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Owner Commitment and Relational Governance in the Privately-Held Firm: An Empirical Study

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ABSTRACT. This paper examines owner commitment and relational governance in the privately-held firm. The proposed model goes beyond agency theory to include research on organization commitment and organization citizenship behaviors, as well as stewardship theory, organizational social capital theory, social identity theory and social exchange theory. Results support predictions of stewardship theory and organizational social capital theory that owner commitment and firm performance are positively related.

KEYWORDS: financial performance, owner commitment, relational governance, social exchange theory, social identity theory, stewardship theory

JEL CLASSIFICATIONS: L26, M13

1. Introduction

This paper examines owner attitudes – including owner commitment to the firm and collective norms and goals – as important influences on effective governance of the privately-held firm. This paper proposes and tests a novel framework for understanding relational governance in the privately-held firm by concentrating primarily on the central variable of owner commitment to the firm. It is one of the first studies to test not only variables that may predict owner commitment as dependent variable, but that in turn, links owner commitment to firm performance. The proposed model draws from a synthesis of ideas going beyond agency theory to include certain behavioral theories in the social science and management literatures, especially stewardship theory, organizational social capital theory, social identity theory and social exchange theory.

Research suggests that agency theory predictions alone may be inadequate to explain the relationship between ownership structure and firm behavior (Anderson and Reeb, 2003; Thomsen and Pedersen, 2000). Empirical evidence is mixed, a number of studies reporting a positive effect of family ownership as major blockholder on firm performance (e.g. Anderson and Reeb, 2003; Jaskiewicz, 2005; Menéndez-Requejo, 2005; Poutziourios, 2005; Thomsen and Pedersen, 2000; Zellweger et al., 2005), while others report mixed or negative results (Faccio et al., 2001; Sacristán-Navarro and Gómez-Ansón, 2005; Thomsen and Pedersen, 2000). It is beyond the scope of this paper to present all the nuances of agency theory and the growing research literature on the topic. However, the contradictory findings to date suggest that agency theory has its limits in predicting firm performance and that there may indeed be certain owner attitudes and behaviors that may help to explain firm performance not accounted for in economic theories. For instance, Anderson and Reeb explain the positive relationship they find between family ownership and firm

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performance by suggesting that family blockholders are more apt to act as "stewards" in the firms they own – that is, they are more likely to consider not only their own personal interests but also shareholder interests as a whole (Anderson and Reeb, 2003, p. 1324). Thomsen and Pedersen (2000) explain some of their (negative) findings on the other hand by positing that family owners may balance financial and nonfinancial motives. Both these studies however, are limited by the fact that they rely only on archival data and lack direct measurement of owner attitudes or behaviors, a common shortcoming in corporate governance research (Huse, 2005).

By contrast, the present research directly measures certain owner attitudes theorized to be associated with stewardship and better firm performance. Of special interest is the concept of *owner commitment*. As defined in this study, owner commitment is the degree to which owners as a group feel emotional attachments, involvement and identification to the firm they own (Vilaseca, 2002). The concept of owner commitment is an adaptation of the concept, *affective commitment*, a component of organizational commitment extensively researched on samples of employees and managers (see Allen and Meyer, 1996). Empirical research strongly supports the conclusion that affective commitment of employees and management is positively linked with both individual job performance and firm performance in a broad range of settings (Allen and Meyer 1996; DeCotiis and Summer, 1987; Jaramillo et al., 2005; Meyer et al., 1989; Rashid et al., 2003; Sharma and Irving, 2005). However, virtually all extant published research on commitment relates to employee and management attitudes with the exception of Vilaseca (2002), in the context of family firms, and Mustakallio (2002) on family commitment. No published research to date examines the relationship between owner commitment and firm performance.

Linking this literature to recent research, we note first that studies of governance in privately-held firms suggest that the typical mechanisms for overseeing management activity are often very different from those in large, publicly listed firms. In particular, privately-held firms – especially those primarily owned by a single entrepreneur or family of owners – often rely on informal social controls rather than on *contractual governance*, the latter characterized by formal contracts, incentives and monitoring systems (Jensen and Meckling, 1976). These informal social controls, based on mutual trust, a shared vision, and commitment to the firm by owners and management, and embedded in social relationships among owners and management, have been referred to collectively as *relational governance* (Mustakallio et al., 2002; Huse, 1993).

This contrast between relational and contractual governance can be better understood in the context of *stewardship theory* (Davis et al., 1997), together with aspects of organizational social capital theory (Leana and van Buren, 1999). One key assumption of both theories is that owners and/or managers who are collectively-oriented or *other-regarding*, i.e. who share common goals and a mutual commitment to the firm, are less likely to require formal controls and incentives, and can thus run their organizations more efficiently than owners and/or managers who are individualistic or *self-regarding*, that is, who are motivated primarily to maximize personal ends (Davis et al., 1997; Leanna and Van Buren, 1999; Sharma; 2004, p. 16). Organizational social capital theory also futher helps to explain the importance of shared collective norms and goals with respect to the proposed framework.

Two additional psychological theories, social identity theory (Ellemers, 2001; Tajfel and Turner, 1985) and social exchange theory (Bishop et al., 2005; Shore and Wayne, 1993), provide clues regarding possible determinants of owner commitment. Social identity theory, an empirically supported theory from social psychology, provides a plausible explanation for why family-owned firms are expected to have more committed owners. Social exchange theory, also from applied social psychology, provides an alternative explanation for differences in owner commitment based on perceived organizational rewards. In the next section, we will elaborate upon the proposed research framework, propositions and rationale, based on these four theories. The remaining sections present the methodology, results, discussion and conclusion.

2. The research framework and hypotheses

As mentioned in the Introduction, we build our research model by synthesizing various theories and empirical research from other fields, to provide clues regarding expected linkages. This section presents a proposed framework, hypotheses and rationale (see Figure 1).

2.1. *Owner commitment, shared collective norms and goals and firm performance*

McGregor contrasts *Theory X* assumptions made in classic management theory (that people basically dislike work, need direction and avoid responsibility) with *Theory Y* assumptions; i.e. that people like work, are creative and accept responsibility (McGregor, 1960). Stewardship theory builds upon this basic paradigm, contrasting two models of human motivation to explain management and employee behavior: that of the *agent* – the self-serving person, driven to maximize utilities, and with low value commitment with that of the *steward* – the self-actualizer, motivated to serve the collective good, while fulfilling both social and higher order needs of growth and achievement (Davis et al., 1997).

According to stewardship theory, on the one hand, managers acting as stewards are motivated to make decisions that they perceive are in the best interests of the group. They believe their interests are aligned with that of the corporation and its owners. Principals or owners (and their managers, in turn) operating on stewardship assumptions are likely to focus on structures that facilitate and empower those below them. By contrast, owners and managers operating on the basis of agent assumptions are more likely to use formal monitoring and incentives to control those below them (Davis et al., 1997). Stewardship theory further predicts that if both owner and manager operate under stewardship assumptions, that the potential performance of the firm will be maximized (Davis et al., 1997).

Organizational social capital theory provides a further explanation for why stewardship matters. Leana and Van Buren (1999) identify two key components of organizational social capital, that of trust and *associability*. The latter characteristic, associability, is most relevant for the current discussion, and is defined as the "degree of willingness and ability of participants in an organization to subordinate individuals, goals, and actions to collective goals and actions" (Leana and Van Buren, 1999, p. 541). We suggest that defined as such, associability is closely linked to the other-regarding or collective orientation of the steward, reflecting

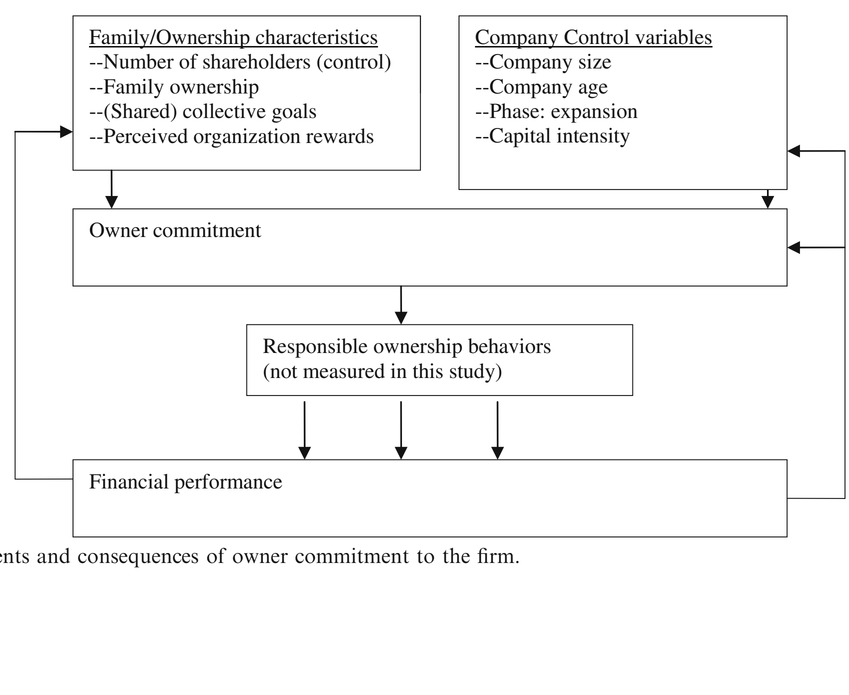

Figure 1. Antecedents and consequences of owner commitment to the firm.

motives closely associated with owner commitment and collective norms and goals.

Leana and Van Buren (1999) see organizational social capital as a means of (more efficiently) managing collective action through psychological contracts (Rousseau and Schalk, 2000) or relational contracts (Huse, 1994; MacNeil, 1980) rather than transactional contracts (Leana and Van Buren, 1999). People willing to subordinate their own goals to the good of the group (in this case the firm) are likely to act with less social loafing, self-promotion, or other selfish behavior, which is costly to the organization (Leana and Van Buren, 1999). Under conditions of higher associability, the firm is thus likely to perform better than under conditions of lower organizational social capital.

Combining predictions from stewardship theory and organizational social capital theory, we posit that the extent to which owners share "other-regarding" or "collective" norms and goals (especially those that are nonfinancial, and thus more bound to a particular organization and thus less transportable) are both likely to be associated with better firm performance. We translate this into our first hypothesis as follows:

Hypotheses 1: The extent to which shareholders share collective norms and goals (over and above mutual financial benefit), is positively associated with firm performance.

Owner commitment is also expected to correlate positively with firm performance, in part because commited owners are expected to behave in certain ways which reduce transaction costs and boost organization efficiencies, as predicted by organizational social capital theory. This prediction is indirectly supported by empirical research on affective commitment and *organizational citizenship behavior* for employees and management, though this link has not been studied for owners. *Organization citizenship behavior* refers to actions by individuals that go beyond what is expected by the normal job description, and include behaviors serving the collective good. Research to date strongly supports the proposition that affective commitment and such behaviors are positively related for employees and management (Allen and Meyer, 1996; Brief and Motowidlo, 1986; Morrison, 1994; O'Reilly and Chatman, 1986; Organ and Ryan, 1995; Smith et al., 1983), including a meta-analysis of a number of such studies by Organ and Ryan (1995). In the present study, with a concept analogous to that of organization citizenship behavior for employees and management, we refer henceforth to *responsible ownership* behaviors as owner behaviors that serve the collective good of the ownership group as well as the firm (see also Lambrecht and Uhlaner, 2005).

In Figure 1, responsible ownership behavior is treated as an (unmeasured) intervening variable between owner commitment and firm performance. Combined with the (previously stated) rationale from organizational social capital theory, which suggests that such behaviors may reduce transaction costs and boost organization efficiencies, we derive our second hypotheses and state it as follows:

Hypothesis 2: Owner commitment is positively associated with firm performance.

2.2. *Possible determinants of owner commitment*

In this section, we further elaborate the possible determinants and/or correlates of owner commitment as illustrated in Figure 1. Three variables in particular, including collective norms and goals, perceived organization rewards, and family ownership, are the primary variables examined as predictors of owner commitment.

2.2.1. *Collective norms and goals and owner commitment*

The concepts of collective norms and goals and organization commitment have been frequently linked in the social science literature. Stewardship theory, for instance, proposes that collective-orientation and high value commitment are both characteristics of the steward versus agent (Davis et al., 1997). Etzioni (1996) suggests that commitment to any community requires a set of shared values, norms and meanings, as well as a shared history and identity (Etzioni, 1996). Or, as explained by Uzzi (1996) a *social norm of reciprocity* reinforces commitment to jointly agreed decisions.

From the organization commitment literature, we also find indirect empirical evidence for the argument that shared values and organization commitment are linked. For instance, group cohesiveness, which is a known consequence of shared goals, has a positive effect on affective commitment (Mathieu and Zajac, 1990). Furthermore, where clear goals are lacking, affective commitment tends to be lower (Mathieu and Zajac, 1990). Admittedly, however, these provide only indirect support in the present argument.

Taken together, in the context of owner attitudes, we would expect those owners who share collective norms and goals also to be more committed to the success of the firm. Hence:

Hypothesis 3: The degree to which owners share collective norms and goals is positively associated with the degree to which those owners are committed to the firm.

2.2.2. *Perceived organization rewards and owner commitment*

An alternative explanation of owner commitment comes from social exchange theory, derived from research on employees. In contrast to stewardship theory and organizational social capital theories, social exchange theory suggests that commitment results from rewards received by people in the organization. Although past research substantiates the relationship between rewards and commitment, the direction of the causal link is not clearly supported (Bishop et al., 2005; Eisenberger et al., 1990; Shore and Wayne, 1993). For instance, Bishop et al. (2005) use structural equation modeling to support the distinctiveness of the two concepts: commitment and perceived support, although the direction of causality cannot be proven with the methods used. Nevertheless, social exchange theory provides an important alternative explanation for level of commitment.

Although past research using social exchange theory focuses on employees and managers, it would be a logical inference that owner attitudes could also be influenced by the same factors. That is, owner commitment may be *influenced* (at least in part) by rewards received for past financial success of the firm. We are not able to test for causality. However, given this logic, we would thus expect to find the following:

Hypothesis 4: Perceived organization rewards are positively associated with owner commitment.

2.2.3. *Family ownership and owner commitment*

Owner commitment has been frequently cited as a strength of the family-owned firm (Gallo, 1991; Vilaseca, 2002). Pollak (1985) describes the potential advantages in the family business: incentives to act in the long-term interests of the family, effective monitoring of work activities, and selfless rationalities inherent in family grouping and loyalty to the family. These advantages have only been indirectly inferred, but not empirically tested in past research such as that by Anderson and Reeb (2003), Thomsen and Pedersen (2000) and others.

Although past research has not examined owners (or family) *per se*, social identity theory provides one explanation for why one might expect owner commitment to be stronger in family-owned than nonfamily-owned firms. According to social identity theory, commitment to the particular group or organization may be driven as much by affiliation needs with the *in-group* (or group to which an individual belongs) – than it is by altruistic motives. According to social identity theory, motivation toward collective goals is based less on selflessness or altruistic attitudes than on the motivation to fulfill these social needs (Jost and Elsbach, 2001). People derive a great deal of personal value and meaning from group membership which in turn leads to a greater sense of self worth and social esteem (Ellemers, 2001). In the current discussion, the in-group might refer to the family. Social identity theory thus provides a rationale for the family to serve as a positive influence on commitment, in that it provides a natural reason for individuals to feel part of an in-group, and to act accordingly.

There is counter evidence to suggest that selfish behavior can occur even within family-owned firms. Thus, for instance, in a study of Spanish family-owned firms, Gallo and Cappuyns (2000) and Gallo (2004) find that among people with management and governance responsibilities in family businesses, 36% perceive that they mainly use the firm for their own financial benefit. However, it may still be true that the occurrence of such behavior is even more likely in nonfamily-owned firms. This could not be tested given the nature of their sample.[1] In spite of this counterevidence, we still argue thus, consistent with the rationale provided earlier from social identity theory, and consistent with Anderson and Reeb's interpretation (Anderson and Reeb, 2003) that family owners are *more* likely to act as stewards than would other types of owners. Hence we predict:

Hypothesis 5: Directors in privately-held firms in which the family holds majority ownership will report higher owner commitment than directors in which the family does not hold majority ownership.

Finally, given a similar line of reasoning, we suggest that together with owner commitment, we would expect that the collective norms and goals associated with stewardship are also more likely to be found in family-owned firms. Hence:

Hypothesis 6: Directors in privately-held firms in which the family holds majority ownership will report a greater degree of shared collective norms and goals among owners than will directors in which the family does not hold majority ownership.

2.3. *Summary of the proposed research framework and hypotheses*

To summarize the proposed research framework, we focus primarily on owner commitment, viewing it as a pivotal variable in a model of relational governance. We propose a limited set of variables that may correlate positively with owner commitment, including family ownership, collective norms and goals and perceived organization rewards. The research framework posits that owner commitment, in turn, may be positively associated with firm performance. Based especially on the research on organization citizenship, we further suggest that responsible ownership behavior acts as an (unmeasured) intervening variable to explain the relationship between owner commitment and firm performance.

3. Methodology

3.1. *Sample and data collection*

The target group of this study includes all companies established in the Netherlands with at least ten employees. A random sample of 2,002 addresses, stratified by size, was initially selected from the address file REACH, a database of over 1.9 million Dutch companies that allows selection based on certain criteria.[2] For this study a sample was drawn from all sectors except health care, education and government. Public companies, foundations, and cooperatives were also excluded from the sample. To assure adequate representation of larger firms, half the sample was drawn from companies with between ten and 100 employees, the other half drawn from companies with at least 100 employees. This reflects an intentional oversampling of larger firms since in the overall Dutch business population, there are 55,790 businesses in the 10–99 size range and only 6,595 companies in the 100+ size range. Without oversampling, only about ten percent (or approximately 200) of projected respondents would have been contacted from these larger firms, with a likely expected return of only about 20–30 surveys – considered to be too small for issues of interest in the survey.

A key informant approach was adopted for this study (Kumar et al., 1993). All questionnaires were sent on university stationary to the director of the business. All but two of the respondents indicated that they were directors of their firms, ranging in incumbency from less than a year to 55 years, with an average of 15 years in their present position. Given the anonymity of responses, it was not possible to do independent checks on reliability of informant data relative to known objective data. This is a recognized limitation of the study.

Of the 2,002 questionnaires sent, 1,723 addresses proved usable. A total of 233 usable questionnaires were returned in two waves of data collection in April and June, 2005. Although efforts were made to draw a random sample, it is not clear to what extent the sample may have been skewed by those choosing to respond or not. However, an effort was made to increase the response rate with a second solicitation for participation, and the response rate of 13.5% is about average for studies of Dutch privately-held firms and in line with response rates reported elsewhere (Huijbregts, 2003; Jonker, 2001; Lelieveld, 2003).

The respondent group has the following characteristics: Regarding company age, 50% are at least 35 years old; 7% are less than 10 years old. In comparison with another random sample of Dutch SMEs,[3] in the 10–99 employee size range, the present sample appears somewhat older (40% being 35 years or older compared with 30% in a comparison sample) and fewer are less than 10 years old (5% as compared with 12% in a comparison sample). Further, in spite of efforts to stratify the sample into two equally sized groups, among returned surveys, smaller firms are somewhat overrepresented, 56%, compared with 44% from the large firm subsample. Although this does skew the distribution of the sample somewhat, controlling for company size in the model is expected to offset this problem, at least in part. Compared with data from the same comparison random sample of Dutch SMEs, majority ownership (more than 50%) from the same family is also slightly overrepresented among smaller companies in the present sample (66% compared with 62% in the comparison group) but roughly the same proportion of majority family-owned firms (56%) in the 100+ size range.

3.2. *Variables*

This section reviews the key variables used for analyses in this paper. Unless otherwise indicated, items were developed specifically for this study. To form scales for the variables, a variety of techniques, including Principal Components Analysis (with an orthogonal rotation), testing for reliability using the Cronbach-alpha reliability coefficient, intercorrelation among the variables, and a check for face validity, were used in combination to form the scales. Appendix 1 provides a more extensive description of each variable.

3.2.1. *Financial performance*

Financial performance. (Cronbach-alpha reliability coefficient = 0.79). This scale is based on a mean of answers to three items, including respondent perceptions of overall financial performance relative to the competition, profitability in the past 5 years, and a third question about profitability. A scale was formed adjusting for different numbers of answer categories by using an optimal scaling technique referred to as Categorical Principal Components Analysis (CATPCA), available in the Statistical Package for the Social Sciences (SPSS). No objective financial performance figures were requested of respondents, out of concern that this could negatively influence the response rate. For similar reasons, precautions were taken to maintain the integrity of confidentiality promises even though this meant a loss of ability to track respondents to obtain objective performance data.

A number of studies support the use of subjective ratings of financial performance in social science research (Harris; 2001; Rowe and Morrow, 1999; Voss and Voss, 2000). Self-reported ratings for financial performance have also been used in other published studies on corporate governance (e.g. Schulze et al., 2001, 2003). In spite of these findings, use of only self-reported, subjective indicators for financial performance is an acknowledged shortcoming of the present study, which should be addressed in future research by inclusion of objective measures, when available.

3.2.2. *Owner attitude variables*

Owner commitment. (Cronbach-alpha reliability coefficient = 0.84). Items for this variable, though inspired in part by previous research on organizational commitment of employees (Mowday et al., 1982), and family commitment (Mustakallio, 2002; Uhlaner et al., 2005), were also chosen based on their face validity, relative to the definition of owner commitment used in this study.

(Shared) Collective (nonfinancial norms and) goals. (Cronbach-alpha reliability coefficient = 0.78). Items for this scale include aspects of corporate social responsibility (giving something back to society) indications that the firm has a symbolic value for shareholders and, finally, that the firm provides shareholders with the possibility to foster and disseminate certain norms and values.

3.2.3. *Perceived organization rewards*

Dividend satisfaction. This variable is based on the degree (using a five point Likert scale) to which the respondent agrees to the following item: 'Shareholders are satisfied with the dividend policy of the firm'.

Projected performance. This variable is based on the degree (using a five point Likert scale) to which the respondent agrees to the following item: 'The financial expectation for the coming three years is favorable'.

3.2.4. *Family ownership variable*

Family ownership. For the purposes of this project, companies are classified as being family-owned firms if they meet the following criterion: A single family owns more than 50% of the shares/certificates. (A dummy variable was created with 0 = no and 1 = yes). There is no agreed upon measure of family business characteristics nor is there one accepted definition of family business to date though recent research supports the conclusion that there are multiple independent factors (Astrachan et al., 2002; Uhlaner, 2005; Westhead and Cowling, 1997; Dekkers, 2003, unpublished Master thesis). Family ownership is chosen for the present study because of the focus on the role of the principal or owner, rather than the manager.

3.2.5. *Company variables*

Given that past research shows that family-owned firms are typically smaller and older than their nonfamily counterparts and also tend to vary by sector (Westhead and Cowling, 1997), we control for these company variables in the model. As a rough control for sector differences, capital intensity is also included as a control variable (see Schulze et al., 2003; Thomsen and Pedersen, 2000). We also include the phase of the business (more specifically, whether or not it is in an expansion phase) as another possible control variable though past research is not in agreement regarding whether family-owned firms tend to be more (Thomson and Pederson, 2000) or less growth oriented (Dekkers, 2003, unpublished Master thesis). Specific company control variables include:

Log (company size). Log company size is measured as the logarithm of the number of employees.

Log (company age). This variable is computed as the log of the years the company has been in business.

Capital intensity. To measure capital intensity, respondents are asked to choose one response out of the following: whether their firm is capital intensive, labor intensive or partly capital intensive and partly labor intensive.

Expansion. This variable is based on the respondent's answer regarding the phase of the business. Originally, choices included start, expansion, adult and decline. A dummy variable was created for those indicating they are in the expansion phase (coded as 1 if expansion is the response, otherwise 0 for nonmissing data).

3.2.6. *Number of shareholders*

Number of shareholders. Finally, respondents were asked for the number of shareholders of their firms. This was also used as a control variable in multiple regression analyses.

3.3. *Common method bias*

A commonly accepted test for common methods bias was applied to the data to check whether financial performance measures a unique construct, given the fact that it is measured using the same respondents and questionnaire as are the other variables (Podsakoff and Organ, 1986; Tippins and Sohi, 2003). In particular, checking the results of an orthogonally rotated Principal Components Analysis (PCA) including individual items for owner commitment, collective norms and goals and financial performance, the first factor explains only 33% of total variance. Furthermore, component loadings range from 0.68 to 0.88, with an average statement loading on the intended construct of 0.78. Of the 22 potential cross-loadings, only 2 are above 0.30 (one being 0.44, the other 0.37). Unintended loadings on financial performance are all below 0.20. The absence of cross-loadings among the items, together with empirical findings from previous research supporting a positive association between subjective and objective measures of financial performance provides reasonable confidence that common method bias is not a major problem in the current study. However, given limits of the methodology we cannot rule out such bias altogether (Podsakoff et al., 2003).

3.4. *Data analysis*

Multiple regressions using ordinary least squares are used to test hypotheses, controlling for company variables and number of shareholders. Furthermore, in interpreting possible direct and indirect effects of the combined results, a protocol for testing for mediating or intervening effects of organizational commitment is used based on past research by Verheul et al. (2005) and De Kok et al. (2006) and which combines recommended approaches by James and Brett (1984) and Baron and Kenny (1986) as follows: We first estimate three separate models: $y = f(x)$, $y = f(m)$ and $y = f(x,m)$. We assume the presence of a mediating effect when the following requirements are met: (a) a significant effect of m on y in the model $y = f(m)$; (b) a significant effect of x on y in the model $y = f(x)$; and (c) a nonsignificant effect of x on y in the model $y = f(m,x)$. Likewise, we assume the presence of a direct effect in the case of a significant effect of x on y in the model $y = f(x)$ in combination with a significant added effect of x on y in the model $y = f(m,x)$.

4. Results

4.1. *Descriptive statistics and bivariate relationships*

Table I presents the descriptive statistics for the variables used in this study, including the mean and standard deviation. Table I also presents the correlations among all variables used in the study. Variance inflation factor (VIF) scores are computed for each of the regressions below, and range from 1.02 and 1.69, suggesting that the analysis will not be seriously distorted by multicollinearity.

4.2. *Hypothesis 1: Collective norms and goals and financial performance of the firm*

Hypothesis 1 predicts a positive relationship between shared collective norms and goals and financial performance of the firm. As shown in Table II (Model 2), when only the controls are

TABLE I
Pearson correlations between all variables in the study (N = 189)

	1	2	3	4	5	6	7	8	9	10	11
1. Financial performance											
2. Family ownership	−0.11										
3. No. of shareholders	0.03	−0.13									
4. Log company size	0.20**	−0.15*	0.34***								
5. Log company age	0.01	0.13	0.11	0.26***							
6. Capital intensity	0.03	0.18*	−0.01	−0.04	0.08						
7. Expansion	−0.04	0.05	−0.05	−0.10	−0.25***	0.01					
8. Owner commitment	0.20**	0.16*	0.08	0.17*	0.04	0.08	0.20**				
9. Collective norms and goals	0.12	0.26***	0.09	0.05	0.15*	0.08	0.06	0.32***			
10. Dividend satisfaction	0.49***	−0.01	−0.10	0.19**	0.01	0.05	0.07	0.54***	0.16*		
11. Projected performance	0.36***	−0.06	0.04	0.17*	−0.06	−0.03	0.13	0.31***	0.02	0.32***	
Mean	4.11[a]	0.61	4.60	4.38	3.45	0.30	0.25	4.32	3.46	3.91	
Range	0.72[a]	0.49	20.60	1.74	0.88	0.31	0.43	0.63	0.86	0.94	3.65
Std. deviation	0.72	0.63	1.74	0.88	0.31	0.43	0.45	0.76	0.94	0.84	0.84

[a]Nonstandardized scores. Standardized scores used in analyses; $*P < 0.05$; $**P < 0.01$; $***P < 0.001$, two tailed tests of significance.

TABLE II
Prediction of financial performance

Explanatory variables	Company (control) variables plus family ownership		Control variables plus family ownership plus collective norms and goals (H1)		Control variables plus family plus and ownership commitment (H2)		All variable model		Δ R^2 entered first/last in all variable model
	Model 1		Model 2		Model 3		Model 4		
	B-value	*t*-value	B-value	*t*-value	B-value	*t*-value	B-value	*t*-value	
Control variables									0.05# /0.03
Number of shareholders (> 0)	−0.00	−0.61	−0.00	−0.80	−0.00	−0.73	−0.00	−0.80	
Company size (logarithm)	0.13**	2.78**	0.12**	2.74	0.10*	2.25	0.10*	2.29	
Company age (logarithm)	−0.07	−0.80	−0.09	−0.97	−0.07	−0.84	−0.08	−0.91	
Capital Intensity	0.20	0.84	0.18	0.78	0.16	0.71	0.16	0.65	
Expansion	−0.07	−0.40	−0.10	−0.58	−0.17	−0.98	−0.17	− 0.98	
Family ownership	−0.17	−1.10	−0.25	−1.57	−0.24*	−1.57	− 0.27#	−1.72	0.01/0.02#
Attitudes									
Collective norms and goals			0.18#	1.84			0.09	0.83	0.01/0.00
Owner commitment					0.32**	2.70	0.27*	2.12	0.04**/0.03*
R-square	0.06		0.07		0.09		0.10		
Adjusted *R*-square	0.03		0.04		0.06		0.06		
F-Statistic	1.79#		2.04#		2.62*		2.38*		
DF	6,182		7,181		7,181		8,180		

**$P < 0.01$;*$P < 0.05$; #$P < 0.10$.

included with the variable, collective norms and goals, there is a weak trend ($P < 0.1$) in a positive direction. However, when owner commitment is added to the model (see Model 4, Table II), this effect becomes nonsignificant. Given the weakness of the findings, we conclude thus that Hypothesis 1 is not supported.

4.3. *Hypotheses 2: Owner commitment and financial performance of the firm*

Hypothesis 2 predicts a positive relationship between owner commitment and firm performance. Model 3 (Table II) shows a positive coefficient for owner commitment ($P < 0.01$). This effect is reduced slightly but remains significant ($P < 0.05$), in the full model (see Model 4). Hence hypothesis 2 is supported.

4.4. *Hypothesis 3: Collective norms and goals and owner commitment*

Hypothesis 3 predicts a positive relationship between collective norms and goals and owner commitment (See Models 3 and 5, Table III). Results shown in Table III support these predictions, even when controlling for various company variables, number of shareholders, family ownership and perceived organization rewards ($P < 0.001$) (Model 5).

Furthermore, these results, together with those previously mentioned for Hypotheses 1 and 2, suggest that there may be an indirect relationship between collective norms and goals and firm performance, with owner commitment acting as a mediating variable between the other two variables.

4.5. *Hypothesis 4: Perceived organization rewards and owner commitment*

As mentioned previously, two variables, dividend satisfaction, and projected financial performance, are used to proxy perceived organization rewards. In predicting owner commitment, each of the two variables has a significant and positive coefficient even when controlling for company variables, family ownership, number of shareholders, and collective norms and goals (Model 5, Table III). These two variables, combined, contribute in particular, a 0.19

TABLE III
Prediction of owner commitment

Explanatory variables	Company (control) variables only		Control variables plus family business		Control variables plus family business and collective norms and goals		Control variables plus family ownership plus perceived organization rewards		All variables		Δ R^2 entered first/last in all variable model
	Model 1		Model 2		Model 3		Model 4		Model 5		
	B-value	*t*-value	B-value	*t*-value	B-value	*t*-value	B-value	*t*-value	B-value	*t* value	
Control variables											0.09**/0.03
Number of shareholders	0.00	0.31	0.00	0.54	0.00	−0.01	0.00*	2.06	0.00	1.43	
Company size (logarithm)	0.07*	2.33	0.07**	2.67	0.07**	2.74	0.02	0.71	0.02	0.91	
Company age (logarithm)	0.03	0.54	0.00	0.11	−0.02	−0.42	0.02	0.46	0.00	0.02	
Capital Intensity	0.16	1.13	0.11	0.74	0.08	0.60	0.05	0.43	0.04	0.37	
Expansion	0.34**	3.14	0.32**	2.98	0.26**	2.65	0.23**	2.60	0.20*	2.33	
Family ownership			0.23*	2.39	0.08	0.84	0.24**	2.94	0.13	1.62	0.03*/0.01
Other attitudes											
Collective norms and goals					0.41***	6.03***			0.25***	4.78	0.20***/0.07***
Perceived organization rewards											0.31***/0.19***
Dividend Satisfaction							0.33***	7.59	0.27***	6.39	
Projected Financial performance							0.10*	2.13	0.11*	2.52	
R-square	0.09		0.11		0.26		0.38		0.45		
Adjusted *R*-square	0.06		0.09		0.23		0.36		0.43		
F-statistic	3.47**		3.91***		9.20***		13.94***		16.44***		
DF	5,183		6,182		7,181		8,180		9,179		

***$P < 0.001$; **$P < 0.01$;*$P < 0.05$.

change in R square ($P < 0.001$) even when added last in the all variable model. Hence, these results support Hypothesis 4.

4.6. *Hypothesis 5: Family ownership and owner commitment*

Hypothesis 5 predicts a positive relationship between family ownership and owner commitment. Once again, Table III provides data to test this hypothesis (see Models 2–5). First in Model 2, we see a positive significant coefficient ($P < 0.05$) for family ownership in the regression on owner commitment, even when control variables are included, consistent with predictions. Hence, based on these initial tests, one might conclude that hypothesis 5 is supported. However, further results suggest that this relationship may be indirect, mediated, in particular by the variable, collective norms and goals. When the variable, collective norms and goals, is added to the model, the effects of family ownership become insignificant, which weakens the evidence for a direct relationship between family ownership and owner commitment (Model 3, Table III). By contrast, when adding perceived organization rewards in place of collective norms and goals (Model 4, Table III), the coefficient on family ownership stays roughly the same. These results suggest that unlike collective norms and goals, perceived owner rewards do not act as a mediating variable between family ownership and owner commitment.

4.7. *Hypothesis 6: Family ownership and collective norms and goals*

Hypothesis 6 predicts a positive association between family ownership and collective norms and goals. The results of the regression shown in Model 2 of Table IV are consistent with this hypothesis ($P < 0.001$). Hence Hypothesis 6 is supported.

4.8. *Summary of results*

Reviewing the results from the study, clearest support is found for Hypotheses 2, 3, 4, and 6. Owner commitment and financial performance are positively associated (Hypothesis 2). Collective norms and goals as well as perceived organization rewards are both positively associated with owner commitment (Hypothesis 3 and Hypothesis 4, respectively). Finally, family ownership and collective norms and goals are positively associated (Hypothesis 6). Support is weakest for the prediction made in Hypothesis 1 that collective norms and goals and financial performance are positively associated. The relationship between family ownership and

TABLE IV
Predicting collective goals

Explanatory variables	Company (control) variables		Control variables plus family ownership		ΔR^2 entered first/last in all variable model
	Model 1		Model 2		
	B-value	*t*-value	B-value	*t*-value	
Control variables					0.04/0.03
Number of shareholders (> 0)	0.00	0.94	0.00	1.35	
Company size (logarithm)	−0.01	−0.14	0.01	0.39	
Company age (logarithm)	0.13#	1.88	0.08	1.22	
Capital Intensity	0.19	1.09	0.08	0.48	
Expansion	0.21	1.59	0.17	1.33	
Family ownership			0.44***	3.89	0.08***/0.07***
R-square	0.04		0.11		
Adjusted *R*-square	0.01		0.09		
F-statistic	1.55		3.90***		
DF	5,183		6,182		

***$P < 0.001$; **$P < 0.01$;*$P < 0.05$; #$P < 0.10$.

owner commitment (Hypothesis 5) is supported, initially, when only company variables and number of shareholders are used as control variables, but the relationship becomes nonsignificant when the variable, collective norms and goals, is included in the model, suggesting a possible indirect effect between family ownership and owner commitment, with collective norms and goals serving as intervening variable (Baron and Kenny, 1986). On the other hand, adding perceived organization rewards to the same model does not have a similar effect however, suggesting that the latter is unlikely to mediate this same relationship.

5. Discussion

5.1. *The framework and proposed modifications*

Stewardship theory acknowledges that individuals may have social and even altruistic goals above and beyond individual, financial objectives and that when they do, this can have a positive effect on firm performance. As such, it provides a useful basis for framing predictions regarding the importance of owner commitment. In particular, taken together, stewardship theory, organizational social capital theory and the organization citizenship behavior literature suggest a positive association between owner commitment and financial performance.

The results from the current research generally support this view. However, the prediction from these theories that collective norms and goals directly affect financial performance is not as well supported. The pattern of findings suggests a more complex scenario: That collective norms and goals may mediate the relationship between family ownership and owner commitment. Furthermore, results suggest that owner commitment in turn, mediates the relationship between collective norms and goals and firm financial performance.

The data from the present study cannot rule out the alternative explanation for differences in owner commitment resulting from perceived organization rewards, as predicted by social exchange theory (See Hypothesis 4). Rather than an either-or scenario, it appears that both perceived owner rewards and collective norms and goals may contribute to stronger owner commitment. However, the causal direction of these findings cannot be adequately tested given the cross-sectional data used in this study.

Figure 2 presents a revised model of owner commitment based on the results of the present study. The control variables are omitted from the diagram in order to clarify the dual sources of proposed antecedents of owner commitment. The one source derives from a positively (or negatively) reinforcing feedback loop from financial performance to perceived organization

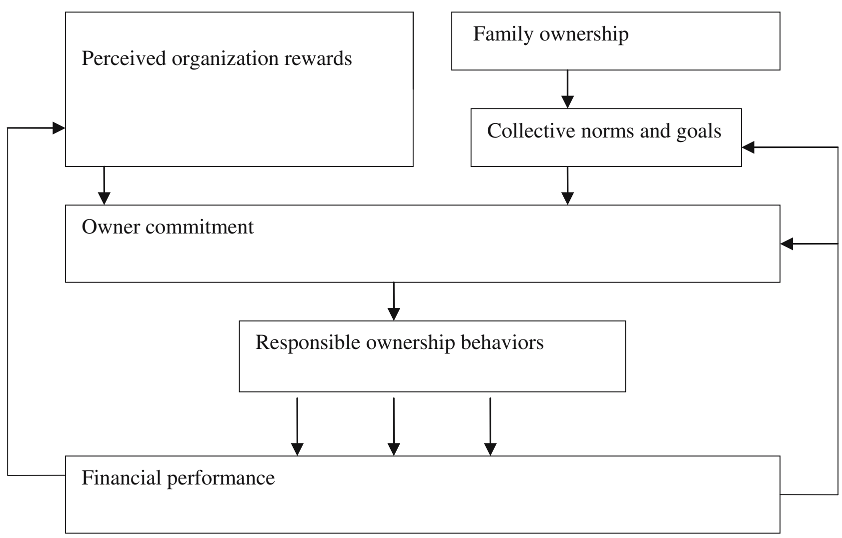

Figure 2. A revised model of owner commitment in the privately held firm.

rewards, consistent with social exchange theory predictions as well as expectancy theory (see Van Eerde and Thierry, 1996). The second source of variance in owner commitment derives indirectly from the enduring group or groups to which an owner belongs (i.e., the family) and more directly from the nature of shared collective norms and goals. The revised model is similar to that shown in Figure 1 in that owner commitment is still shown to have an indirect effect on financial performance by way of responsible ownership behaviors.

In this study, controlling for company characteristics, family ownership has no effect on financial performance, and once other attitude variables are controlled for, actually has a residual negative effect. This contradicts findings from several studies on publicly-held firms, suggesting there may be a difference in the effect of family ownership in private versus listed firms. The strong (and positive) relationship between family ownership and collective norms and goals is consistent however, with predictions from social identity theory.

This revised model has interesting implications: rather than competing with one another, agency effects (i.e., a personal monetary utility function), as reflected by the positive influence of (financial) rewards and stewardship effects (as reflected by collective norms and goals) may not only act in a parallel but may even serve to operate in a mutually positively reinforcing manner.

5.2. *Limitations of the research and directions for future research*

This section points to some of the limitations of the present research and directions for future research. One limitation of this study is the way in which family ownership was measured. Only a single two-point scaled item is used to measure family ownership. Since the exact percentage of ownership was not measured, it was not possible to test for possible curvilinear effects of family ownership concentration, as were found by Thomsen and Pedersen (2000. Future research could also measure other components of family ownership, management and governance (Astrachan et al. 2002; Uhlaner, 2005). Generation of ownership should also be added as a control variable to separate a possible founder effect (Cowling, 2003; Sacristán-Navarro and Gómez-Ansón, 2005), from that of family more generally.

Future research could measure the types of specific responsible ownership behaviors that might result from owner commitment to examine whether these behaviors can help to explain the relationship between owner commitment and financial performance of the firm. Implicit in the current framework is that owners do something to help the firm if they are more committed. But what do passive owners actually do that helps, rather than interferes with the internal organization, especially when they are not active managers? That is, what is responsible ownership behavior? More direct measurement of such behaviors in a future study might help to explain the basis for the link between owner commitment and financial performance.

Another acknowledged limitation of the present study is the measurement of financial performance. Obtaining objective data poses a frequent challenge with the type of population studied here – i.e., that of privately-held firms (Schulze et al., 2001). Even in countries where such data is readily available, independent measures can only be made by either revealing the respondent's identity knowingly (by giving the name of his or her firm) or unknowingly (using a numerical tracking system for instance), though the ethics of the latter approach can be questioned. In the current study, the sensitivity of questions about owner attitudes made this issue especially problematic. Nevertheless, the tests for common method bias done in this paper do provide some support for the conclusion that as measured in this study, financial performance is likely to be an independent concept, and given past research where both objective and subjective measures were available, we can have some assurance that some aspect of the underlying construct of firm financial performance was measured.

Regarding future research directions, it may be useful to look at an expanded range of financial indicators, given differences found between family ownership and different performance indicators in past research (Thomsen and Pedersen, 2000). Longitudinal panel data could also check for lagged effects, to see whether owner commitment has a short versus long term effect.

From the perspective of data analysis, this study primarily examines linear relationships among variables. Interaction effects and curvilinear effects could be explored further with the same data set. Data gathered from a broader number of regions within Europe, or internationally, would also be useful. Further, other aspects of relational governance, such as trust, as defined by Mustakallio et al. (2002) and Uhlaner et al. (2005) might be examined as possible correlates of owner commitment and predictors of financial performance.

Future research also might examine a wider range of predictors of owner commitment, as well as background characteristics of owners such as ownership education, skills and experience. The distinction between owner commitment among managing and nonmanaging owners may also lead to interesting results (Vilaseca, 2002).

Finally, the results of the study suggest there may be important psychological aspects of ownership that do not relate to the mere material possession of shares in the firm, especially the important role of nonfinancial goals as a correlate of owner commitment. The concept of *psychological ownership* was originally proposed for employees and managers who are themselves not owners (Dittmar, 1992; Vandewalle et al., 1995; Pierce et al., 2001). Pierce et al. (1992) define psychological ownership as that state in which an individual feels as though the target of ownership is theirs (Pierce et al., 1992). More recent research has attempted to apply such concepts to family ownership (Hall, 2005; Nordqvist, 2005). More careful exploration of the psychological ownership literature, relative to the owner commitment literature might be of use. The results in our study do suggest that it is important to examine these underlying psychological aspects of ownership and might be examined more carefully in future research.

6. Conclusion

Past research in social and organization psychology, though providing useful theories and theoretical concepts, have largely neglected the role of the owner. Past research in family business, finance and economics tends to look at the owner, but primarily with the use of archival data that ignores differences in owner attitudes and behaviors. Our research tries to bridge this gap, examining how differences in owner attitudes such as owner commitment and the degree to which owners share collective norms and goals, may help to predict differences in financial performance in the privately-held firm. Significant correlates of owner commitment include perceived organization rewards, family ownership and the degree to which owners share certain nonfinancial or collective norms and goals. In turn, owner commitment is found to predict financial performance, even when controlling for company size, company age, capital intensity, number of shareholders, and family ownership.

The results of this study provide support for the applicability of stewardship and organizational social capital theories, especially the prediction that owner commitment is positively associated with firm performance. Predictions are weaker for the proposed positive association between shared collective norms and goals and financial performance. Regarding explanations of differences in owner commitment, both "agent" based views as well as "steward" based views appear to augment a model to explain variation in owner commitment. Based on these results, we conclude that future research could benefit from further application of psychology theories to the study of owner attitudes and behaviors – including both possible antecedents and consequences.

The conclusions of this study must be tempered by the fact that the data were collected from a (single) key informant and are cross-sectional in nature. Nevertheless, it is one of the first empirical studies on owner commitment examining both possible antecedents and consequences. The findings from this study can therefore hopefully provide a useful framework for furthering our understanding of relational governance in the privately-held firm.

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Notes

[1] Perhaps 36% is a lower figure than would be expected for a matched sample of nonfamily-owned firms for instance.

[2] REACH is a trademark for a database provided for several European countries. In the Netherlands, all companies registered with the Chamber of Commerce, including those required by law, as well as those optionally registered. are included. REACH also continues to track about 300,000 firms not listed any more with the Chambers of Commerce. In essence, this list covers all but about 25,000 to 30,000 Dutch companies not required to file by law, including farms, and certain types of professional partnerships (such as lawyers and doctors). For more information about registration requirements of Dutch firms, the reader may refer to the English language site of www.KvK.nl.

[3] The comparison figures were taken from a large longitudinal study of SMEs with less than 100 employees carried out by EIM BV in the Netherlands for the Dutch Ministry of Foreign Affairs. (See www.eim.net).

Appendix

Appendix 1: Descriptions of variables

Variable	Question	Scale used
Financial performance* Cronbach-alpha = 0.80	A scale was formed adjusting for different numbers of answer categories by using a scaling technique referred to as Categorical Principal Components Analysis (CATPCA) from answers respondents gave to the following three items (from Sorenson, 2000; Uhlaner et al., 2005): How would you compare your financial performance to major competitors in your industry? (1 = much worse; 5 = much better); Did your company earn a profit in the last five years? (1 = not any of past five years; 2 = some; 3 = most; 4 = all of the past 5 years); How would you describe the average profitability of your business over the past 5 years? (1 = extremely unprofitable, 7 = extremely profitable)	A higher score = better performance (see scales for each item at left)
Company control variables		
Log (Company size)	Respondents were asked, 'How many employees are in the company?' (The natural log of company size was used in analyses).	A higher number = larger firm
Log (Company age)	Respondents were asked the number of years the company has been in business. (The natural log of company age was used in analyses).	A higher number = older firm
Capital Intensity	The following question was based on an item used in Uhlaner et al., 2005): Which of the following descriptions best fits your firm: (a): capital intensive; (b): labor intensive; (c): partly capital-, partly labor intensive	Computed variable:0: checked (b); 0.5: checked (c); 1: checked (a)
Expansion	Respondents were asked, 'Which phase characterizes your firm the best?'; (a): start; (b): expansion; (c): adult; (d): decline	Computed dummy variable: 0: checked (a), (c), or (d); 1: checked (b)

Appendix 1: Continued

Variable	Question	Scale used
Owner attitude variables		
Owner commitment* Cronbach-alpha = .84	A scale was formed from averaging the degree to which the respondent agreed with the following four items; Shareholders are proud to be owners of the firm; Shareholders are interested in the firm's strategy; Shareholders are enthusiastic about the firm; Shareholders support the management of the firm.	A higher score = greater owner commitment. For each item: (1 = Completely disagree (CD); 3–neutral5 = completely agree(CA)
Collective goals Cronbach-alpha = 0.78	A scale was formed from averaging the degree to which the respondent agreed with the following four items; The shareholders feel a responsibility to society; Shareholders want to give something back to society; The firm has a symbolic value for shareholders; The firm gives shareholders the possibility to foster and disseminate certain norms and values.	Each item: A higher score = stronger agreement with these objectives: 1 = CD; 5 = CA
Dividend satisfaction	Respondents were asked to what degree they agreed with the following: Shareholders are satisfied with the dividend policy of the firm.	A higher score = dividend satisfaction: 1 = CD; 5 = CA
Projected performance	Respondents were asked to what degree they agreed with the following: The financial expectation for the coming three years is favorable.	A higher score = more favorable: 1 = CD; 5 = CA
Family ownership	This item was based on the following question: A single family owns more than 50% of the shares/certificates	0 = no; 1 = yes
Number of shareholders	Respondents were asked how many shareholders there were in the organization.	Score = number of shareholders reported

*A mean of nonmissing data was calculated for these scales. Each has a Cronbach-alpha reliability of acceptable level.

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