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The governance of the family business from the perspective of agency and stewardship theory

La gouvernance de l'entreprise familiale sous l'angle de la théorie de l'agence et de l'intendance

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Abstract

Common to many research studies on the governance of family firms, they often rely on classical theories to explain and show their distinctive features. In particular, agency theory and stewardship theory. Although these two theories both address the same phenomena, namely behaviors at the individual level and governance mechanisms at the corporate level, many researchers treat these two theories as two distinct and opposing theoretical fields for the family business. As well, these two theoretical streams have been widely used to examine a myriad of issues within family firms. In this regard, the purpose of this research is to present a review of the theoretical and empirical literature of these two streams in order to understand the behavior of agents, governance, and unique aspects of family firms.

Keywords: « governance » ; « agency theory »; « stewardship theory » ; « managerial firm » ; « family firm ».

Résumé

Communément à plusieurs recherches sur la gouvernance des entreprises familiales, celles-ci s'appuient souvent sur les théories classiques pour expliquer et montrer leurs spécificités distinctives. Notamment, la théorie de l'agence et la théorie de l'intendance. Bien que ces deux théories abordent toutes les deux les mêmes phénomènes, à savoir les comportements au niveau individuel et les mécanismes de gouvernance au niveau de l'entreprise, plusieurs chercheurs traitent ces deux théories comme étant deux champs théoriques distincts et opposés pour l'entreprise familiale. Également, ces deux courants théoriques ont été largement utilisés afin d'examiner une myriade de problèmes au sein des entreprises familiales. À cet égard, ce travail de recherche a pour objectif de présenter une revue de littérature théorique et empirique de ces deux courants afin de comprendre le comportement des agents, la gouvernance et les aspects uniques des entreprises familiales.

Mots clés : « gouvernance » ; « théorie de l'agence » ; « théorie de l'intendance » ; « entreprise managériale » ; « entreprise familiale ».

Introduction

Most of the research on family business governance relies on classical theories to show and explain their unique aspect. These theories, in particular, agency theory and stewardship theoryhave been widely deployed for this purpose (Verbeke & Kano, 2012). Although, several authorshave considered as opposing theories, both address the same phenomena: individual behaviorsand governance mechanisms at the firm level (Villalonga & Amit, 2006; Shukla & *al.,* 2014; Bhaduri & Selarka, 2016).

Some family business researchers have provided insight into the governance and performance of family businesses through agency and stewardship theory. In addition, they have made significant progress not only in applying and testing these theories, but also in advancing the field (Corbetta & Salvato, 2004)

In essence, the foundations of agency theory were formulated in the 1930s by Berle and Means (1932), who were interested in the consequences of separating ownership and decision-making functions in American listed companies. Their work was subsequently extended by Jensen andMeckling (1976), who developed an explanatory model according to which certain governancemechanisms can affect value creation.

In this unique context, the governance mechanisms put in place reduce the agency costs associated with conflicts of interest between shareholders and managers, and consequently improve firm performance (Barkema and Gomez -mejia, 1998). Similarly, several research studies show that governance mechanisms such as the board of directors, incentive compensation policies and control activities serve their theoretical purpose in family firms (Braun and Sharma, 2007).

From another perspective, stewardship theory assumes that stewards serve others, which leads leaders to put in place governance mechanisms to reinforce and encourage this stewardship behavior (Davis & *al.,* 1997).

Also, stewarding behavior reduces relational conflict within the family business and consequently increases the level of collaboration, harmony, and knowledge sharing between employees and family members. These practices allow family businesses to develop an important source of competitive advantage over their non-family counterparts (Corbetta & Salvato, 2004; Eddleston & Kellermanns, 2012).

Furthermore, Jaskiewicz and Klein (2007) suggest that goal alignment gives rise to stewardship governance, while misalignment of interests triggers agency governance.

However, the theory assumes that stewardship governance enables the leader to engage in stewardship behavior. It therefore assumes that goals naturally align. In contrast, agency governance curbs the leader's opportunistic behavior to create a goal alignment between leaders and agents.

The main contribution of this research work was to show, in a specific context such as family businesses, the most adopted theory to show the effect of governance mechanisms on the performance of family businesses. To this end, agency and stewardship theories have been widely used to understand the unique aspects of family businesses (Hirigoyen, 2009). Taking these theories into account provides a comprehensive view of the agent behavior, governance, andperformance of family firms.

In this respect, we will first present the agency theory as a reference framework for corporate governance. The second point will be dedicated to the presentation of the theory of stewardship, in order to understand the behavior and the convergence of the interests of managers and shareholders. As for the third point, it is dedicated to the presentation of the main points of complementarities and differences between the two theories.

1. Agency theory: a cornerstone of family corporate governance

1.1 L 'managerial enterprise as a source of the agency relationship

In the 1976 article published in the *journal of financial Economics,* Jensen and Meckling proposed the agency theory. These authors built on STEPHEN ROSS's initial research on the agency, which in turn built on work oriented by the Chicago school of market finance (Parrat F., 2014).

The separation of control and ownership in firms is the origin of agency theory. This theory studies in a distinct way the connections between economic agents, as well as the analysis of the relationship that links a principal *(the principal)* and an agent *(the agent)* (Jensen and Meckling, 1976; Bhaduri and Selarka, 2016, Tajer & *al.,* 2021).

Agency theory has been extensively studied by Jensen and Meckling (1976). These authors define the agency relationship as *"a contract in which one (or more) person(s) uses the services of another person to perform some task on his or her behalf, which involves delegation of decision-making to the agent.* The vision of this theory also shows that managers are supposedto maximize their interests in terms of wealth and financial benefits. The control brought over the behavior of managers is ensured by different disciplinary systems namely, ownership structure, compensation policy, board of directors, financial policy and others (Jensen and Meckling, 1976).

In essence, agency conflicts begin to exist in the first instance, when managers (buyers) hide information *(adverse selection).* Or in a second phase, when they make decisions for their ownobjectives to the detriment of those of the shareholders. These decisions are different from whatthey had contractually committed to do *(moral hazard)*. In this case, these opportunistic behaviors reveal, in the sense of Jensen and Meckling (1976), information asymmetry.

Similarly, Charreaux (1997) suggests that *"the existence of an agency problem is therefore associated with uncertainty, the imperfect observability of the agent's efforts and the costs of establishing and executing contracts... On the other hand, this uncertainty problem is most oftenaccompanied by a problem of observability and informational asymmetry.*

On the basis of this foundation, the implementation of a governance structure makes it possibleto reduce the agency costs associated particularly with the opportunistic behavior of managersand the spoliation of majority shareholders. Thus, the company seeking efficiency must reduce the conflicts of interest between the different partners, as well as the agency costs generated. Also, in a competitive context, agency theorists consider that only firms that manage to reduceagency costs and align the interests of managers with those of shareholders are expected to survive in the long term. However, the others are bound to disappear (Parrat F., 2014).

In sum, governance mechanisms should specifically encourage the reduction of agency costs related to the various conflicts of interest and the possible waste that results from them. Consequently, governance mechanisms are supposed to be based on two dimensions: the first focuses on *monitoring* mechanisms. These should help to reduce information asymmetry as much as possible. While the second is based on the shareholding of the management team, which serves to align the interests of managers with those of shareholders (Louizi, 2011; Bhaduri and Selarka, 2016, Tajer & *al.,* 2022).

In summary, despite the emergence of agency costs as a consequence of the transfer of power to managers, it is absolutely legitimate that the main objective of owners is to assiduously reduce the conflicts generated by the divergence of interests between shareholders and their managers. To this end, owners have several means of control, self-discipline, incentive, coercion and others, allowing them to maximize their profit.

1.2 The agency relationship within the family business

Agency theory describes the relationship between two parties, the principal and the managing agent (Jensen and Meckling, 1976). This relationship is often approached from two perspectives, one behavioral and the other governance. Indeed, the *"principal-manager* relationship describes any type of relationship where work is delegated from a principal to a manager. Rooted in economics, the agency relationship suggests that managers will choose opportunistic behavior aimed at maximizing their own interests, to the detriment of those of theprincipal (Jensen and Meckling, 1976).

As a result, the principal puts in place governance mechanisms to monitor the behavior of managers, with the goal of counteracting managerial behavior that is inconsistent with the owners." In turn, interests will align and firm performance will increase (Jensen & Meckling, 1976; Fama & Jensen, 1983; Cruz, Gómez-Mejía, & Becerra, 2010). Accordingly, governance mechanisms that reinforce stewardship behaviors are prescribed to facilitate the continued alignment of interests, resulting in pro-organizational behavior and increased firm performance(Davis & *al.,* 1997).

In the context of family businesses, a great deal of research suggests that agency theory constitutes a very rich and fruitful framework for studying the particular problems of this type of organization (Chrisman & *al.,* 2004). Indeed, researchers in this field have introduced new conflicts between the principal and the agent. These new conflicts include those arising from the relationship between the family and non-family shareholders (Villalonga and Amit, 2006; Ali & *al.,* 2007). In addition, governance mechanisms such as the board of directors, incentive compensation policies, and control activities serve their theoretical purposes in family firms (Anderson and Reeb, 2004; Braun and Sharma, 2007).

In their work on agency theory, Jensen and Meckling (1979) reinforce the idea that high ownership concentration leads to an increase in the value of the firm, while taking into account both pecuniary and non-pecuniary benefits. In this respect, a wide range of studies conclude that family firms perform better, especially those that implement agency governance mechanisms (Herrero, 2011; Gravers and Shan, 2013).

1.3 Sources of agency costs in the family business

Originally, and because of unified ownership and management, agency problems resulting from the separation of ownership and control are not anticipated in family businesses. This results in a presumed environment where interests are often aligned and oversight is unnecessary. Based on this thinking, by highlighting new agency problems (notably those related to the lack of separation between ownership and decision-making functions, or those arising from the relationship between the family and non-family minority shareholders), family business scholars have expanded the theoretical boundaries (Fama and Jensen1983; Chrisman, Chua andLitz, 2004).

Indeed, various researchers have highlighted the non-traditional Type II agency problems. Thistype includes exclusive rooting and asymmetric altruism (Schulze & *al.*, 2003; Nicholson, 2008; Moores, 2009; Block, 2012; Depoers & *al.,* 2020). From another perspective, other research has introduced new conflicts of interest that may be due to the separation of ownership and decision-making power. These conflicts arise from the relationship between the family and non-family minority shareholders (Villalonga and Amit, 2006; Ali & *al.,* 2007; Hirigoyen, 2009).

1.3.1 Agency costs arising from the relationship between the family and non-family minority shareholders

From the perspective of agency theory, conflicts of interest in family firms arise from the conflict between the managing family and minority shareholders. Indeed, many family firms are not the majority controlled by the family, and there are many cases of shared ownership. Therefore, bringing in external equity in the case of an opening of capital, can create conflict between the owner manager and minority shareholders (Schulze &*al.*,2001; Tajer & *al.,* 2019).

In this context, *nepotism and opportunism* are likely to appear in the manager. They can nevertheless generate a behavior of maximization of his own utility to the detriment of the interest of minority shareholders (Markin, 2004). These phenomena are well presented in the literature, linked to the objectives of the parties sharing the firm's capital. However, minority shareholders (external to the family) will be in favor of risky growth since they benefit from the appreciation of shareholder value (Schulze & *al.*, 2003).

Owners who control a private firm are willing to take risks commensurate with their interests for certain objectives. These objectives include not only financial and non-financial benefits, but also the benefit of being able to exercise authority and set the firm's investment strategy (Schulze & *al.*, 2001). In the sense of Fama and Jensen (1983), the owner-manager favors low- risk investments and financing because of the lack of diversification of risk and investments ofhuman and financial character. The owner-manager fears both his job and his investment in thebusiness he is managing. As a result, agency costs begin to rise.

In this perspective, Morck and Yeung (2003) in turn conducted a study on large family groups. These authors showed that managers act for the interests of a single shareholder when the family controls the property, but not for the other shareholders. This phenomenon leads to the appearance of new agency costs. Therefore, family control would lead to a more severe set of agency problems than in the case of a non-family firm.

Also, the accumulation of the leader between the functions of the chairman and the leader of the company increases the agency costs relative to the minority shareholders. This duality of function represents a great difficulty to control in the case where the interests of the owner family greatly exceed those of the minority shareholders outside the family (Braun and Sharma,2007).

In other words, when the interests of shareholders and management diverge, opportunism is not a potential threat. In contrast, family business specialists have found that when the interests of majority and minority shareholders diverge, this can constitute a threat. This conflict between family and non-family shareholders is referred to as a ***Type II agency problem.*** Taking the example, family businesses that pursue non-economic objectives at the expense of financial gain. As a result, behavior that diverts resources to pursue the family's non-economic goals may have a negative effect on firm performance, creating conflict between family and non-family shareholders (Ali & *al.,* 2007).

1.3.2 Agency costs resulting from the relationship between the manager and the family shareholders

Contrary to the widespread belief in the literature that there are no agency costs in family firms,because the members of the founding family are directly involved in management and control functions. In this perspective, several researchers have highlighted the existence of other types of conflicts between the manager and the family members. These conflicts are indeed due to the form of governance inefficiency (Chrisman & *al.,* 2004; Villalonga and Amit, 2006; Gómez-Mejía & *al.,* 2007; Ali & *al.,* 2007).

According to Schultze and *al* (2003), the main source of these costs is the inability of family managers to resolve problems between family and non-family shareholders on the one hand, and to reduce problems of diverging interests between family managers and other family members on the other.

As a result, a real imbalance appears between the members and the family manager because of his double role. Firstly, as a manager of the company and at the same time a family member. Inaddition, there are differences of perception on the degree of risk desired for the investment strategy. Family managers often favor self-financing and development over dividend payments(Hirigoyen, 2009).

In addition, conflicts of interest arise between managers and family shareholders on strategic and financial choices. Such as remuneration policy, new investments, diversification, debt and others. We illustrate this with the example of conflicts arising in the Wendel company (35.9% owned by the family). Family shareholders have demanded a change in Wendel's managementand a restructuring of the governance of the Société Lorraine the Participation (a company thatbrings together 950 family heirs), in order to ensure that the company remains in the hands of family interests. 324 million in shares to the detriment of the family, while the investment in Saint-Gobain has worsened the group's financial situation (Hirigoyen, 2009).

1.3.3 Agency costs resulting from the accumulation of property rights and control power

Family businesses are complex entities, in which the roles contributed to the leader are often conflated with their status as a shareholder. In these types of organizations, founding family members are directly involved in the management and control of the organization (Tajer & *al.,* 2019). This thus reduces agency costs related to the separation of ownership and control functions. Also, the accumulation of these functions creates other types of agency costs (Lievens, 2006).

According to Braun and Sharma (2007), "*in family firms, agency costs do not arise from managerial opportunism, a result of the lack of separation of ownership and control.* Internal actors are able to minimize agency conflicts between owners and different stakeholders, whereconflicts of interest and managerial entrenchments enhance firm performance.

On the other hand, in family businesses, the shares of capital held by the owner-founders are concentrated and significant. This concentration can lead majority shareholders to expropriate the wealth created by the firm (Anderson and Reeb, 2003; Lefort and Urzua, 2008). Moreover,majority or active shareholders exploit their power to profit from the firm's activities to the detriment of the interests of the minority of shareholders (Villalonga and Amit, 2006).

Therefore, agency conflicts arising from the disagreement between the owner and the operators can be reversed and generate other costs of a different kind (Schulze & *al.,* 2003; Lefort and Urzua, 2008). Similarly, the presence of external independent members on the board of directors is another alternative to limit the risks of expropriation of minority shareholders' profits and avoid the reduction of the firm's profits (Anderson and Reeb, 2004; Gabrielsson andHuse, 2005).

1.3.4 The agency costs of altruism

From the perspective of agency theory, several research studies support other non-traditional agency problems. These problems are purely related to the behavior of agents in family firms, such as those created by asymmetric altruism or misalignment of shareholders' goals (Schulze & *al.,* 2003; Villalonga and Amit, 2006; Moores, 2009). Indeed, altruism is seen as a selfless behavior that benefits others. This may represent a form of opportunism in family businesses (Eddleston & *al.,* 2008). Hirigoyen (2008) nevertheless argued that family firms face distinctiveagency problems related to the question of the role of the leader's altruism.

In their work, Schulze & *al,* (2003) show how altruism, overinvestment and *free riding* give rise to new agency costs, primarily between owner-owners and owner-managers. According to these authors, family firms have unique agency problems created by altruism. As a result, theyincur new agency costs, which may affect the performance of family firms (Schulze & *al.,* 2003).

Furthermore, Cucculelli & *al,* (2014) conducted a study on a database composed of 1835 familyfirms and 1085 non-family firms operating in the Italian public sector. These authors noted thatfamily firms underperform compared to non-family firms due to unique agency costs from altruism and family embeddedness. Similarly, Lubatkin and *al.,* (2007) show that parental altruism and ownership dispersion lead to greater agency problems. Upon this, owners must exercise self-control and establish governance structures.

In other words, agency theorists argue that altruism can be asymmetric is not reciprocal is potentially exploitative, and is detrimental to family businesses (Chua & *al.*, 2012; Wright & Kellermanns, 2011). Family entities are embedded in family relationships, such as the parent- child relationship. Because parents can be overly generous to their children, the children can take advantage of this generosity by shirking or free-riding (Eddleston & *al.*, 2008). In additionto this moral hazard problem, there is the propensity of family business leaders to refrain frommonitoring the behavior of family members (Chua & *al.,* 2012).

Similarly, asymmetric altruism can also create other agency problems such as adverse selection. This may arise when family firms hire family members rather than non-family members. Regardless of their qualifications, the latter may still benefit from the advantages of the former. The latter may still receive very generous remuneration (Schulze & *al.,* 2001;

Lubatkin & *al*., 2007; Chua & *al*., 2012; Eddleston & *al*., 2010; Wright and Kellermanns, 2011).

These asymmetric agency problems created by altruism lead to a decrease in the performance of family firms. They can lead to additional agency costs when governance mechanisms are putin place to monitor and evaluate the behavior of agents within the family firm. According to Dayer (2006), family ties reduce agency costs because of goal consistency. However, altruistic family relationships increase agency costs due to the reluctance to monitor or discipline the behavior of family members.

On the other hand, the family business constitutes a specific source of employment for membersof the owning family. Indeed, this privileged raises nepotism that adversely impacts the performance of the family business and also discourages the recruitment of personnel from outside the family (Souleymanou, 2018). According to Carty and Buff (1996), *"nepotism being the abuse that a man in place makes of his credit, of his influence, to provide advantages and jobs to members of his family, to his friends, it consists, in the company, to hire a collaboratorsimply because of his belonging to the family, and not on the basis of his skills and previous experiences"*.

This explains why the head of the family shows great tolerance towards family members who are more or less competent. Similarly, Hirigoyen (2009) sees this phenomenon (nepotism) as akin to familiarization (Hirigoyen, 2009).

In addition, the owner-manager can recruit a family member to occupy a position of responsibility for which he considers him incompetent. This choice is also explained by the desire to set up barriers to entry for managers from outside the family whose competence he appreciates to give profitable economic or technological transformations. As a consequence, this altruistic behavior can have detrimental effects for the company. As a result, the costs of altruism have emerged as a variant of the agency costs of the managerial firm (Schulze & *al.,* 2003).

1.3.5 Agency costs from the rooting of leaders

Generally, managerial entrenchment has been found to be one of the manifestations that generate more agency problems between managers and shareholders. Managers, who hold substantial private profits by being in control, although they are not responsible for only a portion of the costs involved, are skilled at pursuing more costly entrenchment strategies. Thisis in order to maintain their positions, even when they are no longer qualified or capable of running a business (Kesten, 2010).

In family businesses, the entrenchment of the leader can have positive or negative effects on the performance of family businesses. Indeed, the entrenchment of the family manager can havepositive effects when it favors decision-making in line with the principle of convergence of interests. On the other hand, it is negative when the family business leader seeks to maximize his or her utility to the detriment of the family's general interest. According to Pichard-Stamford(2000), entrenchment is said to be legitimate when it leads to an increase in profitability or when it has a positive impact on profitability. However, it is said to be opportunistic when it stems from illegitimate power or when it diminishes the company's performance (Pichard- Stamford, 2000).

The managers of family firms may act in their own interest to the detriment of the general interest of the shareholders, by adopting entrenchment strategies in order to maintain their position. Consequently, agency costs can arise mainly from two categories of entrenchment, namely illegitimate entrenchments and opportunistic entrenchments. In this respect, the phenomenon of *"illegitimate and opportunistic"* entrenchment of family managers finds a very relevant framework of analysis in organizational theories, such as agency theory. Indeed, the illegitimate entrenchment of managers is linked to the right to vote, in other words, the power to appoint or dismiss the manager (Charlier, 2008).

Both categories of entrenchment can have negative effects on the performance of the family business, when the family leader remains in charge of the firm's management due to his or herfamily's power over the various stakeholders and regardless of its performance (Moores, 2009; Block, 2012). According to Cucculelli and *al,* (2014), family firms are less efficient than non-family firms due to the unique agency costs from altruism and family embeddedness.

However, these different types of entrenchment, in this case illegitimate and opportunistic, areless reduced or excluded in family businesses where the family runs and controls their family business. Similarly, the risk of an illegitimate entrenchment is limited in firms run by a non-familymanager. This shows that the power of appointment and removal of the leader held by the familycan reduce the risk of opportunistic or illegitimate entrenchment of leaders (Cucculelli & *al.,* 2014).

Pichard-Stamford (1997) distinguishes between two forms of family governance where the separation of the control and management functions makes it possible to reduce the negative aspects of the risk of family entrenchments. The first is where an external manager who is supposed to be more efficient has his appointment dependent on the family. The second is when the family of the manager is not the majority shareholder of the company (Charlier, 2010).

Among the forms of governance put in place that neutralize the effect of opportunistic entrenchment of family managers, we find that of Burkart & *al* (2003), which lies in the recruitment of an external manager. In fact, the recruitment of an external manager makes it possible to avoid all the negative effects of too much family entrenchment. In this situation, therisks linked to the opportunism of the managers may reappear, which requires additional monitoring and control. In this respect, the family owner has an incentive to recruit an externalmanager in the situation where the benefits are higher than the costs of monitoring and control(Burkart & *al.,* 2003).

In addition, family businesses are likely to be organized in such a way as to maximize the private gains and non-pecuniary benefits associated with running the business. This is achievedthrough the selection of an outside manager who is more competent than other family members. But also, the one who gives more importance to the protection of the interests of the family shareholders (Faccio and Lang, 2002).

The following figure summarizes the different sources of agency costs in family businesses:

Figure 1: Sources of agency costs in family businesses

Source: Authors

In sum, family business researchers have pushed the theoretical boundaries of the agency. These scholars have provided new insights to understand first the unique and competitive nature of family firms, and secondly to introduce new non-traditional agency problems. These problems include those arising from the relationship between the family and non-family (minority) shareholders, or those related to the lack of separation of ownership and control (Anderson andReeb, 2004; Villalonga and Amit, 2006; Braun and Sharma, 2007).

1.4 Agency governance in the family business

Agency theory proposes governance mechanisms to curb opportunistic behavior of managers and subsequently enhance firm performance. As a result, these classic mechanisms, such as the board of directors, control activities and incentive compensation plans are supported in the literature on family firms (Eisenhardt, 1989; Lefort and Urzua, 2008, Tajer & *al.,* 2022).

For example, Anderson and Reeb (2004) show that the existence of non-family members on the board of directors is desirable. Indeed, the presence of independent board members is another alternative to monitor the family, and family members. They have a place on the board to carry out their control over the business (Anderson and Reeb, 2004). As a result, family businesses that have governance mechanisms in place, particularly those supported by the agency, have higherlevels of performance (Chrisman and *al.,* 2007).

Also, other studies have found that incentive compensation practices and plans play an important role in aligning the interests of non-family leaders with those of family members (McConaughy, 2000). In addition, these non-family leaders perceive fewer incentives because the family organizes their compensation system to help family leaders cope with excessive personal risk (Gomez-Mejia & *al.,* 2003).

In addition to supporting traditional agency governance mechanisms, research also presents nontraditional governance within family firms, including embedded family ownership (Nicholson, 2008; Moores, 2009; Block, 2012). This family ownership is often viewed as an effective organizational governance mechanism that reduces agency problems associated with the separation of ownership and control power (Anderson & Reeb, 2003; Braun & Sharma, 2007; Chirico & *al.,* 2011).

However, Block (2012) indicates that there is some evidence to the contrary. He argues that family business ownership is not a superior form of governance because family dynamics and conflicts are difficult to control or monitor. As a result, ineffective control may increase moral hazard problems. Certainly, this type of problem is likely to negatively impact firm performance (Block, 2012). Similarly, Nicholson (2008) suggests that family ownership may facilitate agency problems such as the inability to make good business decisions due to excessive emotional attachment to the firm or due to the absence of a qualified family leader for the firm. In this regard, agency governance mechanisms are needed to address these family business- specific agency problems (Nicholson, 2008).

Finally, research on agency governance within family firms has also expanded to explore new relationships, contexts, and performance outcomes. Beyond the classic principal-agent relationship, studies focus on the relationship between majority and minority shareholders (Anderson & *al.* 2018) and the relationship between the firm and family owners (Block 2012).

In the end, agency governance serves its theoretical purpose, which is to enable pro-organizational behavior and improve the performance of family firms. Indeed, the implementation of control mechanisms allows the family to curb the opportunistic behavior ofmanagers and to solve the various agency problems related to the interaction between the interests of the family and those of the firm.

2. The theory of stewardship

2.1 Perspectives on Stewardship Theory

Stewardship theory has its roots in psychology and sociology, and is rooted in a humanistic and collectivist model where individuals are motivated to serve others. The organization is seen as a participatory and empowering structure where relationships of mutual trust develop. Members of the organization work as a collective, trustworthy and demonstrate pro-organizational behavior (Davis & *al.,* 1997).

Furthermore, because stewardship theory is relatively new, its theoretical contribution has not been sufficiently established. Previously, researchers have contrasted agency and stewardship theories (Donaldson & Davis, 1989, 1991, 1994; Fox & Hamilton, 1994), but have not explored the psychological and situational underpinnings of stewardship theory. A clear understanding of the manager's characteristics and situation is essential to understanding the behavior and convergence of managerial and shareholder interests (Davis & *al.,*1997).

Stewardship theory defines situations in which housewives are not excited by their personal goals, but rather are stewards whose motivations are aligned with the goals of their principals. According to Donaldson & *al,* (1991), management is assumed to be trustworthy and attentive to the use of company resources. Thus, managers aim to increase the value of the firm and maximize shareholder returns. This view is shared by Davis & *al,* (1997) who indicate that the fundamental objective of managers or directors lies in maximizing the value of the firm in order to increase the wealth of shareholders, who in turn maximize the satisfaction of managers.

Specifically, stewardship theory shows that shareholder satisfaction with the achievement of good performance will subsequently lead to higher levels of satisfaction with its managers. Therefore, good corporate performance is seen as a means to achieve shareholders and managerial satisfaction, as their interests are simultaneously maximized (Davis & *al.,*1997).

Finally, McGregor (1971) suggests that stewardship theory supports management that values involvement, participation, risk-taking, trust and long-term vision. But also one that focuses on improving performance rather than reducing costs. It is more likely to be validated in an environment where the culture gives more to the collective dimension rather than to the individualistic dimension, where the hierarchical distance is low (Yota, 2016).

2.2 Stewardship theory and the family business

Research on family firms also relies on stewardship theory to understand the behavior of agents in family firms (Donaldson and Davis, 1989, 1991; Davis and *al.,* 1997). In contrast to contractual theories of the firm, which are primarily concerned with cost reduction (the agency theory) related to the opportunistic behavior of managers. This theory is more interested in the development of corporate governance under the assumption of *"altruistic"* behavior of agents. It considers managers as *"good stewards"* acting as experts and advisors, and playing an activerole in the formation and development of the company's strategy.

The application of stewardship theory suggests that relationships within the family business will be dominated by reciprocal altruism and participatory strategy (Corbetta and Salvato, 2004). Because of their emotional and social attachment to the business, family members practice self-control and carefully consider the consequences of their actions on the business (Eddleston and Kellermanns 2007).

Implementing a participatory strategy that empowers employees and gets them more engaged in the long-term strategy of the business, often motivated and fully committed to working in the business. Among other things, research shows that identification with the family business and commitment to the prosperity and success of the family business are common traits among family business leaders. This leads family employees to rank business goals first before their own (Davis & *al.,* 2010; Saloum & *al.,* 2013; Madison & *al.,* 2015).

Under stewardship theory, the primary role of independent directors is not to provide controlled contractual oversight. Instead, owner-controllers rely primarily on trust-based oversight.

Independent directors are appointed to the board of directors for their ability to provide services and advice to shareholders. Therefore, the presence of independent directors is considered to add value to the firm because they are able to provide sector-specific expertise that cannot be obtained through the appointment of insiders or subsidiaries (Anderson and Reeb 2004; Corbetta and Salvato 2004; Garcia-Ramos and Garcia-Olalla 2011).

2.3 Stewardship governance in family businesses

Stewardship theory assumes that there are situational factors that define the nature of workplace stewardship and organizational culture. Examples of stewardship governance include systems that allow employees a high level of authority and discretion, such as an involvement-based approach to management and a collectivist culture (Davis & *al.,* 1997).

In contrast to the traditional control-oriented mechanisms seen in agency governance, stewardship governance encourages cooperation and enhances employee autonomy and motivation, resulting in behaviors that benefit the organization, and consequently, improve business performance (Eddleston & Kellermanns, 2012).

Also, research on stewardship governance shows that family businesses have stewardship mechanisms in place. These mechanisms serve their theoretical purpose in terms of behavior and performance. For example, compared to non-family businesses, family businesses have been shown to have better stewardship governance. This is manifested in an inclusive and flexible organizational culture, where employees are encouraged, trained, and given broader responsibilities (Miller & *al.,* 2008).

Stewardship governance is characterized by strategic decision-making responsibilities and participatory management. It has been linked to higher levels of entrepreneurship in family firms (Eddleston & *al.,* 2012). In turn, we believe that family firms are able to identify and exploit entrepreneurial opportunities when the critical insights of family members are combinedwith the diverse perspectives of people outside the family, when both are able to participate inthe decision-making process (Eddleston & *al.*, 2012).

In addition, stewardship governance of family businesses has also been associated with strategic flexibility, innovativeness, and family business performance. Still, stewardship governance facilitates stewardship behaviors, such as high levels of commitment and helping behaviors. Another servant stewardship behavior naturally aligns with the interests of the organization and, in turn, yield favorable outcomes for the organization (Davis & *al.,* 1997; Craig and Dibrell, 2006; Dibrell and Moeller, 2011, Tajer & *al.,* 2022). Finally, Eddleston and Kellermanns (2007) used stewardship theory to mount the characteristics that promote the success of family businesses rather than focusing on those thathinder it. In this sense, the authors identified altruism and the participatory attitude of the family, as an important resource and source of competitive advantages (Eddleston and Kellermanns, 2012). In addition, participation allows for more complete information to be gathered and thus more appropriate decisions to be made for the business. Complete information at the right time could lead to knowledge and thus learning (Kellermanns & Eddleston, 2004).

3. Complementarity and differences between agency and stewardship theory

A comparison between agency and stewardship theory suggests two elements of differentiation**: the attitudes of** family business **employees** within the organization (i.e., members are opportunistic agents or good stewards) and **the role of independent directors** (i.e., oversight/controlled service and advice) within the board of directors.

Indeed, agency and stewardship theories describe the actual behavior of the manager as a result of the governance structure of the firm. On the one hand, agency theory assumes that agents are self-interested and that, consequently, shareholders put in place governance mechanisms to curb such opportunistic behavior (Eisenhardt, 1989; Jensen and Meckling, 1976).

The research examines family involvement in family firms that have adopted both agency and stewardship theory. In effect, this work focuses on how the family influences the governance of the firm, rather than on individual behaviors within the firm. Among these studies are thosethat have analyzed agency and stewardship perspectives on the presence and characteristics of the board in family firms (Jaskiewicz and Klein, 2007; Pieper and *al.,* 2008).

This research also suggests that when the alignment of objectives is high between shareholders and management, a stewardship environment will prevail, making the role of control and oversight by the board of directors less important. On the other hand, when the objectives between the two parties diverge, the presence of a board of directors is more likely. In addition, the board should be larger in size and have a higher ratio of outside members, which creates anagency environment (Pieper & *al.,* 2008).

Similarly, using information from both agency and stewardship suggests that performance is higher in family firms compared to non-family firms. This is justified by lower agency costs, but also by the simple fact that family managers are stewards of family wealth (Chrisman & *al.,* 2004; Graves and Shan, 2014).

Research shows that family ownership can have a positive or negative effect on internationalization decisions based on agency or stewardship perspectives; control mechanisms, the creation of a hierarchical form of governance, and the establishment of a board of directors may be necessary to overcome the situation and realize the benefits of stewardship(Sciascia & *al.,* 2012).

As an antithesis, given that both agency and stewardship theory address similar phenomena thatoccur at the individual level (behaviors) and at the firm level (governance mechanisms), a panoply of scholars approach these two theories as two distinct and opposing theoretical fields for the family business (Davis & *al.,* 1997; Graves & Shan, 2014; Madison & *al.,* 2015).

Indeed, stewardship theory is concerned with maximizing social welfare through services, rather than through monitoring and control over the various stakeholders in the organization. In other words, the business leader (or steward) is responsible for coordinating material and human resources with a certain majority of behaviors that promote organization and cooperation ratherthan individualism and defection (Armstrong, 1997).

Agency and stewardship theories describe the actual behavior of the leader as a result of the governance structure of the firm. Agency theory assumes that agents are self-interested and that, as a result, managers put in place governance mechanisms to limit the opportunistic behavior of agents. Stewardship theory, on the other hand, assumes that stewards serve others, which leads managers to put in place governance mechanisms to create an environment that reinforces and encourages this stewardship behavior (Jensen and Meckling, 1976; Eisenhardt, 1989; Davis & *al.,* 1997).

Also, some research shows that the two theories differ in the order of causality between the agency-stewardship relationship. Notably, Jaskiewicz and Klein (2007) suggest that goal alignment triggers stewardship governance and that goal misalignment gives rise to agency governance.

In other words, agency and stewardship theory differ in the information asymmetry and goal alignment between the manager and other stakeholders. Agency theory is explicit in its assumption that information between stakeholders is asymmetric (Eisenhardt, 1989).

Consequently, governance mechanisms are put in place to align interests and improve firm performance, regardless of the level of information asymmetry. In contrast, stewardship theory assumes that the interests of the manager and the shareholders are naturally aligned (Davis & *al.,* 1997). Therefore, stewardship theory assumes that information between the leader and different stakeholders is symmetric (Madison & *al.,* 2015).

Davis and *al* (1997) put forward the forms of power, the levels of commitment and motivation asa point of differentiation between the agency and stewardship theories. According to these authors, "*the agency theory defines a power of organizational and coercive source whereas the stewardship theory considers an individual power emanating from the personality and know- how of the leader".* The result is a deeper commitment of the steward to the company's culture and the achievement of its goals, with the agent showing less personal involvement and more distance from the company. Ultimately, the motivation of the leader is extrinsic in nature in agency theory, while in stewardship theory it is intrinsic in nature (Davis & *al.,* 1997).

The following table summarizes the points of divergence between agency and stewardship theory.

Table 1: Differences between agency and stewardship theory

	The agency theory	**The theory of stewardship**
Individual	Homo-economicus	Realization needs
Behavior	Individualism-opportunism	Cooperation-altruism
Motivation	Extrinsic-economic job security	Intrinsic-learning success-fulfillment
Commitment	Distancing from the organization	Adherence to the collective organizational project
Governance mechanisms	Institutional power Coercion/reward	Personal power respect competence/knowledge
Link between control and operationality	Separation of decision-making and management bodies	Decision-making and operational processes joined
Objective	Performance control	Autonomy-facility-incentivize innovation
Performance Horizon	Short term	Long term
Management philosophy/environment	Monitoring/stable environment	Participatory global self-control/unstable environment

Source: Yota R. (2016, P 23)

In essence, stewardship theory sheds new light on how to approach and manage relationships in organizations. It enriches the way of understanding the modes of governance in family businesses, by approaching the relationship to risks differently and by highlighting other issues in the relationships between individuals, going well beyond simple economic considerations. More specifically, this vision for family businesses assumes that the interests of the shareholders (the one who decides and delegates) and the manager (the one who executes) are aligned, thus reducing conflicts of interest, insofar as the agent will act in the direction of the principal. Governance thus becomes a cooperative game, where confrontation gives way to the alignment of preferences and the convergence of interests (Yota R., 2016).

Moreover, a critical analysis of the two theories suggests that both agency and stewardship governance support a single theoretical objective, which is to enable pro-organizational behavior and improve the performance of family firms. According to Bessire and *al* (2007), *"stewardship theory is like an additional piece in the puzzle that constitutes the theoretical corpus on corporate governance, an approach that complements rather than contradicts agency theory*.

Although the literature treats agency governance and stewardship governance in opposition, we find that the governance mechanisms of both theories serve their purpose with respect to family business performance. Similarly, family involvement has the potential to create agency and stewardship governance environments that are unique to family businesses.

Conclusion

The objective of this research work is to show, in a specific context such as that of family businesses, the most adopted theory in order to show the effect of governance mechanisms on the financial performance of family businesses. Therefore, we have exposed the two most used theoretical currents in order to understand the specificity of the governance of the family business, namely the agency and stewardship theory.

The agency theory helps to explain specific aspects of the family firm. Proponents of this theoryhave extended the limitation of this theory in the family firm, which states that agency costs inthis type of organization are zero, by highlighting other types of conflicts of interest such as altruism, illegitimate or opportunistic entrenchments, and conflicts between the family and minority shareholders (Moores, 2009; Block, 2012; Madison, 2015).

Within the framework of stewardship theory, stewarding behavior reduces relational conflict within the family business and consequently increases the level of collaboration, harmony, and knowledge sharing between employees and family members. These practices allow family businesses to develop an important source of competitive advantage over their non-family counterparts (Corbetta & Salvato, 2004; Eddleston & Kellermanns, 2012).

Also, agency governance is often represented by control mechanisms, while stewardship governance is represented by participatory and collectivist environments. Indeed, many researchers treat these theories in a dichotomous manner, overlooking the organizational realitythat both types of governance can coexist (Madison, 2015).

However, these representations in the literature are not necessarily opposed; just because a company implements control mechanisms does not mean it cannot also have a collectivist culture (Madison & *al.,* 2015). These collective structures can themselves impose norms that limit undesirable behavior. Certainly, formal governance systems can limit actions and restrict choices, but they can also foster trust, preserve autonomy, and regularize collective thinking (Simons, 2013).

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