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OPPORTUNISTIC MANIA INSTIGATING AGENCY CONFLICTION: THE CRADLE OF DECAY OF FAMILY FIRMS

Nadeem NAZIR*, Safdar H. TAHIR, Hazoor M. SABIR

Government College University, Faisalabad, Pakistan.

*Corresponding Author:
Email: nadeem.nazirgcuf@gmail.com

ABSTRACT

This has been a novel study for the investigation of the relationship between the opportunistic behaviour and the agency confliction prevailing in the family-owned firms. The research empirically tested the conceptual model of agency conflict, and the opportunistic behaviour (opportunism) under the umbrella of stewardship and agency theory. A sample of family firms from Pakistan Stock Exchange (PSX) was selected; and the primary data from the family directors/managers of various family listed companies was collected. The finding of the study explained a direct positive association between the opportunistic behaviour and agency confliction. The practical implications explained that the life of the family-owned business can be extended if the agency conflict is decreased, and the opportunistic behaviour is controlled by adopting the better corporate governance practices.

Keywords: *Family Firms, Agency Theory, Opportunistic Approach, Agency Confliction, Stewardship Theory*

INTRODUCTION

This is the innovative and pioneer study unveiling the face of the major issue of family firms i.e. the agency conflict evolved due to the selfish opportunistic behaviour in such firms; ultimately leading to their decay. It has been examined by showing that the assessment of performance was affected by how different family firm goal systems have been specified (De Massis et al., 2018). The novelty of the study was that it investigated the rarest and the most ignored areas of agency problems of family firms. Despite the importance of family businesses, their failure rate was very high. According to Davis et al. (2013), every five out of seven business fail within their first year of formation. Approximately 440,000 family businesses (listed companies, non-listed companies, private companies, and partnership registered firms, small businesses) ceased operations during the five years 2011 to 2016 (AJ Revilla, A Pérez-Luño, 2016). Given their high failure rate, there has been a dire need to identify the problem in order to improve their success and life. That is what needed to be tested in Pakistan. The mean age of family control in the family's core company was 60.2 years (Rivkin, et al., 2012). More than 30% of all the family-owned businesses survived into the second generation. Twelve percent would still be viable into the third generation, with 3% of all family businesses operating at the fourth-generation level and beyond (Zellweger, Nason, Nordqvist, 2012). Some 70 percent of the family-owned businesses failed or were sold before the second generation got a chance to take over, according to (Rivkin, et al., 2012). Family businesses often fail and end up in a business divorce because a family feud among the

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members with equal power is inevitable (Robert G. Donnelley, “The Family Business,” HBR July-August 1964).The main cause of the failure and extinction has been the agency conflict (Ramadani, et al., 2017). This must be investigated in the Pakistani context so that the lifespan of such family firms may be extended. The growth of a company is reduced by agency conflicts (Nosé, et al., 2017). As a common perception, the corporate governance can play a vital role to minimize the agency conflict, which is the result of the clash of different interests between ownership controlling forces, and can be reduced by ensuring the alignment and trust between the shareholders and management as studied by Yousaf & Majid (2016). Last year, due to the adaptation of the weak & poor corporate governance practices, many family firms were delisted from the Karachi Stock Exchange Pakistan (PSX). They were unable to pay a dividend to their shareholders, and were controlling the total affairs of the business ignoring the basic principles of the corporate governance, and it worsened the principal and agent relations as they were following the opportunistic behavior (Fatima & Haroon, 2018). Was such de-enlistment due to the agency conflict& poor corporate governance practices? That needed to be probed.

The principles of the corporate governance were considered as the opinion leaders to view and expose the behavior, attitude and the working of the family-owned businesses (Miller & Le Breton Miller, 2006). The outcomes of the expectations of the followers of stewardship and agency theories have been working side by side in providing the solution regarding the agency confliction arising due to the behavior of the principal and agent (Davis, et al., 1997; Jensen & Meckling, 1976). The good governance of both theories can affect the discrete individual attitudes, and this behavioral change can influence the agency confliction. The opinion about the conflict can be diluted by adopting and using the modern corporate governance principles and giving incentives & awards, aligning the interest of the business and the agents; and persuading the agents and managers to avoid adopting opportunistic attitudes (Anderson & Reeb, 2003; Chrisman, et al., 2007). The rosy face of the stewardship theory has explained that there has been the existence of the stewardship attitude in family owned businesses, and hence less opportunistic behavior and low agency confliction (Davis, et al., 2010; Pearson & Marler, 2010). True mechanism of the stewardship can further enhance it and the helping elements like management participation, collective work attitude and friendly work environment have been wonderful catalysts (Eddleston & Kellermanns, 2007; Zellweger, et al., 2012). The family firm may create a network of trust with the outsider as it has been helpful in relying on the eccentric and relaxed mechanism of knowledge sharing for its betterment. Resultantly, the trust-based environment has been created (Casprini, E., De Massis, 2017).

The agency theory at the ground level deals with the issues and problems related to the mutual interaction between two parties that is the principal and his agents (Fama and Jensen, 1983 b). Maralov and Sitarov (2018) considered interaction as a process of influencing each other, in course of which certain relationships are established and certain aims may or may not be achieved. In this trustee relationship, the agent has to make the decision on behalf of his principal. Different interests of the people like goal confliction, self-centered interest, avoidance of risk and rationality bound have been evident in every organization. It is the difficult and costly task for the principal to know whether the information is asymmetrically distributed by the agent or not? In the light of agency theory, it has been recommended that the punishment and reward are the two suggested mechanisms to overcome the situation.

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Family environment responds the restraints in the business system created by relationship conflict that can harmfully affect business outcomes and firm satisfaction and firm performance (Nosé, et al., 2017).

The stewardship theory has been based on the motivation of the managers for their higher performance. If the company is led by a family CEO, then the agency costs are reduced due to the stewardship model fitting on the family managers. The family is a social system, which enables poeple to meet their emotional, physical and intellectual needs, their evolution, their upbringing, and their subsequent adaptation (Yazdani Kazej & Askari, 2017). Despite these facts, it has been generally regarded that family firms are susceptible to skirmishes and specifically conflict between family members that have drastic consequences regarding the growth of the company (Hermann, et al., 2011). In both cases the issue of the strained relation between agents and principals is common. “Corporate Governance” can perform a key part to reduce this problem i.e. “agency confliction" in family firms. These conflicts of interest arise due to the difference of position on matters related to controlling force and proprietorship, holistic approach to integrate owners and managers as studied by Child and Rodrigues (2003). In this study, the causes of agency conflict and opportunistic attitude of the principal and agent have been investigated in the light of agency & stewardship theories, and it has been tried to answer the questions like; how to manage, reduce and limit the agency conflict by dropping the opportunistic attitudes and aligning the interests of the parties? And now it may be possible to examine the grounds of extinction of family business after the fourth generation due to such agency confliction. Before moving ahead, it is necessary to define family business.

1. "Listed companies meet the definition of a family business, if the person who founded the company or has acquired the share capital of the company, or their family or descendants, due to their share capital, hold 25 percent of decision-making rights" (Donnelley,1964)
2. “A firm, of any size, is a family business, if:
    a. The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children’s direct heirs.
    b. The majority of decision-making rights are indirect or direct.
    c. At least one representative of the family or kin is formally involved in the governance of the firm” (Ahmed Sheikh & Wang, 2012)
3. "A firm is said to be a family owned firm if directors have managerial ownership or voting rights 25% and 50% in the firm. 25% cut off point is proposed in the official definition of GEEF by its French name." (Tahir, et al., 2016) (Adopted definition for the study)

LITERATURE REVIEW

Opportunism (Opportunistic Behavior):

The backbone of the agency theory is called opportunism; it is a direct and key effect of the confliction of interest between the agent and his principal, ultimately leading to the destruction of any business. The nature & attitude of the human being is utilitarian and perception based; so his /her main focus is on their own objectives & interests (Jensen and Meckling, 1976). If the disease is not properly identified, then how can remedial measures correct the situation? Any planning or strategy adopted to combat opportunism without its proper exploration will be useless. In every firm, the opportunistic attitude is a source of destruction as it is a helping hand for increasing the agency conflict. This concept is central in Agency Theory, which describes opportunism as a direct consequence of the asymmetry of interests between principals and agents (Lado et al., 2006). According to this view, it is unlikely that the objectives of others are able to mobilize any individual to the point where he or she is as effective as they would be in the pursuit of their own interests. Williamson (1975) himself had already defined opportunistic behavior as 'self-interest seeking with guile'. Lado et al. (2006) stated that the presence of opportunism exposes an exchange party to various risks, including from shirking to the exploitation of benefits from the exchange relationship. For instance, they equated opportunism as being inversely proportional to trust. This variable has been measured with the help of five different questions explaining the scope of this construct. It has a positive association with the agency conflict, and a negative association with the alignment of goals and objectives of the firm.

Proposed Relationship & Hypothesis

H1- There is a positive relationship between opportunism and agency conflict prevailing in the family business.

Figure 1: Hypothesis 1

The Agency Conflict

Trust in person-specific is a syndicalist in a society like Pakistan (Hofstede, 2004). Pakistan's social context has been fixed in the customs of mutuality and inter-family. Actual business performance is ignored and reduced, while personal satisfaction of the family member is increased at all levels (Sorenson, et al., 1999). Company needs are neglected by family members at the cost of company assets (Donnelley, 1988). Family owned companies have been the backbone of Pakistan's economic structure, and proper attention must be given to their problem of governance. Family owned firms have dominated the Pakistani business environment as studied by (Ghani and Ashraf, 2005). A family-owned business is highly dependent upon one family member or a group of family members as the key decision maker(s); while in the presence of a complex system of family social links (Arregle et al., 2007), this may result in pursuing not only economic but also social and emotional goals for the family firm as explained by (Basco, 2010; Brundin et al., 2014).In the opinion of (Peng &Yadong, 2000), Pakistani family-owned firms have been entrenched in personal ties and kinship relationships and working with other Asian business counter partners. According to (Blanco-Mazagatos, et al., 2016), the family firm literature suggested that the agency conflicts have been higher for family firms in later generations than in the first, because family growth at each generational stage has accentuated the separation of ownership and control between the family firm managers and a larger growing group of family firm owners, who perform no management tasks (Miller et al., 2013). Not only the owner is more dispersed, but also the family bonds tend to weaken both between the family members of the same generation and also, between those of different generations (Gersick, et, al., 1997; Schulze et al., 2001, 2002). This dependent variable has been measured with the help of ten different questions. This variable has shown a positive association with the opportunism and the opportunistic behavior.

Opportunistic Behaviour versus Agency Theory

Agency theory has explained the behavior of the agents, the principals, and the managers comprising of shareholders. The alignment of the objectives and interests of both the parties is a source of reduction of agency conflict which is in turn a source of the good performance of the firm, and can reduce the chances of extinction of business after few generations (Davis, et al., 1997). The agents start to adopt opportunist behavior and attitude against the interests and demands of the principals. Many causes of such conflicting behavior may include the handling risk and risk acceptance attitude of both the parties. The nature of agents and managers is mostly risk averter and not the risk taker (Fama and Jensen, 1983 a). The agents think that if they take a risk in the business, their job is at stake, and they will compromise over their job; if they take a risk and if the performance of the company is not performing very well. Agents /managers adopt shirking, asymmetric and opportunistic behavior towards their principal (shareholder) and this attitude leads to the agency conflict (Eisenhardt, 1989). Similarly, dividend policy has been considered to be the decision making of the managers and agents either in the form of cash or in kind, that is distributable among the shareholders in respect of their shares; all this has been based on the asymmetric information of the managers (Nazir, et al., 2014).

Agency theory has provided a different solution to corrode the opportunistic attitude and shun the agency confliction; firstly, by creating the alignment of the objectives & goals and incentive & rewards schemes for both the actors involved in this process, and secondly, by adopting the meaningful structure of the corporate governance (Forsyth, 2016). The first ever measure is the adoption of such process, whereby the agents may revoke their opportunistic attitude, and be ready to accept risks of the business if they are properly awarded. The reward and compensation process may be linked to the attitude and outcome practice (Forsyth, 2016). Different family firms with a family CEO may follow strict HR practices as compared to the nonfamily CEO, and these may help in the creation of stewardship relations. A higher level of Intentional trust and goal alignment coexist in between the family CEO and the family owners. Similarly, family owned firms may follow more formal HR practices when there is an educated CEO that belongs to the first generation, and it would be a source of decreasing opportunistic attitude and the resultant agency conflict (Steijvers et al., 2017).

Opportunistic Behavior versus Stewardship Theory

The followers of the stewardship theory claimed that the agents are always willing to work for the best common advantage of the firm, and for the shareholders' interests. The managers are always following the stewardship attitude, and are ready to obey the shareholders in the achievement of goals of the company and are never willing to act for their own interest, & they never prefer personal goals (Davis, et al, 1997). It should be accepted that the family finance managers can play conclusive roles in the success of the family firms, and they can control opportunism (Hiebl, M. R., 2017).

The higher needs of the agents would be more satisfied when they work for the best common advantage of the company, and when their work is properly recognized (Davis, et al., 1997). So, they will not use their shirking and opportunistic attitude while there is a proper recognition of their work and the goal alignment. They will not be happy when the objectives and targets of the firm are not accomplished, and they will be certainly committed to take their tasks seriously in getting a loan and financial benefits for the firm, and work for the success of the business (Davis, et al., 1997). No doubt, there is a certain manager which always exists in the business and they prefer to prioritize their own interests instead of the company's benefits, so the acceptance of such behavior of the agents is the sign of the existence of the agency theory. The family firm's behavior towards the acceptance of the innovative techniques has been explained from the contingent-based perspective. It has been altogether different due to the heterogeneity of the family firms (Bigliardi & Galati, 2017). The conjecture of the governance mechanism and the strong supervision of the managers may thwart the managers to avoid and restraint from adopting the opportunistic behavior (Jennings & Kohen, 2017). It has been recommended for them that if the relationship of the parties is dominated by the agency side, then it is going to increase the agency costs of the firm and on the hand; if the stewardship prevails, then the relationship will be dominated by the alignment and trust between the parties. If managers are working on the stewardship mechanism and they are tackled with the agency mechanism, then they may show some resentment in the performance of their duties (Zhao et. al.; 2010). For upholding an operative relationship, and building trust between the family firm and the investor, a suitable combination of the agency perspective and stewardship perspective must be implemented (Molly, et al., 2018). Agency Theory and Stewardship Theory have coexisted, and have had a complementary view (Forsyth, 2016).

METHODOLOGY

Data Collection

The data for this study has been collected through the questionnaire. The participants were the family directors/ managers/agents of the family-owned listed companies of the Pakistan Stock Exchange (PSX). The participants included both genders. The questionnaire was translated into local country language Urdu, for making the full understanding of the respondents. During the year 2016-2017, more than 1200 questionnaires were distributed; and few family directors were interviewed from more than 400 plus families listed companies. The received 565 questionnaires were considered valid for the analysis, and the remaining incomplete, incorrect and half-filled were rejected. All the respondents were family directors/ managers/agents, hence they were fully aware of the strategies of the company, and had full knowledge of the overview and affairs of the company.

Measurement of Variables

The 7- points Likert Scale model estimation tool was used to measure the constructs; where the opinion of the respondents was determined to extend the starting from strongly "Agree" or strongly "Disagree" with each statement included in the questionnaire. The first construct opportunism was measured by 5 different items, and the dependent variable agency conflict was measured with 10 different items. The data was analyzed by using a third generation technique partial least square structure equation modelling (PLS-SEM) Smart PLS 3.2.7. The beauty of this technique is that it can handle the nonparametric and complex structure model; including the relationship analysis of the observed and unobserved variables represented in a path diagram (Hair et al., 2011). The regression analysis clearly identifies the relationship between the independent variables, mediators, and dependent variables. Table 1 indicates the results of the testing hypothesis.

Table 1: The Results of Testing Hypothesis

<table>
<tr><th>Hypotheses</th><th>Std. Beta</th><th>R Square</th><th>Decision</th><th>T Statistics (|O/STDEV|)</th><th>P Values</th></tr>
<tr><td>H1-There is a positive relationship between Opportunism and Agency Conflict prevailing there in the family business (OPP -> AC)</td><td>0.5713</td><td>0.326</td><td>Accepted</td><td>21.3685</td><td>0.000***</td></tr>
</table>

Model Estimation

Table 2 shows that all the loadings were above 0.70, and they were significant at 0.0 1 level, and they exceeded the threshold level above 0.73 (Hulland, 1999). No item was loaded below 0.70, hence there was no need for any deletion. The convergent validity was estimated by checking the Average Variance Extracted (AVE), and the shown values were above 0.50 (Hair et al., 2011). Table 2 shows that all the values were above 0.7 and 0.8; respectively (Nunnally,1978). Similarly, the value of variance explained by the (R^2) was a vital measure for the evaluation of the structural model. The value of R^2 for agency conflict was 0.326; it means that the independent variable opportunism caused 32.60% change in the agency conflict.

Table 2. The Results of the Analysis

Particulars	Opportunism	Agency Conflict
Cronbach's Alpha	0.9275	0.8697
Rho-A	0.9283	0.8744
Composite Reliability C.R.	0.9387	0.9054
Average Variance Extracted (AVE)	0.6051	0.6571
F Square (Effect Size) [OPP -> AC]		0.2690
Heterotrait-Monotrait Ratio (HTMT)[OPP -> AC]		0.6312
Fornell-Larcker Criterion	0.8106	0.7779
Opportunism (Loadings)		
OPP1	0.8156	
OPP2	0.8385	
OPP3	0.8082	
OPP4	0.8129	
OPP5	0.7767	
Agency Conflict (Loadings)		
AC1		0.7884
AC2		0.7577
AC3		0.7941
AC4		0.7755
AC5		0.7887
AC6		0.8186
AC7		0.7946
AC8		0.7587
AC9		0.7630
AC10		0.7362

Collinearity Statistics (VIF)		
OPP1	1.9295	
OPP2	2.0953	
OPP3	2.0092	
OPP4	1.9545	
OPP5	1.8412	
AC1		2.2892
AC2		2.0115
AC3		2.3101
AC4		2.1208
AC5		2.2583
AC6		2.5650
AC7		2.3936
AC8		2.0711
AC9		2.0275
AC10		1.8774
Fit Summary	**Saturated Model**	**Estimated Model**
SRMR	0.0448	0.0448
d_ULS	0.5077	0.5077
d_G1	0.1952	0.1952
d_G2	0.1594	0.1594
Chi-Square	522.2413	522.2413
NFI	0.9265	0.9265
rms Theta	0.1045	

PLS Structural Equation and Bootstrapping

Table 3 explains the visual results. Bootstrapping tool with a minimum sample of 5000 sizes has been used to calculate the values at 0.000^{***}, significance level. It has been evident from the results that the opportunism was positively associated with the agency conflicts prevailing in the family-owned firms. The Hypothesis H_1 was supported by the results of the analysis, as t-value was 14.02 and it was significant at 0.000^{***}, explaining the significant positive relationship between Opportunism and Agency Conflict.\

Table 3. Bootstrapping of Model

Mean, STDEV, T-Values, P-Values					
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
OPP -> AC	0.4348	0.4345	0.0310	14.0245	0.0000
Confidence Intervals					
OPP -> AC	0.4348	0.4345	0.3728	0.4940	
Confidence Intervals Bias Corrected					
	Original Sample (O)	Sample Mean (M)	Bias	2.5%	97.5%
OPP -> AC	0.4348	0.4345	-0.0002	0.3735	0.4945

Factor Analysis

Table 2 shows the loading of the constructs. It has been evident from the statistical results that the loading of all the items was more than 0.8 which was above the criteria, and fit the model well. All the coefficients have been explained with the help of their respective 't' values. Different factors were extracted from the data; the Composite Reliability and the Cronbach's

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alpha were also significantly high according to the thresholds criteria (Nunnally & Bernstein 1994). For agency conflict, the values of Cronbach's Alpha was 0.9274, rho_A was 0.9283, Composite Reliability was 0.9387 and Average Variance Extracted (AVE) was 0.6051. For opportunism, the values of Cronbach's Alpha was 0.8697, rho_A was 0.8744, Composite Reliability was 0.9054 and Average Variance Extracted (AVE) was 0.6571. All the results were fantastic and above their minimum threshold as supported by the theory. All the VIF values were lower than the standard value 5. The value of Average Variance Extracted (AVE) was more than 0.5; it showed that at least more than 50% explained the construct (Hair, et al., 2011).

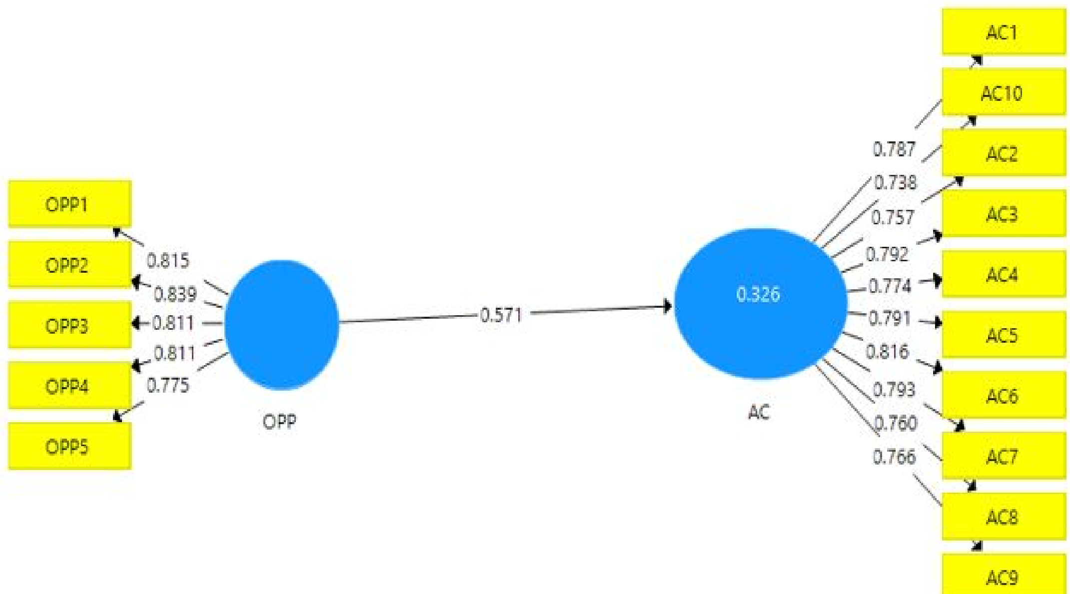

Figure 2. Relationship of "Opportunism and Agency conflict"

There was a positive relationship between (Opportunism->Agency Conflict) β= *0.5713*, t-value= *21.3685* as explained (Figure 2) with R square value of 0.326; thereby, 32.60% variation in agency conflict was explained by opportunism.

CONCLUSION

The study has revisited the important issue of family business agency conflict, and found that it has been a source of Interest for business scholars; the theorizing focus was made on the effective mechanism of the agency-stewardship governance to align the affiliation of the business managers nad family business. Agency theory and the stewardship theory models have successfully dominated the skies of the corporate governance literature in the management-science area. In this paper, a stronger lens has been used to view the complexity of the family-owned firms. The opportunistic attitude of the employees and agents in the family firms would create the agency conflict which would lead to the destruction of the business and sways from its life tenure; so, at the fourth generation, only a few family firms survive and most of them extinct. The effect of the opportunism upon the agency conflicts has been evident. The results supported H1, as there was a direct positive association between the opportunism of the managers and the agency conflicts. It has been evident that opportunism is going to increase, when the agents and managers are non-aligned with the objectives of the firm, and adopt the opportunistic attitude, and this ultimately leads to raising the agency conflict. The alignment of the objectives and goals can decrease the problem between the opportunism and the dependent variable agency conflict. It would be extremely helpful for the family-owned firms to increase their lifespan, and avoid their dissolution and split-up. A lot of contribution has been made towards the managerial governance by the study.

Contribution

Different managers may apply the suggested combination for achieving long-term success in their businesses. So, the adoption of the stewardship behavior and the development of trust between the principals and agents through the agency theory has been strongly recommended globally. The governance mechanism must be based upon the portrayals and the perceptions of the agency-stewardship assembly. The contributing factor has been disclosed by this study. Due to this combination of job performance by the organization, the profitability, lifespan extensions and many other things were improved in the family and non-family firms. Extremely wonderful managerial implications have been offered by the paper for the guidance of the family managers/ directors and the family firm owners. The stewardship attitude and agency theory combination have provided a strategy for the betterment of the relations of the parties leading to an extension in the business life of the family firm. It has been suggested by the study that the peoples must be trusted and endorsed with powers to take the necessary decision of the business. This platform has been a source of providing an ecosystem for the survival of all the actors involved. This innovative approach has provided a highly dynamic environment where the friction free relations of the family owners and managers have been the surety for the business.

Recommendations:

In the light of the findings of this study, it is recommended that in order to avoid the depletion of the assets & resources, and the erosion of the competitiveness, the concept of stewardship can play a very vital role to decrease the opportunistic behavior and agency conflicts; this concept needs to be followed by the family directors /agents. It has been recommended that combating the opportunism obsession may lead to extend the average life of the family firm. The adoption of the good corporate governance practices have been recommended for the family firms in order to avoid their business de-enlistment, split up and liquidation. The limitations of studies included the existence of differences in culture due to the geographical constraints and the exclusion of small-scale business, the partnership business, and the private limited companies which caused some restraints. This research has provided the much-needed insight into the opportunistic behavior and the resultant agency confliction of different family firms governed under the agency and stewardship mechanism. It has been expected that the empirical scholars may get inspiration from this new work for the further research on this issue. It has also been expected that this study would be used in the practice. The practical implications recommend that the average life of the family-owned business can be extended by decreasing the opportunism and ebbing the agency conflicts.

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