Primary and Secondary Agency conflicts in Family Firms: An empirical investigation

Saptarshi Purkayastha
Strategic Management Area
Indian Institute of Management Calcutta
033/24678300-06 (Ext-787) (w)
saptarshi@iimcal.ac.in

and

Rajaram Veliyath
Coles College of Business
Kennesaw State University
rveliyat@kennesaw.edu
(470) 578 3329 (w)

March, 2016

Primary and Secondary Agency conflicts in Family Firms: An empirical investigation

Abstract

Dominant family ownership is expected to reduce the extent of Primary (Principal-Agent) Agency problems because of added monitoring efficiencies, while increasing Secondary (Principal-Principal) Agency problems because of the voting power and influence arising from concentrated ownership by the family. Separately, the extent of the family's management control of the firm could increase Primary Agency conflicts when the family agents managed the firm for the family's benefit while ignoring the interests of the other owners (principals). However, in this situation Secondary Agency conflicts arising from the family's ownership would not arise since the family does not have a dominant ownership position. The four governance contexts where these two types of Agency problems would vary were examined in a sample of 1004 public Indian family businesses examined during the ten year period from 2003 to 2012. Tentative support was found for the propositions that dominant family ownership reduced Primary Agency conflicts while concurrently increasing Secondary Agency conflicts. Likewise, dominant management control by family members could increase Primary Agency conflicts while not materially impacting Secondary Agency conflicts. Some of the counter-intuitive results may be because the paper isolated and examined only the family's influence in the four identified governance contexts, without controlling for the potential confounding influences of other dominant ownership blocks types.

Keywords: Family Business; Primary Agency conflicts; Secondary Agency conflicts;

Primary and Secondary Agency conflicts in Family Firms: An empirical investigation

There are two different types of agency problems described in the literature. The primary agency (or principal-agent) problem is where the agent (i.e., firms managers) have different goals and priorities from those of the principals (i.e., firms owners). Such agency conflicts arise either from adverse selection or from moral hazard (Eisenhardt, 1989). Consequently these agents take decisions and undertake activities for the firm that sub-optimizes the welfare of the principals (Eisenhardt, 1989; Fama, 1980; Fama & Jensen, 1983; Hillman & Dalziel, 2003; Jensen & Meckling, 1976). Because firm ownership is fragmented and is widely dispersed and since managers have effective day-to-day control of the firm's operations, they can opportunistically exploit information asymmetries that exist between them and the principals to appropriate the firms' returns for their benefit. Widely dispersed shareholders lack the ability or wherewithal to perfectly monitor and control the activities of opportunistic agents (managers).

Managers can benefit through outsized increases in their compensation triggered by increased firm size (Baker & Hall, 2004; Geiger & Cashen, 2007; Wright, Kroll, & Elenkov, 2002), and from reductions in their employment risks (Rajgopal, Shevlin, & Zamora, 2006). Employment risks are reduced because of the increased size and complexity of the firm and its constituent businesses as a result of diversification, and from managerial misuse (through perquisite consumption) of the firm's free cash flows (Jensen, 1986). Instead of investing the cash flows in value-adding opportunities that benefit shareholders, and/or from not returning the excess cash to shareholders, the agents invest the cash in non-value adding activities. In addition, managerial entrenchment (arising from primary agency) makes it difficult to replace managers. Entrenched

managers can create added costs through making specific investments that render their expertise indispensable or reduce their personal risks (Shleifer & Vishny, 1989), choosing capital structures that alleviate the pressure from creditors (Berger, Ofek & Yermack, 1997) and establishing anti-takeover mechanisms (Bebchuk, Cohen & Farrell, 2009: Gompers, Ishii & Metrick, 2003) that shield them from the disciplining mechanisms of the external market for corporate control. The principals bear these primary agency costs (i.e., the sum of incentive costs, monitoring costs, enforcement costs, and individual financial losses) in firms, especially in those firms with inadequate governance mechanisms. These costs created by conflicts between owners and managers are at the root of the primary (principal-agent) agency problem, and they have merited greater attention in the literature (e.g., Eisenhardt, 1989; Jensen & Meckling, 1976). Specifically, family firms are susceptible to primary agency costs through both of adverse selection (i.e., by appointing less qualified family member to managerial positions over better qualified candidates) and moral hazard (through the family affiliated agent not putting in the effort required to perform the job effectively).

A different type of agency cost arises from secondary agency conflicts that occur between owners (i.e., principal-principal agency). This occurs when a controlling or dominant shareholder group influences firms to make decisions that reduces value for all shareholders and sometimes also enables misappropriation of the firms' returns at the expense of minority shareholders (Villalonga & Amit, 2010; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Secondary agency problems among firm principals can occur because of shareholder heterogeneity, and the consequent misalignment of goals and interests among principals (Bagwell, 1992). This often results in poor strategic choices by the firm that benefits some (or certain groups of) shareholders at the expense of others. In family owned firms, the interests of the family shareholders may

diverge from those of other shareholders on a variety of dimensions such as the professionalization of management, strategic choices of the firm, risk taking, acquisitions and corporate diversification, international diversification, capital structure, R&D investments, corporate governance practices, the role of the board and relationships with other stakeholders (Gomez-Mejia, Cruz, Berrone, and De Castro, 2011). When choices that are intended to protect the family's interests (such as socio-emotional wealth) are made along the above dimensions, those choices may not support value-maximization economic outcomes that benefits all shareholders. Consequently, family firms experience costs arising from principal-principal agency conflicts.

Thus there are two important considerations that differentiate primary agency conflicts and secondary agency conflicts. The first is that primary agency theory places the onus for agency conflict and concomitant costs on the divergence of goals and interests between the firms' managers and its owners (Masulis, Wang & Xie, 2007). However, managers of publicly listed firms are heavily influenced by powerful blockholders such as institutional investors or founders and their families (Barclay & Holderness, 1989; Devers, McNamara, Haleblian, & Yoder, 2013; Filatotchev & Wright, 2011; Harford, Jenter, & Li, 2007; Villalonga & Amit, 2006). Moreover, the increased use of ownership stakes to align managers' and shareholders' interests (intended to reduce primary agency problems) has created a new set of principals who have disproportionate control (and derive disproportionate benefits) from their share ownership (Alessandri & Seth, 2014). Both blockholder principals and management principals could manipulate the strategic direction a firm for their potential benefit (Faccio & Lang, 2002; Masulis, Wang & Xie, 2009; Young, Peng, Ahlstrom, Bruton & Young, 2008). The benefits accruing to these different classes of principals could also be non-pecuniary in nature. Influential principals may expropriate value through practices like tunneling, asset stripping, related-party transactions, or other types of

diversionary tactics employed by the dominant shareholder group (Bae, Kang & Kim, 2002; Bertrand, Mehta & Mullainathan, 2002; Durnev & Kim, 2005; Faccio, Lang & Young, 2001). Many of the above strategic choices also have the potential to advance personal, family, or political agendas of a dominant shareholder group (like the family) at the expense of firm wealth (Backman, 1999).

The solutions to primary agency problems that have been suggested in the literature have included different types of governance mechanisms like tailored employment contracts for the top management team (TMT), optimal compensation structures, configuring board composition and structure to ensure both board as well as director independence, issuing shares to management personnel (agents) to align their interests with those of the principals, and separating the two roles of CEO and Chairperson of the Board. However, some of these suggested remedies, while they reduced primary principal-agent agency conflicts simultaneously exacerbated Secondary Agency conflicts by creating new classes of principals who possessed both greater voting power as well as management control in the firm. By virtue of these dual influences, these dominant principals had considerable ability to influence the firm's decisions such that the outcomes could disproportionately benefit them at the expense of other minority shareholders.

Scholars conducting research in developing country contexts have discovered that differences in ownership types (like public sector government ownership, multinational ownership, family owned firms, business group firms, promoter controlled firms) may impact both Primary as well as Secondary Agency problems in different ways. For example, Singla, George and Veliyath (2014) identified Secondary Agency problems in Indian family business firms that were internationalizing, thereby suggesting that concentrated share ownership by the family

(leading to voting control), combined with de facto management control by family members, exacerbated Secondary Agency conflicts in those firms.

We build on Singla et. al.'s (2014) work and show that based on the combination of a family's concentrated and dominant ownership position along with the family's management control of the firm, the resultant impacts and relationships with Primary Agency and Secondary Agency conflicts would be different for different types of Family Firms. Thus, the extent of these two types of Agency conflicts would be different in a Family Controlled and Family Managed (i.e., FCFM) firm versus a Non-Family Controlled and Non-Family Managed (i.e., NFCNFM) firm. While the above two categories represent the extreme ends of the continuum (in terms of governance contexts and their effects), there could also be nuanced differences in the effects on the two types of Agency conflicts under other governance structures. These categories would include Family Controlled Non-Family Managed (FCNFM) firms and Non-Family Controlled and Family Managed (NFCFM) firms. We base our arguments on the opportunities arising for wealth expropriation under different governance structures, and differing preferences for the potential benefits accruing from both the private and the shared benefits of ownership control among family owners/block holders as well as the benefits accruing to the family from having family members managing the firm's operations. We reveal how both Primary Agency problems as well as Secondary Agency problems are affected by whether the family has ownership control combined along with family management control.

Family business firms comprise a large segment of the total population of firms in developing economies. Prior literature has identified non-economic considerations as being important considerations as being important in the management of family firms compared to other ownership types (Gomez-Mejia, Cruz, Berrone & Castro, 2011). Because of the need to protect

the socio-emotional wealth of the family, family firms are less likely to make decisions that increase risks for the family, are less likely to take on projects that increase performance variability of the firm thereby endangering the family's control of the firm (Gomez-Mejia, Haynes, Nunez-Nickel, & Moyano-Fuentes, 2007). Consequently there is the resulting possibility of sub-par firm returns (op. cit.). All of the above decisions taken in the interests of the dominant shareholder group also have some effect on the degree of primary as well as secondary agency conflicts and concomitant costs in firms. Therefore the findings from the study would provide guidance on how family firms operating under varying governance structures (both ownership and management) can recognize and assess both these types of agency conflicts (and accompanying costs), and thereby avoid dissipative activities that increase these costs and maximize firm value.

The benefits and costs of family ownership

Family block ownership provides monitoring benefits where the family owners (principals) are able to closely and effectively monitor management (agents) in order to ensure that they do not engage in opportunistic self-seeking behaviors that detract from shareholder value and create Primary Agency costs. Increased family monitoring can reduce moral hazard among the appointed agents (Gomez-Mejia, Cruz, Berrone, & Castro, 2011). The family owners vigilantly watch their investments. Stemming from these diligent monitoring activities of family owners (Hillman & Dalziel, 2003; Cordeiro, Veliyath & Romal, 2007; Tuggle, Sirmon, Reutzel, & Bierman, 2010), we propose that one effect of a family's being in a dominant ownership position would be to enhance shareholders' welfare and reduce Primary Agency costs in the firm. Concurrently, their dominant ownership position also gives the family tremendous influence and power on the board and over its governance processes. This might enable them to influence the extent to which the firm considers and chooses decisions that benefits the family's interests. Some of these interests

may be non-pecuniary in nature and intended to preserve the family's socio-emotional wealth (Berrone, Curz, Gomez-Mejia & Larraza-Kintana, 2010). For example non-economic considerations intended to preserve the family's socio-economic wealth may manifest as appointments of relatives and the scapegoating of non-family managers, removal of compensation risk for family managers, a preference for retaining family control even at the risk of lower returns, the appointment of family-affiliated directors to the board, and in the making of sub-optimal firm strategic decisions (op. cit.). Many of the above decisions are not value-maximizing or necessarily beneficial to other minority shareholders of the firm. Consequently they could exacerbate secondary (i.e., principal-principal) agency conflicts, which can lead to the misappropriation of shareholder wealth by the family owners at the expense of other minority shareholders (a classic secondary agency problem).

The benefits and costs of family management

A family managed firm is one where members of, descendants of the founding family or agents affiliated with the family control and run the day-to-day operations of the firm. In instances where the family also has a dominant or controlling shareholding in the firm, this combination of ownership influence and management control strengthens the family's ability to influence firm decisions that are taken by the appointed agents. In family firms, managerial entrenchment is reduced since ownership and control are unified. This reduces goal incongruence, conflict and information asymmetry between family owners and management. Additionally, the family can influence formal decision-making in the firm because they control the (family affiliated) executives. Issues of managerial opportunism (Eisenhardt, 1989) and incomplete contracts (Shleifer & Vishny, 1997) are reduced because of trust in the family identity and kinship ties (Berrone, Cruz, & Gomez-Mejia, 2012). The combined influence of the family through ownership

as well as through management enables them to pursue both the shared and the private benefits of control (Holderness, 2003). This combination of governance characteristics would ensure goal compatibility and congruence between the majority owners and the managers, thereby reducing Primary Agency problems. However this combination of dominant ownership accompanied by management control by the family, could be problematic in other ways. It could potentially create increased Secondary (principal-principal) Agency conflicts. This would be especially true if the family's goals (some of them being non-pecuniary in nature) and interests were not congruent with the wealth-maximization needs of the firm's other minority shareholders. Secondary Agency problems (both conflicts and resultant costs) arise when the family's interests are promoted at the expense of the desires of the firm's other shareholders. If the family did not have ownership control (or if they only had a minority shareholding), the minority family ownership position would only provide them with weak power to monitor and countermand the choices made by non-family managers. This situation could enhance Primary Agency problems between the agents and a prominent shareholder group. On the other hand, if the family controlled the firm's management because of their appointed functionaries, it could potentially create a situation where the family managers managed the firm predominantly for the family's benefit, ignoring the interests of all the other firm shareholders. This latter situation would create not a Secondary, but instead a Primary (principal-agent) agency problem. In such a situation the stock market is likely to take note of of these latent issues and deduct from the value of the firm.

In order to contextually represent the situations based on the intersection of these two different dimensions of ownership control and management control, firstly there could be the family's (dominant) ownership control dimension, categorized either as a 'no' or as a 'yes'. In addition, the family's dominance (and level of input) into management decisions (leading to

executive control), is another dimension that could also be categorized as 'no/yes'. Thus, the interaction of the above two interrelated dimensions of family ownership control and family management control creates four situational contexts that determine the family's influence in the firm's governance process (see Singla et. al., 2014). These situational/contextual differences would differently affect the extent of both Primary Agency as well as Secondary Agency conflicts (and costs) in the firm. The four contexts are visually represented in Figure 1.

Insert Figure 1 About Here

The four resulting contexts would be: Not-Family Controlled and Not-Family Managed firms (**NFCNFM**) shown in quadrant 1; Family Controlled but Not-Family Managed firms (**FCNFM**) in quadrant 2; Family Controlled and Family Managed firms (**FCFM**) in quadrant 3; and finally, Not-Family Controlled but Family Managed firms (**NFCFM**) in quadrant 4 (as shown in figure 1 above). The first mentioned NFCNFM category would be the null/control group, where the family has neither de facto governance control through their ownership stake nor do their representatives control the management of the firm. In this quadrant 1, Primary principal-agent (PA) Agency conflicts could be high while Secondary Principal-Principal (PP) Agency conflicts would be low. Quadrant 2 (FCNFM) firms where the family has ownership control but the firms are not family managed would minimize Primary (PA) Agency problems (because of monitoring efficiencies arising from the family's ownership). However, Secondary (PP) Agency problems here could be moderate (to high) based on the family's dominant ownership position. By contrast, the FCFM firms in quadrant 3 where the family has both ownership as well as management control would represent the extreme case where Secondary (PP) Agency conflicts would be rampant because of the family's dominant ownership position, while Primary PA Agency conflicts are reduced because of enhance monitoring efficiencies. Finally in quadrant 4, NFCFM firms could

manifest moderate to high levels of Primary (PA) Agency conflicts, because the family does not have dominant ownership thus reducing their monitoring ability, while also exhibiting low levels of Secondary (PP) Agency conflicts (since they don't have a dominant ownership position). We now derive our hypotheses based on these contexts.

Hypotheses

Non-Family Controlled, Non-Family Managed (NFCNFM) Firms (Quadrant 1):

The NFCNFM group (in quadrant 1) represents a category of firms where there is no possibility of overt influence from the family, either through their having a controlling (or dominant) ownership stake or through having their family members (or family affiliates) managing the firm. Since the family does not have dominant (or concentrated) ownership, they are unable to vigilantly monitor and regulate the agents' action with maximal efficacy. Consequently, the firm's agents are able to act opportunistically to appropriate returns at shareholders' expense. This could potentially enable Primary Agency (PA) conflicts and concomitant costs to increase. Moreover, since the family also does not have its members (or family affiliates) managing the firm, the firm's agents act unconstrained (from the family's influence) in pursuing their own agendas, which might include self-enrichment at the expense of shareholders. The firm's agents might also become entrenched. Therefore the potential for Primary Agency conflicts to occur is increased in this governance context. The family's influence (or lack of it) is not an influential factor in this governance context. Therefore, this quadrant 1 governance context represents a situation that is devoid of (or has minimal) family influence. In this unconstrained context, we posit that agents would act opportunistically thereby increasing PA costs. We therefore propose,

H1a: There will be an increase in Primary (PA) Agency costs among Non-Family Controlled Non-Family Managed (NFCNFM) firms.

In these quadrant 1 NFCNFM firms, the family does not have a dominant or controlling ownership stake. This reduces their ability to opportunistically enhance and expropriate their (i.e., the family's) private benefits at the expense of the firm's other (minority) shareholders. Additionally, the family also does not have its members (or family affiliates) managing the firm. Consequently, this combination of a lack of ownership influence along with an absence of management control restricts the ability of family owners to misappropriate the firm's wealth at the expense of other (minority) shareholders. Therefore Secondary Agency (PP) conflicts would be reduced. Because the family's effect is insignificant, we propose,

H1b: There will be no significant impact (i.e., neither an increase nor a decrease) on Secondary (PP) Agency costs among Non-Family Controlled Non-Family Managed (NFCNFM) firms.

Family Controlled and Non Family Managed (FCNFM) Firms (Quadrant 2)

Among FCNFM firms (situated in Quadrant 2), the family has a dominant (or controlling) ownership stake. This concentrated stake enhances monitoring efficiency thereby curbing tendencies on the part of agents to enrich themselves at the expense of the dominant shareholder group. Consequently, the increased monitoring results in reduced Primary (PA) Agency costs. However, the family does not have its affiliated agents managing the firm. This somewhat limits the family's ability to potentially directly influence and curb the unaffiliated agents' opportunistic behaviors. However, this effect is overshadowed by the superior monitoring ability enabled by the family's dominant ownership position. Overall, the combination of these two factors creates a situational context where the family's dominant ownership position restricts Primary Agency conflicts. Therefore we propose,

H2a: There will be a decrease in Primary (PA) Agency costs among Family Controlled Non-Family Managed (FCNFM) firms.

In these FCNFM firms, the dominant ownership stake of the family offers opportunities for them to influence the firm's decisions such that the family benefits (in either pecuniary or non-pecuniary ways). If the family's interests are not congruent with the wealth-maximization goals of the firm's other minority shareholders, the potential to enhance Secondary (Principal-Principal) Agency conflicts and costs is created. However, since the family does not have its members (or affiliates) managing the firm, the management control and consequent ability to push through the family's agenda may be lacking, thereby limiting the family's unrestricted ability to misappropriate shareholder wealth. Consequently, the combination of these two effects on Secondary Agency conflicts, the created first by the family's dominant ownership position leading to increased PP costs, combined along with the absence of the family's management control resulting in tempering the potential increases in PP costs, may only result in an increase (but a moderate one) in Secondary Agency conflicts. Therefore we propose that in this situation, there will be a positive impact on Secondary Agency conflicts (and costs).

H2b: There will be a positive increase in Secondary (PP) Agency costs among Family Controlled Non-Family Managed (FCNFM) firms.

Family Controlled and Family Managed (FCFM) Firms (Quadrant 3)

In FCFM (quadrant 3) firms, the family's block ownership and dominance ensures monitoring efficiencies, which reduces the opportunities for managers to engage in opportunistic behaviors that benefits them while detracting from the goal of wealth maximization for all of the firm's shareholders. In addition, since the agents (i.e., managers) are concurrently also family

members (or family affiliated) individuals, these agents' interests and decisions are closely aligned with those of the dominant shareholder group (i.e., the family in this case). Because of the power and influence resulting from these two separate governance components, the family also has the ability to overtly influence the agent's actions. The cumulative effect when both these influences are combined, is a co-alignment in the interests of shareholders and managers, resulting in a reduction in Primary Agency (PA) costs for the firm.

H3a: There will be a decrease in Primary (PA) Agency costs among Family Controlled Family Managed (FCFM) firms.

The co-alignment in the goals and preferences of the dominant family shareholder group, and those of their affiliated agents (managers) in FCFM firms can however create a powerful nexus, where the dominant family has both the ownership (voting) influence, as well as the management control to steer the firm towards making decisions that benefits them. This combination will not present a problem if the goals and interests of the family are congruent with those of the firm's other minority shareholders. However, if that is not the case (which could be true since families often have other socio-emotional, non-economic goals that are different from pure wealth maximization), there is consequent incongruence between the interests of the family owners and the wealth maximizing goals of other minority shareholders. Therefore, the firm's decisions that are undertaken to benefit the family's interests may not necessarily benefit the residual group of minority shareholders. The sub-optimization of shareholder wealth is also sometimes accompanied by opportunities for the family group to misappropriate wealth (in either pecuniary or in non-pecuniary ways) thereby creating Secondary Agency (PP) conflicts (and costs) between them and other minority shareholders in the firm. Therefore,

H3b: There will be an increase in Secondary (PP) Agency costs among Family Controlled Family Managed (FCFM) firms.

Non Family Controlled Family Managed (NFCFM) Firms (Quadrant 4)

In these NFCFM firms (situated in quadrant 4), the family does not have a dominant ownership position. Consequently monitoring efficiencies (over the agents) arising from the family's dominant share ownership are less, thus providing opportunities for opportunistic behaviors by the agents to extract benefits at the expense of shareholders. This exacerbates Primary (PA) Agency problems. In addition, since the agents (i.e., management) are family members (or are family affiliated), they may sometimes be inclined to manage the firm for the benefit of the family (who are not the dominant or majority shareholders). Under these circumstances, if the family's goals and preferences are different from those of the firm's majority shareholders, Primary (PA) Agency problems could be exacerbated. Thus,

H4a: There will be an increase in Primary (PA) Agency costs among Non-Family Controlled Family Managed (NFCFM) firms.

The family does not have a dominant or controlling ownership stake in NFCFM firms. This reduces the opportunities for them to misappropriate wealth to benefit themselves at the expense of other shareholders. That would temper the extent of Secondary (PP) Agency problems occurring in such firms. This effect would hold despite their (i.e., the family) having their family members (or family affiliates) controlling the management of the firm. This latter governance mechanism, would only serve to enhance the Principal-Agent (i.e., Primary) Agency costs (as described earlier), but have no impact on Secondary (PP) Agency costs. Therefore, we propose that the governance structure in NFCFM firms has no effect on Secondary (PP) Agency costs.

H4b: There will be no significant impact (i.e., neither an increase nor a decrease) on Secondary (PP) Agency costs among Non-Family Controlled Family Managed (NFCFM) firms.

Methods

Research setting

India was chosen as the setting for this study for a variety of reasons. First, India's economy has been classified as emergent or developing, thus placing it in a category of countries that are in contrast with country contexts such as the United States where most of the prior research has been focused. Second, public firms in India are owned and/or managed by a diverse range of shareholders (owners), including family businesses, government (public sector) firms, promoter-controlled firms and foreign multinational subsidiaries. The range of variation in these ownership types and management control categories allowed us to better control for our four governance categories and test our hypotheses. Another distinctive feature of the Indian corporate landscape is the prevalence of business group firms, as well as standalone firms. We were able to include all these different types of firms in our sample and check for the effects of these on Primary and Secondary Agency conflicts.

Sample construction

The data for the study was collected from a publicly available database named 'Prowess' maintained by Centre of Monitoring of the Indian Economy (CMIE). The database contains financial, shareholding, income statement, and other relevant information filed with regulatory agencies, by a large number of Indian public companies. We chose the time period from 2003 to 2012 for our study. In order to select the final sample, we adopted the following criteria. We selected only firms listed on the Bombay Stock Exchange (BSE), which is the oldest, and one of the two main stock exchanges operating in India (Douma, George & Kabir, 2006). The reliability

of data pertaining to share ownership and other financial variables is better among BSE listed firms. The majority of published studies related to Indian firms use the BSE listing as a basis to construct their samples. We excluded firms whose annual sales were below 60 million Indian Rupees--approximately 1 million USD. This was because small firms are more likely to have poor data thus giving misleading results. We were left with 2473 firms. From these 2473 firms, we dropped those that did not have sufficient data to measure the indicators associated with PA and PP conflict, our main dependent variables. This resulted in a residual 1251 firms remaining in the sample. We then dropped firms that did not have sufficient data to calculate the control variables, which further reduced our sample to 1004 firms. Finally, we categorized these 1004 firms into the four different type of ownership and management categories discussed earlier. Data for another 170 firms was not available for this categorization, resulting in a final sample of 834 firms.

Operationalization of Dependent Variables

Primary Agency

In order to capture Primary Agency (PA) conflicts within firms, we employed three variables that have been employed in prior literature as reflective variables for measuring this construct. These were the *percentage of independent directors* on the board (Cordeiro, Veliyath & Romal, 2007; Mangel & Singh; 1993; Ramaswamy, Veliyath & Gomes, 2000; Tuggle, Sirmon, Reutzel, & Bierman, 2010; Veliyath & Ramaswamy, 2000; Zahra & Pearce, 1989), a dummy variable (1, 0) for measuring *CEO Duality* (Boyd, 1995; Ramaswamy, Veliyath & Gomes, 2000; Tuggle, Sirmon, Reutzel, & Bierman, 2010; Veliyath & Ramaswamy, 2000; Zahra & Pearce, 1989) and a dummy variables (1, 0) indicating whether the *number of blockholders was greater than 10%* (Barclay & Holderness, 1989; Hoskisson, Hitt, Johnson & Grossman, 2002; Tuggle,

Sirmon, Reutzel, & Bierman, 2010; Westphal & Zajac, 1998). These corporate governance variables have prior support in the literature as reflective measures for capturing (and reducing) Primary (PA) Agency conflicts. These three listed variables were highly intercorrelated exhibiting high convergent validity. In addition, a factor analysis (Varimax rotation with Kaiser Normalization) resulted in a single principal component (Eigen Value gt 1) being extracted.

Secondary Agency

The measures for Secondary Agency conflicts included the *percentage of voting shares of the firm's largest shareholder* (Cronqvist & Fahlenbrach, 2009; Renders & Gaeremynck, 2012; Villalonga & Amit, 2006), a dummy variable (1,0) indicating *whether the company had dual class shares* (Gompers, Ishii & Metrick, 2010; Grossman & Hart, 1988; Harris & Raviv, 1988), and another dummy variable (1,0) if the *voting rights of the largest shareholder exceeded their cash flow rights by more than 10%* (Gompers, Ishii & Metrick, 2010; Grossman & Hart, 1998; Harris & Raviv, 1988). Here too, the three items that were employed were highly correlated with each other indicating high convergent validity and upon factor analysis (Varimax rotation with Kaiser Normalization) a single principal component (Eigen value gt 1) was extracted.

Operationalization of Independent Variables

Categorization of Family Firms into the four governance categories

This categorization followed the approach taken earlier by Singla et. al. (2014). A family controlled firm variable and a family managed firm variable were both separately constructed. A firm was termed as a *Family Controlled* firm (coded 1) if any two of the following three criteria were met (Anderson and Reeb, 2003; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000; Singla et. al., 2014); otherwise it was coded 0: 1) the founding family had an ownershipt stake of 20

percent or greater in the firm, 2) a member of the founding family was on the board of the firm, and, 3) a member of the founding family was the chairperson of the board.

Similarly, a firm was categorized as a *Family Managed* firm (coded 1) if any two of the following three criteria were met (Singla, et. al., 2014); otherwise it was coded 0: 1) a founding family member was the CEO of the firm, 2) a member of the founding family was an executive director, and 3) more than one member of the founding family were executive directors. Thereafter, we combined the above two dimensions. A *Family Controlled Family Managed (FCFM*) firm was coded as 1 when both the family controlled firm variable and the family managed firm variable had values equal to 1, else it was coded 0. A *Non Family Controlled but Family Managed (NFCFM)* was coded 1 when the family controlled firm variable had a value equal to 0 and the family managed firm variable had a value equal to 1. Likewise, a *Family Controlled but Non Family Managed (FCNFM)* firm was coded 1 when the family controlled firm variable had a value equal to 1 and the family managed firm variable had a value equal to 0. Finally a *Non-Family Controlled and Non-Family Managed (NFCNFM)* was coded 1 when both the family controlled firm variable and the family managed firm variable had values equal to 0.

Control variables

Based on previous research, we also controlled for a number of firm-level characteristics, such as firm size (*SIZE*) measured as the natural logarithm of sales, firm age in years (*AGE*), current ratio (*CR)* measured as current assets to current liabilities*)* and leverage (*LEVERAGE)* measured as debt over total assets.

Regression Analyses

We estimate our models using panel regression procedures. Panel estimation procedures allow us to control for unobserved firm-level heterogeneity and thereby reduce the possibility of biased parameter estimates and spurious results (Greene, 1997). The Hausman test (Hausman, 1978) allows us to decide whether to use fixed effects or random effects. A significant Hausman statistics indicates that omitted firm-level unobserved effects are correlated with the regressor which suggests the use of fixed effect estimation. On the other hand if the Hausman statistics is not significant, then omitted firm-level unobserved effects are not correlated with the repressors and thus random effects estimation can be applied (Wooldridge, 2008). In our analysis we find that Hausman statistic is insignificant in all cases, except four, and so we use random effects estimation. The four that have Hausman Statistic significant and so we use fixed effect estimation include NFCNFM for PP costs as dependent variable, FCFM for PA costs as dependent variable, NFCFM for PA as dependent variable and FCFM for both PA and PP as dependent variables[1].

Results

Table 1 presents the inter-items correlations between the different items measuring Primary Principal-Agent (PA) Agency costs and Secondary Principal-Principal (PP) Agency costs. As discussed earlier, PA costs included the percentages of independent directors on the board, CEO Duality and whether the number of blockholders was greater than 10%, while PP costs included the percentage of voting shares of the firm's largest shareholder, whether the company had dual class shares (1, 0) and if the voting rights of the largest shareholder exceeded their cash flow rights by more than 10%.

[1] Even in the four cases where we use fixed effects estimation, we rerun the models with random effects estimation and found that though coefficients varied, the direction and significance of all variables were consistent

Insert Table 1 About Here

All the three items of PA costs were positively correlated to each other, while they were negatively correlated (or the correlations were insignificant) with the alternative items comprising PP costs. Similarly, the three items measuring PP costs were positively correlated to one another while they were either negatively (or insignificantly) correlated to the items comprising PA costs. This demonstrated that the items measuring both PA and PP costs had strong convergent as well as discriminant validity. We conducted a factor analysis for all six items measuring both constructs. This resulted in all the six items loading heavily on two factors. The first factor which we termed PA costs accounted for 71.71 % of variance explained while the second factor which we called PP costs, explained 67.85% of the variance.

Table 2 reports descriptive statistics and correlations of all variables used in our empirical analyses. Panel A presents the descriptive statistics and correlations for the PA problem while panel B represents the same for the PP problem.

Insert Table 2 About Here

Of the four categorizations in our sample, the largest proportion were FCFM firms (51.8%), followed by NFCNFM firms (22.4%), and FCNFM firms (21.6%). NFCFM were the smallest group in our categories with only 4.11% of the firms.

Table 3 presents the results of our panel regressions testing hypothesis 1 through hypothesis 4.

Insert Table 3 About Here

Models 1 & 2 present the results for each of PA conflicts and PP conflicts (as dependent variables) with only the control variables being included in the regressions. In the case of PA costs (Model 1), firm size and leverage were explanatory variables that significantly contributed to increasing Primary Agency (PP) costs. In the case of PP conflicts (Model 2), firm size, age and current ratio were explanatory variables that contributed to variance in Secondary Agency (PP) conflicts.

Models 3 and 4 shows the results for hypotheses 1a and 1b among NFCNFM firms in quadrant 1. Model 3 results reject H1a as the co-efficient for NFCNFM firms is negative (the hypothesized effect was positive). Model 4 with an insignificant co-efficient for NFCNFM firms supports H1b (since the hypothesis proposed a null effect).

Models 5 and 6 test the hypotheses for FCNFM firms in quadrant 2. Model 5 results (with PA conflicts as the dependent variable) reveal that the co-efficient for FCNFM firms is negative signifying that FCNFM firms have lower PA conflicts. This supports H2a that proposed such a negative effect. Model 6 (with PP conflicts as the dependent variable) reveals a negative co-efficient for FCNFM firms signifying that for FCNFM firms PP conflicts were significantly lower. This result does not support H2b.

Models 7 and 8 test the hypotheses for FCFM firms in quadrant 3. Model 7 (with PA as dependent variable) shows that the co-efficient for FCFM firms is negative. Thus FCFM firms have lower PA conflicts thereby supporting Hypothesis 3a. Model 8 shows that the co-efficient for FCFM is not significant (though positive in direction). H3b proposed an increase (+ve effect) on PP conflicts. Therefore H3b is not supported.

Models 9 & 10 provide the results for NFCFM firms in quadrant 4. Model 9 results show that the co-efficient for NFCFM firms is negative (with PA as the dependent variable) signifying that NFCFM firms have lower PA conflicts, thereby rejecting H4a which proposed an increase in these PA conflicts. Finally, Model 10 results reveal that the regression co-efficient (with PP as the dependent variable) for NFCFM firms is not significant. This suggests that for NFCFM firms there are no effects on PP conflicts, thereby providing support for H4b.

In summary, our results provide support for hypotheses H1b, H2a, H3a, 4b. The remainder of the hypotheses (H1a, H2b, H3b and H4a) were either not supported or were rejected.

Discussion

The study examined the effects of different combinations of governance and management structures prevalent among Family Business firms on Primary Agency and Secondary Agency conflicts and costs. We proposed that dominant share ownership and management control by a family would impact these two types of Agency problems in different ways. For example, dominant (or majority) share ownership by a family would, because of enhance monitoring efficiencies, reduce Primary (Principal-Agent) Agency problems while exacerbating Secondary (Principal-Principal) Agency problems. This latter effect would arise because of the power and ability of dominant shareholder groups to influence governance processes such that firms' decisions are steered towards alternatives that enhance their private agendas at the expense of broader shareholder wealth maximization goals. Alternatively, control of the firm's management by the family (and its affiliates) might increase Primary (Principal-Agent) Agency problems since the family affiliated agents might choose decisions that promote the family's welfare, while having a negligible impact on Secondary (Principal-Principal) Agency problems, especially when the family does not have a dominant or controlling ownership position in the firm.

Based on this reasoning, a combination of dominant family ownership combined with family management control was posited to minimize traditional Principal-Agent (PA) Agency problems. Alternatively, this combination of governance attributes would exacerbate and maximize Secondary (PP) Agency problems. By contrast, a governance context that combined low family share ownership along with an absence of management control (by the family) would increase Primary (PA) Agency problems while keeping Secondary (PP) Agency costs conflicts.

The results provided tentative support for the posited arguments. As expected, Primary (Principal-Agent) Agency conflicts decreased significantly in FCFM firms. However, Secondary (Principal-Principal) Agency conflicts were not significantly affected. This latter result was v. counterintuitive since we expected dominant family share ownership combined with family management control to maximize the potential for Principal-Principal Agency problems to occur. By contrast, in NFCNFM firms which represented the governance context where family influence in firm governance processes was minimized, Primary (Principal-Agent) Agency conflicts were reduced, while Secondary (PP) Agency conflicts were not affected. Perhaps in this situation, other dominant shareholder blocks like the government (in public sector firms), multinational headquarters (among multinational subsidiaries), business group headquarters (in firms belonging to business groups) and promoters (in promoter-controlled firms) represented other dominant shareholder blocks that were able to step in and play the monitoring role that would have otherwise have been played by the family.

The tentative pattern of results also extended to some of the other governance contexts such as quadrants 2 (populated by FCNFM firms) and quadrant 4 (occupied by NFCFM firms). In quadrant 2, while FCNFM firms decreased PA conflicts as expected (because of monitoring efficiencies), they surprisingly also appeared to significantly reduce Secondary Agency (PP)

conflicts. Once again this counter-intuitive finding could perhaps be attributed to the presence of dominant ownership blocks (mentioned earlier) in addition to the family. In the presence of multiple (i.e., more than one) dominant shareholder blocks, the end result could either be collusion where the multiple blocks of dominant shareholders collaborate in order to appropriate wealth at the expense of other minority shareholders, or alternatively, increased monitoring where the different block owners monitored each other and served as a system of checks and balances. The factors that predicate increased collusion versus mutual monitoring among these different ownership type blocks are multifaceted and have been described in prior literature. However, the presence of these other ownership blocks and control for the factors that determine the extent of cooperation among them versus monitoring activity between them were not addressed and are a limitation of this study. For unhindered appropriation of shareholder wealth to occur, governance control (enabled through singular dominant share ownership) must be combined with effective management control. Likewise in quadrant 4, NFCFM firms were found to decrease PA conflicts. Again, this was a counter-intuitive result, since we expected that because the family had no dominant shareholding, monitoring efficiencies would be reduced leading to enhanced PA conflicts. Perhaps the presence of other non-family groups of dominant shareholders were substituting for the family's monitoring effects, thus tempering Principal-Agent agency conflicts Additionally, the impact on Secondary (PP) Agency costs in these quadrant 4 firms were not significant. This result is plausible since the family group did not have a dominant ownership position in these firms that would have enabled them to appropriate wealth at the expense of other shareholders.

Overall the pattern of results appeared to provide support for our hypothesized predictions. The results that were counter to our arguments may have occurred because we primarily controlled

only for dominant family ownership and family management control as the operative governance dimensions in this study. As discussed earlier, there could have been other dominant owner/shareholder groups like firms belonging to Business Groups, government ownership (i.e., in public sector firms), multinational firms, promoter controlled firms that might have been hidden actors who took on the onus and substituted for the family's effects, both in terms of promoting monitoring efficiencies as well as through having operative management control. Controlling for the presence of and influence of these other potentially dominant ownership types might enable a more finer-grained understanding of the phenomena that were investigated in our exploratory study. This represents a fertile area for future research.

REFERENCES

Alessandri, T. M., & Seth, A. 2014. The effects of managerial ownership on international and business diversification: Balancing incentives and risks. *Strategic Management Journal*.

Anderson RC, Reeb D.M. 2003. Founding-family ownership and firm performance: evidence from the S&P 500. *Journal of Finance,* 58(3): 1301–1328.

Backman M. 1999. Asian Eclipse: Exposing the Dark Side of Business in Asia. Wiley: Singapore.

Bae, K. H., Kang, J. K., & Kim, J. M. 2002. Tunneling or value added? Evidence from mergers by Korean business groups. *The Journal of Finance*, 57: 2695-2740.

Bagwell, L. S. 1992. Dutch auction repurchases: An analysis of shareholder heterogeneity. *The Journal of Finance, 47*(1): 71-105.

Baker, G.P., and Hall, B.J., 2004. CEO incentives and firm size. *Journal of Labor Economics,* 22: 767-798.

Barclay, M. J., & Holderness, C. G. 1989. Private benefits from control of public corporations. *Journal of Financial Economics*, 25(2): 371-395.

Bebchuk, L., Cohen, A., & Farrell, A. 2009. What matters in corporate governance? *Review of Financial Studies,* 22: 783-827.

Berger, P.G., Ofek, E., & Yermack, D.L. 1997. Managerial entrenchment and capital structure decisions. *Journal of Finance,* 1411-1438.

Berrone, P., Cruz, C., & Gomez-Mejia, L.R. 2012. Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review,* 25(3): 258-279.

Berrone, P., Cruz, C., Gomez-Mejia, L.R., & Larraza-Kintana, M. 2010. Socioemotional wealth and corporate responses to institutional pressures: Do family-controlled firms pollute less? *Administrative Science Quarterly,* 55: 82-113.

Bertrand M., Mehta P., & Mullainathan S. 2002. Ferretting out Tunneling: An application to Indian Business Groups. *The Quarterly Journal of Economics*, February: 121-148.

Boyd, B.K. 1995. CEO duality and firm performance: A contingency model. *Strategic Management Journal,* 16: 301-312.

Cordeiro J.J., Veliyath R., & Romal, J.B. 2007. Moderators of the relationship between director stock-based compensation and firm performance. *Corporate Governance,* 15(6): 1384-1393.

Cronqvist, H., and Fahlenbrach, R. 2009. Large shareholders and corporate policies. *Review of Financial Studies,* 22: 3941-3976.

Devers, C. E., McNamara, G., Haleblian, J., and Yoder, M. E. 2013. Do they walk the talk? Gauging acquiring CEO and director confidence in the value creation potential of announced acquisitions. *Academy of Management Journal,* 56: 1679-1702.

Douma, S., George, R., Kabir, R. 2006. Foreign and domestic ownership, business groups, and firm performance: Evidence from a large emerging market. *Strategic Management Journal*, 27**:** 637-657.

Durnev, A., & Kim, E. 2005. To steal or not to steal: Firm attributes, legal environment, and valuation. *The Journal of Finance,* 60: 1461-1493.

Eisenhardt, K. 1989. Agency Theory: An assessment and review. *Academy of Management Review,* 14: 57-74.

Faccio, M., & Lang, L. H. 2002. The ultimate ownership of Western European corporations. *Journal of Financial Economics, 65*(3): 365-395.

Faccio, M., Lang, L. H., & Young, L. 2001. Dividends and expropriation. *American Economic Review*, *91*(1): 54-78.

Fama, E. 1980. Agency problems and the theory of the firm. *Journal of Political Economy,* 88: 288-307.

Fama E.F., & Jensen M.C. 1983. Agency problems and residual claims. *The Journal of Law and Economics,* 26(2): 301-325.

Filatotchev, I., and Wright, M. 2011. Agency perspectives on corporate governance of multinational enterprises. *Journal of Management Studies*, 48: 471-486.

Geiger, S.W., and Cashen, L.H. 2007. Organizational size and CEO compensation: The moderating effect of diversification in down scoping organizations. *Journal of Managerial Issues,* 9: 233-252.

Gomez-Mejia, L.R., Cruz, C., Berrone, P., & De Castro, J. 2011. The ties that bind: Socioemotional wealth preservation in family firms. *The Academy of Management Annals,* 5(1): 653-707.

Gomez-Mejia, Haynes, K. T., Nunez-Nickel, M., & Moyano-Fuentes, J. 2007. Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly,* 52: 106-137.

Gompers, P. A., Ishii, J., & Metrick, A. 2003. Corporate governance and equity prices. *The Quarterly Journal of Economics,* February: 107-153.

Gompers, P. A., Ishii, J., & Metrick, A. 2010. Extreme governance: An analysis of dual-class firms in the United States. *Review of Financial Studies, 23*(3): 1051-1088.

Greene W. H. 1997. *Econometric analysis* (3rd edn). Prentice Hall: Upper Saddle River, NJ.

Grossman, S. J., & Hart, O. D. 1988. One share-one vote and the market for corporate control. *Journal of Financial Economics, 20*(1): 175-202.

Harford, J., Jenter, D., and Li, K. 2007. Conflicts of interests among shareholders: The case of corporate acquisitions. *NBER working paper 13274*. National Bureau of Economic Research, Cambridge, MA.

Harris, M., & Raviv, A. 1988. Corporate governance: Voting rights and majority rules. *Journal of Financial Economics, 20*(1): 203-235.

Hausman, J. A. 1978. Specification tests in econometrics. *Econometrica* 46: 1251–1272.

Hillman, A.J., & Dalziel T. 2003. Boards of directors and firm performance: Integrating Agency and Resource Dependence perspectives. *Academy of Management Review,* 28(3): 383-396.

Holderness, C.G. 2003. A survey of blockholders and corporate control. *Economic Policy Review,* 9(1).

Hoskisson, R.E., Hitt, M.A., Johnson, R.A., & Grossman, W. 2002. Conflicting voices: The effects of institutional ownership heterogeneity and internal governance on corporate innovation strategies. *Academy of Management Journal,* 45(4): 697-716.

Jensen, M. C. 1986. Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review, 76*(2): 323-329.

Jensen, M.C., & Meckling, W. H. 1976. Theory of the firm: managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* **3**(4): 305–360.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 2000. Investor protection and corporate governance. *Journal of Financial Economics, 58*(1): 3-27.

Mangel, R., & Singh, H. 1993. Ownership structure, board relationships and CEO compensation in large corporations. *Accounting and Business Research,* 23(91A): 339-350.

Masulis, R.W., Wang, C., & Xie, F. 2007. Corporate governance and acquirer returns. *The Journal of Finance, 62*(4): 1851–1889.

Masulis, R. W., Wang, C., & Xie, F. 2009. Agency problems at dual-class companies. *The Journal of Finance, 64*(4): 1697-1727.

Rajgopal, S., T. Shevlin and Zamora, V. 2006. CEOs' Outside Employment Opportunities and the Lack of Relative Performance Evaluation in Compensation Contracts, *Journal of Finance*, 61: 1813-1844.

Ramaswamy K., Veliyath R., & Gomes, L. 2000. A study of the determinants of CEO compensation in India. *Management International Review,* 40(2): 167-191.

Renders, A., and Gaeremynck, A. 2012. Corporate governance, principal-principal agency conflicts, and firm value in European listed companies. *Corporate Governance: An International Review*, 20: 125-143.

Shleifer, A., & Vishny, R. W. 1997. A survey of corporate governance. *Journal of Finance*,52(2): 737-784.

Shleifer, A., & Vishny, R.W. 1989. Management entrenchment: The case of manager-specific investments. *Journal of Financial Economics.* 25(1): 123-139.

Singla, C., Veliyath, R., & George, R. 2014. Family firms and internationalization-governance relationships: Evidence of secondary agency issues. *Strategic Management Journal, 35*(4): 606–616.

Tuggle, C.S., Sirmon, D.G., Reutzel, C.R., & Bierman, L. 2010. Commanding board of director attention: Investigating how organizational performance and CEO duality affect board members' attention to monitoring. *Strategic Management Journal*, 31(9): 946-968.

Veliyath, R., & Ramaswamy, K. 2000. Social embeddedness, overt and covert power, and their effects on CEO pay: An empirical examination among family businesses in India. *Family Business Review,* 13(4): 292-311.

Villalonga, B., & Amit, R. 2006. How do family ownership, control and management affect firm value? *Journal of Financial Economics, 80*(2): 385-417.

Villalonga, B., & Amit, R. 2010. Family control of firms and industries. *Financial Management, 39*(3): 863-904.

Westphal, J.D., & Zajac, E.J. 1998. The symbolic management of stockholders: Corporate governance reforms and shareholder reactions. *Administrative Science Quarterly,* 43(1): 127-153.

Wooldridge, J. M. 2008. *Introductory econometrics: A modern approach*. South-Western Cengage Learning: Mason, OH.

Wright, P., Kroll, M., & Elenkov, D. 2002. Acquisition returns, increase in firm size, and chief executive officer compensation: The moderating role of monitoring. *Academy of Management Journal*, 45: 599-608.

Young, M. N., Peng, M. W., Ahlstrom, D., Bruton, G. D., & Jiang, Y. (2008). Corporate governance in emerging economies: A review of the principal–principal perspective. *Journal of Management Studies, 45*(1): 196-220.

Zahra, S.A., & Pearce, J.A. 1989. Boards of directors and corporate financial performance: A review and integrative model. *Journal of Management,* (15(2): 291-334.

Figure 1

Family Managed	Family Controlled: No	Family Controlled: Yes
No	Q1 (**NFCNFM)** PA (High) PP (Low)	Q2 **(FCNFM)** PA (Low) PP (Moderate to High)
Yes	Q4 **(NFCFM)** PA (Moderate to High) PP (Moderate)	Q3 **(FCFM)** PA (Low) PP (High)

Table 1:- Inter-item correlations

	1	2	3	4	5	6
1. LARGEST SHAREHOLDER	1.000					
2. VOTING RIGHTS	0.031*	1.000				
3.DUAL SHARES	0.008	0.024	1.000			
4.INDEPENDENT DIRECTORS	-0.063**	0.126**	0.029*	1.000		
5.CEO DUALITY	-0.081**	-0.089**	0.014	0.132**	1.000	
6.BLOCKHOLDERS	-0.379**	-0.085**	-0.045**	0.031*	0.058**	1.000

Table 2 Panel A: Descriptive Statistics and Correlations

	Mean	Std. Dev	1.	2.	3.	4.	5.	6.	7.	8.	9.
1.PA Costs	0.005	0.994	1.000								
2.FCNFM	0.216	0.412	-0.152*	1.000							
3.NFCFM	0.041	0.199	-0.099*	-0.109*	1.000						
4.FCFM	0.519	0.500	0.332*	-0.545*	-0.215*	1.000					
5.NFCNFM	0.224	0.417	-0.200*	-0.282*	-0111*	-0.558*	1.000				
6.SIZE	8.437	1.667	0.141*	0.023	-0.014	-0.027	0.016	1.000			
7.AGE	38.134	22.402	0.020	0.164*	-0.036*	-0.168*	0.057*	0.136*	1.000		
8.CR	2.982	2.917	-0.029	-0.030	0.002	0.099*	-0.091*	-0.214*	-0.159*	1.000	
9.LEVERAGE	0.260	0.198	0.138*	-0.008	0.070*	0.184*	-0.247*	0.112*	--0.068*	0.058*	1.000

Table 2 Panel B: Descriptive Statistics and Correlations

	Mean	Std. dev.	1.	2.	3.	4.	5.	6.	7.	8.	9.
1. PP costs	0.046	0.999	1.000								
2.FCNFM	0.216	0.412	0.116*	1.000							
3.NFCFM	0.041	0.199	-0.063*	-0.109*	1.000						
4.FCFM	0.519	0.500	-0.233*	-0.545*	-0.215*	1.000					
5.NFCNFM	0.224	0.417	0.194*	-0.282*	-0.111*	-0.558*	1.000				
6.SIZE	8.437	1.667	0.135*	0.023	-0.014	-0.027	0.016	1.000			
7.AGE	38.134	22.402	0.115*	0.164*	-0.036*	-0.168*	0.057*	0.136*	1.000		
8.CR	2.982	2.917	-0.120*	-0.030	0.002	0.099*	-0.091*	-0.214*	-0.159*	1.000	
9.Leverage	0.260	0.198	-0.088*	-0.008	0.070*	0.184*	-0.247*	0.112*	-0.068*	0.058*	1.000

Table 3:- Panel Data Regressions with RE or FE

	PA conflict Model 1	PP conflict Model 2	PA conflict Model 3	PP conflict Model 4	PA conflict Model 5	PP conflict Model 6	PA conflict Model 7	PP conflict Model 8	PA conflict Model 9	PP conflict Model 10
Constant	-1.089*** (0.195)	-0.563 (0.180)	-1.072*** (0.192)	-0.674 (0.677)	-1.029*** (0.193)	-0.724 (0.677)	0.508 (1.362)	-0.715 (0.677)	-1.071*** (0.195)	-0.564*** (0.180)
NFCNFM			-0.152** (0.052)	0.007 (0.034)						
FCNFM					-0.270*** (0.040)	-0.050** (0.022)				
FCFM							-0.234*** (0.042)	0.028 (0.021)		
NFCFM									-0.304*** (0.069)	0.019 (0.036)
SIZE	0.106*** (0.016)	0.024** (0.011)	0.106*** (0.016)	0.013 (0.012)	0.102*** (0.016)	0.011 (0.012)	0.127*** (0.025)	0.012 (0.012)	0.106*** (0.016)	0.024** (0.011)
AGE	0.000 (0.001)	0.005*** (0.002)	0.000 (0.001)	0.016 (0.019)	0.000 (0.001)	0.019 (0.019)	-0.052 (0.039)	0.017 (0.019)	0.000 (0.002)	0.005*** (0.001)
CR	-0.007 (0.005)	-0.006** (0.002)	-0.007 (0.005)	-0.006** (0.003)	-0.007 (0.005)	-0.007** (0.003)	-0.007 (0.005)	-0.005** (0.003)	-0.007 (0.005)	-0.006** (0.003)
LEVERAGE	0.253*** (0.097)	-0.019 (0.055)	0.242** (0.097)	0.029 (0.057)	0.246** (0.096)	0.028 (0.057)	0.093 (0.115)	0.031 (0.057)	0.267*** (0.097)	-0.020 (0.055)
Industry effects[2]	Included	Included	Included		Included					Included
Year effects	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
F/Chi Square Statistics[3]	204.49***	206.98***	216.63***	8.32***	253.30***	8.74***	12.86***	8.47***	224.95***	207.65***
Hausman Statistics	15.17	6.45	13.70	34.21**	14.87	32.41***	50.06***	78.60***	50.06***	3.51
R-squared	0.10	0.12	0.13	0.03	0.12	0.03	0.04	0.03	0.10	0.12
No. of obs.	4253	4253	4253	4253	4253	4253	4253	4253	4253	4253

[2] Industry effects are not included for Fixed Effects as they are time invariant

[3] Presents the F-Square Statistics for Fixed Effects Estimation and Chi Square Statistics for Random Effect Statistics.