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FAMILY- VERSUS LONE-FOUNDER-CONTROLLED PUBLIC CORPORATIONS: SOCIAL IDENTITY THEORY AND BOARDS OF DIRECTORS

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We distinguish between "family companies," involving multiple family members as owners and/or managers, and "lone-founder companies," involving only the founder and no other family members. We apply social identity theory and organizational identification to elucidate the differences between these two types of firms, and how their differing organizational identities reflect unique desires for control and influence. We then consider how these differences are reflected in a firm's board structure (i.e., directorship interlocks, director experiences, and director tenures). Specifically, we predict that family firms are more likely to interlock with other family firms, select directors with more experience in family firms, and keep directors on their boards longer. Correspondingly, we posit that family firms are less likely to interlock with lone-founder firms or to select directors with experience in lone-founder-controlled firms. Lone-founder firms follow a similar pattern. We also consider the consequences of family and lone-founder ownership and board structures on the investment behavior of three classes of institutional investors. We test our hypotheses with a sample of publicly traded corporations between 1991 and 2006, and report strong support for most of our predictions.

The theory behind the separation of ownership and control, put forth by Jensen and Meckling (1976), assumes that owners are atomistic and homogeneous with a single preference—wealth maximization. However, family owners and company founders do not necessarily seek wealth maximization (Amit, MacCrimmon, Zietsma, & Oesch, 2001), and, even if they do, they may be unwilling to distribute those gains to regular investors through dividends (La Porta, Lopez-de-Silanes, & Shleifer, 1999; Miller, Le Breton-Miller, & Lester, 2011; Miller, Le Breton-Miller, Lester, & Cannella, 2007). In general, family owners and lone founders will give priority to their own preferences even when doing so might reduce returns for other shareholders. For these reasons, family or lone-founder ownership does not necessarily diminish overall agency costs (Ang, Cole, & Lin, 2000; Demsetz & Villalonga, 2001). Rather, conflict between different owners may emerge in the form of principal–principal conflict (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). In the context of family or lone-founder public companies, the owners' primary interest is maintaining control, even if other shareholders suffer (Shleifer & Vishny, 1997).

Because of the similarities in principal–principal agency costs, previous research has often categorized family and lone-founder firms as one and the same. For example, researchers have defined a "family" firm as one in which the founding family or individual founder owns a sizable percentage of the firm and/or serves as an executive or board director of the firm (e.g., Anderson & Reeb, 2003;

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Cronqvist & Nilsson, 2003; La Porta et al., 1999). However, this categorization misses a key nuance—family and lone-founder firms are likely to have distinct identities, with implications for decision making (Le Breton-Miller, Miller, & Lester, 2011).

To better understand the distinction between family and lone-founder firms, we follow recent research and build on identity theory and organizational identification (Lester & Cannella, 2006; Miller et al., 2011; Miller & Le Breton-Miller, 2011). While both lone-founder and family companies are likely to be concerned about loss of control, there are important differences linked to their organizational identities. First, family firms inherently contain a familial component to their identity—the company reflects the family—and, as such, decision making is typically collective and inclusive of family member interests and opinions (Sundaramurthy & Kreiner, 2008). The family firm is more likely to focus on maximizing the family's value derived from the firm over maximizing shareholder wealth. In contrast, the lone founder's organizational identity is very individualistic—the company is an extension of the founder (Levinson, 1971; Wasserman, 2006)—and often includes an entrepreneurial or growth orientation (Levinson, 1971; Miller & Le Breton-Miller, 2011; Wasserman, 2006). As a result, family businesses are more concerned about image, reputation, and preserving family control, while lone-founder firms are more concerned with economic achievement and maintaining the founder's independence and discretion. We believe that lone founders often specifically exclude members of their own families from their businesses because lone founders have little tolerance for family issues and want to retain discretion for themselves.[1]

Importantly, for both lone-founder and family public companies, minority ownership is the rule, raising an important question: How do family and lone-founder owners maintain control? We posit that one important means is through the board of directors. However, researchers have only recently begun to consider how family (or lone-founder) firms that are publicly traded structure their boards differently than do regular public companies. We posit that board characteristics (interlocks to other firms) as well as director characteristics (the extent of prior family or lone-founder firm experience and length of directorship service) will reflect the firm's and director's identity (family or lone founder) and the owners' desire to maintain control.

Reflecting the concerns over control, we further argue that family and lone-founder identities and the identities of the directors they appoint will impact the investments made in the firms by three types of institutional investors—(1) dedicated, (2) transient, and (3) quasi-indexed (Bushee & Goodman, 2007). As we explain, each type of institutional investor uses different criteria when making investment decisions, with dedicated investing for long-term value appreciation, transient investing to capture short-term gains, and quasi-indexed investing based on private algorithms. We predict and show that dedicated institutions prefer firms with outside directors who have more lone-founder company experience, but avoid firms with outside directors who have family-company experience.

Our study aims to make several contributions. First, we contribute to the growing literature on the difference between mainstream publicly traded firms (what we call "regular public" companies) and those that are controlled by lone founders or family owners (Miller et al., 2007; Villalonga & Amit, 2006). We emphasize maintaining owner discretion as a key driver of behavior in such companies, and show that board makeup in such companies is reflective of that goal. Second, we take a category of firms that has often been broadly classified as "family firms" in previous research and show how it is actually comprised of at least two categories of firms, one with a clear "family" identity and one with a contrasting lone-founder identity. We show that both types of firms tend to favor interlocking ties to others of the same type. These firms also tend to select directors with experiences in similar-type firms (i.e., family firms are more likely to have directors with more experience in family firms). Third, our study shows that directors with experience in similar-type firms are valued as directors, and, as such, are likely to serve long tenures. For example, directors with family-firm experience are more likely to have longer tenures as outside directors at family firms. Finally, our study highlights an important outcome of having directors with family and lone-founder firm experience. We show that family firms have lower ownership

[1] Note that many family companies are led by founders who have chosen to involve other family members in the business. This decision reflects a familial orientation and a desire to pass the company on to the next generation—clear characteristics of family firms. As a result, founder-led firms with other family members involved are considered "family firms" in our study.

by all three categories of institutional investors.[2] Further, we posit and find that directors with experience in family firms are a deterrent to investments from "dedicated" institutional investors, while directors with lone-founder experience are favored by those investors. Our theory and results have important implications for family and lone-founder control and for how firms attract and manage institutional investors.

THEORY DEVELOPMENT

A family firm is one that is characterized by significant ownership by a single family and more than one family member (founder or descendants of founders) involved in the firm as officers and/or directors (Chua, Chrisman, & Sharma, 1999). A lone-founder firm is one characterized by the founder alone as a significant owner, officer, or director, with no other family members involved (Miller et al., 2007). Organizational identity is important for family and lone-founder firms because it drives their desire to maintain control over their firms and directs their priorities regarding shareholder value maximization. While previous research often treats these two categories of firms as synonymous, we believe that their contrasting organizational identities suggest that the differences are important (Miller & Le Breton-Miller, 2011; Miller et al., 2011). To this end, we build on social identity theory and organizational identification to highlight the differences.

Social Identity Theory and Organizational Identification

Social identity theory posits that the social categories individuals fall within provide insights into how those individuals define themselves (Hogg, Terry, & White, 1995). Identification is the process by which individuals come to define themselves in terms of a perceived social group or category (Mael & Ashforth, 1992; Stryker, 1980). Identification influences individual-level behaviors and actions (Hogg et al., 1995; Tajfel, 1982). Firms comprise one of the most important (and defining) social groups to which individuals belong.

Social identity theory researchers have often focused on the identity that an individual garners from being an organization member (Albert & Whetton, 1985; Ashforth & Mael, 1989; Whetten, 2006). Organizational identification is "the degree to which a member defines himself or herself by the same attributes that he or she believes define the organization" (Dutton, Dukerich, & Harquail, 1994: 29). Strong organizational identification positively affects individuals' attitudes and behaviors toward their organizations (Ashforth, Harrison, & Corley, 2008) and positively affects cooperation, commitment, and satisfaction while reducing turnover intent (Ashforth & Mael, 1989; Dutton et al., 1994; Foreman & Whetten, 2002).

Family and Lone-Founder Firm Identities

The presence of family and lone-founder owners has a large influence on the organizational identities of their respective firms, and therefore a strong impact on the organization's constituents (Miller & Le Breton-Miller, 2011; Sundaramurthy & Kreiner, 2008). This identification increases both family members' and lone founders' desires to maintain control and discretion over their firms (Gomez-Mejia, Balkin, & Cardy, 2007a; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011) and the strategic direction taken by their firms (Miller et al., 2007; Miller, Le Breton-Miller, & Lester, 2010). In both types of firms, there are dual identities that derive from the business itself and the family's or lone founder's influence (Sundaramurthy & Kreiner, 2008). However, there are important distinctions that make the two identities unique from other firms as well as from each other.

Because family firms deal with daily challenges involving encumbered familial relationships, family succession issues, and intrafamily conflicts, the identity of a company controlled by a family is likely to be characterized as familial, communitarian, and nurturing (Chrisman, Chua, & Steier, 2005). In many ways, the organization becomes an extension of the family and its members (Ashforth et al., 2008). Furthermore, this familial organizational identification produces significant psychic income, or what Gomez-Mejia and colleagues have termed "socioemotional wealth" (Gomez-Mejia et al., 2011; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007b). This socioemotional wealth—or the non-economic benefits derived from identification and affiliation with a particular firm (Gomez-Mejia et al., 2007b, 2011)—may direct its owners to prioritize other objectives, such as continued control, over the more traditional objective of wealth maximization (Quinn &

[2] We do not formally hypothesize this association, as our methodology precludes a rigorous test of the prediction.

Jones, 1995). As such, a familial identity influences many important decisions, including management processes, strategic choices, governance, stakeholder relations, and business venturing (Gomez-Mejia et al., 2011).

In contrast, lone-founder firms seek to avoid the traditional "family business" problems. Indeed, the lone founder who chooses to exclude all other family members is likely to have a distinct distaste for the encumbered familial relationships that characterize firms controlled by families (Mace, 1971; Miller et al., 2007). However, lone founders also maintain a strong identification with their organizations (Boivie, Lange, McDonald, & Westphal, 2011; Pierce, Kostova, & Dirks, 2001). As Dobrev and Barnett suggest, "the founder's identity is tightly linked to that of the organization and to its innovative endeavors" (2005: 435). Given this strong identification, lone founders view the firm as an extension of themselves (Wasserman, 2006). While this organizational identification creates a strong link between lone founders and their firms, the specifics of the identity are likely to be very different from those of family firms.

For example, in contrast to the familial component of family firm organizational identities, lone-founder firms are likely to strongly identify with entrepreneurship or growth (Block, 2012; Dobrev & Barnett, 2005; Le Breton-Miller & Miller, 2008; Miller & Le Breton-Miller, 2011). From this identification, the lone-founder firm is likely more concerned with innovation and economic pursuits relative to family firms and may find more alignment with the traditional shareholder-wealth maximization goals (Achleitner, Kaserer, & Kauf, 2012; Cucculelli & Marchionne, 2012; Miller et al., 2011). Highlighting this identification with being an entrepreneur, Wadhwa, Aggarwal, Holly, & Salkever (2009: 20) found that "[t]heir [firm founders'] primary motivations for launching a business are to build wealth, to own their own company, and to capitalize on a business idea they had." This suggests that lone founders establish firms to exploit market opportunities for economic benefit while simultaneously gaining greater independence and autonomy (Kets de Vries, 1977). As a result, the lone-founder firm is likely to have a much more individualistic and entrepreneurial identity and virtually no familial or communitarian identity (Miller & Le Breton-Miller, 2011).

In comparison to both of these firms, regular-public firm identities will be less entangled with the owner's preservation of control or with establishing the current management's legacy. Rather, the identity may be directed toward the profit and shareholder-wealth maximization orientation of the firm, or what Sundaramurthy and Kreiner (2008) term the "business identity." In other words, these regular public companies do not have the dual—and possibly conflicting—identities (family vs. business or founder vs. business) that family and lone-founder firms often experience (Foreman & Whetten, 2002; Golden-Biddle & Rao, 1997).

The contrasting identities associated with family and lone-founder firms may manifest in different ways. For example, family firms are often described as highly motivated to pass control on to the next generation (Gomez-Mejia et al., 2011). Identification with the firm drives family owners to engage in efforts to ensure continued family involvement and control. Conversely, lone-founders are much less concerned about passing on control to the next generation. Indeed, as Levinson (1971) noted, for the lone founder:

> [T]he business is essentially an extension of himself, a medium for his personal gratification and achievement above all. And if he is concerned about what happens to his business after he passes on, that concern usually takes the form of thinking of the kind of monument he will leave behind.
>
> (Levinson, 1971: 91)

Similarly, Miller and Le Breton-Miller (2011: 1057) posited, "Unlike family members within a family firm, one set of stakeholders can rarely monopolize the attention of the founder: there are no emotionally constraining family ties." Lone founders are more focused on building an organization that extends their independence and legacy than on providing continual benefits and control for future generations of their families (Miller et al., 2011).

For publicly traded firms, maintaining control is an ongoing challenge, as such firms must conform to a litany of regulations linked to governance and, especially, to protecting shareholders. In that setting, protecting the family's and the lone-founder's control is likely achieved by limiting the influence of outsiders, most prominent of which being outside directors. This idea is well illustrated by Mace (1971: 157), in a pre-Sarbanes–Oxley[3] quote from a

[3] Today's situation is probably similar, but, since the passage of the Sarbanes–Oxley Act of 2002, no family executive or lone founder would state it so boldly and directly, fearing action by the Securities and Exchange Commission (SEC).

family chairman: “In a family-controlled enterprise such as ours, even though today we only own 15 percent of the stock, the allegiance of the board of directors must completely be to the family.” Similarly, for lone-founder firms, Levinson (1971: 91) noted: “If any among them [those who work for the lone-founder] aspires to be other than a device for the founder—that is, if he wants to acquire power himself—he is soon likely to find himself on the outside looking in.” We suggest that careful selection of board interlocks and directors is one way to protect this control.

The Role of Board and Director Organizational Identification

A public company’s board of directors holds the responsibility for governing the firm, including hiring, firing, and compensating officers and directors, and overseeing all major strategic decisions (Lorsch & MacIver, 1989; Mace, 1971). Much of this authority is delegated to management, but the board retains the ultimate responsibility and authority (see Fama & Jensen, 1983). An outside director is an individual who is not an employee, a relative, or a former employee of the firm (Daily, Johnson, & Dalton, 1999; Dalton, Hitt, Certo, & Dalton, 2007). While there is no universal agreement about the effectiveness of public company boards (e.g., Jensen, 1989), there is widespread agreement that boards with higher proportions of outside directors provide better oversight (Finkelstein, Hambrick, & Cannella, 2009).

Directors serve two major functions: (1) monitoring managers and (2) providing resources to the firm (Hillman & Dalziel, 2003). As monitors, the board is responsible for evaluating the performance of executives within the firm (Dalton, Daily, Ellstrand, & Johnson, 1998; Fama & Jensen, 1983). Concentrated owners like families and lone founders may see the board as a tool to reinforce control and to justify strategic decisions that reinforce their identification with the firm (Jones, Makri, & Gomez-Mejia, 2008).

Research has recently applied identity theory and organizational identification concepts to the board context (Golden-Biddle & Rao, 1997; Hillman, Nicholson, & Shropshire, 2008; Withers, Corley, & Hillman, 2012a). For example, Hillman et al. (2008) theorized that directors have multiple identities that affect how and to what extent they perform the monitoring and resource provision board functions. Directors with stronger organizational identification are more willing to provide monitoring and resources. The degree to which a director identifies with the organization may also positively affect firm performance, because a director with strong organizational identification is more likely to act in the best interest of the organization in monitoring management and providing resources to the firm (Golden-Biddle & Rao, 1997).

Theory about director identification suggests that those firms that can vest a director through his or her identification with the organization can receive greater benefits from the director. We develop the notion that seeking outside directors who already possess identities and identification with similar organizations can facilitate the identification process.

HYPOTHESIS DEVELOPMENT

Board Interlocks

While research recognizes that vesting directors into the firm provides benefits (e.g., Golden-Biddle & Rao, 1997; Hillman et al., 2008), finding directors that will readily identify with a firm may not be as easy. To simplify the search, family and lone-founder firms may look to similar firms as way to find directors that are predisposed to possess the desired organizational identity. Lester and Cannella (2006) argued that family firms will seek out interlocks to other family firms because such firms share common interests and a common identity, and will therefore tend to affiliate with one another for common benefit. As such, we expect the interlocks that family and lone-founder firms create will be strategically designed to bolster their control. However, because of their unique organizational identities, we also expect that family and lone-founder firms will be less likely form interlocks with each other.

Importantly, as we noted earlier, family and lone-founder firms differ on some important dimensions of organizational identity while remaining similar on others. While the two types of firms share the strong desire to retain control despite minority ownership, there is little reason for the two to affiliate with each other and much more reason for them to seek out similar others. For example, while family firms are likely to seek ties to other family firms, family owners may find ties to lone-founder firms risky to the family’s ability to maintain control. Interlocks to lone-founder firms may involve directors with little understanding of family firm values and more interest in entrepreneurial matters or achieving high growth (Le Breton-Miller & Miller, 2008). In both family and lone-founder firms, interlocks to non-similar firms may weaken control by minority owners (Mizruchi, 1996) because the linkages reflect different ideas about management and strategy and may not value maintaining owner control or any non-financial benefits the owner derives from the firm as important (or even worthy) outcomes. Thus, we hypothesize:

Hypothesis 1. When publicly traded companies are classified into family, lone-founder, and regular public companies, after controlling for board size, each of these types will tend to have more interlocks to others of the same type and fewer interlocks to others of a different type.

Prior Experiences of Directors

As we explained above, we believe that director selection will reflect the interests of the family or lone founder respectively for those categories of firms. The desire to protect ownership control is likely to drive both types of firms to seek out individuals with specific characteristics to serve on their boards. By linking to similar other *firms*, a focal firm's identity is bolstered and it is able to form community-level social capital that potentially benefits both firms (Lester & Cannella, 2006). In contrast, by selecting outside directors who have demonstrated particular values and possess a predisposition for organizational identification with the particular type of firm, the family or lone-founder firm is able to bolster control and gain some benefits from the experiences of a specific director irrespective of the firm that currently employs the director, if any.

Specifically, family firms are likely to seek outside directors with prior experience in other family firms, and lone-founder firms are likely to seek outside directors with prior experience in other lone-founder firms. In doing so, outside directors are recruited who likely have relevant knowledge and, perhaps more important, strong organizational identification (Hillman et al., 2008) consistent with that of the family or lone founder. Because the individuals sought have demonstrated a willingness to support the goals of family owners or lone founders in the past, the controlling owners (of either type) confront lower risks by placing such individuals on their boards.

Directors with more experience in non-similar firms (e.g., family firm experience for a lone-founder firm) may also present obstacles for both firms. For example, a director with significant family-firm experience may be less supportive of a lone founder's desire for independence and may not resonate with the lone-founder firm's entrepreneurial identity. Similarly, a director with lone-founder firm experience may readily support entrepreneurial independence and continued lone-founder control, but, at the same time, not identify with the familial values of a family firm.

Hypothesis 2. When publicly traded companies are classified into family, lone-founder, and regular public companies, after controlling for board size, each of these types will tend to have more outside director prior experience with the same type and less outside director prior experience with different types.

Director Tenure (Exit)

"Director tenure" represents another key factor that may impact the family or lone founder's capacity to manage the board and maintain control and influence. "Director exit" represents the departure of an individual director from a given board (Finkelstein et al., 2009). Much of the research that has examined director turnover considers how firm performance predicts director exit, usually concluding that outside directors seek to leave underperforming firms to protect their reputations (Fama, 1980; Finkelstein et al., 2009). Daily and Dalton (1995) and Gilson (1990) concluded that director turnover increases as firms approach bankruptcy.

Beyond firm performance effects, there is little research on the topic of director exit (Withers, Hillman, & Cannella, 2012b). However, we believe that organizational identity may importantly influence director tenure (the likelihood of director exit).[4] Director stability is important because trust develops when directors demonstrate their support of the controlling party's desire to preserve ownership

[4] Tuma and Hannan (1984) explain in detail how tenure and exit are tautologically linked. That is, an increase in the likelihood of exit is equivalent to a decrease in the average length of tenure and vice versa. Exit likelihood, however, is much easier to evaluate analytically than tenure, which suffers from an intrinsic right-censoring problem (for a full explanation, see Carroll & Huo, 1988).

control. As outside director tenure increases, the trust between the director and the controlling owner (or CEO, in the case of a regular public company) increases (Fukuyama, 1995).

Relationships between controlling owners and outside directors can also represent social exchanges in which the interactions of the directors and the controlling party generate mutual obligations (Blau, 1964; Emerson, 1976). The family or lone founder's trust in and reciprocal obligation to a particular outside director reduce the likelihood of director exit. In contrast, should an outside director not fit well with the family's or lone founder's identity, leading to a lack of trust, the director will tend to leave early in his or her tenure. Similarly, the deeper the trust and reciprocal obligations developed, the more the outside director will also value the relationship, and the more motivated he or she will be to stay on the board.

Finally, family or lone founder concerns about losing control are likely to also reduce the willingness to "test the waters" with a new outside director. New outside directors always carry some risks for controlling owners, as their supportiveness cannot be assured. For these reasons, keeping a proven incumbent director is a less risky alternative. Thus, directors of family and lone-founder firms are less likely to exit their boards relative to directors of regular public firms.

Hypothesis 3. Outside directors of family and lone-founder firms are less likely to end their service (i.e., serve longer tenures) than outside directors of regular public firms.

Exit for Directors with Similar Experiences

While we predict that outside directors of family and lone-founder firms are less likely to exit relative to outside directors of regular public companies, this relationship may be accentuated among directors with like experience. We expect that outside directors with experience in other family firms (lone-founder firms) will be even less likely to exit family firm boards (lone-founder boards) than directors without such experience. As we have explained, outside directors with similar experiences as the controlling owners are likely to be perceived as lesser threats to control over the firm. Similarly, these directors are more likely to identify with the organization and work to support the firm and its owners (Hillman et al., 2008). As such, families and lone founders are likely to conclude that keeping outside directors with prior experience in similar firms will serve the broad objective of maintaining control.

Outside directors with relevant experiences and values are also likely to have individual motives to remain on a family or lone-founder board. These directors are likely motivated to maintain the relationship with the controlling owners (Lester & Cannella, 2006), as they perceive a stronger bond with the organization. The trust that develops from board service is also likely to benefit the outside director who is attempting to develop a mutually beneficial relationship (Pfeffer & Salancik, 1978). Here, again, the interactions of the director and the controlling owners create interdependences and reciprocal obligations, lowering the likelihood of exit.

Furthermore, social identity theory suggests that, as organizational identification increases, an individual becomes less likely to leave (Ashforth et al., 2008; Mael & Ashforth, 1995; Van Dick et al., 2004). In essence, an individual values and receives a benefit from the affiliation. Mael and Ashforth (1995: 312) explained that, "if one identified with the organization, then he or she would necessarily experience some psychic loss upon leaving the organization." Extending this to the director context, Withers et al. (2012b: 842) posited "a negative relationship between board members' identification with being a member of the organization and director exit from a board." For family and lone-founder firms, directors with previous experience in similar firms may more readily experience this strong identification and be more likely to remain on the board. Following these arguments, we suggest:

Hypothesis 4. The extent of an outside director's family firm experience (lone-founder-controlled firm experience) will be negatively associated with the likelihood of exit from a family-controlled firm's board (a lone-founder-controlled firm's board).

The Implications of Director Identification: The Investment of Institutional Investors

As noted above, early theory on the separation of ownership and control assumed that investors are atomistic and have the unitary goal of wealth maximization (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). One of the motivations of our own study is to highlight the disparate interests of family and lone-founder owners. Recently, researchers have begun to highlight the heterogeneous investment strategies of different institutional investors. Specifically, Brian Bushee and his colleagues (e.g., Bushee & Noe, 2000) have proposed dividing institutional investors into three non-overlapping categories based on their investment strategies. "Dedicated institutions" invest for the long term, and seek long-term value creation. "Transient institutions" invest for the short term, seeking to capitalize on investments quickly and then move to new investments. "Quasi-indexed institutions" use proprietary algorithms to identify stocks to buy as well as those to sell. This final category is often characterized as trading on private information, and that information can be almost anything (Bushee, 1998). Transient and quasi-indexed institutions trade frequently, but dedicated institutions do not.

We consider the influence of institutional investors as an extension of our control argument—an additional aspect of control that concentrated owners will seek to manage. The influence of institutional investors can be considered a form of corporate governance, as institutional investors sometimes have the ability to affect strategy with their presence (Boss, Connelly, Hoskisson, & Tihanyi, 2013; Connelly, Hoskisson, Tihanyi, & Certo, 2010a). Managerial activity and firm strategy may also determine the types of investors that are attracted to the firm. The interaction between owners seeking the type of investors they want and investors seeking the type of activity in which they expect the firm to engage establishes a dynamic to be managed. The dynamic between controlling owners and investors has advanced to consider the mutual appreciation and agreement regarding firm strategy, time-relevant goals, and controlling-ownership influence (Bushee, 2004).

Research is growing on the strategic influence that institutional investors may have on the firms in which they invest (for a review, see Connelly et al., 2010a). The literature suggests that institutional investors can influence important strategic outcomes such as R&D investments (Bushee, 1998; David, Hitt, & Gimeno, 2001), competitive strategic actions (Connelly, Tihanyi, Certo, & Hitt, 2010b), international diversification (Tihanyi, Johnson, Hoskisson, & Hitt, 2003), and CEO succession (Denis, Denis, & Sarin, 1997). Given the existing evidence, the ownership positions of different institutional investors may have direct implications for the family and lone founder's control of their firms. As such, family and lone-founder firms may seek ways to attract or repel investors who seek to exercise influence over strategy—specifically, dedicated institutional investors (Bushee, 2004). Conversely, all three types of institutional investors may view the different types of publicly traded firms with varying degrees of attractiveness, based on their fit with the overall investment strategy. We posit that the type of firms, their ties to other firms, and the specific directors (and their director identities) these firms maintain on their boards may have implications for the institutional investors they attract.

Each of the types of institutional investors (i.e., dedicated, transient, and quasi-indexed) is likely to perceive regular public firms as more attractive than family or lone-founder firms from an investment standpoint. Moreover, the family firm and its corresponding familial control may be perceived as the least attractive investment option. While dedicated investors share the long-term strategic focus of family firms, they seek to avoid the familial goals and focus on control deriving from the family firm's identity (Chrisman et al., 2005; Miller & Le Breton-Miller, 2011). Similarly, for transient investors, family firms may be perceived as less likely to produce consistent entrepreneurial growth. Further, when family firms do earn exceptional returns, they are less likely to distribute those earnings to non-family investors (Morck & Yeung, 2004). Conversely, from the family-firm perspective, institutional investors may be perceived as potential threats to familial identities and family control. For example, Bushee (1998, 2001) hypothesized and found that dedicated investors are more likely to engage in active monitoring, and, again, these investors may be particularly focused on the long-term strategic direction of the firm (e.g., Connelly et al., 2010b). Thus, family firms may be reluctant to seek out concentrated outside ownership of any kind, as it represents a potential threat to the owner's preservation of control and influence. By attracting or avoiding prospective institutional investors, family and lone-founder firms are better able to preserve their control and influence.

While regular public firms may be perceived as the best potential option across institutional investor categories, lone-founder firms may also be perceived as more attractive than family firms. In particular, the lone-founder firm's focus on growth and its entrepreneurial orientation (Miller et al., 2007) may make it more attractive than its family-controlled counterparts. Similarly, with the founder's identity tied to his or her firm's innovativeness, growth, and overall economic success (Dobrev &

Barnett, 2005), such firms may be willing to seek out large outside investments in order to fund the growth and innovation that produce legacies that carry on beyond the lone founder.

While the above discussion of theory would seem to suggest some specific predictions about ownership of the three types of institutional investors across family, lone-founder, and regular public companies, we are unable to make such a prediction because our methodology does not permit us to rigorously compare the three categories of firms. We use ownership percentage by family (lone founder), for example, to capture family firm (lone-founder firm) status, thus we are unable to test predictions about ownership percentage by others. We will, however, provide descriptive evidence.

While each of the three types of institutional investors may have differing preferences for investing in the any type of publicly traded firm, dedicated institutions may also be influenced by the experiences of a firm's directors when making their investment decisions, as these experiences may reflect how resistant the firm is to outside influence. Research on dedicated institutional owners suggests that, in contrast to transient and quasi-indexed institutions, they are often active in the governance of the firms in which they invest (Bushee, 1998; Connelly et al., 2010b; David et al., 2001). As such, the identities of outside directors may be signals that help dedicated institutions identify appropriate targets for investment (e.g., Certo, 2003; Chen, Hambrick, & Pollock, 2008). Put differently, director experience may help dedicated institutional investors gauge firm willingness to behave in ways that serve outside investor interests (Westphal & Zajac, 1998; Zajac & Westphal, 1995). As such, we focus on dedicated institutional investors to consider how director experiences might affect investment decisions.[5]

Firms with directors characterized by family-firm identities (as reflected in the directors' previous experiences) may reinforce the signal that these firms are more resistant to the outside influences of other investors. These directors may be perceived by the dedicated institutions as reflecting the family's desire to maintain control and as well as its emphasis on socioemotional benefits relative to shareholder-wealth maximization (Gomez-Mejia et al., 2007b, 2011). In this regard, dedicated institutions may perceive directors with family-firm experience as less focused on the traditional role of monitoring (Hillman & Dalziel, 2003; Hillman et al., 2008). Therefore, the extent of family-firm experience among a company's directors may be negatively associated with investment by dedicated institutional investors.

The difference between directors with family and those with lone-founder identities may be reflected in the dedicated investor's perception of what the involvement on a board signals about the focal firm. Directors with lone founder experience and reflecting the lone-founder identity may similarly be focused on organizational outcomes that align well with the interests of dedicated institutions (Bushee, 2001). Thus, while directors with lone-founder firm experiences may have identities that are sympathetic to the founder's desire for control, the entrepreneurial component of this identity may emphasize the long-term strategic growth and innovativeness that attract the investments of dedicated institutional owners (Block, 2012; Dobrev & Barnett, 2005; Le Breton-Miller et al., 2011; Miller & Le Breton-Miller, 2011). Outside directors with prior lone-founder firm experience may be perceived as possessing identities that align with monitoring as well as promoting growth that benefits shareholder value (Hillman et al., 2008).

Hypothesis 5. The extent to which a firm's outside directors have family-firm experience will be negatively associated with the proportion of shares held by dedicated institutional investors; whereas, the extent to which outside directors have lone-founder-firm experience will be positively associated with the proportion of shares held by dedicated institutional investors.

METHODS

Sample[6]

Our sampling procedure began with identifying the largest 1,000 publicly traded firms (largest in

[5] We emphasize director experiences over interfirm linkages because experiences are more persistent than interfirm linkages.

[6] Many of our sample firms have appeared in other studies, at least one of which one of the present authors has been associated with (Miller et al., 2007). However, our specific sample and the additional data we gathered have not been used in other published research. Still, readers are cautioned that many studies of family companies use very similar sampling techniques and classification methodologies (e.g., Anderson & Reeb, 2003; Villalonga &

net revenue) listed on Compustat each year between 1991 and 2005 (15 years). We retained each firm that was in the set for at least 10 of the 15 years. We then gathered information on each firm's board of directors and each firm's officers for each year for which data was available. We constructed a list of all officer and director names, their affiliations as outside directors and as officers, their ages, and the years they began their service as directors. These data originally came from proxy statements and Form 10-Ks filed by sample firms and made available through Compact Disclosure starting in 1989. So, while our sample frame involved the 15 years between 1991 and 2005, we gathered data between the years 1989 and 2005. We also used proxy statements to establish family and lone founder status. These were mostly made available through the EDGAR database on the SEC website, but, for years before EDGAR existed, we used the Q-file, a private investor information service that provides microfiche copies of SEC filings. We gathered accounting information from Compustat and stock-based information from the Center for Research on Securities Prices. There were 742 different firms in the sample. Of these, 145 were family controlled, 70 were lone-founder controlled, and 527 were regular public corporations. No family or lone founder owned more than one of our sample companies. The observations (firm-years) are fairly evenly spread between 1989 and 2005.

Identification of family and lone-founder firms. We began the identification process by visiting company web sites and accessing company histories at Hoover's on-line. Using these sites, we tried to find the name of the company's founder or founding family. Once we identified the family surname, we examined the list of beneficial owners of 5% or more of the firm's shares, listed on proxy statements, looking for owners, officers, or directors with the same surname as the company's founder. We also looked for familial relationships among the firm's large owners, officers, and directors—required by law to be revealed in proxy statements. Frequently, family-firm ownership is held by a family trust, but it is also common for one or more individuals to be listed as significant owners.[7] We identified any officers or directors of the same name, and then sought to confirm that they were the company's founder or related to the company's founder. We considered a family company to be any firm with 5% or more beneficial (voting) ownership held by a family member or members. The dummy variable, *family*, indicates the company's status (family or not). Lone-founder firms were coded as such when (a) 5% or more beneficial (voting) ownership was held by a single person, (b) that person was the founder of the company, and (c) no other person related to the founder was present as a significant owner, director, or officer of the company. We note that our combined definition is aligned with many other studies of publicly traded family corporations (e.g., Anderson & Reeb, 2004; Villalonga & Amit, 2006). However, only Miller et al. (2007) separated family from lone-founder firms (they refer to lone-founder firms as "entrepreneur-controlled").[8] To test the hypotheses presented earlier, we created two datasets with different levels of analysis. The first dataset was an unbalanced panel with the firm-year as the unit of analysis. This dataset was used to test Hypotheses 1 and 2 (on board composition) and Hypothesis 5 (on institutional ownership). The second dataset was structured as an event-history analysis, with the level of analysis being the individual director serving on a sample firm's board. This dataset was used to test Hypotheses 3 and 4. While the panel dataset is entirely at the firm level, the event-history dataset also includes variables at the director level (e.g., tenure, age, experiences).

Measures—Dependent Variables

Firm-to-firm interlocks occur in three types. First, "received interlocks" indicate the number of directors of each sample firm, each year, who were also officers or directors of another sample firm. Second, "neutral interlocks" are the number of directors of each firm, each year, who were also directors (but not officers) of other sample firms (neutral interlocks). Finally, "sent interlocks" are the number of each sample firm's officers, each year, who were directors of other sample firms. Regard-

Amit, 2006), so there is likely to be significant overlap between our sample and previously published samples.

[7] Dual classes of stock are also common. Here, the family or lone founder owns a separate class of stock with multiple votes per share. In those cases, we captured family or lone-founder ownership by the proportion of votes held.

[8] In analyses available from the first author upon request, we imposed a 10% ownership criteria for family and lone-founder firms, and those analyses yielded results quite similar to those reported here.

less of type, links to family firms represented the number of interlocks of any type that connected the focal firm to other family companies. Similarly, links to lone-founder firms (regular public companies) were the number of interlocks of any type that connected the focal firm to lone-founder firms (regular public companies).

To capture *family experience*, *lone-founder experience*, and *public experience* (executive or director experience with a family, lone-founder, or regular public company), we noted, for each of our directors, the number of years that the director had served as an executive or director for one of the other companies in our sample. If the director had no such experience, the corresponding experience variable was coded to "0." Note that this measure is dynamic—it changes as the director's experience changes. Additionally, for each director–firm combination, it captures experience at other firms, not the focal firm. These variables were used at the individual director level in the event-history dataset, as the level of analysis for that dataset is the director. For the panel dataset, we summed the number of years of each type of experience across all outside directors on the firm's board, each year. Note that categories are not mutually exclusive, as a single director can have all three types of experience. We log-transformed the experience measure (log(1 + experience)) because it was highly skewed and left-censored at 0.

For the event-history analysis of outside director turnover, one key input variable is time, which is central to all event-history methods. In our analyses, the director's tenure was the time variable. The dataset included one observation per outside director per year, and all independent variables were updated each year. For each director each year, we coded a dummy variable, *exit*, to "1" if the director terminated his or her service during the year, and "0" otherwise.

Measures—Control Variables

Our firm-level control variables included firm size and performance, as both the size of the firm and its performance indicate its prestige and attractiveness for outside directors (Finkelstein et al., 2009). *Firm size* was calculated by log-transforming the firm's market capitalization—the share price at close of the fiscal year multiplied by the number of shares outstanding. Firm performance was measured by return on assets (ROA), calculated as net income divided by total assets, and by *market to book*, a commonly used estimate of Tobin's Q, calculated as the market value of shares plus preferred stock divided by book value of assets (Bertrand & Schoar, 2003). We also included *board size* (the sum of insiders and outsiders), *director age*, and the *number of insiders* in some analyses. We coded *CEO duality* and *firm age* (number of years since founding), too. To capture some elements of firm strategy, we included *sales growth*, estimated as the average change in sales over the past two fiscal years. Finally, because both industry and time may represent considerable heterogeneity, we included dummy variables for industry in all analyses, and for year in our panel analyses. We did not include year dummy variables in the event-history analysis, as that approach models time measured as tenure and the inclusion of additional time-based variables is inappropriate (Box-Steffensmeier & Jones, 2004).

For the analyses of institutional investor behavior, we used data provided by Brian Bushee (made available to the public at http://acct.wharton.upenn.edu/faculty/bushee/IIclass.html). As Bushee's data is quarterly, we identified the percentage of outstanding shares held by each institutional investor in the fourth quarter of each year. We dropped any institution with less than a 1% stake in the company. We then summed the institutional ownership across each category for each firm, each year. The information on institutional ownership was not available for all of our sample firms and years, and, therefore, the sample size for the institutional investor analyses is smaller (n = 6,090) than the full cross-sectional sample (n = 10,533). The variables *dedicated*, *transient*, and *quasi-index* refer to the percentage of outstanding shares held by the given type of institutional investor in the fourth quarter of each firm-year.

Analytical Methodologies

As suggested above, we used two separate approaches to test our hypotheses. Most of our hypotheses are cross-sectional in nature (Hypotheses 1, 2, and 5). These were tested with generalized least squares (GLS) panel data regressions. Because the dependent variable is a non-negative count measure (and is frequently zero or a small positive number), we used a probit approach, widely noted for its robustness with censored and non-negative count-type data (see, e.g., Beckman, Haunschild, & Phillips, 2004; Chen et al., 2008; Derfus, Maggitti, Grimm, & Smith, 2008; McDonald & Westphal, 2003). We used GLS regressions to analyze the institutional ownership data as ownership was rarely 0 and sometimes approached its theoretical upper bound of 100. We used random effects estimators with robust standard errors, as fixed effects were ruled out because family and lone-founder control are essentially constants across time.

Our second methodology was an event-history analysis with the individual outside director as the level of analysis and director exit from the board as the dependent variable. Event-history is a well-established and widely used methodology to study the antecedents of discrete events like exit (Box-Steffensmeier & Jones, 2004; Tuma & Hannan, 1984). One of its key advantages is that it is not biased by right censoring. The problem with modeling tenure directly is that, inevitably, there are directors whose tenure has not ended by the close of the study. These observations bias the analysis, and the bias cannot be effectively adjusted for in a regular regression methodology (see Carroll & Huo, 1988). By modeling exit, we can avoid this problem entirely. And, as we noted earlier, modeling the likelihood of exit is effectively directly modeling tenure, as the two are tautologically linked (Tuma & Hannan, 1984).

We chose a Cox proportional hazard model of the following form:

$$\mathrm{h}_i(t) = h_0(t)\exp\left[\sum_k b_k X_{ik}(t)\right]$$

The benefit of the Cox model is that the form of the relationship between independent and dependent variables is unrestricted. So, the Cox model is both more general and more robust than some other approaches, such as gamma or exponential models (Box-Steffensmeier & Jones, 2004). Each outside director is included in the dataset each year that he or she served as a director. For each year, exit was coded as "1" (the director terminated service in the next year) or "0" (the director served through the end of the next year). Coded this way, the event-history model interprets exit = 0 as a censored observation. For the next year, independent variables were updated, as was the exit variable. Upon exit, the directorship was dropped from the dataset.

RESULTS

Descriptive statistics and correlations appear in Table 1. The means and standard deviations seem reasonable. As a further check for multicollinearity, we computed variance inflation factors (VIFs) for all of our models using ordinary least squares. The maximum VIF was 1.76, well under the maximum acceptable level of 10 (Kutner, Nachtsheim, & Neter, 2004).

TABLE 1
Descriptive Statistics and Correlations

Variable	*M*	*SD*	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1. Family	0.196	0.397	1																		
2. Lone Founder	0.086	0.281	−.15	1																	
3. Public	0.718	0.450	−.79	−.49	1																
4. CEO Duality	0.717	0.450	−.17	−.03	.17	1															
5. Firm Size	7.932	1.562	−.16	−.02	.15	.10	1														
6. Firm Age	55.299	43.168	−.02	−.24	.17	.09	.14	1													
7. ROA	0.042	0.062	.03	.06	−.07	−.01	.28	.03	1												
8. Mkt to Book	1.724	1.252	.00	.19	−.12	−.04	.35	−.04	.45	1											
9. Sales Growth	0.154	1.141	.00	.09	−.06	.00	−.02	−.06	.00	.05	1										
10. Board Size	10.751	3.871	−.07	−.14	.15	.05	.29	.16	−.03	−.09	−.04	1									
11. N Links	7.742	7.612	−.19	−.12	.24	.16	.44	.23	.03	.02	−.05	.48	1								
12. N Lnks Fam	0.991	1.420	.03	−.06	.01	.01	.18	.10	.00	.00	−.03	.31	.47	1							
13. N Links Fdr	0.421	0.906	−.06	.07	.01	.05	.20	.01	.03	.08	.00	.16	.35	.13	1						
14. N Links Pub	6.330	6.790	−.21	−.13	.26	.17	.43	.24	.03	.01	−.05	.46	.98	.30	.23	1					
15. Fam Exp	1.075	1.239	.18	−.08	−.10	.00	.25	.10	.02	.03	−.02	.24	.33	.59	.14	.22	1				
16. Fdr Exp	0.537	0.955	−.11	.23	−.05	.05	.25	−.05	.03	.12	.00	.13	.24	.11	.69	.16	.20	1			
17. Pub Exp	2.526	1.699	−.19	−.09	.22	.12	.44	.20	.02	.06	−.06	.36	.59	.22	.23	.59	.40	.31	1		
18. Dedicated	8.237	8.289	−.07	−.03	.08	.00	.01	−.01	−.09	−.07	−.04	−.07	.00	.09	.04	−.02	.06	.10	.11	1	
19. Transient	5.566	6.046	−.04	.03	.03	.00	−.22	−.18	−.04	−.01	.12	−.21	−.19	−.12	−.02	−.19	−.07	.01	−.10	.09	1
20. Quasi-Index	22.504	11.412	−.07	−.09	.11	.02	−.14	.00	−.12	−.16	−.10	−.12	−.12	−.10	−.03	−.11	.02	.00	.10	.06	.16

Note: $n = 10{,}533$ except for institutional ownership in items 17–19, for which $n = 6{,}090$. Correlations $> |.022|$ are significant at $p < .05$.

Our study asserts that lone-founder firms will be more entrepreneurial, growth oriented, and concerned about generating high returns. Table 2 provides descriptive evidence to support this assertion, reporting ANOVA comparisons of sales growth, market-to-book ratio, and ROA across the three categories of firms. Table 2 indicates that lone-founder firms have higher growth than either family or regular public companies ($p < .001$), higher market-to-book ratios than either family or regular public companies ($p < .001$), and higher ROA than regular public companies ($p < .001$). This evidence aligns well with that of Miller et al. (2007), whose study was specifically about performance comparisons across the three categories of firms.

Hypothesis 1 predicted that family, lone-founder, and regular public companies will tend to have more interlocks to firms of the same type and fewer links to firms of a different type. Table 3 provides the evidence, in two panels. In the left panel (Models 1–4), the omitted category is regular public companies, and, in the right panel (Models 5–8), the omitted category is family companies. Both family and lone-founder firms tend to have fewer interlocks than do regular public firms (Model 1: $b = -.325$; $p < .05$ and $b = -.527$; $p < .01$, respectively). Family firms have more interlocks to other family firms (Model 2: $b = .648$; $p < .001$), but they also have fewer interlocks to lone-founder firms (Model 3: $b = -.652$; $p < .001$) and regular public firms (Model 4: $b = -.813$; $p < .001$). Lone-founder firms have more ties to other lone-founder firms (Model 3: $b = .791$; $p < .001$) than do regular public companies, but fewer ties to family companies (Model 6: $b = -.714$; $p < .01$) than do family firms. The right panel also indicates that regular public firms are more likely to link to other regular public firms (Model 8: $b = .813$; $p < .001$), less likely to link with family firms (Model 6: $b = -.648$; $p < .001$), and more likely to interlock with lone-founder firms (Model 7: $b = .652$; $p < .001$), all relative to family firms. Thus, we find strong support for Hypothesis 1.

Hypothesis 2 predicted that, after controlling for board size, all three types of firms (family, lone founder, and regular public) would have outside directors with more experience in the same type of firm. Table 4 provides the first part of the evidence in two panels—the left panel has regular public as the omitted category while the right panel has family as the omitted category. The table shows that outside directors on family firm boards represent significantly more family-firm experience than regular public firms (Model 1: $b = 1.297$; $p < .001$) and significantly less lone-founder experience and regular public experience than regular public firms (Model 2: $b = -.710$; $p < .001$ and Model 3: $b = -1.403$; $p < .001$ respectively). While lone-founder firms have no more or less family experience on their boards than do public firms (Model 1: $b = -.097$; *ns*), they have more lone-founder experience and less public experience than do public firms (Model 2: $b = 2.162$; $p < .001$ and Model 3: $b = -.879$; $p < .01$ respectively). Finally, the right panel of Table 4 indicates that lone-founder firms have less family experience on their boards (Model 4: -1.394; $p < .001$) and more lone-founder experience (Model 5: $b = 2.872$; $p < .001$) than family firms. This evidence strongly supports Hypothesis 2.

Hypothesis 3 predicted outside directors of family and lone-founder firms would be less likely to end their service than outside directors of regular

TABLE 2
ANOVA Comparison of Family, Lone Founder, and Public Companies

Dependent Variable	*df*	Error *df*	*F*		Type	Least Squares Means	Lone Founder vs Family	Lone Founder vs Public
					Family	0.161		
Sales Growth	2	10502	39.68	***	Lone Founder	0.472	***	***
					Public	0.114		
					Family	1.729		
Market to Book	2	10502	203.29	***	Lone Founder	2.501	***	***
					Public	1.629		
					Family	0.048		
Return on Assets	2	10502	15.01	***	Lone Founder	0.054	*ns*	***
					Public	0.039		

*** $p < .001$

TABLE 3
GLS Probit Regressions for Directorship Links to Other Firms[a]

Variable	Regular Public is the Omitted Category				Family is the Omitted Category			
	Model 1 N Links	Model 2 N Links Fam	Model 3 N Links Fdr	Model 4 N Links Pub	Model 5 N Links	Model 6 N Links Fam	Model 7 N Links Fdr	Model 8 N Links Pub
Family	−0.325*	0.648***	−0.652***	−0.813***				
Lone Founder	−0.527**	−0.067	0.791***	−0.683***	−0.201	−0.714**	1.443***	0.129
Public					0.325*	−0.648***	0.652***	0.813***
CEO Duality	0.024	−0.009	0.125*	−0.015	0.024	−0.009	0.125*	−0.015
Firm Size	0.169***	0.119***	0.058*	0.170***	0.169***	0.119***	0.058*	0.170***
Firm Age	0.001	0.002	0.000	0.000	−1.022*	0.002	0.000	0.000
ROA	−1.022*	−0.846*	−0.168	−0.832*	0.001	−0.846*	−0.168	−0.832*
Market to Book	−0.040	−0.049*	−0.003	−0.070**	−0.040	−0.049*	−0.003	−0.070**
Sales Growth	−0.030	−0.007	0.017	−0.039	−0.030	−0.007	0.017	−0.039
Board Size	0.232***	0.147***	0.096***	0.284***	0.232***	0.147***	0.096***	0.284***
Industry Controls	Included	Included	Included	Included	Included	Included	Included	Included
Year Controls	Included	Included	Included	Included	Included	Included	Included	Included
Intercept	−1.518†	−4.387***	−4.721***	−2.314**	−1.844*	−3.740***	−5.373***	−3.126***
Log-likelihood	−2234.8	−4829.5	−3728.3	−3107.9	−2234.8	−4829.5	−3728.3	−3107.9
Wald χ^2	661.3***	693.5***	326.3***	1142.8***	661.3***	693.5***	326.3***	1142.8***
df	34	34	34	34	34	34	34	34

[a] GLS = generalized least squares.
† $p < .10$
* $p < .05$
** $p < .01$
*** $p < .001$

public firms. Table 5 provides evidence for Hypothesis 3. Note that the coefficients reported in Tables 5 and 6 are odds ratios, and are directly interpreted as the effects of a 1-unit change in the independent variable on the likelihood of observing the outcome variable—in our case, exit from a board. Odds ratios greater than 1 indicate positive relationships and odds ratios of less than 1 indicate negative relationships. Directors of family and lone-founder firms serve longer tenures than do those of regular public firms (exit likelihoods are lower). The odds ratios for family and lone founder in Model 1 of Table 5 are .607 ($p < .001$) and .847 ($p < .001$). This suggests that, in any given year, family directors are nearly 40% less likely to exit than are regular public company directors (1 − .607) and lone-founder directors are about 15% less likely to exit than are regular public company directors (1 − .847). Thus, we find strong support for Hypothesis 3.

Hypothesis 4 predicted that outside directors of family companies with family-company experience at other firms and outside directors of lone-founder companies with experience at other lone-founder firms would serve longer tenures than those without such experience. The evidence is displayed in Table 5. Note, first, that the coefficients for family experience and founder experience in Model 2 suggest that the main effects of all three kinds of experience reduces exit ($b = .848$; $p < .001$ for family; $b = .896$; $p < .001$ for lone founder; and $b = .921$; $p < .001$ for regular public). In Model 3 of Table 5, the interaction between family firm and family-firm experience is significant (odds ratio = .707; $p < .001$) indicating slower exit for family-firm experienced directors serving on family company boards. For interpretation, an odds ratio of .707 indicates a nearly 30% lower likelihood of exit for a family-firm experienced director serving on a family-firm board, relative to an identically experienced director on a non-family-firm board. Similarly, in Model 3 of Table 5, the interaction between lone-founder firm and lone-founder experience is significant (odds ratio = .519; $p < .001$), indicating slower exit among lone-founder experienced directors on lone-founder boards—about 48% lower exit likelihood than an identically experienced director on a non-lone-founder board. Finally, the interaction between regular public firm and regular-public firm experience is significant (Model 6 of Table 5), with an odds ratio of .903 ($p < .001$) indicating that directors with public firm experience are less likely to exit regular-public firm boards—nearly 10% less likely to exit in any given year than an identically

TABLE 4
GLS Probit Regressions for Experience of Outside Directors[a]

	Regular Public is the Omitted Category			Family is the Omitted Category		
Variable	Model 1 Fam Exp	Model 2 Fdr Exp	Model 3 Pub Exp	Model 4 Fam Exp	Model 5 Fdr Exp	Model 6 Pub Exp
Family	1.297***	−0.710***	−1.403***			
Lone Founder	−0.097	2.162***	−0.879**	−1.394***	2.872***	0.524†
Public				−1.297***	0.710***	1.403***
CEO Duality	0.053	0.077	0.228***	0.053	0.077	0.228***
Firm Size	0.171***	0.128***	−0.852***	0.171***	0.128***	−0.852***
Firm Age	0.002	−0.003	0.004*	0.002	−0.003	0.004*
ROA	−0.305	−0.225	4.269***	−0.305	−0.225	4.269***
Mkt to Book	−0.098***	−0.017	0.141***	−0.098***	−0.017	0.141***
Sales Growth	0.005	0.027	−0.011	0.005	0.027	−0.011
Board Size	0.171***	0.164***	0.209***	0.171***	0.164***	0.209***
Industry Controls	Included	Included	Included	Included	Included	Included
Year Controls	Included	Included	Included	Included	Included	Included
Intercept	−8.249***	−17.724	−16.782	−6.952***	−18.434	−18.185
Log-likelihood	−4255.9	−3217.4	−2561.2	−4255.9	−3217.4	−2561.2
Wald χ^2	1346.1***	961.8***	1006.1***	1346.1***	961.8***	1006.1***
df	34	34	34	34	34	34

[a] GLS = generalized least squares.
† $p < .10$
* $p < .05$
** $p < .01$
*** $p < .001$

experienced director on a non-regular-public firm's board. These results strongly support Hypothesis 4.

We made no formal prediction about ownership of the three types of firms by institutional investors, but Table 6 provides descriptive evidence that all three types of institutional investors own lower proportions of shares in family companies than in regular public companies. We note again, however, that, because family ownership was used to identify family control, this evidence must be interpreted with caution and does not represent a rigorous test of any prediction.

Finally, Hypothesis 5 posited that the shares held by dedicated institutional investors in any type of firm would be negatively related to the level of family-firm experience among that type of firm's directors, and positively related to the level of lone-founder firm experience among that type of firm's directors. As indicated in Table 6, the extent of family-firm experience is significant and negatively related to the shares held by dedicated investors ($b = -.180$; $p < .05$ in Model 3 of Table 6), while lone-founder experience is positively and significantly related to dedicated institutional investment ($b = .226$; $p < .05$, also in Model 3 of Table 6). Thus, Hypothesis 5 is supported.

A set of predictions that flows naturally from our logic is that family-firm experienced directors on family-firm boards will be disliked by dedicated institutional investors, and lone-founder experienced directors on lone-founder boards will be favored by dedicated institutional investors. While we did not make formal predictions about these associations, we did run analyses parallel to those of Table 6, but with interactions between family company and family company experience, and between lone-founder company and lone-founder company experience. Neither of the interactions was significant.

DISCUSSION

We set out to unpack the term "family firm" to better understand how the identity of some public company control structures manifest as organizational identity. We took the long-standing category of "family" companies (Anderson, Duran, & Reeb, 2009; Villalonga & Amit, 2006) and described how it actually consists of two different kinds of companies with distinct identities. Although both types of minority owners (family and lone founders) prioritize maintaining control and influence, the in-

TABLE 5
Cox Proportional Hazard Regressions Dependent Variable: Outside Director Exit Coefficients are Odds Ratios

	Omitted Category: Public Companies			Omitted Category: Family Companies		
Variable	Model 1 Director Exit	Model 2 Director Exit	Model 3 Director Exit	Model 4 Director Exit	Model 5 Director Exit	Model 6 Director Exit
Family	0.607***	0.611***	0.635***			
Lone Founder	0.847***	0.859**	0.914*	1.396***	1.405***	1.476***
Public				1.648***	1.636***	1.703***
CEO Duality	0.947*	0.949*	0.950*	0.947*	0.949*	0.950*
Firm Size	0.954***	0.962***	0.961***	0.954***	0.962***	0.962***
ROA	0.500***	0.494***	0.489***	0.500***	0.494***	0.489***
Mkt to Book	1.002	1.002	1.003	1.002	1.002	1.003
Sales Growth	1.019*	1.019*	1.018*	1.019*	1.019*	1.019*
Board Size	1.038***	1.036***	1.037***	1.038***	1.036***	1.036***
N Insiders	1.027***	1.023***	1.023***	1.027***	1.023***	1.023***
Director Age	1.039***	1.040***	1.040***	1.039***	1.040***	1.040***
N Links	1.003†	1.007***	1.007***	1.003†	1.007***	1.007***
Fam Exp		0.848***	0.895***		0.848***	0.848***
Fdr Exp		0.896**	0.967		0.896**	0.969
Pub Exp		0.921***	0.916***		0.921***	1.002
Fam × FamExp			0.707***			
Fdr × FdrExp			0.519***			0.521***
Pub × PubExp						0.903***
Industry Controls	Included	Included	Included	Included	Included	Included
Log likelihood	−95337.8	−95258.0	−95227.6	−95337.8	−95258.0	−95234.4
Likelihood ratio χ^2	1898.5	2058.1	2118.9	1898.5	2058.1	2105.2
df	20	23	25	20	23	25

† $p < .10$
* $p < .05$
** $p < .01$
*** $p < .001$

tentions and objectives of the two groups differ sharply, and the differences are reflected in their boards. While we were unable to observe owner control and influence directly, the tendency for family and lone-founder firms to link to other similar firms, and to avoid linkages to non-similar firms, provides support for our theoretical arguments. Similarly, the fact that our sample of family and lone-founder firms tended to employ outside directors with prior experiences in similar firms supports our assertion that these two kinds of firms identify with others of their same type. Our evidence on director exit suggests both stronger organizational identities and trusting relationships are more likely to emerge between the directors of such firms (family and lone founder) and their powerful owners (Lorsch & MacIver, 1989). Finally, our description of the preferences of institutional investors for these different types of firms, and our evidence about dedicated owners' preferences for directors with lone-founder experience, offers support for both the distinction between regular public, family, and lone-founder firms and the role that director identities, as reflected in experience, may have on critical organizational outcomes.

Our study draws upon the concept of identity, in contrast to upper-echelons research, which links knowledge, skills, and abilities to decision making. Recent research highlights director identity as an underlying motivator behind directors' performance of their duties (Golden-Biddle & Rao, 1997; Hillman et al., 2008). Our study shows that identity theory provides a microfoundation to more directly understand why certain types of firms select certain types of directors. Readers may note that similarity–attraction theory would make predictions similar to ours (Festinger, 1954; Harrison, Price, & Bell, 1998; Westphal & Zajac, 1995). However, the similarity arguments are closely aligned with social categorization theory—often viewed as a subset of identity theory (see Hogg et al., 1995: 259). We assume that organizational identity is the driver in the same way that Westphal and Zajac (1995) suggested that it is being a part of a demographic

TABLE 6
GLS Regressions for Ownership by Three Types of Institutional Investors Dependent Variable: Proportional Share Ownership by Investor Category[a]

Variable	Ownership by Dedicated Institutions			Ownership by Transient Institutions			Ownership by Quasi-Indexed Institutions		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Family	−2.695***	−2.707***	−2.489***	−1.118**	−1.220**	−1.260**	−2.920***	−2.996***	−2.883***
Lone Founder	−1.836†	−1.930†	−1.882†	−2.253***	−2.488***	−2.457***	−3.313*	−3.544**	−3.230*
CEO Duality	−0.021	−0.022	−0.011	−0.017	−0.028	−0.018	−0.063	−0.063	−0.065
Firm Size	−0.022	−0.035	−0.062	−0.747***	−0.658***	−0.701***	−1.016***	−1.050***	−1.024***
ROA	−2.513	−2.504	−2.528	4.700***	4.440**	4.557**	−3.784	−3.717	−3.736
Mkt to Book	−0.387***	−0.385***	−0.381***	0.393***	0.370***	0.394***	−0.418**	−0.410**	−0.421**
Sales Growth	−0.070	−0.073	−0.044	2.569***	2.493***	2.516***	−0.388	−0.386	−0.378
Board Size	−0.017	−0.033	−0.084*	−0.022	0.016	0.054	−0.051	−0.090†	−0.078
N of Insiders	−0.071	−0.062	−0.003	−0.068	−0.098*	−0.149**	0.013	0.036	0.041
Firm Age	−0.007	−0.007	−0.007	−0.019***	−0.017***	−0.018***	−0.012	−0.012	−0.012
N Links Fam		0.073			0.035			0.182†	
N Links Fdr		0.128			0.282***			0.261†	
N Links Pub		0.003			−0.073***			0.011	
Fam Exp			−0.180*			0.055			0.011
Fdr Exp			0.226*			0.209*			−0.154
Pub Exp			0.291**			−0.378***			0.139
Dedicated				−0.011	−0.011	−0.009	−0.078***	−0.079***	−0.078***
Transient	−0.035*	−0.036*	−0.033*				−0.109***	−0.110***	−0.107***
Quasi-Index	−0.043***	−0.043***	−0.043***	−0.027***	−0.027***	−0.026***			
Industry									
Year Controls									
Intercept	5.420	5.687	6.361	9.655***	8.988***	8.516***	20.660***	21.327***	21.012***
Wald χ^2	610.0***	611.6***	627.4***	405.4***	432.8***	432.6***	1797.7***	1807.1***	1799.1***
df	37	40	40	37	40	40	37	40	40

Note: $n = 6{,}077$.
[a] GLS = generalized least squares.
† $p < .10$
* $p < .05$
** $p < .01$
*** $p < .001$

category (and sharing it with the CEO) that drives that motivation to engage in board activities.

The nuance between family and lone-founder control becomes more important as we consider the likely goals of each type. The identification of the owner drives how the organization manifests and maintains control. While the ultimate goal of the family is to pass control of the organization on to future generations (Gomez-Mejia et al., 2011), lone founders strive to protect their control and influence, but without the involvement of other family members (Mace, 1971; Miller et al., 2007). Reflecting these different firm-level identities, our study provides evidence that publicly traded family and lone-founder firms are more likely to have links to other similar type firms. These firms also are less likely to interlock with dissimilar firms. We further find that family and lone-founder firms have more directors with previous similar-firm experience and fewer directors with dissimilar-firm experience. We also find that outside director tenure in family and lone-founder firms is higher than tenure at regular public firms (exit likelihood is lower). We also find that directors with similar experience are more likely to have longer tenures across the three firm types. Overall, we find strong support for the identity theory predictions highlighting the differences between family and lone-founder firms.

Finally, our examination of institutional investors and their proportion of ownership in these different types of firms underscores an important outcome reflective of the control that lone-founder and, in particular, family firms attempt to maintain. Our findings that dedicated owners may perceive director experience differently depending on whether the experience is in family or lone-founder firms offers further insights into the important demarcation among these different types of firms. We find (descriptively) that family firms have fewer shares owned by all three types of institutional investors. Conversely, lone-founder firms are more similar to regular public firms in terms of ownership by dedicated and transient institutional investors. We posit that this similarity may be important because of the growth prospects and entrepreneurial focus within both of these firms relative to family firms. As such, directors with family experience may signal that shareholder value, in the traditional sense, may be a lower priority relative to other outcomes (e.g., socioemotional wealth). Conversely, directors with lone-founder experience may provide a signal that the board is focused on long-term entrepreneurial growth that aligns with shareholder value creation.

Contributions

We promised a number of contributions. First, we contribute to the growing literature on the difference between publicly traded firms that are controlled by lone-founders or founding families (Miller et al., 2007; Villalonga & Amit, 2006). We build on the more fine-grained categorization brought forth by Miller et al. (2007) to distinguish between family owners and lone founders with no other family members involved. We posit that these two types of firms have distinct organizational identities. We show that, although both types of owners value maintaining control, this desire manifests differently based on their different organizational identities. Our study supports the notion that owner-based social identity influences strategic decisions and risk-taking behaviors within the firm (Fiss & Zajac, 2004; Gomez-Mejia et al., 2007b; Miller, Le Breton-Miller, & Lester, 2005).

Second, we contribute to the director interlock literature by considering how owner control might affect ties to other similar and dissimilar firms. Lester and Cannella (2006) suggested that family firms preserve and sustain family control by networking with similar firms, and predicted the same for lone-founder firms. Our evidence provides support for this prediction. We also predicted fewer linkages to firms of a different type, and this prediction was supported for both lone-founder and family firms. In this regard, our study adds to the interlock literature by showing how firms may link with similar types of firms and avoid firms that are dissimilar in order to ensure that the objectives of the dominant owners are supported. However, we also point out that firms may select particular *individuals* because of their specific expertise, experience, and outlook (i.e., experiences with firms of a similar identity), rather than because of the firms that they represent (the interlocks involved) or the specifics of director ingratiatory behavior (Westphal & Stern, 2006, 2007). Directors with specific types of experience may provide contextual expertise and knowledge. Further, their value systems are likely supportive of (and sensitive to) the challenges of balancing owner priorities for continued control (for family firms) and supportive of the entrepreneurial identity (for lone-founder firms).

Third, we add to the growing body of research on director identity and its effects on organizational outcomes. Hillman et al. (2008) used the concept of director identity and identification to better explain director motivation. From the social identity perspective, these authors suggested that directors with strong organizational identification are more likely to provide benefits to their firms relative to directors with weaker organizational identification. We add theoretical nuance to this argument by suggesting that family and lone-founder firms may seek out directors whose identification with the organization may protect the controlling owners' interests and influence. These firms offer a unique context for considering director identities as they are dual-identity organizations composed of both business and family or lone-founder identities (Foreman & Whetten, 2002; Sundaramurthy & Kreiner, 2008). Further, we extend the director identity literature by showing how firms seek out directors who can readily develop strong organizational identification. Our evidence supports the notion that firms seek directors with prior experience at firms with similar identities, and these individuals are more likely to have longer tenures once selected.

Finally, our study delved into an important outcome directly related to our focus of organizational control—the behavior of institutional investors with respect to these different types of firms. The recognition of the influence and involvement of institutional investors on not only corporate governance but organizational strategy has continued to grow (Connelly et al., 2010a). While the focus of much of this research is on the influence of institutional investors on organizational outcomes, far less research considers what may attract or repel the investments of these institutional owners (Bushee, 2004). Our study integrates research on director identities (e.g., Hillman et al., 2008; Le Breton-Miller & Miller, 2008; Miller et al., 2011) with research on institutional investors (e.g., Bushee, 1998, 2004) to posit that director experience, as reflective of director identity, offers a critical signal to outside investors regarding a firm's governance and shareholder orientation and its resistance to outside influence.

Future Research

We believe our study provides a foundation for several potentially fruitful areas of future research. While our research offers an initial perspective on how family and lone-founder firms structure their boards to preserve their identity through control and influence, future research may examine other governance decisions. For example, does the desire to preserve control affect other governance mechanisms, such as leadership structure and CEO duality? Do family and lone-founder firms staff their boards with specific types of directors (e.g., community influentials or support specialists—see Hillman, Cannella, & Paetzold, 2000; Jones et al., 2008) who may be more sympathetic to the family or founder's desires to maintain control and influence?

Another important area for future research may be the ways in which generational effects influence how the family attempts to preserve control and influence, and, in turn, the board's role in this process. As a family firm moves through generational phases, its governance needs and board characteristics likely change (Filatotchev & Wright, 2005). As Schulze, Lubatkin, and Dino posited, "Family-firm ownership tends to get dispersed in a somewhat episodic and 'stepwise' fashion" (2003: 182). As family firms progress through the generational stages, they may become more focused on economic returns and less on maintaining family control (Gersick, Davis, McCollom, & Lansberg, 1997; Gomez-Mejia et al., 2007a).[9] This suggests several research questions. For example, how do family firms utilize their boards to ensure organizational survival across generational transitions? Are there important differences between the board configurations of first- versus second- and third-generation family firms?

Finally, our findings regarding directors with family and lone-founder experience offers a number of questions regarding director experience and the influence it may have on important strategic outcomes. For example, board research has long considered the importance of the resources and experiences directors may bring to a board (Lorsch & MacIver, 1989; Pfeffer & Salancik, 1978). Reflecting this observation, research recognizes the heterogeneous resources that different director types may provide (Hillman et al., 2000), as well as the different experiences directors may bring with them that influence firm strategies (Carpenter & Westphal, 2001). In particular, research may consider whether these different types of experience influence the directors' willingness to engage in traditional board functions (Hillman & Dalziel, 2003). Are directors with family-firm experience perceived by executives as less likely to engage in monitoring and therefore more likely to be "supportive" directors?

Limitations

Despite its contributions, our study has several limitations. First, our sample context is limited to publicly traded companies, and our findings are not generalizable to private firms. Second, the identification of family and lone-founder ownership presented somewhat of a challenge. Although our criteria were aligned with previous research, our efforts may not have yielded the full set of family and lone-founder firms in our target population. Additionally, some family firms in late stages of development involve a large number of family members (Gersick et al., 1997), but we were only able to identify those who held formal officer or director positions. Lone-founder firms are inherently linked to the lives of their founders—when the founder passes, the firm transitions to another form of control. In our sample, we observed four such transitions (three from lone founder to family, one from lone founder to regular public). We also observed ten transitions from family to regular public. These counts are too small for us to analyze separately, but we hope future researchers will take up the challenge.

Importantly, we only captured director experiences in the context of our sample firms. If directors had experiences on boards that were not part of our sample—a likely situation—that experience was not considered. To resolve this difficult issue, researchers will have to classify all sample firms

[9] This statement is likely limited to publicly traded family companies. A number of European businesses have been family controlled for many generations. For example, the Frescobaldi family of the Tuscany region in Italy have been growing grapes and making wine for about 900 years (Fisher, 2005).

into family, lone founder, and regular public categories, but will also have to classify all the firms with which sample directors have experience—a daunting challenge.

We make a number of assumptions about the differences in family and lone-founder firms, and, while we ground these in prior research, the differences were not directly measured. We hope that future studies will measure aspects of organizational identity directly. Finally, we could have used different criteria for categorizing our sample firms—more or less ownership, for example. Our robustness checks help to assuage this concern. In spite of the limitations, we are encouraged by the results and believe that our conclusions could be generalized to other large, public corporations.

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