# Agency Trade-offs in Family Firms: Theoretical Model, Empirical Testing and Implications

**A dissertation submitted to the School of Business in candidacy for the degree of Doctor of Philosophy**

**by**

**Mark Anson Yupitun**

**Bond University**

**Queensland 4229**

**Australia**

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## Statement of Sources

To the best of my knowledge and belief, the work presented in this thesis is original, except as acknowledged in the text. All sources used in the study have been cited, and no attempt has been made to project the contribution of other researchers as my own. Further, the material has not been submitted, either in whole or part, for another degree at this or any other University.

Mark Anson Yupitun

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## Abstract

Agency theory is one of the principal frameworks utilized in explaining the *family business* phenomena. The objectives of this dissertation are to (1) identify the unique agent-principal dynamics that differentiate family firms from non-family firms, (2) determine the effects of these unique agency dynamics on family firm performance, and (3) evaluate these unique agency dynamics within family businesses, as moderated by differing forms of governance and management practices.

This dissertation proposes that family firms are defined by two unique and opposing agency dynamics. On one hand, it is posited that family firms are defined by their ability to deploy concomitant forms of relational governance that reduce information asymmetry and associated agency costs. On the other hand, it is posited that family firms are distinctly encumbered with agency costs from non-economic family-oriented goals. These distinct agency cost-savings, termed as *family gains*, and agency costs, termed as *family costs*, contribute to the study on how and why family firms perform differently than non-family firms.

In addition, the study proposes that the ensuing trade-off between *family gains* and *family costs* may lead to competitive advantages for family firms in highly competitive environments. This agency trade-off provides a link between agency theory and the resource-based perspective of the family firm.

Finally, this dissertation seeks to investigate these agency dynamics among family firms that employ differing governance and management practices. In particular, this study looks at how the agency dynamics of family firms that employ the most concentrated forms of management and governance, manifested as owner-manager led family firms, compare against other forms of family firms. This study posits that owner-

manager led family firms, on one hand, have greater *family gains* and, on the other hand, have greater *family costs* when compared against other forms of family firms. Moreover, it is proposed that under highly competitive environments, the trade-off between *family gains* and *family costs* lead to greater competitive advantages for owner-manager led family firms over other family firms.

This dissertation employs cross-sectional linear regression as the primary tool for empirical analysis on Australian business data. In addition, non-parametric testing is utilized to support the above analysis. These analyses are complemented by proper robustness checks to support the study's validity.

The results from empirical analysis corroborate this study's propositions. First, the research suggests that family firms have *family gains* driven by lower information asymmetries, but have *family costs* driven by greater divergence in firm objectives. Second, the results indicate that family firms outperform non-family firms, which is consistent with extant family business literature. Likewise, the results suggest that family firms under managerial ownership have greater *family gains* and greater *family costs* than other family firms. Finally, the results show that owner-manager led family firms outperform other family firms. Accordingly, this study discusses the governance and management implications of the aforementioned agency dynamics within family businesses.

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