

BLOOD IN THE BOARD ROOM: FAMILY RELATIONSHIPS INFLUENCING THE FUNCTIONS OF THE BOARD[†]

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ABSTRACT

We develop the concept of family through using insights from evolutionary psychology, stressing genetic kinship, i.e., blood relationships. We apply the family concept on the functional emphasis of family firm's boards. Testing the hypotheses on a convenient-sample of 68 small and medium sized Swedish family firms, we find indications of blood relationships influencing the functions of the board. We suggest the development of the family conception according to these lines, where blood and the basic characteristics of nepotism are constitutive.

KEY WORDS: Family, nepotism, board of directors

INTRODUCTION

Marx regarded the corporations as the realization of capitalism, where the sentiments and risk avoidance of the single owner were superseded by rational managers. Adam Smith believed in his single entrepreneur and the ability to survive through supplying bread to the market. In between the firm characterized by full separation of ownership and control and the single entrepreneur's firm, without any separation, is the family firm. Comparing the immense research conducted about the Marxian corporation with fully realized separation of ownership and control, and the enormous research about the Smithsonian entrepreneur, we find the firm in-between, the family firm, to have been almost forgotten until the end of the 1990's, when we have witnessed a strong development of the family business research field.

Family firms are claimed to be frequent organizations in the economy and to make substantial contribution to the economy in all countries. They are said to have a high initial mortal rate, about only 1/3 survives their first transition (Bammens, Voordeckers and Van Gils, 2008), although we believe that the statistics mix Smithsonian entrepreneurial firms with family firms. The family firm has been found to be burden with many inefficiencies due to it's family character, for example lower capital spending, reduced investments, excessive liquidity, lower productivity, lower innovativeness, under-investments in emerging technologies, poor decision making by family managers, greater managerial entrenchment, favoring family members, limited by family traditions, less active market for corporate control, limited managerial labour market and weaker compensation system to executives (Anderson and Reeb, 2004; Schulze, Lubatkin, Dino and Buchholtz, 2001). All these deficiencies are balanced by the family's long-term investment horizon and long-term performance objectives, the strong ownership function created through a concentrated ownership structure, loyalty and trust, with owners having insight in the business and with historical knowledge, therefore also being strong in monitoring capacity (Braun and Sharma, 2007; Miller and Le Breton-Miller, 2006). For a recent review of pros and cons of family firms, see Gedajlovic, Carney, Chrisman and Kellermanns (2011). Apparently, it is the family that is causing both positive and negative effects for the family firm.

Family firms are firms characterized by a family. The research of family firms is therefore in a constant need of developing conceptions of the family. We will focus on the main characteristic of families, which is that they are based on kinship, i.e., they are nepotistic. Family members, present and future, are treated in a biased way in and by the family. Nepotism should, therefore, be expected to be at the very hearth of family firms and the governance of

these firms. This family feature has mainly been studied in research on succession in family firms (Friedman, 1991; Haberman and Danes, 2007), where the important question of professionalization of the firm and the management function are raised. Another important question is focusing on what generation of the founder's family that is presently in control of the firm. In seminal papers from the end of the 1990's and the beginning of the 2000's, Schulze, Lubatkin, Dino and others (Lubatkin, Schulze, Ling and Dino, 2005; Schulze, Lubatkin and Dino, 2003; Schulze, Lubatkin and Dino, 2002; Schulze, Lubatkin, Dino and Buchholtz, 2001) have developed an agency conception of family firms characterized by what they term 'parental altruism', i.e., nepotism, with conceptions gained from economics. The researchers reached conclusions indicating nepotism to have costly consequences for the family firm. Later they have tempered their harsh implications of 'parental altruism' and tried to develop a more balanced view of 'altruism' (Lubatkin, Durand and Ling, 2007; Lubatkin, Ling and Schulze, 2007). This agency tradition conception of the family has been picked up and developed by others (e.g., Gomez-Mejia, Nuñez-Nickel and Gutierrez, 2001). Others have used anthropological conceptions (Stewart, 2003).

The present paper will join this avenue of research that emphasizes the family through contributing to family firm research with a distinct focus on the most basic feature of the family, which is its nepotistic tendency based on kinship relationships. We will do it in the context of board composition and board functions. Our basic claim is that the functions of the board are influenced by the family character of the board composition, which we assume can be described in terms of nepotism. In other words, nepotism influences the behavior of the family board members and, therefore, also influences the functional emphasis of the board.

The board of the family firm has received surprisingly very strong statements, given the fact that the research has not been empirically extensive. Corbetta and Tomaselli (1996:413) states: "Thus, the board is a body devoid of all usefulness". Rather high consensus is found among writers that a majority of directors have to be outsiders and non-family members (e.g., Ward and Handy, 1988, Nash, 1988; Miller and Le Breton-Miller, 2006; Schulze, Lubatkin, Dino and Buchholtz, 2001) - but for two exceptions see Jonovic (1989) and Ford (1988). Given the limited systematic knowledge available concerning the family board, these statements are less well founded. They are void of understanding the rationality since most family boards appear to be dominated by family members. One obvious question is why family firm owners do not pay due respect to the wise advices of the researchers. We, therefore, need a less strong normative and a more scientific approach where we try to understand the

function of the family firm board and the contingencies that influence the behavior of the board. As indicated in a recent paper there is a need to "... examining the level of involvement of different generations in ownership, board of directors, and management." (Bammens, Voordeckers and Van Gils, 2008:175). In the present paper we will explore the contingency of kinship relationship in order to explain the functional emphasis of the board.

The main contribution of this paper is that it carries out the ambitions as expressed by Nicholson (2008) to apply evolutionary psychology on family firm theories. This is accomplished through developing the family concept through the lines of genetic relationships.

THEORY

Conception of the family in family business research

A family firm has been defined as a firm dominated by a family. With this definition, all firms owned and/or controlled by a family are family firms, independent of the intentions and the familiness of the firm. Statistics show that only 33% of firms are transferred to the second generation (Bammens, Voordeckers and Van Gils, 2008). Many of the non-transferred firms could be firms with owners having no intention to create a firm for the family. They could be firms created by one person or household and then sold or liquidated when the founder lost interest in it or lost capacity to run the firm. We therefore need, as Lester and Canella (2006) claim, to differentiate between entrepreneur-controlled firms, i.e., Smithsonian firms, and family-controlled firms. A family firm is therefore not a firm by a family, but a firm for a family. A proper definition of a family firm has to include the intention of being a family firm and its implications, such as nepotism.

One possible definition of a family firm is that it is a firm driven by the intention to be governed by and to give support to a collection of individuals that are tied together by kinship relationships, or, if using an extended family concept (Stewart 2003), those that are tied to each other through kin relationships and through a marriage institution. In this definition family governance and family nepotism are constitutive and characteristic factors. By family governance we mean influence upon the firm executed through ownership, board membership and/or managerial positions. By nepotism we mean a biased preference for kin relatives (Nicholson, 2008). Thus, a theory of family firms is in a need of a conception of nepotism.

Starting with the individual, we can say that an act of egoism is an act that is beneficial for the individual. Assuming rational choice, the cost of the act for the individual, C_i , is compared with the individual benefits, i.e., the utility, U_i , and if $U_i > C_i$, then the act is performed. An act of altruism can be defined as an act that is not beneficial for the individual. We can, however, make a more distinct definition of altruism. Imagine a person helping an old person to cross a busy street. If that behavior becomes a tradition, then the helper will gain in the long future when he or she is old and needs help in a similar situation. This is the case where there is a probability of reciprocity, p_r . The act will be rationally performed if $U_i * p_r > C_i$. This act we term reciprocal altruism, since there is an expectation of reciprocity. The pure altruism, sometimes termed ‘strong altruism’ (Nicholson, 2008), is an act lacking any expectation of reciprocity, which we therefore could term Samaritan altruism, since it is to perform an act of help because of the need of help, i.e., an act of duty or unlimited love, only involving C_i .

In between egoism and altruism is nepotism. It has been found in evolutionary psychology (Nicholson, 2008; Nicholson and White, 2006) that there are marked differences in human action if humans act towards genetically close humans, i.e., kin relatives, or act towards genetically unrelated individuals. It is easy to find situations where the condition is $U_i < C_i$, yet the act is performed. This is a situation where the utility is not connected to the individual, but to the genes of the individual, U_g , and the rational choice follows the norm of $U_g > C_i$. When an individual perform an act because it does not necessarily benefit the individual, but the genes of the individual, has been termed inclusive fitness (Hamilton, 1964a, b, 1972). It is utility, not on an individual level but on a genetic level. This tendency among humans, to have preference for kin relatives, and even be willing to sacrifice individual utility for kin relatives, is what we term nepotism.[†]

[†] It should be noted that we use the term nepotism when many others use ‘parental altruism’ or altruism with other prefixes. It is, however, incorrect according to our definition to include nepotism in altruism since altruism is directed towards a non-relative, either with hopes for reciprocity or without any consideration of reciprocity. But the important feature with altruism is that it is directed towards individuals of no genetic relation. In fact, one could imagine that altruism arrived out of nepotism, since humans maybe experienced the positive selective functions of treating our neighbors almost as good as our relatives. In Darwinian terms, the humans of pure egoism and pure nepotism did not stand the test of survival in the very long run.

Inclusive fitness characterizes nepotism. Acts that increase inclusive fitness will be performed more willingly than acts with less inclusive fitness. This implies that a close relative, for example a daughter of person A, will be more preferentially treated by A than the daughter of A's brother, who in turn will be more preferentially treated than the daughter of A's brother's daughter. These are actions ruled by the thickness of blood, which is expressed in the factor, r that stands for genetic relatedness. The factor r has the value of 1 for the kin relationship between monozygotic twins since they share all the genes; $r=0.5$ for parent-child, full siblings, dizygotic twins; $r=0.25$ for half-siblings, grandparent-grandchild, avuncular relationships; $r=0.125$ for cousins, great-grandchildren-great-grandparents, great-aunts, great-uncles; and $r=0.0625$ for other kin (Neyer and Lang, 2003:311). The formula of nepotism will then be $U_g * r_i > C_i$, i.e., an act will be performed if the cost of the act for the individual is less than the reproductive benefits, i.e., the utility U_g gained by the gene and its genetic relatedness to the actor, r_i .

Genetic relatedness is, however, not easily detected. In reality it is hard to measure nepotism according to r . Genes are not observable by humans, which induce humans to use heuristics in order to find indications of genetic relatedness (Davis and Daly, 1997). Bressan, Colarelli and Cavalieri (2009) suggest that humans use a hierarchy of indicators in order to find indications of r . The strongest indicator is suggested to be maternal perinatal, which is genetic relatedness identified through being in stable association with one's own mother. Second is the duration of co-residence during the period of parental investment. Third is phenotypic similarity, which is individual appearance, and fourth is emotional closeness. In their experiments with American students the researchers found that in situations of increasing individual costs of actions, for example situations where the individual's life is at stake, the three first categories are active in identification. These indicators can partly be simplified and partly be supplemented by inspecting location and frequency of interaction, although it is hard to evaluate the causality. Closer location and higher interaction frequency can be further indications of genetic relatedness. However, in this paper we will reduce the realism through making the simplification that genetic relatedness (r) is known by high certainty.

Inclusive fitness does also imply that less effort is spent on relatives that have a low probability of reproduction due to functional restrictions or mental illness since they cannot be assumed to transfer the genes and to engage in reciprocal actions (Fitzgerald, 2009). In experiments Fitzgerald (2009) found that US students would engage less in saving their relative facing a life threat if the relative was functionally handicapped. In the present paper we reduce

the realism also through disregarding this part of inclusive fitness theory. A rational argument for the exclusion in our context would be that selection for a board directorship is not as costly as situations where human life is at stake.

Inclusive fitness implies that females have stronger nepotistic orientation due to that they are more certain of the genetic relatedness of their offspring and that they are more restricted in giving birth to offspring (Davis and Daly, 1997; Neyer and Lang, 2003). In the present paper we disregard the gender aspect of the theory. Here we merely focus on the kin relationship aspect of the family and leave gender considerations for future research. As with the other limitations mentioned above, it is not due to a judgment based on importance, assuming kin relationship being more important than gender, reproductive limitations and hardships of identifying genetic relatedness. For example, in family firm succession, gender has been found to be decisively influential (Haberman and Danes, 2007). The limitations made here simplify the theory, and above all, they simplify the empirical work.

Genetic relatedness has received but small attention. One study showed a negative relation between support given and r (Neyer and Lang, 2003), but with indications that the distance between $r=0.5$ and $r=0.25$ is wider than between $r=0.25$ and $r=0.125$. This implies that we cannot expect a linear relationship between r and acts of nepotism.

In the present paper we suggest a marked difference in individual behavior and therefore in group behavior, such as at the board of directors, between different levels of r . We suggest that kin relationships where $r=0.5$ are based not only on identification of kin, i.e., nepotism, but also on consequences of living together, especially when growing up, i.e., primary socialization (García-Álvarez, López-Sintas and Gonzalvo, 2002) or living in vicinity, with high levels of interaction, creating socialization effects such as norm conformity (Sorenson, Goodpaster, Hedberg and Yu, 2009) and shared learning (Davis and Harveston, 2001), but also rivalry through competing for parental love (Friedman, 1991). When $r=0.25$ there is a lower probability of high interaction, thus socialization effects are diminishing, but the kin relationship is still obvious, thus acts of nepotism are present. Kin relationships where $r=0.125$ are so diluted that nepotism is weak, and the individuals have their nepotism oriented towards their own blood line.

The theory of inclusive fitness is silently behind the assumptions made in family firm research. It can be found in the seminal and highly original research presented in papers by Schulze, Lubatkin, Dino and others (references presented earlier). For example, Schulze,

Lubatkin, Dino and Buchholtz (2001) assume that what they term ‘altruism’ bias parents perception and makes them rewarding their children in ways that risk spoiling their children. Later, they (Lubatkin, Schulze, Ling and Dino, 2005) developed their conception to include siblings and cousins relationships, where they assume that the forces of ‘altruism’ are decreasing. Another example is Bammens, Voordeckers and Van Gils (2008:165) who state that “...family members in parental firms generally have closer relationships than those in sibling partnerships, and siblings mostly have stronger ties than the members of a cousin consortium...”. This is a rough proxy of r , making assumptions of empirical nature instead of making observations of the actual distribution of kin relationships in a firm. A firm of third generation could be governed by a son and a daughter of the founder’s son, which gives an r -value of 0.5, which is a very thick blood relationship with probability of socialization effects. Additionally, these studies assume the presence of one dominating generation, excluding the influence that several generations present at the same time in the firm could have. Thus, these studies are rudimentary in their treatment of kin relationships, which of course often is the price of truly original studies that open new doors of investigation. The strength of r is that we can consider the actual kin relationship setup at one moment in time, and we do not disregard the complexity of several generations and kin relationships present at the same time.

To summarize, we consider a family characterized by kin relationships and generations. Kin relationships are identified by the r -factor, where we expect $r=0.5$ to be more characterized by socialization effects such as norm conformity, but with the presence of nepotism, the $r=0.25$ to be dominated by nepotism, and the $r=0.125$ to have diluted nepotism. The generation effect will be characterized by seniority. These family characteristics will influence the behavior of family members in the family firm, for example at the board of directors meetings.

Conception of the board in family firms

Boards have mostly been studied in large US corporations that are characterized by powerful CEOs, where the boards have problems of independence from the CEO and the top management team (TMT), and where there is a highly dispersed ownership structure. It is, therefore, not surprising to find that board researchers have focused on the monitoring and resource providing functions of the board (Daily, Dalton and Cannella Jr, 2003; Carpenter and Westphal, 2001; Forbes and Milliken, 1999; Hillman and Dalziel, 2003; Johnson, Daily and

Ellstrand, 1996). In the monitoring function, the board is ratifying initiatives made by the CEO and controlling that the initiatives have been made in proper order (Baysinger and Hoskisson, 1990). The board could, however, create legitimacy and provide other resources, for example access to director networks, thus service or resource provision is a second function of these boards (Huse, 1998). In stronger boards, presumably in smaller US corporations or ordinary European boards, they also have capacity of initiative and strategy development, which comprise a function termed decision making (Judge and Zeithaml, 1992). Finally, a less recognized function in the literature is that of conflict resolution (Zald, 1969). It has been clearly found in small riding school associations where the board needs to mitigate the strong interests of the different groups of members (Collin, 2007), and it can be expected to be present in Europe where there is a constant threat of minority exploitation due to high alignment between the CEO and the dominant owners (Agnblad, Berglöf, Högfeldt and Svancar, 2001).

Our conception of the board and its functions follows Collin's (2008) conception of four board functions: A). Monitoring, the board supervises the agent on behalf of the principal; B). Decision making, the board instructs the agent on behalf of the principal; C). Resource provision, the board supplies the agent with needed resources and D). Conflict resolution, the board is an arbitrator of conflicts among principals.

The literature of boards in family firm research (for a review see van den Heuvel, Van Gils and Voordeckers, 2006) has shown that family firm boards tend to be dominated by the family and if non-family members, i.e., outsiders, are present, one of their major functions is interpreted as being that of mitigating conflicts among family members (Whisler, 1988; Anderson and Reeb, 2004). Most studies (e.g., Corbetta and Salvato, 2004; van den Heuvel, Van Gils and Voordeckers, 2006) have been limited to the traditional two functions found in large US corporations, monitoring and resource provision, thus being less open for decision making and conflict resolution as functions of the board. In papers based on anecdotal evidence and personal experiences (e.g., Mueller, 1988; Alderfer, 1988), the conflict resolution has been observed and identified as one factor for boards to observe in order not to fail (Jonovic, 1989). Additionally, in a conceptual paper by Lester and Cannella (2006) stressed the board as an instrument for reconciling conflicts within the family, and Anderson and Reeb (2004) used the assumption of conflict resolution in their derivation of a hypothesis. When focusing on the family character, the family firm board literature tends to use generational phase of the firm as a factor influencing the governance needs (Bammens, Voordeckers and Van Gils, 2008) and characteristics of family governance. According to our knowledge, no study has observed the

actual family composition of the board, with several generations and different kin relationships represented at the board.

A model of family influencing board functions

Bringing together our family concept and the concept of board functions creates a number of hypotheses. Table 1 summarizes our hypotheses. Our theory of the family will hypothesize that the presence of r-relationships will influence the board orientation towards the four board functions of control, decision, resource and conflict, as well as the overall activity of the board, which we will operationalize as the sum of the four functions. We have included a factor termed family coefficient, being the sum of all r-factors at the board, which is to be interpreted as the blood thickness of the board. It has the advantage of being an overall indicator of familiness, and, therefore, indicative of nepotism, but at the price of defusing the distinctions we made between different levels of r.

Insert table 1 about here

The relationship dominated by nepotism is when $r=0.25$, where we expect less norm congruence gained by socialization through intense interaction. When there is an increasing share of this relationship, the board becomes solely a representation of the family. The members have preferences for each other, supporting each other at individual costs and suppressing their own interests. This creates a climate of trust, though it is not based on expectations, but on pure nepotism. The control function is suppressed, i.e., negatively correlated, since every control activity could be interpreted as an indication of distrust. Conflicts could exist since $r=0.25$ does not have norm conformity, but conflict is not presented at the board out of the nepotistic loyalty towards the family, i.e., being negatively correlated. An emphasis on decision making could drive conflicts to the surface, thus strong decision making orientation is avoided, i.e., a negative correlation between share of $r=0.25$ and functional emphasis on decision making. Finally, being merely a family gathering, the board has difficulties in supplying resources, i.e., negative correlation is predicted. With increasing shares of $r=0.25$ relationships, the board will more and more become a mere representative

body of the family, characterized by intense nepotism, thus reducing the board to a passive group, i.e., negative correlation to activity.

The relationship characterized by nepotism, but also by socializing effects such as norm congruence is $r=0.5$. With norm congruence, gained through socializing activities such as collaborative dialogue (Sorenson, Goodpaster, Hedberg and Yu, 2009) or business socialization of successors (García-Álvarez, López-Sintas and Gonzalvo, 2002), conflicts are not suppressed as with nepotism, but are reduced due to preference similarities. Thus, we expect a negative correlation between share of $r=0.5$ and conflict. The resource function cannot be stressed due to the high similarity, not only on kin but also in norms and therefore expectedly in experience and networks, i.e., negative correlation. Control is of less concern since both nepotism and socialization create a high level of trust. On the other hand, decision making capacity is increased since preference similarity implies a strong capacity to analyze situations and to understand each others arguments due to the high level of similarity, thus being able to reach decisions with low levels of efforts, i.e., positive correlation. The level of board activity will therefore be hard to predict. Low emphasis on conflict, resource and control would imply a rather passive board. On the other hand, a strong decision making capacity could imply a rather active board. We decide to propose an active board, with strong emphasis on decision making.

The relationship of less nepotism is $r=0.125$, where the relationships have become diluted and other, closer, kinship lines could be more important. This introduces more of exploitation of nepotism, where conflicts easily reach the surface and are outspoken, i.e., positive correlation between conflict resolution and $r=0.125$. A lower level of trust will increase the control efforts, i.e., positive correlation. Due to the differences and to the conflictual character of the board with increasing share of $r=0.125$, the decision making function will be suffering, i.e., a negative correlation to be expected. The resource function is hard to predict, but if assuming that persons with $r=0.125$ are more diffused in society and in geography, it could be the case that they bring markedly other competencies to the board, thus increasing the emphasis on the resource provision function, i.e., positive correlation. Overall, we find positive correlations, thus indicating an active board, i.e., a positive correlation is expected between share of $r=0.125$ and board activity.

Finally, when summarizing all the kinship relations into one measurement, we arrive at a factor of overall familiness. With increasing blood thickness, i.e., genetical relatedness and thereby more nepotism, we expect to find less control activities and less conflict resolution emphasis since nepotism expresses trust and loyalty, i.e., negative correlation with control and conflict. The functions of decision making and resource provision

are not evident in the familiness factor since they could be either positive or negative dependent on the mix of the kin relations. Thus, we do not make any predictions here.

METHOD

We used a survey to collect data for several purposes. Unfortunately, we could not find a list of all family firms in Sweden; apparently no such list exists (cf. Vikström, 2005). This appears to be a widespread experience of researchers, which forces them to forgo random samples and, instead, use convenience samples (Sonfield and Lussier, 2004; Schulze, Lubatkin, Dino and Buchholtz, 2001). The population is, therefore, unknown. We decided to use a ‘shotgun’ approach. From the register ‘Affärsdata’, which lists all corporations in Sweden, we selected all corporations that were noted to be active, that had sales larger than 20 millions Swedish Krona (about €2.2 millions), and that had more than 20 employees. A corporation of this size could be expected to have a developed division of labour, not only between top management and management, but also between the top management and the owners (Storey, 1994). The 10th of April 2010 14.421 corporations satisfied these criteria. We assigned each corporation a random number, ordered them according to the random number and selected the first 1.400 corporations, to which we sent our survey. Additionally, we had a list of 544 corporations covering gazelle corporations, where we selected the corporations that were not on our original list, which was 422 corporations, and sent them a survey. This ‘shotgun’ approach, based on the fact that we do not have a register of family corporations, implies that we do not have any knowledge about the population, and strictly speaking, we cannot make inference from statistical tests since we cannot do a proper response analysis to find out if our responses are representative of the population.

We sent one survey covering all questions except for the kinship ties. Due to technical reasons and considering the possibility of a low response rate when respondents were confronted with the technically complicated question of kinship ties in the board room, we waited for the reply from the first survey. Then we sent the repliers an inquiry if they could fill in the second survey. The second survey was short but rather complicated since we asked them to indicate every kin relationship between the board members, including those that belonged to the family but without kin relationships, i.e., included through marriage or other similar institution of coupling.

We sent 1400 plus 422 surveys. Of them, 74 plus 44 did not reach the receiver. Some responded that they did not have time for the survey, which were 96 plus 34 corporations. Full response on the first survey was achieved from 228 plus 50. In total, 1704 corporations received our survey and we got 278 complete responses back on the first survey, i.e., response rate of 16,3%. We conducted drop-out analysis and found no significant differences in solidity and liquidity, but respondents tended to be smaller in sales and number of employees.

From these responses we selected those that fulfilled our definition of being family firms. We used the definition of operative control (more than 50% of the shares are owned by members that through blood or marriage belong to the controlling family) and being considered as a family firm by the chairman or the CEO (Westhead, Howorth and Cowling, 2002) (rephrase). Some researchers use a less restrictive and more inclusive definition and use or instead of and (Bammens, Voordeckers and Van Gils, 2008; van den Heuvel, Van Gils and Voordeckers, 2006; Voordeckers, Van Gils and Van den Heuvel, 2007). Through applying our definition we arrived at a sample of 148 corporations (115 plus 33 corporations). The second survey was then sent to the corporations and we ended up with 73 plus 21 responses, in all 94 responses, of which in total 68 could be used in all our analyses. Our response rate of identified family firms was 63,5%, but final response rate from our original sample was 4%. In research not using the 'shotgun' approach but being based on registers of family firms, i.e., the population is known, rather low response rates are found: 6-7% (Bammens, Voordeckers and Van Gils, 2008); 6% (van den Heuvel, Van Gils and Voordeckers, 2006); 8,5% (Corbetta and Tomaselli, 1996); 13% (Blumentritt, 2006); 6,2% (Voordeckers, Van Gils and Van den Heuvel, 2007); 3,7% (Schulze, Lubatkin, Dino and Buchholtz, 2001).

Our dependent variable consists of the four functions, which we operationalized through three statements each. The survey was in Swedish, but here we have translated the questions into English.

Control was observed through questions inspired by Mustakallio, Autio and Zahra (2002) and Huse (2009): The board monitors the work of the top management team in order to make sure that the decisions of the board are being implemented. Business ratios, such as liquidity, profitability etc, are regularly reported at the board meetings. The board regularly monitors the investments of the corporation. The alpha-value was 0.615, which indicates a rather low agreement.

Resource provision was observed through questions inspired by Huse (2009): The board contributes with advice concerning general management. The board contributes with advice concerning legal matters. The board contributes with advice concerning financial matters. The alpha-value was 0.789, which is acceptable.

Decision was observed through questions inspired by Mustakallio, Autio and Zahra (2002) and Huse (2009): The board is engaged in designing the strategy of the corporation. The board decides about the strategy of the corporation. The board decides about the budget of the corporation. The alpha-value was 0.763, which is acceptable.

Conflict was observed through questions inspired by Huse (2009): The board is engaged in solving conflicts among different owners or other stakeholders. The board is engaged in solving conflicts concerning different opinions of what is best for the corporation. The board is engaged in solving conflicts concerning the means how to achieve what is best for the corporation. The alpha-value was 0.879, which is acceptable.

Board Activity is a variable that is the sum of the four functions. The intention is to have it as a measure of overall activity of the board.

The dependent variables concern kinship identification.

r-x share (where x can assume the value of 0.5, 0.25 and 0.125), the relatedness variable was defined through family relationship among the board members. This implies a distinction between family members through kinship and through immigration into the family, such as marriage and 'significant others'. The variable of 'r-x share' is a variable that excludes individuals married into the family since only those with genetic relations are considered, thus we apply a restricted family definition. We did not distinguish between genetic and adopted children since we considered it to be in the ethical twilight zone. We assumed that the number of adopted children would be of no significance. The respondents were asked to indicate the kinship relation between all the members of the board, where we divided them into the groups according to the r-variable presented in the theory section. The variable **r=x share** is defined as $n_x / (\text{Board Size} * (\text{Board Size} - 1) / 2)$, where n_x = number of relationships at the board with an r-coefficient of x (0.125 or 0.25 or 0.5) and Board Size is the number of board members.

Family coefficient is the weighted sum of the r-variable, defined as $(n_{r=0.125} * 0.125 + n_{r=0.25} * 0.25 + n_{r=0.5} * 0.5) / (\text{Board Size} * (\text{Board Size} - 1) / 2)$.

Concerning the r-variable, it has to be noted that we here define family membership. Family membership appears to be very seldom defined. For example Voordeckers, Van Gils and Van den Heuvel (2007) identify family members as directors of the board without making a remark whether they are born within the family or immigrated through marriage or other similar marriage institution. We make a distinction between kin relatives and those married into the family since we assume that genetic relatedness is of importance.

We control for the following factors:

Family chair is observed through the question were we asked the respondent to indicate if the chair of the board belonged to the controlling family or not. It is coded 1 when the chairperson is from the family and coded 0 otherwise. A family chair could be expected to decrease the intensity of the board functions.

Generation is observed through the question were we asked the respondent to indicate the number of generations of the family represented at the board. It has been found that family experience increases from the first to the second generation and that task conflict increases, especially between the second and the third generation (Bammens, Voordeckers and Van Gils, 2008; cf Sonfield and Lussier, 2004), thus creating an expectation of positive correlations between generation and the experience variables of resource and decision making, and the conflict resolution variable. Generation is however merely a distinction of seniority in a family, and less of kinship relatedness. A mother's son is of the second generation, as much as the mother's brother's son is of the second generation, although the kinship relatedness is different. Thus, generation does not in itself say anything about nepotism, i.e., kinship strength, but more about family seniority. We include generation since it observes the seniority in families, which the r-factor does not observe, and because the literature of family firms has observed generation.

Board Size was observed through the question were we asked the respondents to indicate the number of board members. With increasing board size, the intensity of the functions could be expected to increase, especially the functions of resource and conflict (cf. Corbetta and Salvato, 2004; Zahra and Pearce, 1989).

Sales (log) was observed through Affärsdata, which contains accounting numbers from the annual report of 2009. Size could be expected to influence all functions since with increasing size, the corporation tends to be more professionalized, which will presumably increase the intensity in all functions.

Liquidity was observed through Affärsdata, which contains accounting numbers from the annual report of 2009. It could be expected to be inversely correlated with the monitoring function since high liquidity reduces short term financial stress.

Solidity, i.e., leverage measured as Equity/ Total Capital, was observed through Affärsdata, which contains accounting numbers from the annual report of 2009. It could be expected to be inversely correlated with monitoring since it is a proxy for long term financial stress.

Industry was observed through the coding in Affärsdata, where we identified four major industries and one fifth category including the other corporations. More detailed industry coding was not possible given the low number of observations in each category. The industry variable is included since it can be assumed to contain business conditions of the corporations. No theoretical expectation of industry influence on board functions could be formulated.

RESULTS

The boards in our survey had on average (median) 2 family members and 2 non-family members. Inspecting the distribution, 19% had only family members or members married into the family at the board. This could be compared to the statement that boards tend to be family boards. For example, Schwartz and Barnes (1991) got 35% all-family board in their sample of US-firms, Corbetta and Tomaselli (1996) got 48% all-family board in their sample of Italian firms and Voordeckers, Van Gils and Van den Heuvel, (2007) got as high as 71,6% all-family boards in their sample of Belgian family firms. Thus, there is an indication that Swedish family firms could differ from family firms in these countries, since they seem to be more prone to use non-family members. However, we have to keep in mind that we do not know if the different samples are representative of the countries' family firms.

Inspecting the descriptive statistics of our variables in table 2, we find that the boards' functional orientation on average where 17,21 on control, 16,70 on decision, 15,38 on resource and 7,63 on conflict resolution. Wilcoxon signed rank test showed significant differences between the orientations, except for control and decision. Thus, the general family board appears to be devoted to control and decision making, it is less occupied with resource provision and is rather marginally devoted to conflict resolution. This could be compared to Corbetta and Tomaselli (1996), who surveyed 57 Italian family firms and noted how much time the board spent on different board tasks. We coded their board tasks into our four functions, and found that they spent 32% of their time on monitoring, 33% on decision making, 25% on

resource provision and 10% on tasks concerned with conflict resolution. This is a rather similar distribution, which indicates that the Swedish boards seem to be quite similar to their Italian boards, given the reservation of our restricted samples.

Insert table 2 about here

The family character, as found, is less than we could expect out of the literature we cited in the introduction that banned the family firms for being merely a family business. The chairman of the board belongs to the controlling family in only 43% of the cases. The share of kin relationships is overall 0.26. It is dominated by 0.5 relations, and surprisingly the average of 0.25 and 0.125 is the same, but with high variance. The generational distribution (not found in the table) shows that 56% of the boards had one generation present, 37% had two generations and 1 board had three generations, and finally, although being a family firm, four boards (6%) had no family member on the board, i.e., no generation.

Inspecting the correlation matrix in table 2, we find that the functions of control, decision and resource are correlated with each other on different significance levels, while conflict is not correlated with any other function. Earlier studies have found high correlations between different functions. For example Gabrielsson and Winlund (2000) found a highly significant correlation of 0.5 between control and resource provision.

Multicollinearity could appear between some variables, but in our presentation of the regressions, we report the VIF-values that indicate severe influence, although especially the family coefficient has rather high VIF-values, presumably because of high correlation with family chair.

We report 10 regressions in table 3, two for each function and two for the summary of the functional emphasis, termed board activity. We make one regression with the family coefficient and one with the r-factor. Inspecting the significance of the models, we find insignificant models for the decision making and resource provision functions when using the family coefficient. We also find a very weak significance for the resource function when using the r-factor. Thus, we have to conclude that we cannot make any proper test of hypotheses concerning the resource function.

Insert table 3 about here

The strongest model is the model with r-factor and is correlated with control. We find negative correlations with control emphasis and the family coefficient and with $r=0.25$, which is in accordance with our predictions. The second strongest model is the conflict resolution model, where $r=0.125$ is positively correlated with conflict, as predicted. But the strongest correlated variable is the generation variable, which is negatively correlated with conflict, quite in opposition with the expectations of the literature. Decision emphasis was found to be strongly negatively correlated with $r=0.25$, which supports the prediction that emphasis on decision making is avoided since there is less norm congruence but still loyalty towards the family. This argument does, however, include the argument of conflict avoidance, but $r=.025$ did not have any significant correlation with the function of conflict resolution, leaving us with doubts that we will return to later. The last model of board activity indicated that it is $r=0.25$ that reduces board activities, and that larger boards tend to be more active.

Inspecting our theoretical independent variables, we find that $r=0.25$ was supported in two of the four functional models and in the activity model. This has to be interpreted to be a significant result since the variable had rather low mean value and variance, thus hard to find strong correlations. The strongest blood variable, $r=0.5$, was not correlated with any of the dependent variables. The weakest blood variable, $r=0.125$, had two significant correlations, negative with resource and positive with conflict. Finally, our family coefficient, which did not distinguish between different levels of nepotism, but gathered the familiness of the board, was only strongly negatively correlated with control emphasis.

Generation only appeared significant in conflict resolution, but with a negative sign. Family chair did not correlate with any board emphasis or activity.

Board size was positively correlated with board activity, but it appears to be generated mostly from control activities. Economic conditions and situations did not correlate with the boards' functional emphasis.

DISCUSSION AND CONCLUSIONS

We have presented a conception of family firm governance based on genetic distance and its implications for human behavior. This is a development of the original work made in family business research where genetic distance has merely been silently assumed. Due to uncertainty of the population of family firms, we have been restricted to explore the theory through testing our developed hypotheses concerning the board's functional emphasis. A low number of observations in our sample make our findings even more uncertain. Our results can merely point towards tendencies and indicate that there is a need to develop our theory of the family firm.

The advantage of our conception of the family is the possibility to distinguish between different kin relationships and their influence on behavior and ultimately on family firm behavior and performance. We found indications of nepotism in the moderate kin relationship of $r=0.25$, weak indications in $r=0.125$ and no indications in the strongest blood relationship, $r=0.5$. Our conception of the relationships was that a strong blood relationship tends to be characterized by socialization due to the family members living together or being intense in interaction. It could be the case that the absence of findings in board behavior when the share of $r=0.5$ increased could be due to that the nepotistic behavior is balanced by behavior based on socialization. If this interpretation is correct, research needs not only to consider kin relationship, but also interaction frequency and other possibilities of socialization outside the board. To our knowledge, one study by Davis and Harveston (2001) has touched upon interaction, kin relationships and their correlation with opinions of conflict levels. They did not study kin relationships in isolation, but they found a positive correlation between family members' (defined through both kin and marriage) interaction and opinion about conflict level, a correlation that increased in power from first generation firm to second generation firm, and to third generation firm. While the sign of correlation is a surprise and hard to explain, the tendency of increasing conflict is partly supported by our results, thus stressing the importance to acknowledge all aspects of socialization, such as interaction frequencies.

The dominance of nepotism, which has been expected from the literature of 'parental altruism', i.e., nepotism, was found mainly when the share of $r=0.25$ relationships increased in the board. No indications were found when the share of $r=0.5$ increased. This indicates that genetic relatedness indeed is of importance. However, there are marked differences which have to be acknowledged, both in empirics, and certainly in theory development.

The study has several limitations. Since we were not able to identify the population, we were forced to conduct an exploratory study, and were not able to properly test the hypotheses on a sample that can be generalized to the population. That is, however, a characteristic that the study shares with many others.

In our theory and data sample we did not consider gender. This is a serious limitation, as mentioned earlier, since gender is influential on human behavior, as clearly showed in evolutionary psychology (Colarelli, Spranger and Hechanova, 2006; Nicholson, 2008) and in succession literature (Haberman and Danes, 2007). Since it has been found, for example, that males are more competitive than females, it could be the case that a board would be characterized by more competitive conflicts if including male cousins than female cousins. Thus, the same r-factor could imply different behavior at the board due to gender characteristics. The theory of the family has therefore to be developed, including not only kin but also gender.

The family board has been described to be useless. Our empirical data cannot support that statement. When the share of $r=0.25$ relationships increases at the board, it tends to lower its functional emphases, which can be interpreted as being more passive. Indeed, when inspecting our significant correlations, most of them tend to be negative, thus the more family relationships, the more passive is the board. But we have to acknowledge that, for example, no significant relationships could be found when $r=0.5$ increased its presence at the board. And indeed, we found the average for three of the functional emphases to be high, which does not indicate a useless board. Inspecting the findings and adding anecdotal experience, we believe that one avenue of research could be to find ideal-typical patterns of board behavior in family firms. For example, one could imagine ‘the battle ground board’, which is a board dominated by $r=0.125$ relationships, that was significantly positively correlated with conflict, where separate guerilla members of an extended family are fighting against and not for each other. Another ideal-typical board could be ‘the training camp board’, which maybe is a board dominated by $r=0.25$ relationships, where activity is low, due to it being a board dominated by a fifth function, that of educating the kin into the family firm governance, where the governance is implemented at other arenas, for example at the level of top management.

It needs to be noted that there are still many basic developments to be made before we will arrive at a theory of the family firm that considers the family to be an important explanatory factor. We have found some indications of nepotism and its influence on the family firm, even though our study has some severe limitations. Nepotism and its consequences is

nothing to blind and to refer to as something negative, but something that is present in family firms and thus needs to be considered. We do not need to make the strong claims of researchers inspired by evolutionary psychology: “...family firms can claim an advantage in that many of their forms are more congruent with the human design than are nonfamily firms” (Nicholson, 2008:106). We can be confined with a more practical viewpoint saying that a family firm needs a developed nepotism practice and policy, in order to benefit the organization and the firm (Vinton, 1998). Indeed, as stated by a vice-CEO in a family firm: “Nepotism is just fine, as long as it stays within the family” (Andersson, 2007:10; *translation by the authors*)

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TABLE 1. HYPOTHESES OF KIN RELATIONSHIPS AND THE BOARDS FUNCTIONAL EMPHASIS

	Control	Decision	Resource	Conflict	Activity
r=0,5	-	+	-	-	+
r=0,25	-	-	-	-	-
r=0,125	+	-	+	+	+
Family coeff.	-	n	n	-	-

TABLE 2 DESCRIPTIVE STATISTICS AND PEARSON CORRELATION COEFFICIENTS

Variables	Mean	Std.D.	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Control	17.21	3.32	36 ^a	19 ^b	18	69 ^a	7	-8	26 ^c	32 ^b	-23 ^d	-8	-50 ^a	-42 ^a	-39 ^b	-17
2. Decision	16.69	4.23	X	44 ^a	15	71 ^a	-5	2	-6	14	-11	9	-20	-19	-41 ^b	9
3. Resource	15.38	4.25		X	10	73 ^a	16	5	1	20	-19	2	-33 ^b	-22 ^d	-21 ^d	-26 ^c
4. Conflict	7.63	4.90			X	59 ^a	13	11	-10	-4	-6	-25 ^c	-8	-12	-3	9
5. Board activity	14.23	2.82				X	11	6	1	20 ^d	-21 ^d	-9	-38 ^b	-33 ^b	-36 ^b	-8
6. Solidity	34.90	19.47					X	60 ^a	-12	20	-9	7	-7	-4	-1	-8
7. Liquidity	110.54	54.55						X	-7	6	-2	-7	-2	5	1	-15
8. Sales (log)	11.5	1.02							X	27 ^c	-10	3	-20	-20	6	-10
9. Board size	4.18	1.36								X	-5	30 ^c	-17	-22 ^d	10	-4
10. Family chair	0.43										X	45 ^a	63 ^a	56 ^a	26 ^c	28 ^b
11. Generation	1.34	0.61										X	43 ^a	30 ^c	28 ^c	32 ^b
12. Family coeff.	0.26	0.37											X	89 ^a	47 ^a	41 ^a
13. r=0.5 share	0.21	0.30												X	27 ^c	3
14. r=0.25 share	0.03	0.07													X	9
15. r=0.125 share	0.04	0.14														X

n=68, Industry variables are omitted; ^ap < 0.001, ^bp < 0.01, ^cp < 0.05, ^dp < 0.1; correlation coefficients are multiplied with 100

TABLE 3 RESULTS OF REGRESSION ANALYSIS FOR FUNCTIONAL ORIENTATION

MODEL VARIABLES	CONTROL		CONTROL		DECISION		DECISION		RESOURCE		RESOURCE		CONFLICT		CONFLICT		B. ACTIVITY		B. ACTIVITY	
	St B. St E.	VIF	St B. St E.	VIF	St B. St E.	VIF	St B. St E.	VIF	St B. St E.	VIF	St B. St E.	VIF	St B. St E.	VIF	St B. St E.	VIF	St B. St E.	VIF	St B. St E.	VIF
Constant	c		d		a		b		b		b						a		b	
Solidity	0.20 (0.03)	2.14	0.21 (0.03)	2.14	-0.28 (0.04)	2.14	-0.27 ^d (0.04)	2.14	0.09 (0.04)	2.14	0.08 (0.04)	2.14	0.25 (0.04)	2.14	0.26 (0.04)	2.14	0.10 (0.02)	2.14	0.10 (0.02)	2.14
Liquidity	-0.17 (0.01)	1.65	-0.16 (0.01)	1.67	0.16 (0.01)	1.65	0.18 (0.01)	1.67	-0.02 (0.01)	1.65	-0.04 (0.01)	1.67	0.01 (0.01)	1.65	0.04 (0.01)	1.67	0.01 (0.01)	1.65	0.02 (0.01)	1.67
Sales (log)	0.15 (0.39)	1.27	0.19 (0.38)	1.28	-0.25 (0.57)	1.27	-0.19 (0.52)	1.28	-0.15 (0.54)	1.27	-0.14 (0.54)	1.28	-0.03 (0.62)	1.27	-0.02 (0.61)	1.28	-0.12 (0.36)	1.27	-0.08 (0.35)	1.28
Board size	0.19 (0.32)	1.52	0.25 ^d (0.31)	1.57	0.15 (0.47)	1.52	0.23 (0.43)	1.57	0.18 (0.45)	1.52	0.20 (0.45)	1.57	0.17 (0.51)	1.52	0.17 (0.51)	1.57	0.25 ^d (0.29)	1.52	0.31 ^c (0.29)	1.57
Family chair	0.1 (0.99)	1.95	0.06 (0.96)	1.96	-0.10 (1.44)	1.95	-0.14 (1.32)	1.96	-0.12 (1.38)	1.95	-0.14 (1.36)	1.96	-0.05 (1.57)	1.95	-0.05 (1.55)	1.96	-0.08 (0.91)	1.95	-0.11 (0.88)	1.96
Generation	-0.05 (0.77)	1.80	-0.05 (0.75)	1.85	0.28 (1.12)	1.80	0.27 ^d (1.04)	1.86	0.15 (1.08)	1.80	0.2 (1.08)	1.86	-0.45 ^b (1.23)	1.81	-0.50 ^b (1.22)	1.86	-0.05 (0.71)	1.80	-0.06 (0.7)	1.86
Family coeff.	-0.46 ^b (1.43)	2.22			-0.29 (2.09)	2.22			-0.28 (2.00)	2.22			0.18 (2.28)	2.22			-0.27 (1.32)	2.22		
r=0.5 share			-0.24 (1.57)	1.98			-0.06 (2.17)	1.98			-0.09 (2.25)	1.98			0.07 (2.55)	1.98			-0.1 (1.45)	1.98
r=0.25 share			-0.35 ^b (5.07)	1.17			-0.46 ^a (6.99)	1.17			-0.18 (7.24)	1.17			0.05 (8.23)	1.17			-0.32 ^c (4.69)	1.17
r=0.125 share			-0.11 (2.78)	1.33			0.08 (3.83)	1.33			-0.27 ^c (3.96)	1.34			0.28 ^c (4.50)	1.34			0.02 (2.57)	1.34
adj R2	0.25		0.3		0.02		0.18		0.10		0.13		0.13		0.15		0.12		0.17	
F-stat	3.02 ^b		3.2 ^b		1.09		2.12 ^c		1.69		1.76 ^d		1.89 ^d		1.94 ^c		1.80 ^d		2.06 ^c	

n=68, Industry variables are omitted; ^ap < 0.001, ^bp < 0.01, ^cp < 0.05, ^dp < 0.1