chrisman, Chua, Kellermanns, & Chang, 2007; Miller, Le Breton-Miller, & Scholnick, 2008). Accordingly, family directors have emotional attachments and a high commitment to the organization and are therefore more inclined to adopt a stewardship attitude that promotes entrepreneurial behaviors to ensure the firm's long-term success (Eddleston, Kellermanns, & Zellweger, 2012). However, several scholars argue that FIB may have negative effects on entrepreneurship. From the agency perspective (Jensen & Meckling, 1976), FIB may result in conservatism or the extraction of private benefits (Corbetta & Salvato, 2004), while RBV suggests that FIB may induce a lack of competent human capital to innovate (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). To reconcile these opposite views, this study adopts a multi-theoretical perspective and proposes that the relationship between FIB and EO is curvilinear, with EO decreasing after a certain threshold of FIB.

2.2. Nonlinear effects of FIB on EO

Several arguments from the stewardship perspective can explain the positive effects of FIB on EO. Stewardship over continuity makes family directors more inclined to develop a long-term orientation that promotes transgenerational entrepreneurship (Jaskiewicz, Combs, & Rau, 2015). Accordingly, they are more inclined to support innovation investment decisions that contribute to the exploration and the exploitation of new market opportunities (Lumpkin, Brigham, & Moss, 2010). Stewardship over external stakeholders helps family directors provide the firm's executives with timely information about changing market conditions (Miller & Le Breton-Miller, 2005). The firm can turn this information into innovative and creative initiatives thanks to the comprehensive and participative decision-making process that a stewardship culture provides (Eddleston et al., 2012). Furthermore, family members' mutual understanding and collectivistic attitude induce family directors to share their various experience and knowledge with outside directors and executives (Chirico & Salvato, 2008), thereby stimulating constructive debates about the firm's entrepreneurial development (Talke, Salomo, & Kock, 2011).

While these arguments suggest that FIB enhances EO, the disadvantages of agency and RBV problems at high levels of FIB may surpass the benefits of stewardship for EO. Indeed, the agency perspective highlights strong negative influences of high FIB (Kuan, Li, & Chu, 2011; Mazzola, Sciascia, & Kellermanns, 2013). High FIB may lead to nepotistic appointments during the management selection process, often resulting in path-dependency since the newly appointed family executive opts for conservative strategies to perpetuate the family-founder legacy (Le Breton-Miller & Miller, 2009). Furthermore, family directors can deprive the organization of essential resources for entrepreneurship by tolerating extractions of private benefits by family managers (Mazzola et al., 2013). Family managers are also more inclined to support decisions that promote risk-averse projects due to the under-diversification of family wealth (Miller et al., 2008). Additionally, high FIB also increases the likelihood of relationship conflicts among family members (Kellermanns & Eddleston, 2004), which impedes the emergence of EO (Sciascia et al., 2013).

The RBV highlights another disadvantage of high FIB (Barney, 1996; Grant, 1991; Wernerfelt, 1984), according to which the board is an internal source of competitive advantage by providing resources that are valuable, rare, inimitable, and difficult to substitute (Grant, 1991). Although some scholars argue that the distinctive and unique nature of family involvement contributes to the provision of such resources (Habbershon & Williams, 1999), overwhelming FIB can create a lack of the critical resources the firm requires to pursue entrepreneurial initiatives (Calabrò, Mussolino, & Huse, 2009). Indeed, a higher FIB deprives the firm of outside board members' professional competencies, knowledge, skills, advice and experience, which can compromise the exploration and exploitation of entrepreneurial opportunities (Lai, Chen, & Chen, 2014). For instance, at high FIB rates, outside board members cannot correctly fulfill their role of linking the firm to the external environment and sharing valuable advice to detect and exploit new market windows before they close since they will have less formal power to discuss the firm's entrepreneurial strategy (Bammens, Voordeckers, & Van Gils, 2011). Furthermore, the firm may lack effective mediators to solve family conflicts that hamper EO (Kellermanns & Eddleston, 2004).

Therefore, FIB has both positive and negative effects on EO, such that the relationship between FIB and EO is curvilinear. Specifically, at low to moderate levels of FIB, family directors' stewardship attitude can turn family involvement into a useful resource for EO. As FIB increases, the emergence of agency and RBV problems that impede EO will progressively outweigh the benefits of stewardship. Therefore:

H1. The relationship between FIB and EO is curvilinear (inverse U-shaped) in private family firms, with the highest level of EO occurring at an intermediate level of FIB.

2.3. The moderating role of board task performance

While H1 proposes that the board's demographics will influence actual behavior (Gabrielsson, 2007), the board processes resulting from interactions among board members is also important (Basco & Voordeckers, 2015). Accordingly, this study investigates how board task performance affects the relationship between FIB and EO (Bammens et al., 2011). Specifically, this study considers the moderating role of board monitoring and service tasks to clarify why some family businesses with the same degree of FIB show different levels of EO.

The board's primary responsibility is monitoring, implying that board members actively scrutinize managers' decisions to ensure