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The family-owned company and its implications in the attitude steward with the performance of the company

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This paper analyzes how the family owned company produces a behavior steward of CEO and in turn this behavior with family ownership and partnership plans are generated to good financial performance. For this, it contrasts theories of agency and stewardship, using the method of seemingly unrelated regressions (SUR) to a sample developed in Mexico and in Colombia and with a survey of 88 companies we have that the results are there is a positive and significant relationship between ownership of the business and financial performance.

Agency theory, stewardship theory, financial performance.

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Introduction

This paper will analyze the family owned corporate governance and its relationship with the CEO steward behavior and a better financial performance in companies in Mexico and Colombia. All this from a perspective of stewardship theory. It has in the strategic management literature, the study of corporate governance is very important (Shleifer y Vishny, 1997), but however, in our context there are few studies on this topic (Ruiz Porras y Steinwasher Sacio, 2008: 58).

Therefore, start by analyzing the context of corporate governance in Mexico and Colombia, and then delve into the theories explaining the corporate governance, agency theory and stewardship theory. Then you go to see different empirical studies that have sought to test the relationships proposed above and thereby formulate hypotheses. It ends with the conclusions of which are that the vast majority accept the hypotheses and generate a structural model that explains the relationship between corporate governance structure, the attitude of the general manager and financial performance.

Context of corporate governance in Mexico and Colombia and family ownership

Most studies of corporate governance in both Mexico and Colombia are based on the concentration of ownership and control of companies (Cano Morales, Orduz Aguilar, Hoyos Ramírez, 2007; Pelayo Maciel, 2011; Pelayo Maciel, Calderón Hernández, Serna Gómez, 2012).

Studies have also found that the most common type of owner is the family, who holds a high concentration of ownership and control in business (Castañeda, 1999; Husted y Serrano, 2002; Ruíz Porras y Steinwascher Sacio, 2008). Furthermore, the type of control structure that is characterized pyramidal (La Porta, López-de-Silanes y Shleifer, 1999). These findings allow us to see the importance of corporate structure of family ownership, as this play an essential role in defining corporate governance practices.

This may be due to cultural reasons a company, understanding this as the set of shared beliefs that influence the behavior of individuals (Smircich, 1983). These cultural elements are socially created and therefore cannot be assumed that the structure of corporate governance is entirely a product of rationality and the explicit design of individuals. Under this assumption, the way relationships are created or formal or informal links into and between companies depends on cultural values prevailing in a given society. In societies with a confidence bounded as in Mexico and Colombia, where the affinity and credibility is given exclusively in family or close friend is where you create economic groups, who are business networks with strong links but limited in scope. There is a custom trust that reduces risks of opportunistic behavior. In countries where this type of culture is prevalent, such as the Latin American encourages ownership concentration, because it distrusts those outside the family or social network (Lansberg y Gersick, 2006).

Theoretical background

This section will discuss the theories that support this research, we first discuss the concept of corporate governance, understood as the system by which business corporations are directed and controlled by the distribution of rights and responsibilities between different participants in the corporation such as the board, managers, shareholders and other stakeholders. Subsequently, will be analyzed the two currents that try studying both the governance structure and the behavior of managers, the agency theory and stewardship theory.

To the Organization for Economic Cooperation and Development (1999, cited Clarke, 2004) defines corporate governance as the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, as the board, managers, shareholders and other stakeholders; explains the rules and procedures for corporate decision making, and provides structure and fundamentals of setting objectives, the means to achieve and ways to monitor their implementation.

Another definition of Eiteman, Stonehill y Moffet (2011: 30), who define corporate governance as "the relationship between interest groups used to determine and control the strategic direction and performance of the organization." Under this definition, you can understand the corporate governance structure and the institutional arrangements, formal and informal, which companies resolve disputes arising from the interplay of stakeholders.

These institutional arrangements define the structure of ownership and control, and its functions are the following (Chavarín-Rodriguez, 2011): operation of the board, the role of investors, incentives for managers and workers, control mechanisms to management, and how to finance companies.

Agency theory and stewardship theory

There are two theories to study corporate governance, one of which is the agency theory and another call stewardship theory. The agency theory mentions that the property in big business is diversified in multiple shareholders who transfer authority in making decisions to managers in order to achieve optimum business performance. The fact that shareholders have a small shareholding leads to a difficult access to information about the acts of its managers (Berle y Means, 1932, city by Davis, Schoorman, Donaldson, 1997; Jensen y Meckling, 1976), the control is costly and also information is costly to obtain, especially for a person.

For this reason there is a possibility that managers pursue their own goals even at the expense of the interests of shareholders. The separation of ownership and control has the main problem of avoid possible opportunistic behavior of managers that could affect safety on the return on investment of shareholders (Jensen y Meckling, 1976). For these reasons and in order to explain the motivations and behaviors of the parties (principal and agent), arises agency theory is defined by Jensen and Meckling (1976) as a contract by which one or more persons (the principal) appoints another person (the agent) to perform some service on their behalf, which involves delegating some authority to the agent decisions.

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The agency problem arises when the well-being of a person's depends on another, in this case, the agent is the person acting and the principal is the person affected by the action. A major problem for investors is that managers can pursue their own goals, even at the cost of obtaining lower profits for owners. In any negotiation between the two parties establishing a relationship of agent and principal, which is characterized by the existence of a hierarchical relationship that can be established through a formal or informal contract. One party has possession of an asset or senior administrative role, the principal, the other party manages the assets of a company, which is called "agent". The key feature of this relationship is the asymmetry of information, the agent has more information about the daily operation of the organization and the principal has only generic information, thus incurring high costs to monitor the agent's actions (Jensen y Meckling, 1976).

This is given by the absence of contracts made in full, thus, identifies some actions that the principal can take to define differences to their interests, which are based on incentive systems and incur costs monitoring to limit opportunistic aberrant activities of the agent.

In particular, this model promotes the use of independent power structures for example the same person does not agree with the position of CEO and chairman of the board of directors of a company, in order to prevent opportunistic behavior of its managers (Jensen y Meckling, 1976).

Moreover, the agency problem has been widely criticized, since it faces a problem only between managers and owners and the shareholders and they are not the only ones affected by the activities of the company but are also all stakeholders.

Which are also affected by the organization, therefore arise the stewardship theory such as that described below.

Stewardship theory arises as opposed to a model that establishes the agency theory; this model holds that the interests of management are aligned with the interests of the principal, in contrast to the selfish motivations holding agency theory. According to this theory, managers seek to balance the interests of shareholders and stakeholders, so try to make decisions for the benefit of all (Davis, et al., 1997; Fox, Halmilton, 1994).

Davis, et al. (1997), determine the characteristics of the behavior that managers should have stewards perspective who are motivated to act proactively and collectivist, which has a high value compared with individualistic and selfish action. Due to the high need for growth and achievement, psychological motivations, the manager appreciates the value of collaboration using their initiative to promote success, establishing bonds of trust with them. This has a positive attitude toward harmony groups avoiding conflict or confrontation.

Analysis of the literature

This section presents a review of the literature that supports the hypothesis of this paper. To do this, we analyze the relationship between ownership of the company and the company's financial performance. Taking corporate governance as the system in which counselors supervise the operation of the company through their managers, and the board members who are in turn responsible for the minority shareholders of the company, this leads to implications positive performance of the company to its employees, shareholders, consumers and banks, among others.

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Good corporate governance plays a vital underpinning the integrity and efficiency of financial markets. But this causes high costs, called agency, generated by asymmetric information possessed by the manager, and that can sometimes encourage him to act opportunistically.

As already mentioned, the agency theory assumes that the separation of owners (principal) and managers (agents) increases the attitude of the latter to take actions that do not maximize shareholder wealth (Jensen y Meckling, 1976). However, to Fama and Jensen (1983), the separation of ownership and control within the company reduces agency costs and thus leads to high performance, which necessarily implies that the chairman of the board is different from general manager.

However, if we analyze the family business ownership and control is an important component of the economy around the world (La Porta, et al., 1999) and based on authors like Eddleston, Kellermanns, Sarathy (2008); Miller, Le Breton – Miller (2008); Minichilli, Corbetta, MacMillan (2010) who find that the manager of a family business will have attitudes type steward, which in turn will lead to better financial performance, but other studies have not mentioned this theory as part of his theoretical framework, but if they do mention of the family as a source to optimize company profits (Husted, Serrano, 2001; Anderson, Reeb, 2003; Ruiz Porras, Steinwascher Sacio, 2007; Villalonga, Amit, 2006). So here are the different investigations that examine family property as part of a corporate governance structure and that this leads to improved performance.

Studies in Mexico reveal that a concentration of ownership through family ownership leads to better performance as is the study of Castrillo-Lara y San Martin-Reyna (2007), which suggest that there is an alignment between agent and principal, leading to greater value creation. In another study by Ruiz Porras, Steinwascher Sacio (2008), find that family-owned businesses tend to diversify their sources of income, but found no relationship between family ownership and firm performance.

In another study in the United States of America (Anderson y Reeb, 2003) concluded that family ownership is present in a third of the Standard & Poor's 500, and that companies in this category performed better. While in another study conducted in Norway, Mishra, Randy y Jensen (2001) conclude that firms controlled by the founding family have a higher market value. For Miller, Le Breton – Miller, Scholnick (2008), who analyze the family ownership estate in Canada and they prove that in this type of governance structure generates: 1) business continuity, 2) community of employees and 3) good relations with consumers. In another study conducted in Italy by Minichilli, Corbetta and MacMillan (2010), they show that the presence of a family CEO generate efficient work teams which causes better financial performance than companies who hire a separate CEO.

In stewardship theory, managers are inherently trustworthy and not prone to divert company resources (Donaldson y Davis, 1991). It is believed that managers are good servants to the principal and will be effective to develop strategies that increase shareholder wealth. The duality between ownership and control (ie, that the manager is on the board) promotes flexibility in the company and reduces conflicts between the board and management, leading to high levels of shareholder returns (Davis, Schoorman, Donaldson, 1997).

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Stewardship theory argues that performance variations resulting from the structural situation in which the executive is to facilitate the adoption of effective measures. In family-owned companies, the leadership expectations are clear and consistent for both board members and the managers; these factors, therefore, achieve efficiency, resulting in better company performance compared to a separation structure and control property (Miller, Le Breton-Miller, 2006).The evolution of governance models presented by the stewardship theory, obligations extend beyond the company's shareholders. This based on the assumption that the company has responsibilities to society and a variety of ethical and moral obligations (Caldwell, Karri, Vollmar, 2006).

Therefore we propose the following hypothesis:
H1: The family-owned businesses generate attitudes steward of the CEO.
H2: Attitude steward generates better financial performance.

Methodology

For the present research makes use of the method of seemingly unrelated regressions, which is a way to make a system of simultaneous equations, and is best, suited for this type of analysis. To which creates the following system of equations:

$$ST = \gamma_1 + \gamma_2 PF + \varepsilon_3$$

$$DF = b_1 + b_2 ST + \varepsilon_3$$

Where:

PF is family owned company
ST is the CEO steward attitude
DF is the financial performance

To measure the variables developing a survey to 48 Mexican companies and 40 Colombian companies to develop a confirmatory factor analysis and extract the latent variables, to which we applied Cronbach's alpha test for validity by membership or by its transfer of the original structure that has belonged to that variable to another. The result of this test was to what shown in Table 1, and as seen stewradship variable exceeds the boundary alpha is 0.70, so it is concluded that the variable is valid. In addition to measuring the variable family owned business is done through a binary variable (0.1) with a metric where 1 where there is family owned and 0 in other cases, financial performance was measured through the ROA.

Variable	Coefficient alpha
Stewardship	0.96

Table 1.

To carry out the investigation and as mentioned before, is developed a questionnaire with items derived from the assumptions, appropriate to a Likert scale, often called combined grading method (1932, in Hayes, 1999). This scale is also a widely accepted multivariate technique, with which the participant indicates the amount, which will qualify you agree or disagree with a variety of statements about some attitude or object. For this survey takes into account the tools developed by López Cabrales, et. al. (2009); Rodrigo, Arenas (2008).

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The performance of the company and its relationship to the steward attitude

	Regression coefficients
Attitude steward of CEO	1.332705** (3.15)
Constant	-3.594037*** (-8.54)
Observations	80
F	9.90**
Prob> F	0.0017
R^2	0.1103

Table 2.

Nota: La variable dependiente es desempeño financiero. Los estadísticos t se encuentran entre paréntesis. Uno, dos y tres asteriscos indican niveles de significancia de 10, 5 y 1% respectivamente.

Analysis of results

When analyzing the relationship between the ownership of the company and the CEO steward attitude can be seen (Table 2) that there is a negative relationship, but also that the coefficients have no significance for accepting Hypothesis 1, therefore it says there is no evidence to say that there is a relationship between family ownership of the company with the attitude of the CEO.

In analyzing the second equation, where you see the relationship between company performance and attitude of the general manager, you can see that there is a positive and very significant (at a level of 5%), which means that a CEO steward of attitude will lead to a better financial performance.

Conclusions

This paper is a study of the literature produced by authors of both empirical and theoretical research to argue how the family owned company positively affects the performance of the company, thanks to the attitude of the chief steward of the company, generating core competencies in human resources.

As noted throughout this paper, according to some studies (Mishra, Randy, Jensen, 2001; Anderson, Reeb, 2003; Castrillo-Lara, San Martin-Reyna, 2007), confirms that family ownership creates better financial performance and also according to Miller, Le Breton – Miller (2006) shown that this is caused because the family tend to have CEOs-owners of the company and this will cause attitudes steward (service). It was hypothesized that 1: the family-owned businesses generate attitudes steward of the CEO, but this relationship can not be accepted because the relationship between the variables obtained steward attitude (ST) and family-owned company (PF) not significant.

So in this part of the theory can not be explained Stewardship.The hypothesis 2 is tested, where all the implications of what he says Stewardship theory in the sense that such attitudes (steward), generate better financial returns.

Therefore, it can prove part of the theory, so we can conclude that there are limitations of the study because it remains to be determined whether there are differences between the samples in both Mexico and Colombia, which are needed to develop tests structural change and apply in-difference estimator, which will be developed in future research.

The family-owned company and its relationship with the attitude of the director of the company

	Regression coefficients
family owned	-0.0294158 (-0.13)
Constant	.0191205 (0.10)
Observation	80
F	0.06
Prob> F	0.9713
R^2	0.0007

Table 3.

Note: The dependent variable is the attitude of the CEO steward. T-statistics are in parentheses. One, two and three asterisks indicate significance levels of 10, 5 and 1% respectively.

Also as part of future lines referred develop case studies to complement this research as quantitative methods often leave variables that are impossible to measure numerically.

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