Dual Agency Problems in Founding Family Firms: Evidence from Director Elections

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Abstract

We use director elections to analyze outsider shareholder perspectives of agency problems in family firms. Compared to outsider shareholders in nonfamily firms, outsider shareholders in family firms provide weaker support for director slates proposed by the firms' nominating committees. Withheld votes increase when families receive private benefits of control, when family members serve as board chairs, or when family members serve on board-of-director monitoring committees. We do not find similar results for other types of actively engaged concentrated owners. Our results underscore the pervasiveness of family-nonfamily shareholder agency conflicts and how private benefits of family control exacerbate these conflicts.

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