"THE MANAGEMENT OF SHAREHOLDER RELATIONSHIPS IN FAMILY BUSINESSES: A PRINCIPAL-AGENT AND STEWARDSHIP PERSPECTIVE"

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Foreword

The following work addresses the role of non-active shareholders in family businesses, the relationship amongst these shareholders and between them and the active shareholders, as well as possibilities to influence these relationships for the benefit of the business and all involved parties utilizing an adequate corporate governance system. The need for research in this area is made clear right at the beginning of this work; however, it also becomes evident after a careful analysis of the currently existing literature – a state of the art review, which can per se be seen as a contribution to the field of family business research and accordingly has been published in the International Journal of Management Reviews.

This work is mainly composed out of two studies that are based on a case study design and overlap in terms of data source (which I find completely unproblematic). Chapter 3 focuses on the roles and goals of non-active family shareholders, defines two essential dimensions of influence, deduces several propositions and also develops a role- and goal typology as well as a theoretical framework, which is ultimately focused on the explanation of occurrence or non-occurrence of conflicts within the group of shareholders. Chapter 4 incorporates this role- and goal typology, but then focuses on analyzing the influence of a corporate governance structure. The main concern of this chapter is to understand “how the design and configuration of corporate governance elements affect shareholder relationships, and how they could assist to manage and control competing shareholder interests – one of the major success factors in family firms“ (p. 88).

Chapter 5 is also conceptualized as an independent article – albeit rather for a practitioner’s journal. A concept is being presented in three steps of how family businesses and their shareholders can analyze their current situation regarding the cooperation of
active and non-active shareholders and develop an action plan based thereupon. The approach is directly linked to the results of the preceding chapters, but adds “trust” as an additional component to the conceptual framework.

Altogether it can be said that this work addresses very relevant contemporary topics and takes up individual issues that have not been discussed to this extent in literature so far. It is precise and well written and is simply fun to read. Although several chapters are widely laid out as independent articles, the overall context is always visible; one can therefore still call this a “monograph” which is closely related to classic dissertations. The literature review is outstanding and completely meets the standards of journals that have been founded in the last years to publish such reviews. The text, and also the extensive table appendices, reveal the remarkable diligence the author has displayed in total. I consider it as a particular achievement to summarize that many studies – far more than are usually found in literature reviews – in such a concise manner and in doing so accomplishing a harmonious blend of theoretical representations and empirical studies.

The selected research design – as well as the case study – is generally very well suited to investigate the issues that are relevant in this work. The author managed to gain the support of renowned family businesses and conduct comprehensive interviews with both active and non-active shareholders. The research results are being linked to data sources very well. The text is also made vivid through direct interview quotes; in addition to this the various tables also make clear that the quoted statements are representative for the sample. Once again it is worth remarking that the author managed to process and analyze this considerably extensive data material in such a concise manner that the scope of journal articles was not being overshot beyond all hope. Over the course of discussions of research results summarizing frames of reference are being constructed and the results
are being related to existing research literature. This is the only way to ultimately assess what is really “new” and what simply confirms what has been investigated elsewhere – even though this is, on its own, naturally a legitimate and insightful result of academic research.

Eventually the author is obviously not only interested in progressing theory development, but also in practical application – conspicuous in chapter 5, which is explicitly dedicated to practitioners, but which builds on theoretical insights of the earlier chapters. I personally consider such a “practitioners chapter” a legitimate and desirable part of any dissertation.

I wish this work a broad reception in both academia as well as in business practice.

Dodo zu Knyphausen-Aufseß

Berlin, 28 September 2012
Preface

The dissertation at hand has been and written and prepared at the Technical University of Berlin with the support and under the supervision of Prof. Dr. Dodo zu Knyphausen-Aufseß between May 2010 and June 2012. During the time as a doctoral candidate I received a lot of support from a number of people for which I would like to thank wholeheartedly.

First of all, I thank my doctoral advisor, Prof. Dr. Dodo zu Knyphausen-Aufseß for giving me the chance to prepare this dissertation as an external doctoral candidate, and thereby giving me the opportunity to complete the dissertation during my leave of absence from my consulting profession. Moreover, I am grateful for his astir interest in my work and for his constructive and helpful criticism, which helped me to improve the content and quality of my work. By providing guidance when needed and at the same time by always giving me the freedom to follow my own ideas and convictions, he always supported the success of this scholarly endeavour. Furthermore, I thank Prof. Dr. Sabine Rau for the frictionless take over of the second opinion of this dissertation and Prof. Dr. Knut Blind for chairing the examination board.

Apart form that I thank my "combatants" at the doctoral colloquia of Roland Berger Strategy Consultants for the numerous discussions, valuable incitements, honest challenging and always helpful attitude.

Still, a major share of the success of this dissertation belongs to my beloved family, Christina, Sabine and Dr. Hans-A. Siebels. I am grateful to my parents for always believing in me and supporting me in this endavour as in every other in my life. I thank my mother Sabine, for her patience and confidence which helped me to overcome the
challenges of the "scientific solitude" and my sister Christina for her constant support and of course for the lectorship of my work. Lastly, I am grateful to my father Hans for giving me the chance to experience an extraordinary education which laid the groundwork for writing this dissertation. I dedicate this dissertation to them.

Jan-Folke Siebels

Hamburg, July 2012
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<tr>
<td>AG</td>
<td>Aktiengesellschaft (corporation)</td>
</tr>
<tr>
<td>bn</td>
<td>billion</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CFO</td>
<td>Chief Financial Officer</td>
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<td>EUR</td>
<td>Euro</td>
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<tr>
<td>ET&amp;P</td>
<td>Entrepreneurship Theory &amp; Practice</td>
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<tr>
<td>Econis</td>
<td>Economic Information System</td>
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<tr>
<td>FB</td>
<td>Family business</td>
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<tr>
<td>FBG-System</td>
<td>Family-business-governance-system</td>
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<td>FBR</td>
<td>Family Business Review</td>
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<td>F-PEC-Scale</td>
<td>Family Power Experience Culture-Scale</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GmbH</td>
<td>Limited liability company</td>
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<tr>
<td>GmbH &amp; Co. KG</td>
<td>Limited partnership with a limited liability company as general partner</td>
</tr>
<tr>
<td>GmbHHG</td>
<td>Limited Company Statute</td>
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<tr>
<td>HR</td>
<td>Human resources</td>
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<td>IfM</td>
<td>Institut für Mittelstandsforshung</td>
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IPO      Initial public offering

JBV      Journal of Business Venturing

JSBM     Journal of Small Business Management

KG       Kommanditgesellschaft (private limited company)

m        million

NAS      Non-active shareholder(s)

PAT      Principal-agent-theory

RBV      Resource-based view

R&D      Research and development

SEC      Securities and Exchange Commission

SME      Small and medium-sized enterprise

S&P      Standard & Poors

SSCI     Social Science Citation Index

TFP      Total factor productivity

TMT      Top management team

U.K.     United Kingdom

U.S.     United States (of America)

WTA      Willingness to accept

ZBW      Deutsche Zentralbibliothek für Wirtschaftswissenschaften (German National Library of Economics)
1 Introduction

The "family firm" as organizational form is a cornerstone of the economy in most countries (Astrachan and Shanker 2003; La Porta, Lopez-de-Silanes and Shleifer 1999) and contributes significantly to their economic output (Astrachan and Shanker 2003; Colli 2003; Klein 2004; Villalonga and Amit 2006, 2009). While family firms generate 69% of GDP and employ 62% of the total workforce in the U.S., comparable figures can be found for East Asia (Claessens, Djankov, Fan and Lang 2002) and Europe (Faccio and Lang 2002). According to one recent study, up to 95% of all companies in Germany can be considered family businesses; they generate 41.5% of all sales and employ 57.3% of the total workforce1 (Haunschild 2010; Institut für Mittelstandsforshung 2007).

Theoretical work in "classical" fields such as finance, organization and strategic management has a long tradition. The comprehensive assessment of the theory of strategic management by zu Knyphausen-Aufseß (1995) is only one example. By contrast, the theory of the family firm has long been overlooked by academia, despite the economic importance of these firms (Chrisman, Chua and Steier 2003). Only in recent decades has an increasing number of researchers started directing their scholarly attention to these organizations (e.g. Craig, Moores, Howorth and Poutziouris 2009; Heck, Hoy, Poutziouris and Steier 2008; Moores 2009; Sharma 2004). Although a relatively new field compared to the "classical" fields mentioned above, the area of family businesses has established itself as an independent and well-defined field and continues to gain momentum today (Astrachan 2003). As the number of publications has grown, their focus has also widened.

---

1 The IfM defines family businesses as businesses in which (1) a maximum of two families hold at least 50% of all shares and at least one shareholder serves as an executive (narrow definition) or (2) a maximum of three families hold at least 50% of all shares and no family member serves as an executive (broad definition).
Research now extends to such diverse themes as management/strategy, succession, distinctiveness, conflict and many more (cf. Bird, Welsch, Astrachan and Pistrui, 2002).

1.1 Relevance and objective of the study

Most research in the field of family firms is rooted in the interaction between the family system and the business system. These two systems differ strongly in terms of their structure and each exhibits a high degree of complexity on its own. The overlap and interaction between the two systems leads to a mixing of different and sometimes opposing roles and objectives, often resulting in frictions and making family firms "fertile fields for conflict" (Harvey and Evans 1994:331). Although conflict is a common characteristic of most organizations and some researchers (Thomas and Schmidt 1976) find that managers spend up to 20% of their time managing conflicts, the question of how to manage conflict is arguably in no context more vital and less understood than in the context of a family firm (Beckhard and Dyer 1983). According to Ward (Ward 1987), only 67% of family firms manage the transition from the first to the second generation, 32% make it to third generation and only 16% to the fourth. While the reasons for this comparably high "mortality rate" of family firms are multilayered, conflict among family members is certainly one of them.

The relationship between family shareholders is particularly important in this context. While some shareholders are actively involved in managing the business, others decide to take more passive roles, both deriving different objectives and preferences from such a role selection. Moreover, as families in themselves are heterogeneous groups with different interests and objectives (Sharma, Chrisman and Chua 1997), significant potential for friction and conflict exists in such setups. Anecdotal evidence for such quarrels abounds in the press, such as the ongoing struggle between the Herz brothers (owners of
1.1 Relevance and objective of the study

the German coffee retailing company Tchibo and the cosmetics company Beiersdorf; F.A.Z. 2011, Capital 2007), or more recently, the disagreements within the shareholding family about the correct strategic direction of Haniel (Manager Magazin 2011). However, a detailed theoretical and empirical assessment of the relationship between active and non-active shareholders (NAS) is still missing. This is surprising as Jaskiewicz, Schiereck and May (2006) report that 55% of their German sample had more than 10 shareholders and most scholars agree that the ability to manage and control shareholder relationships and the associated objectives is one of the main success factors for family firms (Dyer jr. 1986; Sorenson 1999; Ward 1987). It would thus be particular useful to better understand the different roles and goals of NAS and their relationship with family shareholders engaged in the active management of the company.

The multiple roles that family shareholders play in the business and family dimensions make also the governance of family firms a particular challenging task (Neubauer, Lank and Ward 1998; Mustakallio, Autio and Zahra 2002; Tagiuri and Davis 1996). Both active shareholders and NAS usually have significant ownership rights and can exert strong influence on the firm in order to protect their interests. As corporate governance is defined as "the organization of leadership and control, aiming to align the interests of all the stakeholder groups involved" (Witt 2003; p. 1), the configuration of the governance elements can potentially influence interests of active shareholders and NAS and support the reaching of consensus. However, a detailed theoretical assessment or empirical basis is missing in this regard.

This dissertation contributes to our understanding of the dynamics of NAS and their relationship with active shareholders in family firms. It also presents new insights into the influence of corporate governance on shareholder relationships. Based on rich empirical data, several theoretical propositions are derived from the analysis, the results of which are
presented here. This study is exploratory in its nature, indicating that new propositions concerning shareholder relationships and corporate governance in family firms should be discovered during the analysis. Confirmatory research aiming to prove the empirical validity of the derived propositions would follow this study.

In order to operationalize this goal, the literature review attempts to answer two key questions: (1) what are the central theories that have been used to explain why family businesses differ from non-family businesses? And (2) why do family businesses have demands different from non-family businesses concerning their governance structure?

Furthermore, the possible roles of NAS have to be investigated and the related objective functions need to be assessed. Accordingly, research questions can be formulated as: (1) why and how do roles and objectives of NAS differ in family firms? (2) Why and under which circumstances do conflicts between active shareholders and NAS arise? Moreover, the influence of the corporate governance configuration of the shareholder relationships is of high interest as a better understanding would offer a potential lever, helping to address and cushion shareholder conflicts. Consequently, additional research questions are: (3) why and how is the relationship between active shareholders and NAS affected by the corporate governance configuration? (4) How (and why) can goal conflicts between active shareholders and NAS be addressed, aligned or resolved through the design and configuration of the corporate governance elements?

By addressing these questions this dissertation contributes to the body of research in several ways. First, it directs attention to an important shareholder group which has been largely neglected in previous studies. Second, the study helps to improve our understanding of shareholder dynamics in family firms and helps to identify similarities and differences between the interests of active shareholders and NAS. This helps us to understand the conditions under which destructive conflicts may arise. Third, it addresses
the question of how the corporate governance structure can affect shareholder relationships, a critical issue in managing family firms. Finally, by addressing the goal alignment potential of corporate governance, it takes a more active perspective on governance configuration which might be of similar interest for researchers and practitioners.

### 1.2 Research design and definitions

The review of the literature\(^2\) indicates that researchers have largely ignored the topic of NAS and their roles and goals in the corporate governance discussion. Accordingly, theory is lacking testable hypotheses, resulting in a call for research strategies that exhaust the full potential of rich, empirical data in order to develop new propositions (Creswell 2003; Creswell and Clark 2007). In this context a number of scholars (e.g. Miles and Huberman 2009; Lee 1999) suggest applying explorative, empirical research strategies.

One prominent way to operationalize such strategies is inductive case study research (Eisenhardt and Graebner 2007; Eisenhardt 1989b; Yin 2003). According to Yin (Yin 2003, p. 9), "case studies are particularly suitable in situations in which a 'how' and 'why' question is being asked about a contemporary set of events over which the investigator has little or no control." As this holds true for the subject of the current study, it has been conducted using inductive theory building based on multiple case studies (Eisenhardt 1989b). Using multiple cases typically provides a stronger foundation for theory-building than using single cases, as it permits cross-case analysis and thereby helps to arrive at more parsimonious and robust theory and one that can be generalized better than single-case constructs (Eisenhardt and Graebner 2007; Yin 2003).

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\(^2\) See section 2 for a comprehensive review of the literature and the derivation of the research gap.
The literature offers a variety of definitional approaches for "family firms". For the purpose of this study family firms are defined as firms in which the owning family holds more than 50% of the shares and votes and in which at least one family member actively influences the vision and strategy of the company as part of the top-management-team (TMT) or (advisory) board. "Active shareholders" are defined as family shareholders taking an active management position as part of the TMT, while "NAS" ("non-active shareholders") are defined as family shareholders who attend the shareholders' meeting and in some cases take additional positions in corporate governance bodies such as the (advisory) board, the family council (if such exists) or both. Finally, as described above, the study follows the corporate governance definition of Witt (2003) referring to corporate governance as "the organization of leadership and control, aiming to align the interests of all the stakeholder groups involved" (Witt 2003, p. 1).

1.3 Structure of the study
The dissertation at hand consists of six chapters. Apart from the introduction (Chapter 1), each chapter is structured as a self-contained "academic paper" and can thus stand on its own. At the same time, each chapter builds on the insights of earlier chapters, extending the findings and refining the proposed theoretical framework. Accordingly, each chapter contains a separate introduction, summary and discussion. Some thoughts reappear in different chapters allowing each chapter to be read independently.

Following the introduction in Chapter 1, Chapter 2 presents a comprehensive review of the literature. It discusses the prevailing theories explaining why family firms differ from non-family firms and how these theories are reflected in the corporate

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3 See, for example, Chua, Chrisman and Sharma (1999) for an overview and the assessment in section 2.3.1
1.3 Structure of the study
governance discussion of family firms. At the end of the chapter, the review identifies gaps in the existing research – gaps that this dissertation then attempts to close in the empirical investigation presented in Chapters 3 and 4.

Chapter 3 examines the roles and goals of NAS in family firms and analyzes the factors affecting how NAS choose their roles (role selection) within family firms and how stable these roles are (role stability). Furthermore, the chapter presents a conceptual framework for explaining why and how this role selection affects the level of goal alignment or goal misalignment and the corresponding aptitude for conflict between active shareholders and NAS.

Chapter 4 builds on the findings and insights developed in Chapter 3. It extends the framework to the corporate governance configuration of family firms. Chapter 4 tackles the question why and how the configuration of the corporate governance structure can help to align shareholder goals, thereby reducing the threat of harmful and disruptive conflict. Rather than viewing the corporate governance structure of family firms as the result of environmental factors, this chapter views corporate governance as a system, whose configuration affects the shareholder relationships and thereby the outcomes in family firms.

Chapter 5 summarizes the propositions and insights presented in the previous chapters. It also slightly extends the proposed framework by incorporating the concept of "interpersonal trust". Furthermore, it proposes a practitioner-oriented process for structuring corporate governance in such a way that it supports goal alignment between NAS and active shareholders in family firms.

Finally, Chapter 6 presents the concluding remarks and highlights potential areas for future research.
2 A review of theory in family business research: The implications for corporate governance

2.1 Introduction

The field of family business research as a scholarly discipline is quite young in comparison with established fields such as strategic management, finance or organization. Prior to the 1980s, few scholars paid attention to the specificities of family-owned and -controlled companies (Heck et al. 2008). This is surprising given the fact that different studies (e.g. Burkart, Panuzi and Shleifer 2003; Claessens et al. 2002; IFERA 2003; Villalonga and Amit 2006) emphasize the often dominant role these organizational forms play in many countries. For example, based on their broadest definition, Astrachan and Shanker (2003) estimate that family firms generate 89% of total tax returns, 64% of GDP and employ 62% of the total workforce in the U.S. Other scholars support these findings (Morck and Yeung 2004; Neubauer et al. 1998) and come to similar results for other economies such as the UK (Institute for Family Business 2008; Westhead, Cowling and Storey 1997) or Spain (Jaskiewicz, Gonzalez, Menendez and Schiereck 2005). Particularly in Germany, family firms have been found to show an unusually strong dominance (Faccio and Lang 2002). Klein (2000) estimates that approximately 58% of all businesses in Germany with more than EUR 1m turnover/year are family businesses. One research institute (Haunschild 2010; Institut für Mittelstandsforschung 2007) estimates that, depending on the definition, up to 95% of all German companies could be considered family businesses, generating 41.5% of all sales and employing 57.3% of all employees in the German economy.

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4 This chapter was published as presented here in the International Journal of Management Reviews (2011).
5 The percentage decreases with the size of the company (i.e. among the companies with more than 250 m EUR turnover per year, only 30% are classified as family businesses).
6 The IM defines family businesses as businesses in which (1) a maximum of two families hold at least 50% of all shares and at least one shareholder serves as an executive (narrow definition) or (2) a maximum of three families hold at least 50% of all shares and no family member serves as an executive (broad definition).
Recognizing the importance of the field and the apparent lack of scholarly attention in the past, academia has begun to investigate this phenomenon more closely during recent decades (Craig et al. 2009; Heck et al. 2008; Moores 2009; Sharma 2004). The respective results have been compiled and summarized by a number of scholars (i.e. Bammens, Voordecker and Gil. 2010; Bird et al. 2002; Chrisman, Chua and Sharma 2005, Chrisman, Kellermanns, Chan and Liano 2010; Dyer and Sanchez 1998; Handler 1989; Sharma et al. 1997; Zahra and Sharma 2004) in a chronological but rather fragmented and descriptive manner, focusing on specific topics such as the roles and behaviors of the boards of directors (Bammens et al. 2010), the range and frequency of family business publications (Craig et al. 2009), research networks between scholars (Debicki, Matherne, Kellermanns and Chrisman 2009) or covering shorter time periods (e.g. Bird et al. 2002) and smaller samples (Chrisman et al. 2010).

The purpose of this chapter is, while including all types of family firms (privately held companies, unquoted public limited companies, etc.), to comprehensively and critically assess the current state of theory-directed research on family businesses and their governance. More specifically, the principal questions addressed in this chapter are: (1) what are the central theories that have been used to explain why family businesses differ from non-family businesses? And (2) why do family businesses have demands different from non-family businesses concerning their governance structure? By answering these questions, I contribute to the literature in several ways. First, by offering such a review of the several theoretical frameworks, I identify current trends of the prevailing and emerging schools of thought. Second, in contrast to earlier literature reviews, this study includes German-speaking literature, thereby incorporating academic findings from an economy in which family firms play the predominant role and which is considered to be the home country of the "hidden champions" that are world-market leaders in their respective
business areas (Simon 1996, 2009). Third, by focusing attention on the specific question of corporate governance structures in family firms, I offer an assessment of how the different frameworks have been considered within the emerging corporate governance debate. Fourth, by discussing the limitations of current models, research gaps will be identified, helping to guide future initiatives.

The literature review is structured as follows. It starts by discussing the methodology and the sample used for the review in the next section. The review is presented in section 2.3, highlighting and describing the prevailing theories and perspectives. Afterwards, the results are summarized and critically discussed in section 2.4. Finally, the limitations of the paper are disclosed, and directions for future research are suggested.

2.2 Methodology

This research review covers empirical papers published in different academic journals from 1964 to 2010, as well as books/dissertations published between 1957 and 2010. As a starting point, I focused on academic articles published in Family Business Review (FBR), Entrepreneurship, Theory & Practice (ET&P), Journal of Business Venturing (JBV) and Journal of Small Business Management (JSBM) ("journal research"), as these outlets are regarded to be "the most appropriate outlets for family business studies" (Chrisman et al. 2010, p. 10), and are recognized to account for a major portion of family business research (Bird et al. 2002; Chrisman, Chua, Kellermanns, Matherne and Debicki 2008, Chrisman et al. 2010; Debicki et al. 2009). Since the aim was to cover the complete bibliography of these journals, I used the EBSCO host search engine for ET&P, and the search engines on
the respective publisher’s websites for the remaining three journals. The initial keyword search resulted in a total of 250 hits, of which 143 (57%) were found in FBR, 52 (21%) in ET&P, 34 (14%) in JSBM and the remaining 21 (8%) in JBV. In order to ensure that the review would be exhaustive, I also included articles from other academic journals and "non-journal publications" (e.g. books, dissertations) in the paper. By this, I intended to avoid one of the major limitations in several other literature reviews which exclude "non-journal publications" (e.g. Chrisman et al. 2010; Debicki et al. 2009). Thus, I referred to the Econis® online catalogue of the German National Library of Economics (ZBW), the world’s largest specialist library for economics. The initial search of the Econis online catalogue ("library research") resulted in a total of 1,322 hits for different keyword combinations. Since the search parameters were chosen broadly, I anticipated that only a relatively small fraction of the total 1,572 publications would prove to be of substantive relevance and significance, thus justifying their inclusion in the review. In order to identify these relevant and significant studies, a structured seven-step selection process was applied (see Table 1):

1. Search of electronic libraries/databases (i.e. EBSCO Host, publisher’s websites and Econis-catalogue) using different key word-combinations (e.g. family business/firm combined with theory, framework, governance, review etc. in title, abstract or full text)

2. Elimination of substantive irrelevant articles by reading the individual title and selective scanning of the abstract

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7 For a detailed overview of keywords used in the respective search engines refer to Table 1.
8 Econis (Economic Information System) is the online catalogue of the ZBW – Leibniz Information Centre for Economics.
9 For a detailed overview of keywords used refer to Table 1, Note: Econis-results also include books/ dissertations and articles published in academic journals.
10 In total, 250 hits form ‘journal research’ plus 1,322 from ‘library-research’ = 1,572 publication (before consolidation and elimination of duplicates).
3. Consolidation of results from "journal research" and "library research" (Econis) and elimination of duplicates

4. Ensuring substantive relevance by reading all abstracts of the remaining papers/publications and evaluating their respective content (i.e. only papers and publications referring to the theoretical assessment of the distinctive family business and family business governance were selected)

5. Further safe-guarding of relevance and substance by reading the remaining articles/publications in their entirety and discarding publications that fail to address the research questions

6. Inclusion of additional papers that were identified via cross-referencing during the analysis of the bibliographies of papers/publications retrieved in step five

7. Inclusion of further literature recommendation from three independent reviewers during the double blind review process

In total, this procedure resulted in a sample of 235 publications that passed all seven selection steps. Of these, 193 (82%) are articles published in a total of 50 academic journals (see Table 17, Appendix I); 21 (9%) are textbooks, 7 (3%) are dissertations, and 14 (6%) are other publications. While Randolph (2009) predicts that within an exhaustive review only 10% of the relevant publications will be identified through electronic searches, the remaining 90% being identified by searching the references of the retrieved articles, 41% of the sample was identified through search engines and 59% based on searching the references of relevant publications (i.e. step 6 of the selection process).
<table>
<thead>
<tr>
<th>Keywords</th>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
<th>Step 4/5</th>
<th>Intermediate Sample</th>
<th>Inclusion via referencing</th>
<th>Recommendation Reviewer</th>
<th>Total Sample</th>
<th>Publication time covered</th>
</tr>
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<tr>
<td>Family Business + Theory</td>
<td>143</td>
<td>100%</td>
<td>81</td>
<td>57%</td>
<td>0</td>
<td>0%</td>
<td>3%</td>
<td>105</td>
<td>1964-2010</td>
</tr>
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<td>Family Business + Governance</td>
<td>305</td>
<td>23%</td>
<td>263</td>
<td>20%</td>
<td>14</td>
<td>1%</td>
<td>15%</td>
<td>46</td>
<td></td>
</tr>
<tr>
<td>Family Business + Review</td>
<td>324</td>
<td>25%</td>
<td>312</td>
<td>24%</td>
<td>6</td>
<td>0%</td>
<td>3%</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Sum</td>
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<td>100%</td>
<td>1,188</td>
<td>90%</td>
<td>36</td>
<td>3%</td>
<td>54%</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>Familiy Business Review (FBR)</td>
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<td>100%</td>
<td>81</td>
<td>57%</td>
<td>0</td>
<td>0%</td>
<td>3%</td>
<td>37</td>
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</tr>
<tr>
<td>Entrepreneurship Theory &amp; Practice (ET&amp;P)</td>
<td>34</td>
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<td>-27%</td>
<td>0</td>
<td>0%</td>
<td>11%</td>
<td>28</td>
<td>2004-2010</td>
</tr>
<tr>
<td>Family in Abstract</td>
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<td>8%</td>
<td>2</td>
<td>-1%</td>
<td>0</td>
<td>0%</td>
<td>2%</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Family + Governance in Abstract</td>
<td>5</td>
<td>10%</td>
<td>5</td>
<td>-10%</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>5</td>
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</tr>
<tr>
<td>Family + Organization in Abstract</td>
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<td>-3</td>
<td>-6%</td>
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<td>0%</td>
<td>4%</td>
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</tr>
<tr>
<td>Sum</td>
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<td>100%</td>
<td>-24</td>
<td>-46%</td>
<td>0</td>
<td>0%</td>
<td>15%</td>
<td>40</td>
<td>1957-2009</td>
</tr>
<tr>
<td>Journal of Business Venturing (JBV)</td>
<td>21</td>
<td>100%</td>
<td>-10</td>
<td>-48%</td>
<td>0</td>
<td>0%</td>
<td>7%</td>
<td>6</td>
<td>1989-2007</td>
</tr>
<tr>
<td>Search Family business in ALL and limit to Family business and family firm</td>
<td>21</td>
<td>100%</td>
<td>-10</td>
<td>-48%</td>
<td>0</td>
<td>0%</td>
<td>7%</td>
<td>6</td>
<td>1989-2007</td>
</tr>
<tr>
<td>Journal of Small Business Management (JSBM)</td>
<td>34</td>
<td>100%</td>
<td>-26</td>
<td>-76%</td>
<td>0</td>
<td>0%</td>
<td>3%</td>
<td>5</td>
<td>1988-2009</td>
</tr>
<tr>
<td>Family business in Title/Abstract</td>
<td>34</td>
<td>100%</td>
<td>-26</td>
<td>-76%</td>
<td>0</td>
<td>0%</td>
<td>3%</td>
<td>5</td>
<td>1988-2009</td>
</tr>
<tr>
<td>Miscellaneous articles incl. during review process</td>
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<td>n.a.</td>
<td>n.a.</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>15</td>
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</tr>
<tr>
<td>Total Sample</td>
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<td>100%</td>
<td>-329</td>
<td>-85%</td>
<td>-36</td>
<td>-2%</td>
<td>-111</td>
<td>96</td>
<td>2010</td>
</tr>
</tbody>
</table>

1 Assessed via http://www.zdb.eu; 10.06.2010 (includes also articles published in journals)  
2 Assessed via http://ftc.sagepub.com; 10.06.2010  
3 Assessed via http://www.scienceirect.com; 10.06.2010  
4 Assessed via http://www.3.interscience.wiley.com; 10.06.2010  
5 References includes several journals, books etc.
Regarding the timeframe, the majority of the studies were published between 2005 and 2010 (40%) indicating the increasing interest in the field of family business research. Prior to that period, publication activity was weaker, with 17 publications between 1990 and 1995, 34 between 1995 and 2000, and 64 between 2000 and 2005. The composition of the sample is summarized in Figure 1. Furthermore, all major articles and dissertations (books and textbooks are excluded) featured in this review have been classified and briefly summarized. The respective tables are provided in Appendix I (see Table 20 to Table 37, pages 164-196).

2.3 Results

The review starts with a brief discussion of some definitional issues and proceeds with the description and assessment of the prevailing theories in family business research. Afterwards, it summarizes the discussion of corporate governance in family firms and investigates the application of the different theories to this topic.
2.3.1 Definitional issues

As formulated by Chrisman et al. (2005, p. 556), "ideally all researchers should start with a common definition and distinguish particular types of family businesses through a hierarchical system of classification consistent with that definition." Unfortunately, researchers have not always heeded this call, and the literature still provides many possible definitions without consensus (Miller, Le Breton-Miller, Lester and Canella 2007). However, two theoretical approaches on the definition of family businesses seem to emerge as dominant (Chrisman et al. 2005; Hack 2009): (1) the components-of-involvement approach (Chua et al. 1999; Martos 2007); and (2) the essence approach (Chua et al. 1999; Habbershon, Williams and MacMillan 2003; Litz 1995).

The components-of-involvement approach sees it as sufficient condition that some kind of family involvement (i.e. ownership, management, governance or succession) exists in order to qualify as a family business. The fundamental problem associated with this approach is that there are no distinct thresholds, leaving room for interpretation. Addressing these limitations, the essence approach goes one step further and views the involvement of the family merely as a necessary condition. The underlying family involvement must be "directed toward behaviors that produce certain distinctiveness before it can be considered a family firm" (Chrisman et al. 2005, p. 557). Consequently, though being exposed to the same amount of family involvement, two firms might be classified differently in using the respective approaches, as family involvement per se need not convey the intention, vision, behavior or impact that constitutes the essence in the latter approach. However, the primary advantage of the essence approach is its theoretical nature, which invites scholars to develop frameworks and models for operationalizing and capturing the said essence of family involvement (Chrisman et al. 2005). Nevertheless, a
discrete threshold of the determinants\textsuperscript{11} necessary to constitute a family business is still lacking.

To tackle this issue, scholars departed from strictly dichotomous definitional approaches and began to combine the different determinants in a multidimensional scale (Astrachan, Klein and Smyrnios 2002). As a result, Astrachan et al. (2002) introduced the Family Power Experience Culture Scale (F-PEC), which measures the degree of family influence as a metric variable rather than a dichotomous specificity. The underlying theoretical model has undergone some testing and validation (Cliff and Jennings 2005; Holt, Rutherford and Kuratko 2010; Klein, Astrachan and Smyrnios 2005b), but it has also been challenged. Rutherford, Kuratko and Holt (2008) propose that the F-PEC does not measure the "actual" but rather the "potential" family involvement in the firm.\textsuperscript{12} However, having been successfully applied in some studies (Jaskiewicz et al. 2005; Mertens 2009), the main contribution of the F-PEC is not to arrive "at a precise or all-encompassing definition of family business" (Astrachan et al. 2002, p. 51), but rather to offer a scale that supports the convergence of the above-mentioned definitional approaches.

2.3.2 Prevailing family business theories
Taking these definitional issues as a background, I now direct attention to theories and frameworks that have emerged to address the complexities, specifics and behaviors of family businesses. Given the fact that a comprehensive theory of the family firm is still lacking, researchers followed the call of Sharma (2004) and applied commonly accepted theoretical frameworks to the domain of the family firm. The most important theoretical

\textsuperscript{11}The literature quotes the influence on the strategic decision making (Davis and Tagiuri 1989), the willingness of the owning family to keep control over the business and pass it on to the next generation (Litz 1995) or unique resources which arise from the interaction of the family and the business system (Habbershon et al. 2003) as main determinants for the essence of a family firm.

\textsuperscript{12}Rutherford et al. (2008) argue that F-PEC adequately captures the involvement, but not whether this involvement is actually transferred into essence.
frameworks, namely the principal–agent theory, the stewardship theory and the resource-based view of the firm, are discussed in detail.

2.3.2.1 Principal-agent theory

Principal–agent theory (PAT) describes possible problems arising from conflicts of interest and asymmetric information between two parties of a contract (Jensen and Meckling 1976; Ross 1973). Principal–agent theory assumes opportunistic behavior of individuals in the sense that one contract party, the agent, tends to behave in his or her own interest rather than the interest of the other contract party, the principal, creating problems such as moral hazard (cf. Holmström 1979) and adverse selection (Eisenhardt 1989a; Jensen and Meckling 1976). The transaction costs incurred during the process of detecting, mitigating or preventing agency problems (e.g. control or incentive systems, governance structures, etc.) and the economic damage caused by opportunistic managerial behavior (e.g. free-riding, shirking) are referred to as "agency costs" (Jensen and Meckling 1976).

One of the fundamental assumptions of this theory is that agency costs arise through the separation of ownership and control (Fama and Jensen 1983b). This implies that, whenever managers hold an equity stake in the company, agency costs will be minimized (Ang, Cole and Lin 2000; Fama and Jensen 1983b; Jensen and Meckling 1976; Schulze, Lubatkin and Dino 2002). Their personal ownership involvement disincentivizes managers from expropriating shareholder wealth through the consumption of perquisites and misallocation of resources (Fama and Jensen 1983a; Schulze et al. 2002). Consequently, Daily and Dollinger (1992) argue that family businesses require comparatively lower investments for control mechanisms. However, Schulze, Lubatkin, Dino and Buchholz (2001) propose that family businesses are exposed to different types of agency costs, stemming primarily from shortcomings with regard to (1) altruistic behavior and (2) management entrenchment and shareholder expropriation.
2.3 Results

2.3.2.1 Implications of altruism

The concept of altruism is rooted in the theory of the household and has been described by Batson (1990) as a moral value that motivates individuals to undertake actions which benefit others without any expectation of external rewards. Taking an economic perspective, the model of altruism suggests that the utility function of an individual positively links one’s own welfare to the welfare of others (Bergstrom 1989). Because of this linkage, altruism offers a powerful and self-reinforcing incentive, simultaneously enhancing both self-regarding (egoistic) and other-regarding (altruistic) preferences (Schulze, Lubatkin and Dino 2003b). Consequently, parents act generously toward their children not only out of love, but also because this behavior maximizes their own utility function and welfare (Becker 1981). This relationship gives rise to agency complications, because parents might still be incentivized to act generously, though this enables free-riding or shirking by the children (Kets de Vries 1993; Schulze et al. 2003b).

Applying these findings to family businesses, altruism is considered to be beneficial, e.g. by strengthening of the family bond, creating de facto collective ownership (Berghe and Carchon 2003; Lubatkin, Schulze, Ling and Dino 2005; Stark and Falk 1998; Zahra 2003) or reducing information asymmetry through increased communication (Berghe and Carchon 2003). Some scholars even suggest that altruism is a source of competitive advantage (Carney 2005; Chami 2001).

Recently, Lubatkin, Durand and Ling (2007a) have argued that the prevailing assessment so far overlooks the direct effects of psychosocial altruism. While family-oriented altruism refers to generous transfers of (economic) goods according to the agent’s wants, psychosocial altruism refers to these transfers "in terms of how parents contribute to their children’s psychological and social development" (Lubatkin et al. 2007a, p. 1026). Apart from love and security, those transfers include ethical clarity, socialization and self-
esteem and help to create a socially acceptable familial context in the household and firm. The implicit incentives (e.g. information access, adaptation, economic rent) in those transfers might ultimately help to engender governance efficiencies by offsetting countervailing incentives to free-ride and shirk (Lubatkin et al. 2007a). As such, the authors presume that the social context of a family firm plays an important role in explaining the attitudes, behaviors and interests of the protagonists. Still, when analyzing the different aspects of the principal’s altruism, Lubatkin et al. (2007a) make the assumption that the family-agents (i.e. children) act out of self-interest and behave opportunistically, disregarding the existence of reciprocal altruism. In fact, Eaton et al. (2002) deduce from their economic modeling that in cases of reciprocal and symmetrical altruism, agency costs can be mitigated and the resulting lower reservation prices can be a competitive advantage. Although there is no empirical evidence, Kellermanns and Eddleston (2004, 2007) point in the same direction and propose that a high degree of altruism inhibits dysfunctional relationship conflicts and facilitates participative strategy formulation processes, improving overall performance. Also, Karra, Tracey and Phillips (2006) show in their case study that reciprocal altruism can lead to a convergence of interests and thus to reduced agency costs.

Nevertheless, there is also a dark side of altruism (Schulze et al. 2003b). Literature deduces that, in situations in which owner-managers have discrete control over the resources of a firm, altruistic transfers (e.g. excessive perquisites) result in a variety of agency problems (Schulze et al. 2003b). In this vein, the problem of self-control (Thaler and Shefrin 1981) describes the intra-personal moral hazard of the owner-manager. The concept is based on a multiself model of man, which describes internal conflicts between a "farsighted planner", being concerned with long-term welfare maximization, and a "myopic doer", favoring short-term satisfaction. Consequently, instead of consistently
following strategies to maximize long-term welfare, an owner-manager may lose self-control and favor short-term satisfaction. Within family firms, the non-economic motive of parental altruism may cause owner-managers to make decisions that favor their employed children, but potentially harm the business (Schulze et al. 2001, 2003b). Examples include hiring family agents because of their ascribed, rather than their achieved, status or their qualifications, or setting up individual departments for each child (Schulze et al. 2001). The former effect has been further conceptualized by Hendry (2002), introducing the term of "honest incompetence".

Furthermore, the personal relationship toward the family agents may compromise the principal’s ability to realistically assess and monitor their performance. Even in cases of detected inappropriate behavior, it is likely that the principals will avoid disciplinary actions, fearing the social repercussions that such actions might have on their family relations (Klein 2004; Schulze et al. 2003b). This lack of monitoring and control can, in turn, encourage family agents to engage in hazardous activities such as shirking and free-riding (Chua, Chrisman and Bergiel 2009). The more altruistic the principal, the more likely the opportunistic behavior of agents and the probability that family businesses incur agency costs to curb unproductive behavior (Ling, Lubatkin and Schulze 2002). In this context Lubatkin, Ling and Schulze (2007b), drawing on justice-based theory, suggest that the adverse effects of altruism can be mitigated by stronger self-control of the principal, thereby reducing perceived injustice by the agents. However, they do not provide a framework for motivating principals to show such behavior. Moreover, empirical evidence in support of this genuine parental altruism model has been scarce.

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13 Ling et al. (2002) argue that this holds true only if the principal prefers short-term utilities. In contrast, if he prefers long-term utilities, he would show stronger commitment toward control mechanisms and thereby restrain opportunistic behavior of family agents.
In summary, literature empirically shows that, under the assumption of (asymmetric) altruism and opportunistic behavior, family firms are exposed to agency costs (Chrisman, Chua and Litz 2004; Schulze et al. 2001, 2003b). Chrisman et al. (2004, 2005) support this assessment by showing that family firms benefit even more from agency cost control mechanisms than their counterparts. Still, findings concerning the degree of exposure are conflicting. While the pure agency protagonists clearly understate the impact of altruism, the view of Schulze et al. (2001, 2003a,b) seems to be too pessimistic, especially given the fact that family firms manage to maintain a dominating role in our economies. In this light, the recent work of Lubatkin et al. (2005, 2007a) contributes a more nuanced perspective by showing that the impact of altruism is contingent on the level of self-control of the principal and is additionally affected by the cultural and societal background of the firm. Accordingly, agency costs will vary among family firms.

2.3.2.1.2 Management entrenchment and shareholder expropriation

Agency problems might occur vertically between owners and managers ("agency problem I"), as well as horizontally among owners/shareholders ("agency problem II") of family firms (cf. Villalonga and Amit 2006). Scholars refer to management entrenchment as situations in which executives try to ensure self-preservation by neutralizing internal control mechanisms for example by hiding negative attributes or embarking on strategies tailored to fit their idiosyncratic skill set rather than market or competitive requirements (Goméz-Mejía, Núñez-Nickel and Guiterrez 2001). In more general terms, agency problem II corresponds to management entrenchment, this being the ability of (owning) managers to extract private benefits from (other) owners (Chrisman et al. 2005). Villalonga and Amit (2006) suggest that, in situations in which the major shareholder is an individual or a family, there will be a greater incentive for both the monitoring of the manager and the expropriation of minority shareholders, which can result in agency problem II
superimposing agency problem I. Thus, entrenchment problems are caused by the shareholder/ownership structure and can occur between owning managers and (minority) shareholders, while the (minority) shareholders can be either members of the family or external.

**Entrenchment within the family:** Empirical studies show that, with increasing size and ensuing generations, the circle of family shareholders becomes more and more dispersed, thereby lowering the organizational commitment of the individual shareholder (Hack 2009; Schulze et al. 2003a; Vilaseca 2002). With regard to Germany, Jaskiewicz et al. (2006) report that 55% of their sample of family businesses had more than 10 shareholders. These shareholders take on different roles and responsibilities within the firm. While some actively participate in the governance of the firm, others may take a passive role. Since families are heterogeneous, with members having different interests and goals (Sharma et al. 1997), such configurations might lead to conflicting interests and result in entrenchment of owner-managers, who use their ownership stake to assert their interests, compromising the interests of the remaining shareholders. First, owners might disagree about the strategic direction of the firm or squabble about roles and ranks within the firm (Degadt 2003). Second, moral hazards might occur due to diverging risk- and time-preferences of active or passive shareholders (Morck, Shleifer and Vishny 1988; Walsh and Stewart 1990; Witt 2008). Furthermore, while passive shareholders could prefer high dividend payouts, active shareholders might rather retain profits and use them for investments (May 2004). Empirical studies on this topic are rare. Nevertheless, if not addressed, entrenchment and associated conflicts will have detrimental effects on the firm’s performance (Eddleston and Kellermanns 2007; Kellermanns and Eddleston 2007). Consequently, to achieve mitigation, adequate incentive systems and alignment of governance structures are necessary. Some scholars suggest using long-term relational contracts (Goméz-Mejía et al.
2001), while others adduce participation of passive family members in controlling boards (Ang et al. 2000), or implementation of family (shareholder) councils (Witt 2008).

**Entrenchment with external minority shareholders:** Conflict of interest and ownership entrenchment might also occur between owners and external minority shareholders. In fact, Morck et al. (1988) show empirically that management entrenchment decreases firm value. Their findings suggest that with increasing ownership, firm value also increases at first, but then starts to decrease beyond a certain threshold. Based on this result, they reason that management entrenchment and associated agency costs arise once a certain ownership threshold is passed. Claessens et al. (2002) find similar coherences, and other scholars confirm their findings (Kowalewski, Talavera and Stetsyuk 2010; Oswald, Muse and Rutherford 2009; Villalonga and Amit 2006). While some scholars (Goméz-Mejía et al. 2001; Shleifer and Vishny 1997) reason that increased managerial ownership decreases the efficiency of corporate governance mechanisms, Gallo and Vilaseca (1998) propose that having a family chief financial officer influencing the firm’s strategy leads to inferior performance. Moreover, since external minority shareholders are not members of the family, the problem of altruism surfaces once more. Examples include the adherence to inefficient managers (Hillier and McColgan 2009; Le Breton-Miller and Miller 2009; Morck et al. 1988), problems during the enforcement of relational contracts (Schulze et al. 2003b) or economic taking of advantage (Faccio, Lang and Young 2001; Hack 2009).

If entrenchment occurs in conjunction with pyramidal ownership structures or if ownership rights exceed cash-flow rights, this problem can become more severe (Chrisman et al. 2005; Morck and Yeung 2003; Villalonga and Amit 2009) and owner-managers might engage in an adverse activity termed "tunneling" (Claessens, Djankov and Lang 2000; Johnson, La Porta, Lopez-de-Silanes and Shleifer 2000). In tunneling, transfer prices above or below market value are used to relocate revenues or costs between different
subsidiaries and finally to enhance the result of the entities in which the family has the highest cash-flow rights.

Still, the assessment of entrenchment is not entirely one-sided. While Kowalewski et al. (2010) find a significant positive impact of family CEOs on performance. Randoy and Goel (2003) show that founding family firms generally benefit from a high level of family ownership. However, they assume family firms to be low-agency cost environments. Furthermore, literature on entrenchment focuses primarily on performance expressed in economic terms, neglecting possible non-economic goals of family firms. An integration of this aspect would help to improve understanding of this phenomenon.

2.3.2.2 Stewardship theory

Embracing the concept of altruism and developing it further, Davis, Schoorman and Donaldson (1997) relax the assumption that agents behave opportunistically and propose the application of stewardship theory (ST). Stewardship theory is rooted in the fields of sociology and psychology and was originally developed to investigate situations in which executives (i.e. agents) are motivated to act in the best interest of their principals (Donaldson and Davis 1991). The theory states that the agents ("stewards") behave socially, in a self-actualizing manner and with an attitude postulating psychological ownership (Pierce, Kostova and Dirks 2001). This socio-emotional involvement of family and firm serves the collective good of their firm (Goméz-Mejúa, Hynes, Núnez-Nickel and Moyano-Fuentes 2007).

The stewards’ opportunity set is constrained by the perception that the utility they can gain from pro-organizational behavior is larger than the utility from self-oriented behavior (Davis et al. 1997), aligning their interests with the interest of the principal. According to Miller, Le Breton-Miller and Scholnick (2008), stewardship could take three common forms in the context of family businesses, these being continuity, community and
connection. Continuity refers to the intention to ensure the longevity of the firms, which in the long run benefits various family members (Goméz-Mejía et al. 2007). The aspiration of continuity induces community, or the creation of a collective corporate culture populated by competent and motivated staff (Arregle, Hitt, Sirmon and Very 2007; Guzzo and Abbott 1990; Miller and Le Breton-Miller 2006), and connection, being the result of strong relationships with external stakeholders that might assist in sustaining the business in times of economic struggle (Goméz-Mejía et al. 2001; Miller and Le Breton-Miller 2006).

Nevertheless, the literature is discordant as to whether family agents behave as agents or stewards (Chrisman, Sharma and Taggar 2007b; Nicholsen and Kiel 2007). Some studies suggest that the firm culture and goal-set of the owning family are the primary sources of influence, determining the behavior of owners and managers (Corbetta and Salvato 2004a; Eddleston and Kellermanns 2007; Lubatkin 2007). In fact, Corbetta and Salvato (2004a) suggest that extrinsic financial motivation promotes agency, and intrinsic non-financial motivation promotes stewardship behavior, and find that a stewardship philosophy is common among family firms. Contrasting this finding, Chrisman, Chua, Kellermanns and Chang (2007a) show empirically that family businesses behave as "agent-principals", using monitoring mechanisms and incentive compensation to control the behavior of their family agents. Furthermore, even under the assumption of reciprocal altruism, Karra et al. (2006) see limitations of the stewardship concept, warning that, with increasing size, age, lifecycle and shareholder composition of the organization (Habbershon 2006; Hack 2009) or during succession (Blanco-Mazagatos, Quevedo-Puente and Castrillo 2007), altruism itself might create new agency problems. Furthermore, building on their prior work (Le Breton-Miller and Miller 2009; Miller and Le Breton-Miller 2006), Le Breton-Miller, Miller and Lester (2010) recently investigated the
contingency factors that make owners and managers behave in more agent-like or steward-like ways. They suggest that both views have application, but are moderated by the degree of embeddedness of the firm and its top executives in the family. The stronger the direct family influence as a function of the number of family directors, officers, generations or votes, the more likely is an agency setting and vice versa.

2.3.2.3 The resource-based view of the firm
While PAT and ST focus primarily on transaction costs associated with the governance and performance of a firm, the resource-based view (RBV) assumes that returns achieved by firms are largely attributable to their resources (Penrose 1959). The RBV holds that the source of sustainable competitive advantages is grounded in the availability of idiosyncratic, strategic resources that fulfill the cumulative attributes of being valuable, rare, imperfectly imitable and nonsubstitutable (Barney 1991; Teece, Pisano and Shuen 1997).

The literature suggests that family businesses dispose of a unique bundle of resources that are related to the interaction of family and business (Eddleston, Kellermanns and Sarathy 2008a; Habbershon and Williams 1999; Habbershon et al. 2003). These unique resources are referred to as the “familiness” of a firm (Cabrera-Suarez, Saa-Perez and Garcia-Almeida 2001; Habbershon and Williams 1999; Pearson, Carr and Shaw 2008). Yet, these resources will result in competitive advantages and superior firm performance only if managed purposefully and efficiently (Hitt, Ireland and Hoskisson 2001; Sirmon and Hitt 2003). Sirmon and Hitt (2003) arguably offer one of the most comprehensive applications of the RBV to the family business domain. They distinguish between four discrete resources of family firm capital and one unique attribute: human capital, patient capital, social capital and survivability capital, combined with the governance structure attribute.
Human capital, being one of the most important resources, is the acquired knowledge, skills and capabilities of a person to perform unique and novel actions (Coleman 1988). Researchers suggest that family members have a positive impact on the human capital base (Sirmon and Hitt 2003). Their concurrent association with the business and family dimension results in in-depth knowledge of the business, loyal behavior, strong motivation and a strategic long-term perspective (Lansberg 1999; Miller and Le Breton-Miller 2005). Furthermore, some researchers suggest that work relationships between family members and external managers are characterized by a high level of trust (Davis 1983), flexible work environments (Arregle et al. 2007), higher levels of responsibility and extensive training for employees (Reid and Harris 2002), thereby compensating for potential pecuniary disadvantages and resulting in lower levels of fluctuation (Miller et al. 2008). Still, while it seems convincing that family agents have advantages concerning firm-specific knowledge (e.g. internal processes), they may at the same time lack outside work experience and general business knowledge (e.g. university training) (cf. Bammens et al. 2010). Consequently, Dunn (1995) points out that employee selection based on family affiliation rather than skill set could adversely affect the human capital base. In addition, Covin (1994) argues that limited promotion possibilities, limitations in wealth transfers (e.g. no stock options) or perceived lack of professionalism make it hard for family firms to attract and retain highly qualified external management. In this context, Sirmon and Hitt (2003) also note that altruism might make it difficult for family firms to shed resources, especially human capital, causing negative performance implications, e.g. if non-performers are not replaced. However, recent studies suggest that this inertia in shedding resources is affected by family psychodynamics, family structure, culture and the communities in which they reside, and can show positive as well as negative values (Kellermanns 2005; Sharma and Manikutty 2005).
Moreover, many family firms follow long-term investment strategies, as they feel the desire to perpetuate their business and to pass it on to future generations (Gallo and Vilaseca 1996; McConaughy and Philipps 1999). Consequently, the stability of the business is often chosen as a goal superior to rapid growth and risky investment strategies (Harris, Martinez and Ward 1994; Tagiuri and Davis 1992). Sirmon and Hitt (2003) refer to this long-term orientation as "patient capital" and argue that patient capital enables firms to pursue more innovative and creative strategies. While some researchers confirm this idea and propose that long-term orientation indeed translates into a higher capacity for innovation (Le Breton-Miller and Miller 2006; Zahra, Hayton and Salvato 2004), a comparison of research and development (R&D) spending, used as a proxy for innovation, between family and non-family businesses revealed no significant differences (Miller et al. 2008). In this context, Hack (2009) argues that the ability to innovate is not only dependent on R&D spending, but also on the ability to recognize and absorb new technologies. This ability, in turn, correlates with the knowledge exchange within the company, which again is fostered by family involvement in the governance of a firm (Zahra, Neubaum and Larraneta 2007). Inferring from these findings, family firms might be able to develop advantages regarding this resource.

Long-term orientation also facilitates access to social capital. In particular, connections and (long-term) relationships of family businesses with suppliers, external financiers and other stakeholders help to build unique resource configurations (Aldrich and Cliff 2003; Carney 2005; Das and Teng 1998; Haynes, Walker, Rowe and Hong 1999). According to Carney (2005), the long-term perspective of family firms makes it easier to establish and maintain fruitful stakeholder relationships. Indeed, Miller et al. (2008) show empirically that family firms favor more personal sales approaches and invest

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14 Hoffman, Hoelscher and Sorenson (2006) also mention family capital, derived from family relationships.
comparatively more in stakeholder relationships than do non-family firms. Consequently, researchers assume that family firms can achieve a competitive advantage over non-family firms with regard to the accumulation of social capital and customer orientation (Aldrich and Cliff 2003; Miller and Le Breton-Miller 2006). Nonetheless, the study of network relationships of family businesses comes to inconsistent results. While some scholars proclaim that family firms show less activity in the build-up and maintenance of network relationships (Donckels 1991; Graves and Thomas 2004), others find no significant differences (Jorissen, Laveren, Martens and Reheul 2005). Still, the quality of the network and the frequency of contacts seem to be higher in family firms.

Finally, the integration of the described resources is termed "survivability" capital and refers to the pooled personal resources that family members are willing to contribute, share or loan for the benefit of the firm (Haynes et al. 1999; Horton 1986; Sirmon and Hitt 2003). These resources can take the form of free labor, loaned labor, equity investments or monetary loans. The authors argue that survivability capital is available as a result of the family manager’s duality in family and business relationships and the corresponding commitment to the business. For example, in times of economic crisis the cost of losing equity value of the firm might be higher to the family manager than providing his or her own resources (e.g. labor) free of charge. Correspondingly, family businesses might be able to derive competitive advantages from this setup. However, Dyer jr. (2006) challenges this view and notes that family firms are also known for withdrawing assets from the business, thereby undermining the firm’s stability.

The RBV provides valuable insights into how resource configurations of family firms differ from those of non-family firms and how the deployment of family-firm-specific resources can lead to competitive advantages. Furthermore, it offers some explanations of how these resources can be acquired, managed and preserved. But
empirical evidence is still scarce and the RBV has addressed only some of the areas that might impact the value creation of the family firm. In addition, contingency factors motivating individuals to share their resources have not been investigated, leaving questions for further research to answer.

2.3.2.4 Other theories
Apart from the three prevalent theories, a few other theoretical frameworks have been used in the context of family business. While PAT, ST and the RBV deal with the group or organizational level of analysis, most other frameworks focus on the individual level (Sharma 2004). One example is Kelly, Athanassiou and Crittenden (2000), who, using social network theory, developed a concept of founder centrality and proposed that high levels of founder centrality lead to alignment of perceptions, better firm performance along founder-relevant success dimensions and a stronger founder influence after his or her tenure. Furthermore, Sharma, Chrisman and Chua (2003) use social psychology literature and apply the theory of planned behavior, showing that the presence of a willing successor is the beginning of a structured succession planning process. Finally, Sharma and Irving (2005) apply organizational commitment theory to show that differing reasons of next generation family members for choosing a career in the family firm translate into different behavioral and performance outcomes. Overall, these examples show that a significant amount of research on family business deals with individual-level topics and is still in a theory development stage. This is arguably the reason why none of these approaches has gained the widespread attention and acceptance of the other theories reviewed above.

Zellweger and Nason (2008) recently made first efforts to apply stakeholder theory (Freeman 1984) to the realm of the family firm. They argue that, in comparison with public companies, family firms have an important additional stakeholder group, the family. This group has a unique goal-set including non-economic goals such as family control, harmony
or employment of family members. Given the tight overlap between the individual, the firm and the family, as well as the role duality of individuals in family firms, they propose that these organizations have a special incentive to satisfy the needs of multiple stakeholder groups. Based on this reasoning, the authors developed a typology of four performance outcome relationships between stakeholder groups, concluding that active management of these outcome relationships can ultimately increase the organizational effectiveness of family firms.

2.3.3 Corporate governance in family businesses

One main feature distinguishing the family firm from public companies is the multiple roles that family members play within the family and the firm (Neubauer et al. 1998; Tagiuri and Davis 1996). This role-diversity combined with the entanglement of ownership and control affects the corporate governance structures and leads to distinct and specific requirements compared with their non-family counterparts (Bartholomeusz and Tanewski 2006; Carney 2005; Mustakallio et al. 2002; Witt 2008). Beside the supervision and control of management, family businesses need to establish governance structures that enhance cohesion and shared visions within the family, while at the same time reducing harmful conflicts (Mustakallio et al. 2002). Correspondingly, the consideration of the family dimension (i.e. family governance) is an integral part of the governance structure of family firms (Klein 2009).

Following a systems approach (Donnelley 1964), the internal governance of a family firm is defined as two interacting subsystems (Gallo and Kenyon-Rouvinez 2005): the business and the family governance system (Aronoff and Ward 1996). The business governance subsystem is defined as the organization of administration and control of the
business and consists of the top-management team (TMT), board of directors\textsuperscript{15} and shareholders’ meeting (cf. Gallo and Kenyon-Rouvinez 2005; Neubauer et al. 1998). While the primary task of the TMT is the strategic management of the company, the board of directors supervises the company and TMT.

The family governance subsystem is defined to secure and organize the cohesion within the family (Gallo and Kenyon-Rouvinez 2005; Gersick et al. 1997; Mustakallio et al. 2002; Suaré and Santana-Martin 2004) and consists of a family council and the shareholders’ meeting\textsuperscript{16} (Gallo and Kenyon-Rouvinez 2005; Neubauer et al. 1998). The board of directors and the family council, as core elements of the governance structure, will be discussed in detail below. The overlap of the family and business systems indicates the interaction and reciprocal influence between them (McCollom 1988), implying that, in contrast to public companies, in which both systems are decoupled (Simon 2005), internal governance in family firms demands both systems to be treated pari passu (cf. Koeberle-Schmid 2008a).

\subsection*{2.3.3.1 Board of directors}

The board of directors is one of the most important governance elements (Blair 2007), aiming to align the interests of managers and shareholders (Voordeckers, Gils and Heuvel 2007). The primary tasks of the board are (1) control and (2) advice/service for the TMT (Forbes and Milliken 1999; Heuvel, Gils and Voordeckers 2006; Zahra and Pearce 1989). Additional tasks might include maintenance of the family relationship, strategic participation or networking (Koeberle-Schmid et al. 2009; Lange 2009).

\textsuperscript{15}Literature offers a variety of terms, including advisory board, supervisory board, board of directors administrative council, etc. However, tasks, competences and compositions are in most cases quite similar (cf. Koeberle-Schmid 2008a), therefore board of directors or board is used as umbrella term in this paper.

\textsuperscript{16}Additional aspects of the family governance dimension include family charter, family assembly, family council, family office, etc. (cf. Koeberle-Schmid and Nützel 2003; Neubauer et al. 1998).
The literature focuses primarily on the impact of size (Dalton, Daily and Ellstrand 1999; Eisenberg, Sundgren and Wells 1998; Yermack 1996) and composition (Anderson and Reeb 2004; Hermalin and Weisbach 2003) of the board on corporate performance. However, most studies concentrate on public companies instead of family firms and describe the Anglo-American one-tier system\textsuperscript{17} of governance (Dalton, Daily, Certo and Roengpitya 2003; Dalton, Daily, Ellstrand and Johnson 1998). These studies come to diverging results and leave the relationship between board demographics and performance unclear\textsuperscript{18} (e.g. Anderson and Reeb 2004; Dalton et al. 1998; Oxelheim and Randoy 2003). Few empirical studies sample (public and private) family firms and mostly deal with the threat of expropriation by owning-families or noneconomic family objectives accentuating the PAT-based control task of the board (cf. Bammens et al. 2010). In this context, outside director representation is often used as a proxy for the independence of the board (Johnson, Daily and Ellstrand 1996; Pearce and Zahra 1992). In particular, the fact that outsiders are not subject to intercompany or interfamily coercions and are not bound to the social networks of the family enables them to remain independent, an attribute necessary to fulfill the control function (Klein 2005). Although these findings and the results of other scholars (Navarro and Ansón 2009) suggest that insider-controlled boards are associated with entrenchment, in fact family members (i.e. insiders) have a strong incentive to control the TMT (Long, Dulewecz and Gay 2005; Sundaramurthy and Lewis 2003)\textsuperscript{19}, because often a major part of their wealth is vested in the success of the firm. Indeed, a recent study of Nicholsen and Kiel (2007) shows that family shareholders exert stronger control within the

\textsuperscript{17}Examples for studies describing the two-tier system of governance are Jaskiewicz and Klein (2007) or Koeberle-Schmid et al. (2009).

\textsuperscript{18}While, for example, Dalton et al. (1999) suggest a positive relationship between board size and business performance, Yermack (1996) finds a negative relationship between board size and Tobin’s Q. Furthermore, Jensen (1993) suggests an inverted U-shaped relationship and argues that, when growing beyond seven or eight people, boards might be less effective and can be more easily controlled by the CEO.

\textsuperscript{19}Sundaramurthy and Lewis (2003) refer to external blockholders not explicitly family shareholders.
board when compared with external members. Still, empirical findings suggest that family firms only reluctantly install independent board structures, fearing the loss of decision-making discretion (Voordeckers et al. 2007). This reluctance seems to increase with the relative importance of socioemotional family goals (Fiegener, Brown, Dreux and Dennis 2000; Voordeckers et al. 2007). Accordingly, family firms show a tendency to assign affiliate directors (e.g. lawyers, consultants, bankers), since their lack of independence facilitates influence from the management side (Anderson and Reeb 2004). Results even indicate that outside directors are assigned primarily as a response to pressure from external stakeholders who seek to safeguard their investments (Fiegener et al. 2000). While some researchers argue that larger board sizes increase the level of control (Corbetta and Salvato 2004b) and lead to higher accountability, others point out that larger board sizes also constrict the communication and decision capability of its members and dissolve individual responsibility (Lane, Astrachan, Keyt MacMillan e 2006; Neubauer et al. 1998). Based on this assessment, Lane et al. (2006) estimate the optimal size to lie between 7 and 12 members.

The advisory task is another important function of the board (Heuvel et al. 2006), which is rooted in ST and supported by PAT, the RBV and resource dependence theory. While researchers (Corbetta and Salvato 2004a; Davis et al. 1997) suggest that control lowers the steward’s motivation to behave pro-organizationally, they underline the board’s opportunity to nurture and support the pro-organizational behavior of stewards by offering advice and counsel instead of control. Drawing on PAT and ST, Jaskiewicz and Klein (2007) support this view and suggest that the level of goal alignment between owner and managers affects board structure and board size. They infer that high levels of goal alignment (i.e. stewardship settings) lead to a high board–membership ratio of affiliate members. These members are considered to be advantageous in providing advice, owing to
their close relation with both the firm and the family. Furthermore, boards tend to be rather small in such an environment. In addition, the RBV suggests that affiliate or outside board members provide valuable resources in the form of complementary business know-how derived from their personal and professional qualifications (Huse 2005). Following this line, Hillman and Dalziel (2003) integrate PAT and the resource dependence perspective (Pfeffer and Salancik 1978) and argue that, beside their internal, personal expertise, affiliate or outside board members also provide access to external resources derived from their networks and contacts, enabling them to provide more nuanced advice and thereby positively affecting firm performance (Arosa, Itturalde and Maseda 2010; Hoy and Verser 1994).

A third board task unique to the family firm is the maintenance of family relationships or, more precisely, the mitigation and resolution of conflicts (cf. Voordeckers et al. 2007). Literature proposes that outside board members can contribute by keeping discussions focused on objective facts and thereby help to achieve consensus (cf. Bammens et al. 2010; Johannisson and Huse 2000; Whisler 1988). Stakeholder theory provides a promising theoretical framework for this topic (Donaldson and Preston 1995). Bammens et al. (2010) suggest that stakeholder theory could complement PAT by replacing the implicit assumption of goals defined a priori (often economic wealth) with "the notion of goal negotiations in which competing owner preferences are balanced" (p. 12). Empirical evidence for this is yet to be collected, indicating a promising direction for future research.

As for public firms, the empirical results on the relationship between board demographics and performance for family firms are mixed. While some scholars find evidence that board independence increases performance (Anderson and Reeb 2004), P. Klein, Shapiro and Young (2005) propose the opposite. These inconsistent findings might
be attributed to incomplete research designs, which fail to account for processes and contextual family factors (Bammens et al. 2010). Moreover, there are several additional aspects, such as knowledge and heterogeneity, number of meetings, member commitment, collaboration, company culture, experience or the type of firm or industry context, that affect the board’s ability to fulfill its tasks (Corbetta and Salvato 2004b; Minichilli, Zattoni and Zona 2009). While a recent study by Koeberle-Schmid et al. (2009) offers an insightful assessment of some of these aspects, further research that considers these contingencies could prove to be promising in the future.

2.3.3.2 Family Council
The family council is a governance element unique to family firms. The representation can have different forms, but always follows the goal of organizing and structuring the interest of the family (i.e. family governance) and managing its relationship with the business (Gallo and Kenyon-Rouvinez 2005; Witt 2008).

The family council differs from a family assembly with regard to its smaller size and its position as an institutional body of the company (Gallo and Kenyon-Rouvinez 2005). It provides a forum in which all different values, opinions and attitudes vis-à-vis the firm are articulated, consolidated and afterwards presented to the TMT and the board (Gersick et al. 1997; Koeberle-Schmid 2008a). In this regard, the family council serves as a structured nexus between the family and the business dimension, aiming to align diverging interests and to counteract decreasing emotional attachment of shareholders to the firm. Researchers describe the main tasks of the family council as: (1) influencing the business toward the interests of the family; (2) ensuring cohesion within the family; and (3) perpetuating the family ownership across generations (Koeberle-Schmid 2008a; Uhlaner 2006; Zahra and Pearce 1989). Still, in order to purposefully exercise influence on the business, a family strategy or family constitution needs to be defined (Angus 2005). The
family strategy or family constitution defines the rules of interaction among family members and between family and business (Lange 2010; May 2007; Witt 2008). It addresses critical issues such as the treatment of spouses, the definition of which member is entitled to work in the firm, or how dividend payments are determined (Baus 2010).

Once this has been done, literature quotes three ways in which influence might be asserted (Koeberle-Schmid 2008b). First, the family council could discuss strategy and vision, develop goals for the company and present them to the TMT and the board. Second, the family council could be involved in the selection of the board of directors (Ward 2004). And third, the family council could influence the decision over management succession (Gallo and Kenyon-Rouvinez 2005; Lansberg 1999).

Furthermore, in its role as communication and information body, the council might help to integrate inactive family members and to reduce information asymmetry, thereby promoting cohesion among shareholders (Davis and Herrera 1998). Indeed, Mustakallio et al. (2002) show that the existence of a family council increases social interaction and enhances the development of shared visions and the emergence of trust. Following this line of argumentation, the council could even be perceived as a source of intellectual and social capital (Sirmon and Hitt 2003). In addition, family councils offer a platform on which present and emerging conflicts can be discussed and resolved before they affect the business (Gersick et al. 1997; Stöhlker and Müller Tiberini 2005). The organization of informal events, such as family days, celebrations and the like, is a good means to sustain and maintain networks between family groups or clans and to recognize possible conflicts before they escalate (Koeberle-Schmid 2008b).

Moreover, for the perpetuation of family ownership, family councils should agree on clear and binding ownership transfer rules, supervise the transfer of ownership and define who should be accepted as shareholders (Gallo and Kenyon-Rouvinez 2005;
Lansberg 1999; Ward 2004). These agreements should also define the terms for possible shareholder exits, methodologies for the valuation of shares, and rights and duties of shareholders (Redlefsen 2006). Indeed, Redlefsen (2004) shows that family councils help to mitigate the frequency and negative repercussions of shareholder exits. Whether a family council is also capable of reducing other conflicts remains unclear, and also the demographics of family councils have been paid hardly any attention to in the literature. Neubauer et al. (1998) investigated the optimal size of a council and suggest a size of 30–40 people, depending on the size of family and business. Still other attributes such as members, voting modes, frequency of meetings or position of the family council relative to the shareholders’ meeting have not been covered in the literature to date (cf. Witt 2008).

Overall, not much research has been done on family councils to date (cf. Klein 2008), and few empirical studies exist (e.g. Koeberle-Schmid 2008b). Moreover, despite the apparent advantages, family councils are not widespread (e.g. for the case of Germany: Eisenmann-Mittenzwei 2006; PricewaterhouseCoopers 2006; Redlefsen 2004). Apparently, it is not only the research community that has left questions unanswered regarding conflict solving instruments and demographics of family councils, but family firms themselves should start paying more attention to family councils and family governance in general.

In summary, the category of family businesses is characterized by a high degree of heterogeneity. The literature identifies four generic types, termed controlling owner, sibling partnership, cousin consortium and public family firm (Gersick et al. 1997). Accordingly, there seem to be several adequate configurations of corporate governance, depending on the individual situational context, ownership configuration (Chen 2010), generational life-cycle (Bettermann 2009), complexity of the firm (Klein 2009) and the
corresponding governance tasks that should be fulfilled (Jaskiewicz and Klein 2007; Klein 2008).

2.4 Summary and discussion

The review has shown that three major theoretical frameworks, namely PAT, ST and the RBV, dominate the theory-directed discussion about the specificities of family firms and family firm governance.

Principal–agent theory has found broad application in the domain of family business and corporate governance. The introduction of altruism as a moderating variable and the concept of entrenchment provide valuable insights, helping to understand family-firm-specific agency problems (Chrisman et al. 2005). Nonetheless, the literature is discordant on the question of whether family firms are exposed to higher or lower levels of agency costs than are non-family firms. These contradicting results can be attributed to neglect of the heterogeneity among family firms themselves (Westhead and Howorth 2007) or insufficient theoretical grounding, more than to methodological shortcomings. Indeed, some scholars apply very sophisticated econometric research models, using multivariate regressions (e.g. Anderson and Reeb 2003; Daily and Thompson 1994; Miller et al. 2007; Villalonga and Amit 2006) combined with hierarchical linear modeling (Eddleston, Otondo and Kellermanns 2008b), agglomerative hierarchical quick cluster analysis (Westhead and Howorth 2007), structural equation modeling (Mustakallio et al. 2002) or meta-analyses (Dalton et al. 1999). While these studies build on existing theory and focus primarily on testing available propositions concerning the performance implications of different variables, other studies concentrate on the development of new theory and the derivation of propositions using case study research (e.g. Karra et al. 2006;
Mertens 2009) or theoretic modeling (e.g. Corbetta and Salvato 2004b; Sirmon and Hitt 2003).

Furthermore, there are few implications derived from the distribution of ownership within the family in the literature. For example, agency problems stemming from antidromic effects of altruism and moral hazard in family firms with active and non-active family shareholders have not been fully understood (Hack 2009). Also, performance implications of non-active shareholders (Jaskiewicz et al. 2006) or empirical studies on the goals and potential conflicts between these two groups are scarce. Notable exceptions are the studies of Oetker (1999), who addresses stakeholder conflicts in family firms, and of Eddleston et al. (2008b), who investigate how generational ownership dispersion moderates the relationship between participative decision-making and conflict. Also, Terberger (1998), using case studies, provides a process-oriented model toward general conflict management.

Nevertheless, some scholars have started to challenge the explanatory power of entirely PAT-based assessments (Corbetta and Salvato 2004a; Jaskiewicz and Klein 2007; Klein 2008, 2009). They argue that the PAT-implicit assumption of an (economic) goal set defined a priori is problematic, since family firms might be characterized by more complex goal systems that include value and utility derived from non-economic objectives and socio-emotional returns besides economic incentives (Astrachan and Jaskiewicz 2008; Zellweger and Astrachan 2008). Furthermore, PAT assumes a low degree of goal alignment between principal and agent (Jaskiewicz and Klein 2007) a priori and, in addition, falls short of accounting for the behavioral learning effect derived from repeated social interaction. Consequently, the emergence of trust between the protagonists, which affects individual behavior, is excluded from the analysis. Accordingly, PAT accentuates
the control task of the board of directors (e.g. Heuvel et al. 2006) and predicts large boards consisting to a high degree of external directors.

In this context, the introduction of ST removes the homo economicus assumption implicit in PAT (Corbetta and Salvato 2004a) and proposes the idea of a self-actualizing man (Agyris 1964). In contrast to PAT, ST assumes a high degree of goal alignment (Jaskiewicz and Klein 2007) between principal and agent, and accounts for the learning effect derived from repeated social interaction. As a result, trust is one of the most important factors promoting a stewardship environment and is in fact vital to enable open advice interactions, which is the prescribed task of the board within the stewardship framework. Since affiliate relationships are often cited as a basis for the development of interpersonal trust (Jaskiewicz and Klein 2007), ST predicts affiliate board members rather than external directors and smaller board sizes. Still, it is unclear whether stewards behave altruistically only within the classical principal–agent relationship or also towards other non-active shareholders or even toward external stakeholders (Hack 2009). Overall, Lee and O’Neill (2003) and, earlier, Donaldson and Davis (1991) point out that PAT and ST should be seen as complementing rather than competing perspectives, each of them pertaining to certain situations and circumstances.

The RBV takes a different perspective, sharing most implicit assumptions such as high levels of goal alignment and trust, consideration of repeated social interaction and the advisory task of the board with ST. However, the RBV complements both PAT and ST by considering the heterogeneity of firms and their resources (Barney 1991). For example, PAT and ST make the simplifying assumption that the board’s ability to perform assigned control or advisory tasks is constant (Hillman and Dalziel 2003). However, as shown by the RBV, this ability varies and depends on the skills and capabilities of the board members. In contrast, the RBV does not consider incentive schemes motivating individuals
to share their skills and resources (cf. Bammens et al. 2010). Hillman and Dalziel (2003) contributed first insights on how the impact of advice is moderated by board incentives. An expansion of their approach to other stakeholder groups would help to integrate these theoretical perspectives further.

Lastly, research efforts focusing on the individual level of analysis ultimately help to complement appreciation of family-firm dynamics. The application of social network theory (Kelly et al. 2000), theory of planned behavior (Sharma et al. 2003) and organizational commitment theory (Sharma and Irving 2005) has already yielded valuable results, and I encourage scholars to continue following this path. Furthermore, stakeholder theory (Freeman 1984) and the idea of considering the family as an additional stakeholder group (Zellweger and Nason 2008) is a fresh theoretical perspective. A combination of stakeholder theory with PAT or the RBV offers promising insights, e.g. regarding conflict resolution possibilities in family firms.

While the discussion of the business dimension of corporate governance has been centered on board demographics (Voordeckers et al. 2007) and the associated impact on performance, family (shareholder) councils (i.e. family governance) have been identified as a useful means of reconciling conflicting goals within families (Fabis 2009; Redlefsen 2004; Witt 2008). As shown by the present review, scholarly attention toward family councils has been scarce to date, and empirical studies as well as developed theory are rare, leaving an obvious gap in research (Klein 2008; Witt 2008). The combination of family system/household theories with prominent management theories offers a promising track for future research. Moreover, the reorganization of ownership rights or simplification of shareholder structures (e.g. via buy-outs) (Lambrecht and Lievens 2008) or organizational structures (Watermann 1999) could be another potential way of reducing the impact of family conflicts on performance.
In summary, research on corporate governance mostly draws on PAT as a theoretical framework (Klein 2008; Lubatkin 2007; Zahra 2007). Still, as discussed above, PAT is not without limitations, resulting in the call of scholars to also apply combinations of theories (Daily, Dalton and Canella 2003; Huse 2005) to the realm of corporate governance. Although a challenging task (Okhuysen and Bonardi 2011), using combined approaches promises much fruitful future research.

2.5 Limitations and future research

The present review is not without limitations. First, I retrieved the initial sample (step 5) by reviewing papers published in only four academic journals and the results of the Econis search engine of the ZBW (including books and dissertations). The use of additional search engines might have yielded additional or different results. Second, in order to achieve exhaustive results, I applied broad, but few, keyword combinations. Again, additional iterations using different keyword combinations might have provided additional or different results. Consequently, as in every review, I cannot rule out that some publications might have been omitted. However, I am confident that, by including publications identified during the analysis of the bibliographies of the initially retrieved publications, I was able to obtain a comprehensive sample reflecting the current state of research.

Overall, the field of family business research is well-developed in its current state. Still, the review has shown that a number of issues are yet to be resolved. The relationship between the board and performance is one example for which hypotheses are readily available, and deductive research strategies and further statistical testing are likely to improve understanding. In contrast, other theoretical issues such as the relationship between active and non-active shareholders have long been overlooked and excluded from the corporate governance discussion (Jaskiewicz et al. 2006). Consequently, little is known
Limitations and future research

about roles and potential goal conflicts between family shareholders. Yet, a better understanding of the theoretical foundation of the nature and reasons for these conflicts is of utmost importance, as such conflicts are serious threats to the performance and continuity of the affected firm (Eddleston and Kellermanns 2007; Harvey and Evans 1994; Hennerkes 2004; Levinson 1971; Schlippe 2009). Only if the goals and intentions of shareholder or stakeholder groups are understood, does alignment of corporate governance become possible. Consequently, potential research questions could be: (1) why and how do tasks and roles of active and non-active shareholders in family firms differ? (2) Why and under which circumstances (i.e. dispersion of ownership) do conflicts between active and non-active shareholders arise? (3) How can these conflicts be moderated and mitigated through the configuration of governance structures (e.g. family councils, organizational restructuring)? In this context, theory lacks testable hypotheses and calls for research strategies that exhaust the complete potential of empirical data in order to develop new propositions (Creswell 2003; Creswell and Clark 2007). In such situations, Miles and Huberman (1994) and Lee (1999), among others, suggest applying explorative empirical research strategies, and Eisenhardt (1989b) or Yin (2003), for example, proposes case studies as a suitable methodology to operationalize such a strategy. Consequently, future research should follow both deductive and inductive research strategies and continue to feed the cycle of proposition development and testing, ultimately helping to develop a comprehensive theory of the family firm.
3 The roles and goals of non-active shareholders in family firms

3.1 Introduction

"Shareholders are stupid and cheeky. Stupid, because they entrust their money to other people without adequate control, and cheeky, because they demand dividends, so they even want to be rewarded for their stupidity" – Carl Fürstenberg, German Banker (1850-1933)

Family businesses play a dominant role in the economic landscape of most countries (Astrachan and Shanker 2003; Morck and Yeung 2004). Colli (2003) suggests that in the U.S. up to 90% of all businesses are family-controlled, accounting for 69% of GDP and employing 62% of the total workforce (Astrachan and Shanker 2003). Similar evidence can be found for East Asia (Claessens et al. 2000), Western Europe and in particular Germany (Faccio and Lang 2002; Klein 2000). Given the importance of family firms to the global economy, it is vital that we gain a better understanding of the dynamics, shareholder relationships and goals of these organizations. Most problems and research on family businesses can be traced back to the interaction between the family system and the business system. This interaction results in a mixing of family and business roles, each of which is associated with its own goals and interests (Aronoff and Ward 1991). As a result, family firms often face the challenge of managing and balancing competing objectives and find themselves "fertile fields for conflict" (Harvey and Evans 1994, p. 331). While some conflict can be beneficial if it enhances entrepreneurial learning or opportunity recognition (Corbett 2005; Kellermanns and Eddleston 2004; Lumpkin and Lichtenstein 2005), in most cases conflict damages the relationships and harmony in family firms and ultimately
threatens companies' performance and even survival (Harvey and Evans 1994; Eddleston and Kellermanns 2007). Not surprisingly, scholars agree that the ability to manage and control competing goals is one of the major success factors in family firms (Dyer jr. 1986; Sorenson 1999; Ward 1987). Thus it is important that we fully understanding the different roles and goals of family shareholders. In this context, existing research largely neglects the relevance of non-active family shareholders (NAS) (Gersick et al. 1997). Only recently have scholars started to draw attention to the major impact of this shareholder group on the continuity and development of family firms. For example, scholars reported that NAS hold the majority stake in almost 50% of family firms in Germany (Jaskiewicz et al. 2006). Given the power that both active shareholders and NAS derive from their ownership rights, managing the relationship between the two groups and understanding their roles and interests is one of the primary challenges for family firms.

To date, no known study has investigated why NAS have different roles and objectives and whether these compete with or complement the goals and interests of active shareholders. This study addresses this gap by asking: (1) why and how do roles and objectives of NAS differ in family firms? And (2) why and under which circumstances do conflicts between active and NAS arise? Given the empirical limits of prior studies, I conduct a multiple-case, inductive study (Eisenhardt 1989b). Using field and archival data, I investigate the roles and objectives of active and NAS in seven different family firms.

This study contributes to the literature in several ways. First, by focusing on NAS, it investigates a shareholder group that, despite of its power and importance, has been neglected in previous research. Second, by investigating the roles and objectives of this group, the study extends our understanding of the behavior and dynamics within family firms. Third, by contrasting these findings with goals and interests of active (i.e. managing) family shareholders, the study indentifies similarities and differences between the two
3.2 Theoretical background

Existing research offers some initial insights into the different goals of shareholders and (owner-) managers in family firms and the relationship between them. This provides us with a theoretical context. The two key perspectives are principal-agent theory (PAT) (Jensen and Meckling 1976) and stewardship theory (ST) (Davis et al. 1997).

A goal is defined as a purpose toward which an endeavor is directed. According to Ajzen (1991), goals guide human behavior and describe certain intentions that reflect beliefs and perceptions. In family firms, the two subsystems "firm" and "family" exhibit diverging values, goals and principles (Lansberg 1983), creating an area of potential conflict and affecting the behaviors of the individuals involved (Sharma et al. 1997). While the family dimension is based on biological and emotional principles and primarily concerns the well-being of the family, the firm dimension involves financial objectives and is based on rational and economic maxims (Meredith 1996; Terberger 1998) favoring goals such as the growth of the firm (Kotey 2003).

Individuals placed at the intersection of the two systems have to satisfy the demand of both dimensions simultaneously (Achleitner, Braun, Schraml and Welter 2009). It is
unclear under which circumstances they prioritize family over firm goals or vice versa. Some scholars propose that basic firm goals dominate (McCann, Leon-Guerrero and Haley 2001), while others suggest that the combination of firm and family goals often results in an unintentional preference for family goals (Lee and Rogoff 1996). The overarching family goal is likely to be ensuring the survival of the firm, which explains why often long-term strategies are adopted and short-term objectives such as shareholder value are neglected (e.g. McCann et al. 2001; Miller et al. 2008). However, a recent empirical study by Achleitner et al. (2009) suggests that it is overly simplistic to distinguish between family and firm goals. Instead they propose "long-term" versus "short-term", plus "value-orientation" versus "growth-orientation" to be suitable dimensions, while short-term goals are associated with attitudes typical of PAT and long-term goals with attitudes typical of ST.

PAT has been used as a framework to analyze alignment of interests between shareholders (i.e. principals) and the top-management-team (TMT) (i.e. agents) (Jensen and Meckling 1976). PAT assumes diverging goals and interests for the principal and the agent of a firm and calls for monitoring mechanisms to align these goal conflicts (Eisenhardt 1989a). Although agency problems usually relate to the separation of ownership and control, scholars emphasize that family firms are also exposed to agency costs stemming from the problem of altruism and entrenchment (Schulze et al 2001). The concept of altruism suggests that the "utility function" of an individual positively links his or her own welfare to the welfare of others (Bergstrom 1989). Some scholars expect altruism to strengthen the family bond, creating de facto collective ownership and reducing information asymmetry through increased communication (Stark and Falk 1998; Berghe and Carchon 2003). Others note that it might lead to altruistic transfers (e.g. perquisites) or adverse selection leading to inefficiencies in the form of free-riding and shirking (Chua et
Management entrenchment describes the ability of (owner) managers to extract private benefits from other owners (Chrisman et al. 2005). As the number of shareholders increases, the individual shareholders have an incentive to maximize the welfare of their own nuclear family instead of that of the extended owning family (Lubatkin et al. 2005). In addition, Vilaseca (2002) finds that with increasing size and dispersion of ownership, the organizational commitment of the shareholders decreases. Overall, these developments might lead to diverging goals and interests, resulting in different preferences when it comes to investment decisions, risk or dividend-payout schemes (Degadt 2003; Morck et al. 1988; Walsh and Stewart 1990).

ST adds a further theoretical perspective. It questions the idea of self-directed opportunistic behavior by individuals implicit in PAT. In its place, ST proposes that agents behave socially and in a pro-organizational manner, deriving greater utility from collective goals than from individual ones (Donaldson and Davis 1991). In this sense, the goals of principals and agents are aligned by definition. Several scholars assume ST to be highly applicable to family firms, which are characterized by involvement-oriented management practices, strong identification with the firm, social fulfillment and marginal reliance on institutional powers (Corbetta and Salvato 2004a; Greenwood 2003; Miller et al. 2008). However, a critical point within ST is that control mechanisms are assumed to lower the stewards' intrinsic motivation to behave pro-organizationally (Corbetta and Salvato 2004a; Davis et al. 1997). Furthermore, stewardship behavior is related to intrafamily dynamics and the level of harmony within the firm (Corbetta and Salvato 2004a; Eddleston et al. 2008b). Thus, it is crucial that conflicts are addressed and resolved before the stewardship attitudes of individuals begin to fade (Bammens et al. 2010).

Overall, extant literature identifies several factors that affect the objective functions and shareholder relationships within family firms. First, family members have to
deal with role duality, simultaneously satisfying the demands of the family and those of the business system. Second, the degree of ownership dispersion and distribution of the equity stake may affect the behavior and goals of family shareholders. Third, both PAT and ST may represent suitable frameworks for investigating the relationship between active shareholders (agents/stewards) and NAS (principals). However, neither theory explains why roles and objectives of NAS differ, why and how these roles affect the individual objective structures and how those objectives compete with or complement those of active shareholders. While PAT suggests that the interests and goals among family shareholders are conflicting, ST proposes the opposite. Consequently, my two fundamental questions remain unanswered: (1) why and how do roles and objectives of NAS differ in family firms and (2) why and under which circumstances do conflicts between active shareholders and NAS arise? The study at hand addresses this gap.

3.3 Research methods

Given the absence of robust theory about why and how the roles and objectives of NAS in family firms differ, I conducted inductive theory building using multiple case studies (Eisenhardt 1989b). The resulting theory is "situated in and developed by recognizing patterns of relationships among constructs within cases and across cases and their underlying logical arguments" (Eisenhardt and Graebner 2007, p. 25). The use of multiple case studies typically provides a stronger foundation for theory building and thus helps to arrive at more generalizable, parsimonious and robust theory than single case study constructs (Eisenhardt and Graebner 2007; Yin 2003).
The setting of the study is the organizational form of the family firm. While several definitional approaches appear in the literature\(^\text{20}\) (e.g. Astrachan et al. 2002; Chrisman et al. 2005, Chua et al. 1999), in this study I define family firms as firms in which the owning family holds more than 50% of the shares and votes and in which at least one family member actively influences the vision and strategy of the company as part of the TMT or (advisory) board. Since the focus of this research is on the roles and goals of NAS and their relation to those of active shareholders, it investigates only family firms in which at least one active shareholder takes a management position within the firm\(^\text{21}\), while NAS attend the shareholders’ meeting and in some cases take additional mandates in corporate governance bodies such as the (advisory) board, the family council (if such exists) or both.

Table 2: Overview of characteristics of the sample (Chapter 3)

<table>
<thead>
<tr>
<th>Case</th>
<th>Industry</th>
<th>Founding Date</th>
<th>Generation</th>
<th>No. of family shareholders</th>
<th>&lt; 500</th>
<th>1500</th>
<th>2.500</th>
<th>3.500</th>
<th>&lt; 1000</th>
<th>&lt; 5000</th>
<th>&lt; 10.000</th>
<th>&gt; 10.000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case A</td>
<td>Chemical industry</td>
<td>1879</td>
<td>4.</td>
<td>12</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case B</td>
<td>Textile industry</td>
<td>1852</td>
<td>5./6.</td>
<td>130</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case C</td>
<td>Consumer goods</td>
<td>1903</td>
<td>3./4.</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case D</td>
<td>Logistics</td>
<td>1930</td>
<td>3.</td>
<td>11</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case E</td>
<td>Direct sales</td>
<td>1883</td>
<td>5.</td>
<td>20</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case F</td>
<td>Retail</td>
<td>1875</td>
<td>3.</td>
<td>3 (9(^a))</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case G</td>
<td>Consumer goods</td>
<td>1889</td>
<td>3.</td>
<td>1 (4(^a))</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Shares will be transferred to 4th generation.

Having defined the population of the study, I then created a diverse sample. Using theoretical sampling (Eisenhardt 1989b), I focused on seven German family firms from different industries, thereby controlling for environmental variation. I included family firms of different sizes, their annual sales ranging from EUR 150 m to EUR 3.8 bn, in order to control for size variation. In addition, I selected family firms with different levels of ownership dispersion (i.e. number of shareholders) in order to assess whether this factor

\(^\text{20}\)See also section 2.3.1 of this dissertation.

\(^\text{21}\)In two cases the active shareholder has now retired (in 2005 in Case E and as per December 31, 2010 in Case F). In Case F two prospective shareholders are active in the management of the firm, there are no NAS yet, but shares will be transferred to four NAS in the near future.
impacts the roles and goals of the NAS. As suggested by Pettigrew (1990), I chose polar type cases and thus the sample includes firms with between 4 and 130 family shareholders. Table 2 summarizes the characteristics of the firms in the sample.

3.3.1 Data collection
I used several data sources including interviews, telephone conversations and archival data such as corporate documents, annual reports, websites, press releases and news articles (see Table 3). This triangulation of data collected from different data sources strengthens the confidence and accuracy of the data and ultimately improves the robustness of the emerging theory (Jick 1979). The primary source of research data was 11 semi-structured interviews conducted between February and April 2011. The interviews included both open and closed questions and allowed me to collect both qualitative and quantitative data. The interviewees were highly knowledgeable, most of them holding top executive positions, board or family council mandates and, with one exception, owning shares in the company in question. In more detail, I interviewed shareholders active in the management of the firm (i.e. active shareholders) and NAS of four distinct specifications: (1) NAS with a seat on the board of the company, (2) NAS with a family council mandate (if such exists), (3) NAS with board and family council mandate, (4) NAS with neither of the aforementioned mandates. The interviews lasted between 60-120 minutes and covered the roles and related objective functions of NAS and active shareholders, possible goal congruencies and conflicts, and related corporate governance issues. All interviews were recorded and transcribed within 24 hours. Table 3 provides an overview of the interviews for each case in the sample and gives the titles of the informants.
Table 3: Overview of interviews, informants and press articles (Chapter 3)

<table>
<thead>
<tr>
<th>Position of the Interviewpartner</th>
<th>Group</th>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
<th>Case E</th>
<th>Case F</th>
<th>Case G</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Partner (Family-CEO)</td>
<td>Active</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>(1)</td>
<td>(1)</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Member of the board of directors (Shareholder)</td>
<td>Non-active</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1†</td>
<td>1†</td>
<td>0</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Family Shareholder*</td>
<td>Non-active</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Member of the board of directors (Non Shareholder)</td>
<td>n.a.</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

* Family Shareholder might have a position in a family council (existing or shareholders’ meeting)

The board member was Family-CEO until 31.12.2010

Press articles

<table>
<thead>
<tr>
<th>Press Articles Used</th>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
<th>Case E</th>
<th>Case F</th>
<th>Case G</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Hits within Factiva Database*</td>
<td>5 (86)</td>
<td>8 (27)</td>
<td>18 (784)</td>
<td>12 (549)</td>
<td>16 (433)</td>
<td>14 (139)</td>
<td>23 (1,013)</td>
<td>96</td>
</tr>
</tbody>
</table>

* Company names of case A–G have been used as keywords

The focal interview guide had three sections. First, I asked closed questions about the background, shareholder structure and corporate governance of the informants’ firms. Second, I asked informants to describe their own roles and goal functions, using an open-ended format and prompting informants with questions such as how a possible role duality affected their goal-prioritization and how they understood their own position within the firm and the owning family. Third, I asked open-ended questions of how their roles and goals conflicted with (or complemented) the interests of the other shareholder-groups (i.e. active shareholders or NAS). This last part of the interview comprised slightly different questions for active shareholders and for NAS.

I address informant bias in a number of ways. First, I interviewed NAS with different positions and hierarchical roles within the family. Second, I used open-ended questions about recent or even current situations and relationships, thereby limiting recall bias and enhancing accuracy (Golden 1992; Koriat and Goldsmith 2000). Third, I triangulated the data from multiple informants and data sources (Jick 1979; Kumar, Stern and Anderson 1993) and phrased the questions carefully so as to avoid informant speculation. Fourth, I reassured informants that both they and their firms would remain anonymous to encourage them to speak openly and honestly. Consequently, in the event, informants were highly motivated to give accurate information, as they recognized the
negative repercussions that shareholder conflicts can have on their companies and so were interested in gaining a better understanding of why such conflicts arise. Informants having such high personal interest in the matter in question usually increase the accuracy of their responses (Miller, Cardinal and Glick 1997).

### 3.3.2 Data analysis

I began the analysis with an in-depth investigation of each case through the lens of the research questions (Eisenhardt 1989b): (1) why and how do roles and objectives of NAS differ in family firms and (2) why and under which circumstances do conflicts between active shareholders and NAS arise. Following recommendations for theory building from case studies (Eisenhardt 1989b; Eisenhardt and Graebner 2007; Yin 2003), I used within-case and cross-case analyses with no a priori hypotheses. As a starting point I compiled individual write-ups of all cases that triangulated the data base (Jick 1979). I then applied different coding techniques (open-coding, in-vivo-coding etc.) in order to identify theoretical relationships, constructs and patterns within each case respective to our research question (Strauss and Corbin 1990). Next, I used axial coding to search for relationships between our constructs, which helped to assemble them into higher-order themes. Finally, I summarized similar themes into comprehensive dimensions which formed the basis for my framework. My final data structure on which I build my framework is summarized in Figure 2.

Following this step, I turned to cross-case analyses to identify common constructs and themes that could be replicated between the different cases. As suggested by Miles and Hubermann (2009), I used extended tables and graphs to facilitate the analyses. Furthermore, I used simple scoring models to rank the importance of certain statements (i.e. the importance of individual goals). The cases were grouped randomly and by
3.3 Research methods

different variables of potential interest. Comparisons were initially made between different pairs of cases in order to identify tentative relationships. As patterns emerged, replication logic was applied and the preliminary theory from some cases was tested on the other cases to validate and refine the emergent theory (Eisenhardt 1989b). While some relationships were confirmed, others were discarded as they did not replicate across other cases. This process helped me to develop more robust theoretical constructs and causal relations.

![Figure 2: Data Structure](image)

As the theoretical frame clarified, I started to compare it with the extant literature in order to identify commonalities and differences, strengthen the internal construct validity and sharpen definitions and measures. My aim was to increase the generalizability of the propositions and the emerging theory. I then followed an iterative process and cycled between the data, theory and literature, refining the propositions until I had a strong match between the data and the emerging theory (Eisenhardt 1989b). The result was nine theoretical propositions that are described in the following section.
3.4 Results

The data from the sample suggests that the goal functions of NAS in family firms result from the role selection of each individual. In this context role selection means the position that the individual shareholder decides to take within the intertwined system of family and business. NAS assume different positions within these systems and derive different attitudes from them, ultimately affecting their cognitive and emotional posture and behavior toward the family and the firm. As families are heterogeneous groups (Sharma et al. 1997), it is essential that this heterogeneity is taken into account when analyzing NAS. Accordingly, rather than analyzing NAS as a coherent group (as in earlier studies, e.g. Vilaseca 2002), in this study I take a more fine-grained and differentiated perspective on the category of NAS.

3.4.1 The role selection of non-active shareholders

Family firms have a wide range of different types of NAS. A significant example is provided by company B. Founded in 1852, the firm is currently in its 5th-6th generation. Over time, shares have been inherited without a strict principle being applied and without establishing a minimum share size. As a result, company B has a very diverse shareholder base counting as many as 130 shareholders. The CEO, who is the last active family member, described the roles and interests of the NAS as follows: "You know, if you have 130 shareholders, you have yellow ones, green ones, blue ones, red ones, you have qualified ones and unqualified ones, you have farmers and you have professors."

With 130 different shareholders it is not surprising that different characteristics emerge. But it is worth noting that family firms with smaller and more concentrated shareholder structures also report similar phenomena. For example company C has just seven shareholders from three different branches of the family, yet the managing partner
There are really four shades [of NAS]." Also, one of the NAS in company A, having 12 shareholders, explains: "…there is a strong divergence [of roles] among the shareholders. I would say in our family there are at least three different clusters." It is thus overly simplistic to assume a linear relationship between the number of shareholders and the role diversity among them. This leads me to the first proposition:

**Proposition 1: The relationship between role diversity of NAS and the total number of shareholders in family firms is nonlinear.**

With this in mind, it is essential to analyze the factors influencing the role selection and role diversity of NAS, as this ultimately leads to conflicting or complementing goal functions. The analysis of the data from the sample suggests that role selection by NAS in family firms is influenced by (1) the identification with and emotional proximity of the shareholders to the firm and (2) the active participation of the shareholders. Both of these factors will be discussed in the following sections (for evidence from our case studies see tables 4, 5, 6 and 7).

### 3.4.1.1 Identification and emotional proximity

The analysis of the data suggests that the role of a NAS is influenced by the degree of his or her identification with and emotional proximity to the firm and the family. By identification I refer to the sharing of common beliefs, culture and traditions that manifests itself in the way individuals interact with each other. In this regard, identification is comparable to commitment, which has been described by Meyer and Herscovitch (2001) as a binding force that is experienced by an individual as a psychological state or mindset that induces that individual to engage in a particular set of actions. Thus, identification and commitment are characterized by a strong belief and acceptance of an organization’s (or group’s) values and goals combined with the willingness to be and to stay a part of that
### 1. Dimension Identification & Emotional Proximity: Emotional Value

<table>
<thead>
<tr>
<th>Antecedent</th>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
<th>Case E</th>
<th>Case F</th>
<th>Case G</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social Status &amp; Reputation</strong></td>
<td>&quot;For a huge part of the family members […], reputation is very important. If you hold shares, you are someone and to have this feeling is very important for them.&quot; - NAS</td>
<td>&quot;[…] shareholders live at the location of the firm and are active; they identify themselves with the company even more than shareholders that live in Buxtehude or somewhere.&quot; - Family CEO</td>
<td>&quot;Everyone feels closely connected and belongs to the company.&quot; - External Chairman of the board</td>
<td>&quot;The standing and reputation that emanate from such a family firm have a very strong and feeling impact.&quot; - NAS</td>
<td>&quot;I would claim that the idea that we are a family firm, we own this firm 100% and we will make the best of it prevails among the shareholders.&quot; - Family CEO</td>
<td>&quot;Since we are about to retire we try to bind the shareholders to the firm.&quot; - Family board member</td>
<td>Charitable activities come as a win-win: they keep shareholders; that is exciting. It allows the company name and do something good with it; shareholders say ‘That is exciting. I can use the company name and do something good with it.’ - Family CEO</td>
</tr>
<tr>
<td></td>
<td>&quot;Especially in our case, where the name of the family is also connected with the locality where everything has been constructed (the company has a certain identity for the shareholders) beyond the simple material value.&quot; - Family CEO</td>
<td>&quot;Today, many of the smaller shareholders behave similar to the ‘Fress-Aktionäre’ of public companies in other days. This means that they hold their shares less because of the economic advantages, and more because it makes them part of the family. It leads to immaterial in the shareholders’ meeting. It leads to integration, which is higher value for some of the shareholders than the dividend payout.&quot; - Family CEO</td>
<td>&quot;I perceive us clearly as a entrepreneurial family.&quot; - NAS</td>
<td>&quot;The company is perceived as a magnet that holds the family together. I could imagine that if you would hold these shares similar to shares of (e.g.) Volkswagen, without the moral and ethical obligation, that some of the family shareholders would not be shareholders anymore.&quot; - NAS</td>
<td>&quot;The family has to identify itself with the firm and the family wants to identify with the firm. But that also means that the company may not do things, which the family has trouble to identify with, otherwise the relationship between passive and active shareholders will suffer.&quot; - Chairman of the board</td>
<td>&quot;As we [the 3rd generation] are about to retire we make sure that we increase the emotional bonding of the shareholders.&quot; - Family board member</td>
<td>&quot;It is a good thing, if the emotional attachment is so strong that people say even with 0.1% share I want to stay a shareholder; this is important for me, it is a value in itself. A company should do a lot to promote this.” - Family CEO</td>
</tr>
<tr>
<td><strong>Feeling of belonging / Extension of the self</strong></td>
<td>&quot;Especially in our case, where the name of the family is also connected with the locality where everything has been constructed (the company has a certain identity for the shareholders) beyond the simple material value.&quot; - Family CEO</td>
<td>&quot;Today, many of the smaller shareholders behave similar to the ‘Fress-Aktionäre’ of public companies in other days. This means that they hold their shares less because of the economic advantages, and more because it makes them part of the family. It leads to immaterial in the shareholders’ meeting. It leads to integration, which is higher value for some of the shareholders than the dividend payout.&quot; - Family CEO</td>
<td>&quot;I perceive us clearly as a entrepreneurial family.&quot; - NAS</td>
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<td>&quot;As we [the 3rd generation] are about to retire we make sure that we increase the emotional bonding of the shareholders.&quot; - Family board member</td>
<td>&quot;It is a good thing, if the emotional attachment is so strong that people say even with 0.1% share I want to stay a shareholder; this is important for me, it is a value in itself. A company should do a lot to promote this.” - Family CEO</td>
</tr>
</tbody>
</table>

### Table 4: Contingency factors identification & emotional proximity, Z (1/2): Emotional value

3 The roles and goals of non-active shareholders in family firms
### 1. DIMENSION IDENTIFICATION & EMOTIONAL PROXIMITY: EMOTIONAL COSTS

<table>
<thead>
<tr>
<th>Antecedent</th>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
<th>Case E</th>
<th>Case F</th>
<th>Case G</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reputational Risk</strong></td>
<td>&quot;...this absolute loyalty, that is never questioned, that is very important for many of them [the shareholders]&quot; - NAS</td>
<td>&quot;It is my company. Everyone feels associated with and obliged to the firm&quot; - External Chairman of the board</td>
<td>&quot;The position of the shareholder to the firm is only partially a rational position,&quot; and comprises also risks for them - Family CEO</td>
<td>&quot;I think or at least I have sometimes the feeling, that they [the shareholders] derive an obligation if they remain in the inheritance; which they maybe would rather get rid of&quot; - NAS</td>
<td>&quot;[...] The self-respect of a shareholder is defined to a certain degree by the respect that the public gives him. And this [public respect] depends in turn on the respect that the company enjoys&quot; - Chairman of the board</td>
<td>Whether all information about the firm is also read by the NAS &quot;That depends also on the preparatory training&quot; - Family board member</td>
<td>&quot;The more distant the positions of the shareholders, the more they will perceive their shareholdings as a financial investment.&quot; - Family CEO</td>
</tr>
<tr>
<td><strong>Conscientiousness &amp; Social constraint</strong></td>
<td>There exists &quot;a certain willingness for self-sacrifice, where you would say from a rational point of view: I don't understand this. But it is a very emotional thing, which sometimes has something to do with masochism&quot; - NAS</td>
<td>&quot;[... no one of the shareholders] has shown interest to really participate actively in the business [...]&quot; - External Chairman of the board</td>
<td>&quot;[...] an exit [...] would be at least an exclamation mark within the family. To phrase it carefully, but I have to keep the possibility in mind.&quot; - Family CEO</td>
<td>&quot;The many information [that the NAS get] are often perceived as a burden.&quot; - Family CEO</td>
<td>&quot;You can inherit a company share also with kind of a mortgage, namely the expectation of the bequeather that the heirs integrate themselves into the discipline of the firm in the same way that he or she did.&quot; - Chairman of the board</td>
<td>&quot;Shareholders have to learn to act responsibly and to consider the interests of the firm&quot; - Family CEO</td>
<td>n.a.</td>
</tr>
</tbody>
</table>
### 2. DIMENSION DESIRE FOR PARTICIPATION

<table>
<thead>
<tr>
<th>Antecedent</th>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
<th>Case E</th>
<th>Case F</th>
<th>Case G</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self-perceived competence</strong></td>
<td>The behaviors of NAS is impacted by the question of “How competent do I perceive myself to judge about business-related decisions?” - NAS</td>
<td>&quot;You want a certain education of the NAS…&quot; - Family CEO</td>
<td>&quot;…in the end a group of 80-10% [of the NAS] emerges, who accommodates and the positions of the shareholder with more engagement and competence.&quot; - Family CEO</td>
<td>&quot;[…] we have a family education program…[…] where we try to improve the knowledge of the NAS.” - Family CEO</td>
<td>&quot;[It is important] that you hear and follow the discussions and that you can express your own assessment via some channel that is designed for it[…].&quot; - NAS</td>
<td>&quot;I try to attend every quarterly meeting, I try to attend board meetings as a guest. I get involved in many areas as I do not have anything to do as a shareholder, just because I am interested.&quot; - NAS</td>
<td>&quot;We allocate a lot of time to ensure that everyone understands the business policy […].&quot; - Family CEO</td>
</tr>
<tr>
<td><strong>Number of shares</strong></td>
<td>&quot;The shareholders of company B are inactive, with the exception of Mr. X, who represents a large part of the shares.&quot; - External chairman of the board</td>
<td>&quot;The behaviors of NAS is impacted by the question of “How competent do I perceive myself to judge about business-related decisions?” - NAS</td>
<td>&quot;Maybe the one or the other [NAS] says: I get involved in the voting process but my decision power is limited. […] Everyone would have the same number of shares that would likely be different.” - Family CEO</td>
<td>&quot;My son [who owns a minority share] is also very active in the firm. He has also a mandate on the board.&quot; - NAS</td>
<td>&quot;The shareholders would hold their shares like share from let’s say VW, I could imagine that some would not be shareholders in any longer.” - NAS</td>
<td>&quot;The size of the share plays only a limited role. […] We do not want to have majority shareholders.” - Family CEO</td>
<td>&quot;The firm will be owned by four shareholders holding relatively high stakes, therefore the Family CEO expects involvement of the NAS. &quot;I would expect that at least one or two takeover mandates on the board.” - Family CEO</td>
</tr>
</tbody>
</table>

**Table 6: Contingency factors: active involvement (1/2)**

**Goals derived from individual circumstances. For proximity, a second point is the proportion of the shares. Am I a big or a small shareholder.” - NAS**
### Table 7: Contingency factors: active involvement (2): Integration of NAS

<table>
<thead>
<tr>
<th>Antecedent</th>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
<th>Case E</th>
<th>Case F</th>
<th>Case G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integration of NAS</td>
<td>&quot;There are two ways in which I try to influence the business. The first is an informal dialogue with my brother [the active shareholder] [...] and the other is the restructuring of our corporate governance where I aspire to an institutional role.&quot; - NAS</td>
<td>&quot;The more operational rights to participate the shareholders have, the higher is the endangerment that a conflict pops out of it.&quot; - Family CEO</td>
<td>&quot;We explain and inform, but they [NAS] do not decide about operative business decisions.&quot; - Family CEO</td>
<td>&quot;There has to be a clear separation: The managing directors have to lead the company [...], and the shareholders must not interfere.&quot; - Chairman of the board</td>
<td>&quot;The essential part in the involvement of the family is not to participate in the formal decisions, but to understand why certain decisions are taken and why the firm is lead the way it is.&quot; - Family CEO</td>
<td>&quot;There might be conflicts between NAS, who try to influence the business and the individuals that are legally in charge&quot; - Chairman of the board</td>
<td>&quot;It should not be the case that NAS, who do not have a mandate on the board, use different ways to influence the management. Otherwise it will result in problems.&quot; - Family CEO</td>
</tr>
</tbody>
</table>

2. DIMENSION ACTIVE PARTICIPATION
The identification of some NAS with the firm and the value they attach to the possession of their share in the company is so distinct that selling is not even considered a realistic option. "It would be unthinkable for me that shares of the firm would be held outside of the family," commented one NAS in company D. The chairman of the board in company E goes even further, stating that a sale of shares would mean that "the family [member in question] would stop being part of the family." Moreover, identification is connected to the emotional proximity of the shareholder to the firm, putting them in the position to derive an emotional value from their shareholdings. This emotional value has been defined by Zellweger and Astrachan (2008) as the difference between the "willingness to accept" (WTA\(^{22}\)) – the financial value of the shares, and the private benefits of control. Enjoying a certain reputation and status is one possible form of this emotional value. As one NAS in company A put it: "For a major part of the family members […] reputation is very important. If you hold shares, you are someone and to have this feeling is very important to them." Another NAS in company C confirms this view: "The standing and reputation that emanate from such a family firm have a very strong and binding impact." Yet, for some NAS their share has an even stronger significance: it is regarded as their admission ticket or certificate of affiliation to the family. According to the family CEO of company B, "…many of the smaller shareholders […] hold their shares not so much for economic advantages, but because with them they are part of the family, they lead to invitations to the shareholders' meeting, they lead to integration, and that is […] of higher value for them." Insofar holding shares in a firm means "[…] affiliation to the owning family," comments the chairman of the board in company E.

\(^{22}\) "WTA is defined as the minimum ‘selling price’, the price at which an individual would be willing to sell an endowed good" (Zellweger and Astrachan 2008, p. 349).
Furthermore, some shareholders perceive their shares as a possession that overlaps with their own identity and is to a certain extent self-referential or self-defining (cf. Pratt 1998). This may be especially true, if they are eponyms (i.e. they carry the name of the company) (Dyer and Whetten 2006), which was the case in four of the seven companies in the sample.

In the case of company A, the firm carries the name of the aristocratic family that owns it, while the name is also connected to the region, as the land has been owned by the family for centuries. The family CEO comments: "Especially in our case, where the name of the family is also connected with the land where everything had been constructed, [the company] has a strong identity [for the shareholders] that goes beyond the simple material value." To summarize, a high degree of identification and emotional proximity appears to lead NAS to engage in roles that show a strong identification with the organization's values and goals and thus a high level of goal alignment between NAS and firm (i.e. active shareholder).

However, the data from the sample also provides evidence that merely holding shares does not lead to identification and emotional proximity. In fact, it can even result in the opposite, causing emotional costs and a desire on the part of NAS not to identify with the business. Thus, being a family shareholder can have negative aspects such as reputational risks or conscientiousness and social constraints (Dyck and Zingales 2004; Sharma and Manikutty 2005). The reputational risk is derived from the close entanglement of the family shareholders with the firm. The shareholders are directly affected by the activities and actions of the company. "The company may not do things, with which the family has trouble identifying," says the chairman of the board in company E and underscores the importance of this point as "the self-respect of a shareholder is defined to a certain degree by the respect that the public gives him. And this [public] respect depends in
The roles and goals of non-active shareholders in family firms turn on the respect that the company enjoys.” For example, company D reports that one of its NAS is very ecological aware and is involved in organizations such as Attac and Greenpeace. As the firm is active in the field of logistics and maintains a huge fleet of trucks, critical discussions about CO₂-emissions have resulted. The truck-fleet’s emissions make it hard for the NAS in question to identify with the firm. "That can be a problem. We have had a lot of discussions on this topic," confirms the family manager of company D.

Moreover, the status as a family shareholder leads to a feeling of responsibility or conscientiousness, which some NAS perceive as more of a burden than a privilege. The CEO of company D stated that the extensive flood of information that has to be distributed for legal reasons, causes problems for some NAS as they find it hard to isolate that part of the information that is relevant to their individual questions. His brother, one of the NAS, commented: "I think, or at least I have the feeling sometimes, that they [the shareholders] derive an obligation from their inheritance, which they would rather be rid of." He added that the emotional value that some NAS derive from their shareholdings is not always visible for him. The chairman of the board of company E made similar observations, explaining that when family members inherit shares they also inherit a kind of a mortgage, namely "the expectation […] that the heirs integrate themselves into the discipline of the firm in the same way that he or she did." This expectation often collides with the self-perception of the NAS, leaving them with a dilemma. This dilemma, in turn, affects their attitude towards the company. In some cases, the feeling of duty may even result in feelings of social constraint, which NAS derive from the perceived injustice that through their inheritance fate has treated them inequitably well. Accordingly, they ask themselves: "How can I live my life without the shares becoming a burden on my consciousness?" explains the family CEO of company D. At the same time they usually reject the idea of selling their shares as this would represent even greater emotional costs to them in the form
of lost intimacy, reduced status, disappointing the expectations of other family members or even the severing of family ties (Gersick et al. 1997). To summarize, these considerations show that some NAS may display a low degree of identification and emotional proximity, which leads them to engage in roles that exhibit a certain degree of goal misalignment between NAS and the firm (i.e. the active shareholders). I record the second proposition:

_Proposition 2: High (low) degree of identification and emotional proximity between the NAS and the firm will be positively associated with the degree of goal (mis)alignment derived from the role selection of the NAS._

### 3.4.1.2 Active participation

The data from the sample reveals that the degree of active participation and competence of NAS is a second dimension that influences their role selection in family firms. By active participation I refer to the degree to which NAS get involved with firm-related issues, thereby actively supporting their own particular interests.

The degree of active participation seems to be affected by the number of shares a person holds in the company. For example, one NAS in company A reported that he felt a certain obligation to look after the performance of his shares as they represent a "significant part of his wealth". In addition, the size of the share is also related to the voting power at the shareholders' meeting, which creates an incentive for large shareholders to actively participate and make their interests known. However, the data suggests that even NAS with smaller shares show significant participation, which might be attributed to the relative influence they can exert on the business without owning large equity stakes. The chairman of the board of company E explains: "When we sit together, the personality and the arguments weigh much more than the size of the share." Companies C and D report
similar situations. One small-share NAS in company C explains: "I get involved in many areas where I do not have anything to do as a shareholder, just because I am interested."

The degree of active participation of NAS also appears to be affected by their level of (self-perceived) competence regarding firm-related issues. If NAS consider themselves able and informed, i.e. if they have an own opinion about e.g. the strategic direction of the firm, they are more likely to participate and to get involved. Accordingly, a low level of (self-perceived) competence will result in relatively little involvement, while a high degree will result in great involvement. The CEO of company B supports this reasoning and explains that therefore "[…] in the end a group of 10-15% [of the NAS] emerges, who accompany the position of the shareholder with more engagement and competence." Still, he adds that the participation of every single NAS is simply not always reasonable. "If you have 130 shareholders of whom 40 are housewives, then you can ask each of them, but on what basis should they judge these complex issues? Ultimately, they can only do it based on recommendations or gut feelings, and that is a problem." Still, if the (self-perceived) competence of NAS does not reflect their actual competence, their willingness to participate may also result in problems. The family board member of company F described a situation in which two of his nephews are working in the middle management but do not have the qualifications and skills to join the TMT. When he retires from his position on the board, one of them may try to take his place – an undesirable eventuality in his opinion.

Active participation can take different forms. It can mean formal engagement in one of the corporate governance bodies of the firm, for example a seat on the board of directors or participation in the shareholders' meeting. It can also mean informal communication with the active management. A NAS in company A commented as follows: "There are two ways in which I try [to influence the business]. The first is an informal dialogue with my brother [the active shareholder] […] and the other is the restructuring of our corporate
governance, where I aspire to an institutional role." Formal participation is often welcome if it is combined with a certain degree of competence regarding firm-related issues. "It is very important to me that there are one or two people within the family who are willing to use their skills and take leading positions on the board or in leading the family," explains the family CEO of company D. However, as stated above, if they lack that competence then problems may occur. What is more, informal participation of NAS has a significant potential for conflict: "There has to be a clear separation. The managing directors have to lead the company […] and the shareholders must not interfere," explains the chairman of the board of company E. The CEO of company G agreed: "It should not be the case that NAS, who do not have a mandate on the board, use other [informal] ways to influence the management. Otherwise it will result in problems." Consequently, it is essential that active participation occurs within formal constraints such as the statutes of the company.

Overall, the degree of active participation influences the role selection of NAS in family firms. Antecedent factors are the size of the share and the (self-perceived) competence of NAS. This leads to the third proposition:

*Proposition 3a*: The degree of active participation of the NAS will affect the role selection and thus the goal-set of the NAS.

*Proposition 3b*: The number of shares held by a NAS is positively related to the degree of active participation.

*Proposition 3c*: The degree of self-perceived competence of the NAS is positively related to the degree of active participation.

### 3.4.1.3 A role-typology of non-active shareholders

The data from the sample suggests that the roles of NAS in family firms can be summarized by combining the influencing factors outlined above in a two-dimensional
model. The proposed four-quadrant typology (Figure 3) depicts the degree of identification and emotional proximity on the X-axis and the degree of active participation on the Y-axis. Based on this approach, four generic roles of NAS in family firm emerge with different objective functions and priorities of objectives.

Table 8: Overview of the generic roles of NAS in family firms

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Role 1: Co-Entrepreneur</th>
<th>Role 2: Traditionalist</th>
<th>Role 3: Active Investor</th>
<th>Role 4: Silent Shareholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification/Emotional Proximity</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Desire for participation</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Attitude</td>
<td>Long-term</td>
<td>Long-term</td>
<td>Short-term</td>
<td>Short-term</td>
</tr>
<tr>
<td>Business First or Individual First</td>
<td>Business First</td>
<td>Business First</td>
<td>Individual First</td>
<td>Individual First</td>
</tr>
<tr>
<td>Mandates in Corporate Governance Bodies</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Knowledge about the business</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Intrinsic non-financial motivation</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Extrinsic financial motivation</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Favour</td>
<td>Stewardship/Environment</td>
<td>Stewardship/Environment</td>
<td>Agency/Environment</td>
<td>Agency/Environment</td>
</tr>
</tbody>
</table>

Both dimensions should be perceived as metric variables and continuous scales rather than dichotomous specificities. Accordingly, each of the proposed roles can occur in different forms within the shareholder base of a family firm. In the following section, I discuss the characteristics of each of the four roles and the goals that the NAS derive from this role perception (see Table 8).

3.4.2 Roles and goals of non-active shareholders

The goals of NAS are derived from the position they take within the family and the business system. I propose four generic roles for NAS, namely co-entrepreneurs, traditionalists, active investors and silent shareholders. Each role results in different sets of goals and goal priorities.
Co-entrepreneurs (see quadrant 1 in Figure 3) are characterized by a strong identification with and emotional proximity to the firm, combined with a high degree of active participation in the business. They identify themselves strongly with the company values and the rules of the organization. Co-entrepreneurs take their position as shareholders very seriously, accentuate a long-term, business-first attitude and would never consider selling their shares. Furthermore, they are willing to actively support the business and often accept seats on the board of directors or leading positions within the family (e.g. chairmanship of the shareholders' meeting, family manager etc.).

Company D provides an example for this type of NAS. The brother of the active shareholder works as a dermatologist and has never taken an active position within the management of the company. He feels a strong emotional connection with the firm and for him it would be "unthinkable" that shares of the firm could be held outside of the family. Furthermore, he values the interests of the company above his own and favors a long-term sustainable development strategy for the firm. In his words: "The short-term shareholder
value oriented mind-set means nothing to me. [...] It is important for me to sustain family wealth and the company and to lead it into the next generation." For this reason he considers it his responsibility to support company D by engaging himself in company-related positions. Apart from being a guest on the board of directors for the last 12 years, he is one of two elected family managers (i.e. chairman of the shareholders' meeting). He leads the family, consolidating their interests and representing them to the board of directors and the TMT. Despite his full-time job, he shows considerable commitment to the firm and allocates two full days per week to his family management position. The most important goals for him are the continuance of the business, safeguarding the influence of the family, sustainable growth and profitability and harmony within the family. The payment of a dividend is a secondary goal for him.

Traditionalists (see quadrant 2 in Figure 3) have a slightly different attitude. They also show strong identification with and emotional proximity to the firm, but they take truly passive positions and do not feel the urge to participate actively in the business. Traditionalists have a strong emotional attachment to the firm and identify themselves with its values and rules, showing a long-term, business-first attitude. They perceive their shares as a symbol of their affiliation to the entrepreneurial family and would not sell them, irrespective how small their stake might be. The emotional value that traditionalists derive from being a shareholder outweighs the economic utility they gain from their shareholding. Traditionalists are usually busy with their own professions and rather than participating in the business, they put their trust in the TMT and the family members on the board of directors. In some cases they may also lack the necessary expertise to judge complex business issues, which enhances their passive attitude.

Company B has several traditionalists among its shareholders. According to the family CEO, many of the smaller NAS "hold their shares less because of the economic
advantages, and more because with them they are part of the family." Moreover, among the
130 shareholders there are also some 30-40 non-working shareholders who have a strong
emotional relationship with the firm but are not in a position to evaluate complex business
decisions. The non-active chairman of the board of company E observes similar features in
his company. As quoted above he stated: "The self-respect of a shareholder is defined to a
certain degree by the respect that the public gives him. And this [public] respect depends in
turn on the respect that the company enjoys." Traditionalists perceive the company as an
extension of their self and enjoy the reputational aspects which emanate from it (e.g. if the
firms engage in charitable activities). As one NAS in company A put it: "If you hold
shares, you are someone." Overall, the data suggests that traditionalists put strong
emphasis on goals such as safeguarding the influence of the family, the continuance of the
business, reputation (also via growth and profitability) and harmony. They often give also
the payment of a dividend as one of their goals, but this ranks lower than other goals.

Active investors (see quadrant 3 in Figure 3) are characterized by a low degree of
identification with and emotional proximity to the firm. They take a rather distant, rational
perspective on their shareholding and consider the business simply as an abstract asset
class in which the family wealth is invested in but which could change in the future if other
assets start offering a better performance. Active investors are strongly value- and cash-
oriented and accentuate interests such as company value and dividend payments. Since
they are highly interested in the performance of their portfolio, they try to be actively
involved in the business in order to ensure that their interests are heard. Consequently,
information and transparency are of paramount importance to them as they are a necessary
prerequisite to evaluating the position and performance of the firm. The involvement of
active investors usually happens through discussions at the shareholders' meeting or via
The roles and goals of non-active shareholders in family firms

seats on the board of directors. Often, active investors also use informal communication channels to try to influence the family members that actively manage the firm.

One of the NAS of company A considers himself an active investor: "We inherited our family wealth. Today it takes the form of a corporation or company, but it may not necessarily have to have this form [in the future]. [Still,] I think that a family business increases the likelihood of long-term conservation of value." Based on this attitude, he criticized that he got insufficient information about the firm's operations, but said that "there are many other shareholders who […] have and can only obtain a considerably less knowledge." Furthermore, he does not feel that he and his interests as an investor are sufficiently represented by the family directors on the board and thus tries to engage himself in a controlling function. To do so, he uses informal dialogue with his brother, who is the family CEO, to gain transparency and formulate his interests and goals. Overall, there is evidence that active investors stress goals such as company value, the payment of a dividend, and growth and profitability over goals such as safeguarding the influence of the family and the continuance of the business.

Silent shareholders (see quadrant 4 in Figure 3) share the low degree of identification with and emotional proximity to the firm with the active investors. However, they also show a low degree of active participation. Different types of silent shareholders occur in family firms. Some behave in a completely neutral and passive manner, and are primarily interested in a basic degree of harmony (type 1). Others perceive their stake in the company as a psychological burden that they would like to get rid of (type 2). Nevertheless, despite having trouble identifying themselves with the goals of the business, their affiliation to the family prevents them from selling their shares as they fear the social repercussions of such an action on their family dimension. Overall, the economic and emotional value that they derive from being a shareholder is rather low. Moreover, as they
participate in the business or make use of its communication platforms, often their goals and interests are not openly expressed.

Silent shareholders occur in most family firms. "[Some] shareholders in [company B] are completely inactive, they see each other once a year and are happy if they get a dividend," explained the external chairman of the board of company B. The limited willingness of silent shareholders to participate in the company is also experienced by company D, which offers bi-monthly telephone conferences in order to inform and educate its shareholders. "There are many [NAS] who are simply not present or that forget the appointment," reports one of the family managers. In addition, the family CEO of company A explained: "I think that, if we had no structures and everyone could do what he or she wanted, there would be some [NAS] who would say [...] 'If no one objects, I would have no problem with being bought out and doing something else.'" However, such mindsets are not openly communicated. "You know, sometimes you get a wall of fire on topics, where you have no idea what the person wants. Often the reason is simply unexpressed discontent with the situation," explains the family CEO of company B. To summarize, the data suggests that silent shareholders have a diverse portfolio of goals including emancipation from the company, possible exit, a basic degree of harmony, the payment of a dividend and the continuance of the business.

3.4.3 Goal alignment between active and non-active shareholders

The analysis of the case studies suggests that active shareholders usually separate their roles within the firm and the family. Most of them accentuate a strong business-first attitude: "There is one basic principle that has been drummed into us from our parents: 'The interest of the firm has priority over the interests of the family or individual interests',' explains the former managing partner of company E. Still, active shareholders perceive
themselves also as relationship managers, whose responsibility includes maintaining shareholder relationships within the firm. The family CEO of company D explained: "In my role as the spokesman of the TMT […], I perceive myself as the one who also conducts shareholder relations management. However, I have aligned this shareholder relationship management with the needs of my clientele, namely the family." The goal-set that the active shareholders derive from this role perception replicated across all cases. However, the prioritization of the goals differed slightly (see Tables 18 and 19, Appendix I). After applying a scoring model, I inferred and ranked the five most important goals of the active shareholders, namely the continuance of the business, sustainable growth and profitability, safeguarding of the influence of the family and the payment of a dividend. Based on this goal hierarchy for active shareholders, it was possible to evaluate the degree of goal alignment or misalignment between the four generic roles of the NAS and the active shareholders (see Figure 4).

I consider a goal to be aligned, if it is ranked as important by both active shareholders and NAS and if the importance that both parties attach to it does not differ by more than one rank. Thus, I consider goals to be misaligned if they are ranked by both parties as important, but the rankings differ by more than one rank, i.e. where one party considers a number of other goals to be more important. If NAS rank goals as important that are not ranked at all by active shareholders, I consider them misaligned if they conflict with the goals of the active shareholders, or neutral if they are unrelated to them.
Figure 4: Goal alignment/-misalignment active shareholders vs. NAS
The goal portfolio of the co-entrepreneurs shows a strong match with the goal set of active shareholders and exhibits only slight differences regarding the individual importance attached to the goals (see Figure 4). This high degree of goal alignment can be explained by the strong identification of co-entrepreneurs with the values and rules of the firm, accompanied by a pronounced business-first attitude that is shared with active shareholders. Based on these shared values, co-entrepreneurs put a high level of trust in active shareholders and want to support the business through active participation. They get involved by taking up seats on the board or assuming leading positions within the family, thereby ensuring that their most important goals are met, namely the continuance of the business and safeguarding of family influence. As long as this active involvement remains within the constraints defined in the shareholders’ contract or the family charta and the communication between both sides is smooth, the threat of conflicts between co-entrepreneurs and active shareholders is relatively low. This leads to proposition 4a:

Proposition 4a: NAS taking the role as co-entrepreneurs (high identification / high active involvement) show a high degree of goal alignment with active shareholders.

Traditionalists also share the goal portfolio of active shareholders. However, their goal prioritization differs regarding their most important goal, namely safeguarding the influence of the family (see Figure 4). Traditionalists perceive the firm as an extension of their selves and thus derive a strong emotional value from their shareholdings. Accordingly, their interest is complemented and supported by the primary goals of the active shareholders i.e. the continuance of the business, and growth and profitability. In other words, a growing and flourishing company reflects positively on its shareholders, and traditionalists are very receptive to this. Given the low involvement and rather passive and
consuming stance of traditionalists, the risk of conflicts arising from diverging goals is rather low. This leads to proposition 4b:

*Proposition 4b: NAS taking the role as traditionalists (high identification / low active involvement) show a high degree of goal alignment with active shareholders.*

Active investors share some of the goals regarding the performance of the business with active shareholders (see Figure 4). However, as their emotional relation to the firm is rather low, they place a strong emphasis on financial performance. Their strongest interest is the company value, in other words the value of their stakes, a performance indicator that is considered unimportant by active shareholders. As the emotional value that active investors derive from their shareholdings is low and since they consider the business more of an investment vehicle, they rank goals such as the continuance of the business as less important. Nevertheless, they feel the desire to optimize their portfolio and so have an incentive to influence the management of the firm toward a more shareholder value oriented management approach, a desire that clearly conflicts with intentions of the active shareholders. Consequently, the degree of goal alignment between active investors and active shareholders is expected to be low, while the threat of conflict is rather high. This leads to proposition 4c:

*Proposition 4c: NAS taking the role as active investors (low identification / high active involvement) show a low degree of goal alignment with active shareholders.*

The goal portfolio of silent shareholders stresses emancipation from the company. As silent shareholders show little identification with the firm and low involvement, most are happy if they are left alone and receive a dividend once a year. These "type 1" silent
shareholders, although showing a low degree of goal alignment with the active shareholders, assume a neutral position and show relatively little potential for conflict. Other silent shareholders have lost the connection with the business and its values and find themselves in the dilemma of wanting to exit but fearing the ramifications such a step would have on their social life, as their exit would conflict with the goals and interests of most other shareholders and the family. These "type 2" silent shareholders show a low degree of goal alignment and a relatively high potential for conflict. This leads to proposition 4d:

Proposition 4d: NAS taking the role of silent shareholders (low identification / low active involvement) show a low or neutral degree of goal alignment with active shareholders.

3.5 Discussion

This investigation adds to the study of family firms and the relationship between active shareholders and NAS. Previous research has identified the importance of NAS in family firms, emphasizing in particular the potential conflicts that arise between active shareholders and NAS (Jaskiewicz et al. 2006; Vilaseca 2002). The core contribution of the current investigation is a theoretical construct explaining how and why NAS select different roles for themselves and derive different objectives within family firms. I have developed a typology of four generic roles assumed by NAS. This typology helps to explain why and under what circumstances goal alignment or misalignment occurs and why conflicts arise between active shareholders and NAS. I have proposed that the role selection of NAS is subject to the degree of identification with and emotional proximity to the firm and the degree of active involvement in the business. Identification and emotional
proximity are influenced on the one hand by emotional value in the form of social status, reputation or the feeling of belonging, and on the other hand by the emotional costs in the form of the reputational risk, conscientiousness or social constraints that NAS derive from their shareholding. The degree of active participation is influenced by the relative number of shares and the degree of (self-) perceived competence of the NAS. Collectively, these factors explain why different roles for NAS emerge and why competing or complementary goal sets are found between different shareholders. Figure 5 summarizes the model.

Behavioral economists such as O'Donoghue and Rabin (2000) and Thaler and Shefrin (1981) argue that the motivation of an individual is derived from an idiosyncratic set of preferences, of which some have an economic and some have a noneconomic character. The current investigation comes to similar results and offers additional insights into the factors influencing the behavior and goals of NAS.
The concept of identification and emotional proximity as a dimension influencing the role selection of NAS finds support in the possession attachment and organizational commitment literature as well as in ST and PAT (discussed in more detail above). Possession attachment is defined by Richins (1994a) as the extent to which an individual maintains his or her self-concept through an object (e.g. in this case the share of a firm) that is owned, expected to be owned or which has previously been owned by that individual. The attachment arises as a consequence of meanings that are given to a possession (Richins 1994b). Sacred or aesthetic meanings, which are discussed in the literature, are less applicable to the possession of shares in family firms than the meaning of financial utility and the utility derived from perceiving the firm as an extension of one's self (Zellweger and Astrachan 2008). The literature on possession attachment also reports that goods play an important role in symbolizing social relationships. Possessions that are received from a loved one or a relative are likely to be perceived as a symbolic representation of these social ties. Sharma and Manikutty (2005) support this view and find that owners of family firms show a particular propensity to display attachment to their ownership stake through the emotional bond between family members, family tradition or nostalgia.

The literature on organizational commitment identifies two main types of commitment, namely value commitment and continuance commitment (Mayer and Schoorman 1992, 1998). Angle and Perry (1981) define value commitment as identification and alignment with an organization and particularly with its values and beliefs. A high level of shared values, indicated by high levels of value commitment, induces a group orientation in which harmony and collective success are regarded as more important than individual success (Davis et al. 2010). This is supportive for a collective culture, which has been identified as a necessary environment for stewardship settings in
family firms (Davis et al. 1997). ST assumes goal alignment between principal and steward, so researchers predict that a high degree of goal alignment will result in a high degree of organizational commitment (Davis et al. 1997; Jaskiewicz and Klein 2007). The findings of this study support this relationship between goal alignment and commitment. However, I find evidence that the dependency is inverted, making the degree of goal alignment the dependent variable. Accordingly, the proposed framework suggests that high levels of identification and emotional proximity result in NAS selecting roles and adopting goals that are characterized by high levels of goal alignment with the active shareholders (quadrants 1 and 2 in Figure 3).

While high levels of organizational commitment foster the development of a collective culture, low levels impede it and hence constitute an agency environment, which implicitly assumes misalignment of goals (Eisenhardt 1989b; Jaskiewicz and Klein 2007). The proposed model also supports this reasoning, suggesting that low levels of identification and emotional proximity lead to role selections by NAS (quadrants 3 and 4 in Figure 3) that are associated with goal misalignment between active shareholders and NAS. Furthermore, Corbetta and Salvato (2004a) suggest that extrinsic financial motivations promote agency behavior, and intrinsic non-financial motivations promote stewardship behavior. This is largely consistent with my findings. However, silent shareholders (Quadrant 3 in Figure 3) do not pronounce financial interest despite having misaligned goals with active shareholders and thus representing an agency-like setting. Nevertheless, overall my findings agree with those of other scholars (Eddleston and Kellermanns 2007; Lubatkin 2007), who suggest that the firm culture and idiosyncratic motivations of individuals are primary sources influencing the behavior of owners and managers.
The model further proposes that active involvement is another important dimension influencing role selection by NAS. I propose that the number of shares held affects the level of active participation by NAS. Vilaseca (2002) indirectly supports this proposition, finding a significant positive correlation between the relative amount of equity owned by a shareholder and their commitment level. In his concept, involvement is a main component that leads to effort and ultimately commitment. The data of the sample also provides evidence that NAS with a small number of shares exhibit high levels of active participation, so I suggest that the degree of self-perceived competence is another antecedent of active participation. Jaskiewicz et al. (2006) find empirical evidence that NAS in fact exert a strong controlling influence on the family, despite the fact that only a relatively small percentage (43%) of NAS has the necessary qualifications to be able to evaluate an annual statement. Thus, the results of Jaskiewicz et al. (2006) indirectly support my proposition that self-perceived qualification rather than objective skills induce NAS to show active participation.

To summarize, the nature of the relationship between active shareholders and NAS depends on which of the proposed four generic roles NAS assume. Different shareholders may choose different roles, but my findings suggest that family firms can show stewardship (quadrants 1 and 2 in Figure 3) and agency characteristics (quadrants 3 and 4 in Figure 3) at the same time. Still, it is unlikely that NAS will be split equally between the different roles, in most family firms there will be a tendency towards agency or stewardship characteristics. While many other studies suggest that family involvement is unambiguously positive or negative in terms of its influence, the proposed framework significantly conditions those findings and supports a more sophisticated assessments such as that of Le Breton-Miller et al. (2010). They argue that both agency and stewardship are applicable in family firms, being moderated by the degree of embeddedness of the firm and
its top executives in the family. Thus, I agree with Lee and O’Neill (2003), who postulate that agency and stewardship should be seen as complementary rather than competing perspectives, each pertaining to certain situations and circumstances.

### 3.6 Limitations and future research

This study investigates NAS and their relationship with active shareholders in family firms, a neglected area in existing research. I propose different factors that explain why NAS choose specific roles within the intertwined family and business system and why certain goal sets emerge that compete with or complement the goals of the active shareholders. For maximum generalizability of the proposed framework, the sample included family firms from different industries, of different sizes and with different degrees of ownership dispersion. However, all family firms in the sample were German firms. Although I believe that the sample is a good proxy for most Western cultures, I cannot preclude that the proposed coherences behave different in other cultural settings. Furthermore, as in all research, there may be alternative explanations for the observed phenomena, which have been overlooked here.

Nevertheless, as I believe in the robustness of the construct and the formulated propositions, the next step, to which I invite the research community, would be the empirical testing using large scale samples. While the model explains why competing or complementary goals arise among shareholders, it does not provide a framework for how potential shareholder conflicts can be mitigated for example through the configuration of corporate governance structures. An extension of the model that answered such questions would be of great interest to both academics and business people and would contribute another piece to building a comprehensive theory of the family firm.
4 Aligning shareholder goals in family businesses: The implications for corporate governance

4.1 Introduction

The economic relevance of family firms has been highlighted by a number of scholars (e.g. Astrachan and Shanker 2003; La Porta, Lopez-de-Silanes and Shleifer 1999). In the U.S., more than a third of the 500 largest corporations and more than half of all public corporations are controlled by families (Anderson and Reeb 2003; Villalonga and Amit 2009, 2006). Similar evidence can be found for East Asia (Claessens et al. 2002) and Europe (Faccio and Lang 2002). Given the economic weight of family firms, it is particularly important to improve our understanding of firm dynamics and corporate governance structures in these organizations (Chrisman, Steier and Chua 2006).

Family firms possess a number of characteristics that make their governance an exceptionally challenging task (Mustakallio et al. 2002). One main feature compromising the governance relationships is the multiple roles that family members play in the family and the business (Neubauer et al. 1998; Tagiuri and Davis 1996). This duality of roles, combined with the reciprocal influence that the family and business system exercise on each other (McCollom 1988), affects the objective functions and behaviors of the individuals in family firms. As a result, conflict is identified as a common trait of the family firm (Sorenson 1999). Goal conflicts arise on different levels and between different individuals or groups (Eddleston et al. 2008b). While some (cognitive) conflict can be beneficial as it enhances the quality of strategic decisions (Eddleston et al. 2008), most researchers assume that conflict is unhealthy and disruptive, impairing the performance of the company and even putting its continuance at risk (Harvey and Evans 1994; Eddleston and Kellermanns 2007; Sharma et al. 1997).
Conflicts between active shareholders and NAS play an important role here, as both groups can use their ownership rights to exercise significant influence on the firm. Particularly if family firms show a dispersed ownership structure, shareholder relationships are characterized by a high degree of complexity leading to a greater goal heterogeneity and less cohesion among family members (Gimeno Sandig, Labadie, Saris and Mayordomo 2006; Lambrecht and Lievens 2008). In Chapter 3, I propose that NAS assume four generic roles within family firms, each associated with different goals, goal priorities and behavior patterns. These goal sets can either complement or conflict with the goals of active shareholders, depending on the role in question. However, it is unclear whether the relationship between active shareholders and NAS and the emergence of misaligned goals can be avoided or mitigated through the configuration of the corporate governance structure. In this context we need to better understand how the design and configuration of corporate governance elements affect shareholder relationships, and how they could assist to manage and control competing shareholder interests – one of the major success factors in family firms (Dyer jr. 1986; Sorenson 1999; Ward 1987).

To date, no study has investigated this topic. I address this issue by asking two questions: (1) Why and how is the relationship between active shareholders and NAS affected by the corporate governance configuration? (2) How (and why) can goal conflicts between active shareholders and NAS be addressed, aligned or resolved through the design and configuration of the corporate governance elements? Given the empirical limits of prior studies, I conduct a multiple-case, inductive study (Eisenhardt 1989b). Using field and archival data, I investigate the corporate governance systems in seven different family firms. The study contributes to the literature in several ways. First, by investigating why and how the relationship between active shareholders and NAS can be influenced through the configuration of corporate governance structures and how these structures can be
4.2 Theoretical background

configured to address competing goals between family shareholders, it tackles a critical issue in the management of family firms, which directly affects their success and even survival. Second, by focusing on non-public, family-owned firms, which are not subject to external capital market pressure, it investigates corporate governance settings that have been designed independently and likely differ from those of publicly traded firms. Third, by addressing the goal alignment potential of family-directed governance bodies, the study focuses on a long-neglected part of the governance structure in family firms. And finally, by combining its propositions in a conceptual model the study adds another piece of theory to the discussion of corporate governance in family firms.

Chapter 4 is structured as follows: the theoretical background will be presented in section 4.2, section 4.3 highlights the methodology, analysis and sample. Afterwards, section 4.4 presents the results and propositions, before section 4.5 critically discusses the findings. Section 4.6 draws attention to the limitations of the investigation and points out potential areas for future research.

4.2 Theoretical background

The internal governance system of family firms is characterized by two closely intertwined subsystems (Gallo and Kenyon-Rouvinez 2005): the business governance (e.g. board of directors, shareholders' meeting) and the family governance (e.g. family council, shareholders' meeting \(^{23}\) (Aronoff and Ward 1996). Prior research on corporate governance in family firms has been dominated by principal-agent theory (PAT) (Jensen and Meckling 1976) and stewardship theory (ST) (Davis et al. 1997). Recently, stakeholder theory

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\(^{23}\)The shareholders' meeting belongs to both systems.
(Freeman 1984) has begun to be applied selectively to this area (Voordeckers et al. 2007). These frameworks provide our theoretical context.

PAT is rooted in the assumption that the relationship between principal and agent is characterized by asymmetric information and conflicting goals, while each individual behaves opportunistically and seeks to maximize his or her (economic) welfare (Jensen and Meckling 1976; Klein 2008). As principals cannot effectively control agents, large boards of directors with a high ratio of independent outside members are installed in order to fulfill this control task and so stop agents from free-riding or shirking (Bammens et al. 2010; Heuvel et al. 2006 Johnson, Daily and Ellstrand 1996; Pearce and Zahra 1992). In general, studies using the PAT-perspective implicitly assume a set of shared interests (typically economic performance) defined a priori on the part of all owner coalitions (e.g. Bammens et al. 2010; Chrisman et al. 2004). This is problematic, since different scholars stress the importance of non-economic goals and point out that family factions and individual shareholders may vary in their socio-emotional and economic preferences (Bammens, Voordeckers and van Gils 2008; Sharma 2004; Zellweger and Astrachan 2008). Accordingly, a pure PAT-based assessment of shareholder relationships is overly simplistic, failing to incorporate possible goal-congruencies and cooperation or compromise between shareholders as an outcome (Bammens et al. 2010).

ST drops the assumption of opportunistic behavior by individuals and proposes that individuals derive a higher utility from pro-organizational behavior and therefore behave socially, with an attitude postulating collective ownership which ultimately leads to goal alignment between individuals (Corbetta and Salvato 2004a; Davis et al. 1997; Pierce et al. 2001). Furthermore, ST scholars suggest that control mechanisms lower the steward's motivation to behave pro-organizationally and underline the board's opportunity to support pro-organizational behavior by offering advice instead of control. Accordingly, the
The advisory task of the board is stressed. As ST includes the learning effects of repeated social interactions between individuals, it promotes the emergence of trust, which is a vital factor in enabling open and honest advice interactions between managers and directors. The literature suggests that affiliate relationships support the development of interpersonal trust, so ST predicts an overweight of affiliate board members and rather small board sizes (Jaskiewicz and Klein 2007).

Recently, stakeholder theory has been used as an additional perspective, replacing the implicit assumption of a priori defined (economic) goals with the possibility of goal negotiations and consensus between owners (Bammens et al. 2010). In general, stakeholder theory suggests that firms have a duty to balance the conflicting interests of multiple stakeholders and to achieve a coordinated outcome that is satisfactory for all parties (Donaldson and Preston 1995; Hill and Jones 1992; Wang and Dewhirst 1992). Accordingly, the framework proposes that the board has the additional task of maintaining family relationships and supporting the mitigation and resolution of conflicts (Voordeckers et. al 2007). In particular, outside directors are said to be supportive by keeping discussions focused on objective facts, thereby helping to achieve consensus (Bammens et al. 2010; Johannisson and Huse 2000; Lester and Canella Jr. 2006; Whisler 1988). However, a detailed assessment or empirical validation of this is missing.

The family dimension of corporate governance, whose task is the organization and management of the family, has (unlike the business dimension) largely been ignored in the literature (Gallo and Kenyon-Rouvinez 2005; Klein 2008; Neubauer et al. 1998). The family council is one of the most important governance bodies. Its goal is to exert family influence on the business, organize cohesion of the family and ensure the passing on of the firm to the following generations (Koeberle-Schmid 2008a; Gallo and Kenyon-Rouvinez
Whether family councils affect shareholder relationships or can help to reduce shareholder conflicts remains unexplored.

Extant literature agrees that situational context affects governance configuration in family firms and suggests that governance characteristics tend to be a reflection of family norms and objectives (Corbetta and Salvato 2004b; Lane et al. 2006). However, the literature fails to take into account the important role of family governance (i.e. the family council) and so offers a one-sided view of the corporate governance in family firms. The possible governance task of mediation or conflict resolution has only recently been included in the literature (e.g. Voordeckers et al. 2007).

Neither of the perspectives discussed above addresses the question of how corporate governance structures affect goal alignment between shareholders, or how corporate governance should be configured in order to reduce potential shareholder conflicts. In fact, the literature appears to look at corporate governance configuration only as a dependent variable, the result of different environmental factors, rather than as a system whose configuration affects outcomes within the firm. In this study I seek to rectify this situation.

4.3 Research methods

Given the limited theory about how corporate governance configuration affects shareholder relationships, I relied on inductive theory building using multiple case studies (Eisenhardt 1989b). Inductive studies are especially useful for developing insights in areas which existing theory does not address well. Multiple cases permit a replication logic, in which cases can be compared with each other, thereby confirming or disconfirming inferences drawn from the other (Yin 2003). Consequently, multiple case designs are typically better
suited to yield more robust and accurate theory, one that can be better generalized as compared to single case study designs (Eisenhardt and Graebner 2007; Yin 2003).

This study looks at the corporate governance structure of family firms. While different definitions of the family firms appear in the literature (e.g. Astrachan et al. 2002; Chrisman et al. 2005; Chua et al. 1999), in this study I define family firms as firms in which the owning family holds more than 50% of shares and votes and in which at least one family member influences the vision and strategy of the company as part of the top-management-team (TMT) or board of directors. "Corporate governance describes the organization of leadership and control, aiming to align the interests of all the stakeholder groups involved" (Witt 2003, p. 1). Since this study focuses primarily on the relationship between active shareholders and NAS and the possibilities to align goal conflicts, it only investigates family firms in which at least one active shareholder holds a management position within the firm, and the NAS attend the shareholders' meeting and in some cases hold additional mandates in corporate governance elements such as the board of directors, the family council (if such exists) or both.

Having defined the population of the study, I then created a diverse sample. Using theoretical sampling (Eisenhardt 1989b), the research focuses on seven non-public German family firms from different industries, thereby controlling for environmental variation. I controlled for firm size, by including family firms of different sizes, their annual sales ranging from EUR 150 m to EUR 3.8 bn. I also included family firms with rather concentrated and with dispersed ownership structures in order to address possible impact derived from the shareholder complexity. As suggested by Pettigrew (1990), I went for

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24 See also section 2.3.1
25 In two cases the active shareholder has now retired (in 2005 in Case E and as per December 31, 2010 in Case F). In Case F two prospective shareholders are active in the management of the firm, there are no NAS yet, but shares will be transferred to four NAS in the near future.
polar type cases and thus the sample includes firms with between 4\(^{26}\) and 130 family shareholders. All family firms in the sample had a board of directors. However, size and functional focus of the board differed significantly. Table 9 summarizes the characteristics of the firms in the sample.

Table 9: Overview of characteristics of the sample (Chapter 4)

<table>
<thead>
<tr>
<th>Case</th>
<th>Industry</th>
<th>Founding Date</th>
<th>Generation</th>
<th>Fam. Class</th>
<th>No. of family shareholders</th>
<th>Sales [EUR m]</th>
<th>Employees [f]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case A</td>
<td>Chemical industry</td>
<td>1879</td>
<td>4</td>
<td>3</td>
<td>12</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Case B</td>
<td>Textile industry</td>
<td>1852</td>
<td>5.6</td>
<td>2</td>
<td>130</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Case C</td>
<td>Consumer goods</td>
<td>1903</td>
<td>3.4</td>
<td>3</td>
<td>7</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Case D</td>
<td>Logistics</td>
<td>1930</td>
<td>3</td>
<td>2</td>
<td>11</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Case E</td>
<td>Direct sales</td>
<td>1883</td>
<td>5</td>
<td>3</td>
<td>20</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Case F</td>
<td>Retail</td>
<td>1875</td>
<td>3</td>
<td>3</td>
<td>3 (4)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Case G</td>
<td>Consumer goods</td>
<td>1889</td>
<td>3</td>
<td>1</td>
<td>4 (4)</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

*Shares will be transferred to 4th generation.

<table>
<thead>
<tr>
<th>Corporate Governance Characteristics</th>
<th>Board Demographics</th>
<th>Other Corporate Governance Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Case A</strong></td>
<td>Tet - Externally dominated</td>
<td>6</td>
</tr>
<tr>
<td><strong>Case B</strong></td>
<td>Tet - Externally dominated</td>
<td>7</td>
</tr>
<tr>
<td><strong>Case C</strong></td>
<td>Tet - Undominated</td>
<td>6</td>
</tr>
<tr>
<td><strong>Case D</strong></td>
<td>Tet - Externally dominated</td>
<td>5</td>
</tr>
<tr>
<td><strong>Case E</strong></td>
<td>Tet - Family dominated</td>
<td>9</td>
</tr>
<tr>
<td><strong>Case F</strong></td>
<td>Tet - Externally dominated</td>
<td>5</td>
</tr>
<tr>
<td><strong>Case G</strong></td>
<td>Tet - Externally dominated</td>
<td>5</td>
</tr>
</tbody>
</table>

4.3.1 Data collection

During the data collection phase I used a variety of data sources including interviews, telephone conversations or archival data such as corporate documents, annual reports, websites, press releases and news articles. This triangulation of data from multiple sources provides more accurate information and improves the robustness of the resulting

\(^{26}\)Company F has currently only 1 shareholder, however shares will be transferred to the 4\(^{th}\) generation soon, resulting in a total of 4 shareholders.
theoretical constructs (Jick 1979). The primary source of research data was 11 semi-structured interviews conducted between February and April 2011. The interviews included both open and closed questions and allowed me to collect qualitative as well as quantitative data. Interviewees were highly knowledgeable most of them held top executive positions, board or family council mandates and, with one exception, they all owned shares in the company in question. In more detail, I interviewed shareholders active in the management of the firm (i.e. active shareholders) and NAS of four distinct types: (1) NAS with a mandate on the advisory board of their company, (2) NAS with a mandate on the family council (if such exists), (3) NAS with mandates on both advisory board and family council, (4) NAS with neither of the aforementioned mandates. All interviews lasted between 60 and 120 minutes and covered goals and interests of active shareholders and NAS, the current corporate governance structure, its tasks and roles and the ability of the corporate governance elements to mitigate or resolve misaligned goals between shareholders. All interviews were recorded and transcribed within 24 hours of their occurrence. Table 10 provides an overview of the interviews conducted in each case of the sample and gives titles of the informants.

I used a focal interview guide that consisted of three main sections. First, I asked closed questions about the background, shareholder structure and corporate governance of
the informant's firm. Second, I asked informants to describe the roles and tasks of the different corporate governance elements, using open questions such as which roles and tasks should be fulfilled by the different corporate governance elements (e.g. board of directors), how these elements influence shareholder relationships and how they can help to address conflicting shareholder goals. Third, I asked open questions of how the corporate governance structure of the informant's firm could be improved.

I addressed the problem of informant bias in several ways. First, I interviewed informants with different functions and roles and from different hierarchical levels within the company and family. Second, I used primarily open-ended questions on highly knowledgeable informants about recent or current situations, thereby limiting recall bias and enhancing accuracy of the information (Golden 1992; Koriat and Goldsmith 2000). Third, I triangulated the data from different informants and data sources (Jick 1979; Kumar et al. 1993) and ensured that all questions were carefully phrased so as to avoid speculation of the interviewee. Fourth, I reassured informants that they and their firms would remain anonymous to enhance candor. Finally, in the event, informants were highly interested in the topic, because they considered the design and configuration of corporate governance and the avoidance of shareholder conflicts as a major challenge for their companies. So they were highly interested in gaining a better understanding how these issues could be addressed. Such personal interest of informants in the matter in question usually increases the accuracy of the responses (Miller et al. 1997).

4.3.2 Data analysis
I began the analysis by preparing individual write-ups of each case history, including interviews, observational and archival data (Eisenhardt 1989b; Yin 2003), and triangulated the data base (Jick 1979). Following recommendations for theory building from case
4.3 Research methods

studies (Eisenhardt 1989b; Eisenhardt and Graebner 2007; Yin 2003), I applied within-case and cross-case analytics with no a priori hypotheses. Based on the research questions, the objective was to identify theoretical relationships, patterns or constructs within each case that related to the research question. To do so, the interview transcripts were codified, which helped to structure the data and identify major themes and relations.

Next, I conducted a cross-case analysis, in which the insights emerging from the single case analyses were compared with those of the other cases, trying to identify common constructs and themes that could be replicated. As proposed by Miles and Huberman (2009), I used extensive tables and graphs to aggregate the data and to facilitate the analyses during this process. I grouped the cases randomly and by different variables of interest, such as e.g. the existence of a family charta. Comparisons were initially made between two pairs of cases in order to identify tentative constructs. As patterns emerged, replication logic was applied and the preliminary theory from some cases was tested on the other cases to validate and refine the theory that was taking shape (Eisenhardt 1989b). While some constructs could be validated, others had to be dropped as they did not replicate across other cases. This process helped me to refine the findings and to develop more robust theoretical constructs and causal relations. As the theoretical construct started to clarify, I turned to the literature in order to identify commonalities and differences, to strengthen the internal construct validity, to sharpen definitions and terms used and ultimately to increase the generalizability of the propositions and emerging theory. Following this step, I started an iterative process and began to cycle between the data of the sample, the emerging constructs and literature, aiming to further refine the propositions until I had a strong match of the data in the sample and the theoretical construct (Eisenhardt 1989b). The result was five theoretical propositions that are described in the following section.
4.4 Results

The data form the sample suggests that the configuration of the corporate governance structure influences the relationship between active shareholders and NAS by providing the boundary conditions that stabilize or destabilize role selection by the NAS. In other words, if the corporate governance structure fails to address the needs that NAS derive from their role selection, they will start to adjust their roles and thereby their associated objective functions. Therefore, corporate governance affects the level of goal alignment and conflict within family firms. I will explain these coherences below by analyzing the relationship between the four different roles of NAS and the active shareholders. This is followed by an explanation of how these relationships are influenced by the corporate governance configuration.

4.4.1 Shareholder relationships in family firms

The study is based on the results of Chapter 3, which explores the different roles of NAS and the associated level of goal alignment with their active counterparts. Using the same empirical sample as in this study, I proposed four generic roles for NAS, namely co-entrepreneurs, traditionalists, active investors and silent shareholders, each showing different levels of goal alignment with active shareholders and thus different aptitudes for conflict. The role selection of the NAS is influenced by the degree of identification/emotional proximity and active involvement of the shareholder. High levels of identification and emotional proximity result in stewardship settings and a high degree

\[27\]

The level of identification and emotional proximity is affected by antecedent factors such as emotional value in the form of social status, reputation or the feeling of belonging and emotional costs in form of the reputational risk, conscientiousness or social constraints that NAS derive from their shareholding. The level of active involvement is influenced by the relative number of the shares held and the degree of (self-) perceived competence of the NAS.
of goal alignment between NAS and active shareholders, while low levels result in misaligned goals and agency-like settings (see Figure 6).

Figure 6: Generic roles and goal alignment of NAS

Co-entrepreneurs share the goal-portfolio of the active shareholders and thus are characterized by high levels of goal alignment inducing a low aptitude for conflict (see quadrant 1 in Figure 6). They identify with the rules and values of the business and have a distinct business-first attitude, a mindset that usually coincides with the attitude of the active shareholders. Accordingly, the relationship between co-entrepreneurs and active shareholders is characterized by high levels of interpersonal trust, making NAS believe that the active shareholders will choose a behavior that they consider appropriate. Moreover, co-entrepreneurs usually feel the desire to support the development of the firm through active participation in form of seats on the board or leading positions within the family, thereby ensuring that their goals are considered by the TMT (see Chapter 3).
Traditionalists (see quadrant 2 in Figure 6) are in most cases busy with their own professions or simply lack the necessary qualifications, so they do not feel the desire to get actively involved in the business. Nevertheless, they also show a strong emotional identification with the company. The firm is perceived as an extension of themselves and their shares in the firm are often perceived as a certificate of affiliation. Consequently, traditionalists derive a strong emotional value from being shareholders and are very receptive for any positive reputation emanating from the firm. Financial interests such as dividends or company value are of secondary importance for them, while the emotional value is more important and, in any case, their equity stakes are sometimes rather small. Overall, the level of goal alignment between traditionalists and active shareholders is rather high and the aptitude for conflict rather low (see Chapter 3).

By contrast, active investors (see quadrant 3 in Figure 6) show little emotional attachment to the firm and thus derive little emotional value from their shareholdings. As such, they are primarily concerned with the financial performance of their stake in terms of dividends and firm value, while company-related goals such as safeguarding the influence of the family are only of secondary importance to them (see Chapter 3). Their interests compete with the goals of the active management that focuses on goals such as the continuance of the business, growth and profitability or harmony and disregarding company value for instance. Consequently, the relationship between active shareholders and active investors is often characterized by mistrust and suspicion, giving active investors an incentive to participate in the firm, control the behavior of their more active relatives and ensure a more shareholder value oriented management approach. As a result, the aptitude for conflict can be rather high between these groups.

Finally, silent shareholders (see quadrant 4 in Figure 6) take a very passive position and withdraw from active participation in the firm. They show little identification with the
firm and hardly derive any emotional value from their shareholding. While some of them are happy if they receive a yearly dividend and are otherwise left alone, others feel locked-in and perceive their affiliation as more of a burden than a privilege. In the former case, silent shareholders take a rather neutral position and the level of goal alignment and aptitude for conflict with the active shareholders can be described as medium. In the latter case, silent shareholders try to emancipate themselves from the rules of the entrepreneurial family and would even consider selling their shares. Yet, often they shy away from this step fearing the ramification that such a decision would have on their social lives. Since such undisclosed issues also affect the relationship with the active shareholders, the level of goal alignment with active shareholders is rather low while the aptitude for conflict is above average (see Chapter 3).

### 4.4.2 The impact of corporate governance on shareholder relationships

The corporate governance within a family firm can be compared to a playing field on which the relationships between the different shareholders are played out. The governance structure provides rules and side rails which affect the behavior of the "players" (i.e. the shareholders). Thus, changing the governance structure can be compared to changing the rules of the game. As discussed above, role selection by NAS is affected by their level of identification with the firm and their level of active participation. Here, the governance configuration is of utmost importance as it provides the structures that enable family firms to foster identification and to facilitate participation by NAS. The corporate governance configuration either supports or constrains the role selection and role stability of NAS in family firms, increasing or decreasing their level of identification. Moreover, if NAS feel for example the desire to participate but corporate governance does not provide adequate
arenas for this participation, then they are likely to react with disappointment or bitterness, ultimately affecting their attitude toward the firm and their role selection.

4.4.2.1 The role of family governance
The family governance system should ensure cohesion within the family (Gallo and Kenyon-Rouvinez 2005; Gersick et al. 1997; Mustakallio et al. 2002). In this sense, it can be regarded as a relationship management system whose goal is to support the development and maintenance of positive shareholder relationships. The system incorporates different elements that are intended to facilitate and structure communication and interaction between the different parties. As such, the configuration of the family governance system affects the level of integration and identification of NAS through the presence or absence of certain characteristics. According to the data from the sample, these characteristics include (1) information & transparency, (2), bi-directional communication processes and (3) jointly defined rules and values (see also Table 11 and 12).

4.4.2.1.1 Information & transparency
The data from the sample suggests that information transparency is an important characteristic of the family governance structure. An open and transparent information policy affects the relationship between active shareholders and NAS by supporting the emergence and sustainment of trust between shareholders. If family firms fall short in this regard, feelings of mistrust and suspicion may arise, adding additional complexity to the shareholder relationships. Moreover, the availability of information is a means to educate NAS and to enable them to better understand business-related decisions and processes. This is particularly important if NAS aspire to active participation in governance bodies.
**(1) Information & Transparency**

**CASE Communication process**

**Family Governance and Shareholder Relationships**

<table>
<thead>
<tr>
<th>Communication process</th>
<th>Family Management / Family Office</th>
<th>Family Meetings / Family Council</th>
<th>Participation platforms / Emotional integration</th>
<th>Basic Rules</th>
<th>Family Charter</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is no active information policy and also no informal integration of the NAS through the active shareholders.</td>
<td>&quot;The family office is an instrument for the management to avoid &quot;black hole&quot; and keep in the mind of the shareholders' meeting, the NAS has the right to be involved in the discussion of shareholders, because he has no representation in the family circle.&quot; Family CEO</td>
<td></td>
<td></td>
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<tr>
<td>Since we have a family council before the shareholders' meeting, the NAS has the right to be involved in the discussion of shareholders, because he has no representation in the family circle.</td>
<td>We have at least once a year [...], to become familiar with the younger shareholders about rules, that is present in many places, but is not there in the past.</td>
<td>&quot;The shareholders (NAS) will exert their influence through the board of directors and through the shareholder position in the future and to that extent if they have a certain competence. Otherwise it will get difficult.&quot; Family CEO</td>
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<tr>
<td>We have at least once a year [...], to become familiar with the younger shareholders about rules, that is present in many places, but is not there in the past.</td>
<td>What we do is to provide a social setting for younger shareholders, which has not been documented and not been exercised yet.</td>
<td>&quot;We have something like a family charter, however, it has not been voted and accepted yet.&quot; Family CEO</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;We would like to give oneself a proposal and this proposal is accepted yet.&quot;</td>
<td>&quot;The NAS has to formalize the organization of the family.&quot; Family CEO</td>
<td></td>
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<tr>
<td>&quot;I think it is reasonable to give oneself a proposal and this proposal is accepted yet.&quot;</td>
<td>&quot;If the shareholders (NAS) want to formalize the organization of the family, they should be given an opportunity to become familiar with the younger shareholders about rules, that is present in many places, but is not there in the past.&quot;</td>
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</tbody>
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**Case A**

"The information of the NAS [Level of information of NAS] is "low regarding the current process. The report is relatively short, but quite informative for someone who is superficially interested. However, if you have the impression that the report is only read by a small fraction of the shareholders." Family CEO

"One, those from 1-2% of shareholders would adopt myself, 3, although there are many shareholders who [...] have and enjoy a considerably less knowledge due to that classification." - NAS

"... a certain information asymmetry is maintained through the active shareholders." - NAS

**Case B**

"[...] We are a private company, so we do not have to publish anything international or shareholders get only the information that we [legally] have to publish. The shareholders do not get an annual report but a balance sheet [...]." - Family CEO

"If someone (of the NAS) would step up and say 'I demand more information, we would have to make recommendations' [...]." - External Chairman of the board

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**Case C**

"There are many common misunderstandings. The shareholders are integrated in the reporting structure of the family." Family CEO

"We inform [shareholders] immediately about all areas of the company. In this sense, there is a well-defined information policy." - Family CEO

"This [NAS] attends the report of the so-called [...] and meet their reticular points comments. [...]" - Family CEO

"We have the shareholders meeting and at least once a year [...], to become familiar with the younger shareholders about rules, that is present in many places, but is not there in the past." - NAS

"If you ask for information you get it, but you integrate the shareholders into the meetings on [...] that the shareholders have a certain competence. Otherwise it will get difficult." - Family CEO

"If the shareholders (NAS) want to formalize the organization of the family, they should be given an opportunity to become familiar with the younger shareholders about rules, that is present in many places, but is not there in the past." - NAS

"If the shareholders (NAS) want to formalize the organization of the family, they should be given an opportunity to become familiar with the younger shareholders about rules, that is present in many places, but is not there in the past." - NAS
### Family Governance and Shareholder Relationships

<table>
<thead>
<tr>
<th>CASE</th>
<th>Communication process</th>
<th>Family Management / Family Office</th>
<th>Family Meetings / Family Council</th>
<th>Participation platforms / Emotional integration</th>
<th>Jointly defined rules and values</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Case D</strong></td>
<td>The shareholders have a general good level of information. It is never enough [...]. - Chairman of the board</td>
<td>The family has to identify itself with the firm [...]. - Chairman of the board</td>
<td>We do an additional information process during the year, when we speak relatively detailed about the numbers [...]. - Chairman of the board</td>
<td>There is a family meeting, where the management [...]. - Family spokesman of the TMT</td>
<td>“A family charta is exceptionally important [...]. “ - Family spokesman of the TMT</td>
</tr>
<tr>
<td><strong>Case E</strong></td>
<td>There are [...] treaty possibilities and access where family members operate without directly intervening in the business processes. Through this, there are many many possibilities during which the management [...]. - Family spokesman of the TMT</td>
<td>The family has to identify itself with the firm [...]. - Chairman of the board</td>
<td>The family has to identify itself with the firm [...]. - Chairman of the board</td>
<td>“The goal of the family charta is to keep the shareholders interested in increasing the emotional bonding with the firm [...].” - Family CEO</td>
<td>“A family charta is exceptionally important [...]. “ - Family spokesman of the TMT</td>
</tr>
<tr>
<td><strong>Case F</strong></td>
<td>“We are about to invite the NAS to the annual meeting this year. It was the first time that everyone, namely all children and partners, participated in the family meeting. [...]. - Family spokesman of the TMT</td>
<td>We have to deal with the shareholders in the management [...]. - Family management of the board</td>
<td>There is a family meeting [...]. - Family spokesman of the TMT</td>
<td>“I consider that very important.” - Chairman of the board</td>
<td>It is exceptionally important to get involved in the process and ask “what do we want”, so that everyone knows what is meant by the family and to continue how we want to treat each other [...]. - Family spokesman of the TMT</td>
</tr>
<tr>
<td><strong>Case G</strong></td>
<td>The family has to identify itself with the firm [...]. - Chairman of the board</td>
<td>We have to deal with the shareholders in the management [...]. - Family management of the board</td>
<td>There is a family meeting [...]. - Family spokesman of the TMT</td>
<td>“The goal of the family charta is to keep the shareholders interested in increasing the emotional bonding with the firm [...].” - Family CEO</td>
<td>The basic role of interaction (are defined by the shareholders agreement) - Family CEO</td>
</tr>
</tbody>
</table>

#### Table 12: Family governance and shareholder relationships (2/2)
The family CEO in company B has identified this need and explained: "If you are active in the firm, you have a bridging function – a bridging function that has to ensure, in the sense of an investor relation, that the shareholders are integrated so that they get the feeling that they are duly informed and involved in the decisions to which they are entitled." However, this cannot be taken for granted. One NAS in company A comments: "On a scale from 1-6 [level of information] I would rate myself a 3, although there are many other shareholders who […] have and can only obtain a considerably less knowledge due to their clan affiliation." While recognizing the need for open information, company B has a rather restrictive information-policy. It does not even distribute annual reports to its shareholders. The external chairman of the board comments: "If someone would step up and say I demand more information, we would have to make accommodations." As mentioned above, such a lack of transparency is often regarded with suspicion. In company A one NAS even suspected that a certain level of information asymmetry is preserved intentionally in order to avoid NAS involvement.

Still, other examples show a different picture. "We inform [shareholders] intensively about all areas of the company. In this sense, there is a well directed information policy," reports company C’s family CEO and one NAS confirms: "If you ask for information, you get it." In some cases, however, active managers argue that NAS would feel unhappy getting too much information which they can hardly comprehend. Company D has recognized this problem and revised the NAS reporting structure over the last two years. The firm now sends out the minutes of the board meetings to the NAS. It has also revised the way company information is presented. The family CEO of company D said: "I feel that we managed over the last two years to adjust the dose of information provided and the way it is presented more to the needs of the shareholders." This
assessment is shared by the NAS in the firm, who claim that there is quite good transparency about company-related issues now.

4.4.2.1.2 Bi-directional communication processes
I find evidence that communication and interaction directly influence shareholder relationships. They lead to integration and promote the feeling on the part of NAS that their opinions are valued and taken into account. Accordingly, the governance configuration should ensure that information flows in both directions, giving NAS the chance to provide feedback. This is particularly important in cases where NAS have a rather passive role. In such cases feedback should be collected proactively by the firm. As such, bi-directional communication processes and participation platforms enabling interaction and exchange between shareholders need to be established. Apart from the board of directors or the shareholders' meeting, which will be discussed in the business governance section below, these platforms can take other forms such as structured family management (i.e. family council), a family office or family gatherings.

Company D recently revised its family governance structure and established a family management comparable to a family council. The family management consists of two elected family managers (NAS) that act as co-chairs of the shareholders' meeting. One family manager explained: "I consolidate the interests of the family [i.e. the NAS] and represent them to the board and management." The family management is also concerned with all shareholder- and family-related issues, such as revision of the shareholders' contract, advising shareholders on estate tax regulations and so on. One initiative of the family management has been to set up bi-monthly telephone calls during which recent developments and business-related topics are discussed. This ensures bi-directional communication and integrates, informs and educates the more distant shareholders.
Company B also sustains a small, two-person family office. Initially set up to administrate shareholder loans, this office today provides a much broader spectrum of services, including giving NAS advice on legal and tax issues. The management of company B views the family office as an important communication channel and "an instrument for the management to avoid 'foolish actions' [by NAS], […] recognize the mood and climate of opinion of shareholders, and send informal messages to the them."

Some NAS derive a strong emotional value from being a shareholder, so the firm has to assess the climate of opinion regularly within the shareholder base in order to manage their relationship with them. The chairman of the board in company E explains: "The family has to identify itself with the firm and the family wants to identify with the firm. But that also means that the company may not do things, which the family has trouble to identify with, otherwise the relationship between passive and active shareholders will suffer." The same applies to situations in which NAS have lost touch with the firm, no longer identify with it and would even like to sell their shares. "[NAS] repress their own desires: even if they would like to sell [their shares] from an economic perspective, they don't articulate this intention, because they fear that they would be expelled from the family. This leads to tensions which also affect other areas of their behavior," explained the family CEO of company B.

Apart from family management and family office, common arenas for interaction are family gatherings and the family council. These gatherings often coincide with the shareholders' meeting but include an extended social program. The CEO of company B described: "We have at least once a year […] a shareholder-weekend where we have a two or two-and-a-half day program that consists of the formal shareholders' meeting as well as leisure activities and a family education program." Moreover, every two years company E makes a trip to a subsidiary abroad with all its shareholders. Such trips are enjoyable joint
experiences that ultimately aim to support the contact between shareholders and to maintain the emotional identification of shareholders with the firm. "We do such things to come together and to stay together," explained the chairman of the board in company E.

4.4.2.1.3 Jointly defined rules and values

Shareholder relationships are affected by social rules and values. These define which behaviors by individuals are considered appropriate and which are not. Family governance can impact shareholder relationships by defining jointly accepted rules and values that document how shareholders want to treat each other. Such rules should be thoroughly formulated, can take the form of a legally binding shareholders' contract or a morally binding family charta. When developing and negotiating such rules, different points of view are expressed, discussed and reconciled. In this way, a consensus is reached, which reduces intrinsic conflict potential. Moreover, such a process integrates all shareholders and supports identification. If family firms fail to document and agree on basic rules, different positions (e.g. concerning leadership concepts or succession rules) can emerge furtively, ultimately resulting in conflicts.

Company G has experienced such conflict. At the start of the 1990s, the firm was led by an active shareholder from the third generation of the family and owned by four shareholders in total from two different branches of the family. The one active shareholder represented one faction and owned 43% of the equity, while the remaining three shareholders were siblings and represented the other faction owning the remaining 57%. Conflict arose when the managing shareholder came close to retirement and announced that he would prefer a non-family manager to take over the business – this despite the fact that his two younger cousins had already announced their leadership aspirations. The board of directors supported the active shareholder, but the siblings used their combined stake and won the day, forcing the active shareholder to retire. The situation escalated and the
board stepped down. However, the "toppled" active shareholder remained displeased with the situation and finally the remaining shareholders had to buy out his 43% stake in 1996. Despite this, the company continued to be in conflict and was ultimately physically divided between the three siblings in 1998 when they failed once again to agree on a succession concept. A clearly defined family charta would likely have averted such an escalation of the conflict.

All the informants in this study attributed a high importance to the formal organization of the family in form of a charta or family constitution. Company G's family CEO explained: "I think it is very important that once the family grows, there is a family charta. Simply to ensure that all individuals involved know from the beginning how the rules are defined. It is hard to set such a thing up if conflicts already exist. You have to define early on how to treat such situations." His peers agreed, arguing that sustainable structures have to be established as long as every shareholder has a co-entrepreneurial mindset and understands the danger of an increasing distance between shareholders and the business. During the development of such a charta it is essential that everyone is involved. "I was very surprised how differently people can think about the same thing. [...] It is exceptionally important to get involved in the process and to ask ‘what do we want,’ so that everyone knows what is meant if we set ourselves certain rules how we want to treat each other," summarized company D’s CEO.

The sample data suggests that the family governance structure supports, maintains and even increases identification and emotional proximity of NAS if the structure shows the characteristics outlined above (see also Table 11 and 12). A well-developed family governance structure can foster NAS to stay or move toward the right on the X-axis in Figure 6 as they select (or maintain) roles with high levels of goal alignment. In turn, an undeveloped family governance structure lacking the characteristics described above has
the opposite effect. Furthermore, by offering platforms and interfaces for participation, a well-developed family governance meets the needs of NAS seeking active participation. This integrates them, which also has a positive impact on their identification with and emotional attachment to the firm. Based on these findings I propose:

**Proposition 1a:** A developed family governance system (i.e. information & transparency, bi-directional communication processes, jointly accepted rules) induces NAS to maintain roles characterized by goal alignment or to migrate to roles characterized by goal alignment with the active shareholder(s).

**Proposition 1b:** An undeveloped family governance system (no information & transparency, missing communication processes, missing jointly accepted rules) induces NAS to maintain roles characterized by goal misalignment or to migrate from roles characterized by goal alignment to roles characterized by goal misalignment with the active shareholder(s).

As family governance influences the level of goal alignment between shareholders, it has also an indirect impact on the level of conflict within family firms. Since goal alignment is associated with a low level of conflict, my second proposition is as follows:

**Proposition 2:** Family governance has a pre-emptive impact on shareholder conflicts and promotes goal alignment between active shareholder(s) and NAS.
4.4.2.2 The role of business governance

The business governance system is defined as the organization of the administration and control of the business. Its main components are the TMT, board of directors and shareholders' meeting (Gallo and Kenyon-Rouvinez 2005; Neubauer et al. 1998). The TMT is responsible for the strategic management of the firm, while the board of directors supervises the company and the TMT. Furthermore, the configuration of the business governance system determines how shareholders (i.e. the family) can exert influence on the business, thereby providing the cornerstones for the interaction between active shareholders and NAS. Here, the data from the sample suggests that business governance configuration affects shareholder relationships and the level of conflict within a family firm. I explain these coherences by analyzing the following characteristics of business governance: (1) the board of directors and (2) dividend and exit regulations (see also Tables 13 and 14).

4.4.2.2.1 The mediating role of the board

The board of directors can be considered the structured nexus between the family and the business dimension. It is the most important element of the business governance system through which the family can directly influence the firm (Blair 2007). In addition to its control- and advisory-tasks, which have been extensively discussed in the literature (e.g. Heuvel et al. 2006; Zahra and Pearce 1989), I find evidence that the board has to fulfill also a mediation task between the family and the firm and between shareholders. This affects shareholder relationships by avoiding the escalation of conflicts. The family CEO in company D explained: "The board has a mediation function which is defined in its assignment – first of all, between family and firm [...], but if necessary also between family members." This view is supported by other cases. For example company B's CEO stated that board had "a balancing and moderating function."
### Table 13: Business governance and shareholder relationships (role of the board)

<table>
<thead>
<tr>
<th>CASE</th>
<th>Board of directors (Mediation task)</th>
<th>Informal influence</th>
</tr>
</thead>
</table>
| Case A | "If I have a pool-leader and a chairman of the board, I have twice the chance that one of them engages in a mediation." - Family CEO  
"Our board is dominated by externals. The family has almost no influence here." - Family CEO | I try to influence the business through a dialogue with my brother who is leading the operating business. This is a informal dialogue through which I try get transparency for myself and formulate my ideas and goals. - NAS  
"I don’t feel sufficiently represented on the board." - NAS |
| Case B | "Since our board is dominated by external professionals, the risk of emotional arguments from the shareholders' side is relatively low [...] because they have a mediating, balancing effect and know the sensibilities of the family." - Family CEO  
"It is the task of the board of directors in a family firm to take over a balancing and moderating function." - Family CEO  
"The chairman of the board has a very important role during the election of the board members and has to ensure that the members are accepted by all factions of the family." - External chairman of the board | The more operation participation rights the shareholders have, the higher is the danger that a conflict ignites out of it." - Family CEO |
| Case C | "Currently the main topic of board mandates is the representation of a family faction." - Family CEO  
The role of the board will change in the future [today sounding board] [...]. The shareholders' meeting will delegate the important controlling task to the board." - Family CEO  
"I think the board [is a suitable arena for discussion]. I will have the problem that the shareholders' meeting will increasingly consist of people with other professions and less information about the firm." - NAS | "Topics about the operating business are not discussed with the shareholders." - Family CEO  
"These channels concerning the strategic topics of the firm do not exist." - NAS  
"A normal process to integrate the NAS is not existing." - NAS |
| Case D | "The board has a mediation function which is defined in its assignment - first of all, between family and firm [...] but if necessary also between family members." - Family spokesman of the TMT  
The board should be externally dominated: Otherwise, in difficult times the family might behave incorrectly to have the better arguments, which are only seen as the better because the family has the greater power position." - Family spokesman of the TMT | The family should not interfere with the operating management.  
"The essential participation of the family is not to influence the formal acts within the firm, but to understand why the firms is lead the way it is lead [...]." - Family CEO |
| Case E | "Conflicts can arise if shareholders try to participate and influence the firm informally because this results in conflicts with the directors that are in charge and legally hold [...]." - Chairman of the board  
"The task of the external directors or rather all directors is to mediate between the shareholders if differences occur. It depends on the kind of conflict, which director does this in the end." - Chairman of the board | There has to be a clear separation. The general partner have to lead the business, and have to be able to decide and the board has to fulfill its decision making authority and work together with them, the shareholders may not interfere [informally]." - Chairman of the board |
| Case F | "The board has a mediating function. We had some quarrels, but we solved them within the board of directors." - Family member of the board (former managing partner)  
"[...]. In a family firm emotionalities are always present. Therefore it is important to have board members that are able to contribute [to the solution of problems] instead of only listening." - Family member of the board (former managing partner) | Shareholder have usually nothing to say [concerning the management of the firm]. But as they elect the board of directors they have a certain threat potential." - Family member of the board (former managing partner) |
| Case G | "I think the board plays an important role in channeling the influence that shareholders exert on the firm, to avoid that every single shareholder tries to influence the management informally." - Family CEO  
"I think that the board plays an advising role, but in certain cases also should play, could play or even must play a mediating, conflict-solving role, as it is the most neutral body." - Family CEO | It should not be the case that NAS who are not active on the board use other channels to influence the management. This will only lead to problems." - Family CEO |
### Business Governance and Shareholder Relationships

#### Basic Rules and Cornerstones

<table>
<thead>
<tr>
<th>CASE</th>
<th>e.g. Dividend payments</th>
<th>e.g. Exit Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case A</td>
<td>I think the shareholders, who vote about the dividend payment should formulates a clear strategy, which the TMT and the board has been aware of when they propose the dividend payment.</td>
<td>The possibility to exit exists. But it is generally underlined.</td>
</tr>
<tr>
<td></td>
<td>In my opinion, and in the opinion of my successors, no-one should live from the dividend. No-one should be dependent on it.</td>
<td>The possible exit should be aggravated, so it is not unusual as a threat to apply pressure on other shareholders</td>
</tr>
<tr>
<td></td>
<td>Officially I am involved in the dividend policy and in the election of the board of directors.</td>
<td>If someone has thought it through carefully and wants to exit in a way that is reasonable for the others, it may happen that a good family business would be characterized by enabling a value-preserving exit for this shareholder.</td>
</tr>
</tbody>
</table>

| Case B | We have fixed dividend payment rules, which do not have to be decided each year but which are part of the articles of association | The [an exit is] extreme. They will be indemnified with book-values and that is not very attractive. |
|        | We don’t have this yearly problem. | If you sell shares as a family shareholder, it is not only an economical decision, you decide to dismiss from the family. |
|        | At least for the younger shareholders, it is clear that they have to develop their own professional and economical basis and that the returns from their shares are more an improvement of their standard of living than a basis for it. | Exit would mean to step out of the family affiliation. This is the case. It would be seen that way by many family members. |
|        | One has to be very clear, that if the return is good, the younger shareholders will be motivated to stay with the firm. | |

| Case C | With regard to our dividend payments, we have simply defined in the shareholders’ agreement that we pay at minimum dividend in weak years and in strong years, if earnings reach a certain level, a third of our earnings after tax [are paid out as dividend]. | Everyone can cancel the [shareholder] contract and get an indemnification based on book values. |
|        | There are clear parameters how an exit is treated. It is very unattractive in our company. The money is payed out over a relatively long period of time and thereby impairment of the firm. | You need them and they have to be designed in a way that an exit does not threaten the existence of the firm or the wellbeing of the others. |
|        | For sure a certain dividend is necessary to motivate the family to sustain the firm. | |

| Case D | The company always has the ability to pay out a minimum dividend. It has to be able to keep pace with the growth of the family, because there are obviously also monetary interests on the part of the family. | I think an exit would be seen relaxed. Although it depends how this exit takes place. |
|        | The company always has the ability to pay out a minimum dividend. It has to be able to keep pace with the growth of the family, because there are obviously also monetary interests on the part of the family. | The one derives more emotional value from this exit, the other less. |

| Case E | We pay out 10%, the rest remains in the firm. There have been some years where I proposed an increase as the earnings were not sufficient [...] but otherwise this rule applies. | We have very clear regulations for this case. |
|        | ‘The dividend payment is defined in the shareholders’ agreement unless we want to depart from it [3/4 majority necessary].’ | ‘You always try to fix the lowest legally possible values for the shares, because you don’t want that the family to seek an exit. It should not be attractive.’ |

| Case F | ‘We did not pay dividends in the past, […] We received a good salary here.’ | There are clear parameters how an exit is treated. It is very unattractive in our company. The money is payed out over a relatively long period of time and thereby impairment of the firm. |
|        | ‘It starts already with my nephews [who are active in the middle management], they got a good salary, but they are used to a high standard of living from their parents and if they want to keep the standard the salary might not suffice. In such case there will be a slight chargeback through the dividend [in the future].’ | ‘The family [who sells shares] stops being part of the entrepreneurial family.’ |

| Case G | ‘I think it is very important to explain younger and prospective shareholders that the business has priority and that everyone has to stand on their own feet and should not expect to be indemnified by the dividend.’ | ‘The exit is a very important topic, because it means payout of shares on the part of the family.’ |

#### Table 4.4: Business governance and shareholder relationships (basic rules & cornerstones)

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| Case B | We have fixed dividend payment rules, which do not have to be decided each year but which are part of the articles of association | The [an exit is] extreme. They will be indemnified with book-values and that is not very attractive. |
|        | We don’t have this yearly problem. | If you sell shares as a family shareholder, it is not only an economical decision, you decide to dismiss from the family. |
|        | At least for the younger shareholders, it is clear that they have to develop their own professional and economical basis and that the returns from their shares are more an improvement of their standard of living than a basis for it. | Exit would mean to step out of the family affiliation. This is the case. It would be seen that way by many family members. |
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In this context the composition of the board is of great importance as it defines how influential the position of the family is and how well mediation tasks can be fulfilled. In five of our seven cases, the board was dominated by external directors and in one case (company E) by the family. In the remaining case (company C) seats were distributed equally between family members and external directors. In assigning the majority of seats to external directors, family firms intend to restrict the direct influence of the family on the operating business and thereby avoid that "the family [...] believes incorrectly that they have the better arguments, which are only seen as the better, because the family has the stronger power position," explained company D’s family CEO.

Moreover, with an overweight of external directors "the risk of emotional arguments from the shareholders' side is relatively low [...] because they [external directors] have a mediating, balancing effect and know the sensibilities of the family," added company B’s family CEO. Thus the neutrality of external directors helps to conciliate active shareholders and NAS. "We had some quarrels [in the past], but we solved them on the board of directors," recalled a family board member in company F.

As the family directors represent the consolidated interests of the shareholders, an externally dominated board can be considered the most neutral arena for discussion. This ensures that the needs of the business are respected. A carefully configured business governance structure and board of directors provides the possibility to channel competing shareholder goals into a structured process, enabling goal negotiations within the family (at the shareholders' meeting) and on board-level. This increases the chance of achieving consensus and reduces the level of conflict resulting from misaligned shareholder goals.

The existence of a structured goal negotiation process in which competing goals are expressed and discussed, affects shareholder relationships as it reduces the motivation of
some NAS to influence the business through alternative, informal channels. Such informal participation by NAS is undesirable as it undermines the responsibility of the individuals officially in charge, adding additional complexity to the relationship and promoting discussions and conflicts. "Conflicts can arise if shareholders try to participate and influence the firm informally, because this results in conflicts with the directors that are in charge and legally liable," explained the chairman of the board in company E. The CEOs in other cases agreed, for example the one in company G stating: "It should not be the case that NAS who are not active on the board use other channels to influence the management. This will only lead to problems."

4.4.2.2 Dividend- and exit regulations
Common topics for discussion – and causes of disputes – are dividend payment schemes and the exit of shareholders, which can have severe effects on the liquidity and financial situation of the firm. I find evidence that the potential for conflict that is inherent in these topics can be reduced and managed if corporate governance structures set clear regulations.

NAS may prefer high dividend payouts, while active shareholders may rather retain profits and use them for investments (May 2004). The yearly dividend payment is usually proposed by the TMT and the board and approved by the shareholders' meeting (this is the case, for example, in company A). Other family firms define the dividend payment schemes in their articles of association (e.g. company B) or their partnership agreement (e.g. companies C and E) to avoid annual discussions. How critical such dividend discussions are depends on the importance of the dividend for the shareholders. Although the family firms in my sample stress that none of the NAS should be economically dependent on the dividend, but rather regard it as extra income enabling them to improve their individual lifestyle, they admit that a certain dividend is necessary to maintain the interest of the NAS. "The company always has to be in a position to pay out a minimum
dividend. It has to be able to keep pace with the growth of the family, because there are obviously also monetary interests on the part of the family [...]", explained company D’s family CEO. Still, "at least for the younger shareholders, it is clear that they have to develop their own professional and economical basis and that the returns from their shares are more an improvement of their standard of living, than a basis for it," added company B's CEO.

What kind of problems may occur if there are no dividend regulations is demonstrated by the case of company F. The third-generation management is about to convey the shares to the next generation, of which two brothers are already working in the middle management of the firm. In the past, the firm did not pay a dividend. "We received a good salary here," explained one of the third-generation shareholders, arguing that there was no need for an additional dividend. However, he acknowledges that this is about to change. Although the two fourth-generation family members working in the middle management also receive a decent salary, they are used to a higher standard of living from their parents for which their salary might not suffice. Therefore he expects that they will try to achieve compensation through the dividend in the future. How high this dividend should be, is yet to be discussed.

Overall, these examples show that clear and binding regulations are helpful in avoiding conflicts that may emerge from competing goals regarding dividend payments. "We simply do not have this yearly problem. [...] Everyone knows what he can expect," summarizes company B’s CEO the advantages of a clear regulation.

A second topic with strong conflict potential is the treatment of shareholder exits, particularly if shareholders feel locked into the firm against their will. Although shareholder exits are usually a matter of last resort, clear rules and exit regulations are helpful in avoiding a situation in which some shareholders threaten to sell their shares as a
way of applying pressure and getting their own way, against the will of the remaining shareholders. Moreover, an exit is often regarded as a severe break with the family, its values and tradition.

The family CEO in company A took a rather relaxed view on the potential exit of family shareholders: "If someone has thought it through carefully and wants to exit in a way that is reasonable for the others, in my opinion a good family business would be characterized by enabling a value-preserving exit for this shareholder." However, the other family firms in the sample considered shareholder exits undesirable. Although most admit that exit decisions by single shareholders need to be respected, they also stress that such a step would have corollaries. Company E's chairman of the board commented: "The family [who sells shares] stops being part of the entrepreneurial family."

Each of the firms in the sample has slightly different exit regulations. The most sophisticated solution has been established by company D. The model foresees that each year not more than 1% of the equity can be withdrawn. The firm buys back the shares, creating an internal capital market and avoiding the sale of shares to third parties. In practice this means that if one shareholder owns 5% and sells his or her entire stake, he or she will be paid over a five-year period. As book value based valuations are usually illegitimate, the firm applies an adjusted capitalized earning power valuation. The resulting company value is then discounted by 20% if the individual has sold only a part of the shares, or 30% if the complete shareholding has been sold. The intention of this discount is to reflect the long-term orientation of the shareholders and prevents single shareholders from selling at times of high market valuations. The main advantage of this model is that it makes the exit acceptable for the remaining shareholders and thereby reduces the possibility of shareholders threatening each other with exits.
To summarize, the analysis of the data from the sample suggests that the business governance configuration influences shareholder relationships by providing goal-negotiation structures and thereby integrating NAS with competing goal-structures. The existence of such structures and rules improves the relationship between active shareholders and NAS, because NAS feel integrated, considered and taken seriously. This in turn increases their willingness to arrive at compromises and outcomes that are acceptable for all parties involved. Furthermore, in situations in which shareholder relationships are characterized by goal misalignment, a cautious configuration of the business governance structure (i.e. the composition of board of directors, dividend and exit regulations etc.) can help to cushion conflicts between shareholders and inhibit the emergence of emotional discussions (see also Tables 13 and 14). Thus, I infer that a well-developed business governance system has a curative impact on the level of conflict in family firms. Based on this assessment I record:

*Proposition 3: A developed business governance system (external directors, dividend- and exit regulations) improves the relationship between active shareholder and NAS and the willingness of each party to accept compromises.*

*Proposition 4: A developed business governance system has a curative impact on the level of shareholder conflicts resulting from goal misalignment between shareholders.*

### 4.4.3 Summary: Aligning corporate governance structures

So far I have described the influence of the corporate governance configuration on the role selection and role stability of NAS and the resulting impact on goal alignment and the level of conflict between shareholders. The framework is summarized in Figure 7.
Overall, the question of how corporate governance can be aligned to prevent, mitigate or resolve conflicts between active shareholders and NAS depends on the initial situation and the distribution of the NAS across the four generic roles discussed in further detail above (see also Figure 7).

If NAS engage in roles with high levels of goal alignment with the active shareholders (i.e. co-entrepreneurs, traditionalists), the corporate governance structure has to take into account the needs of these NAS and align the governance tools to maintain this situation. For example, setting up a family management structure, a family office or a family education program are possible ways to offer co-entrepreneurs arenas for useful participation. Moreover, if co-entrepreneurs have the necessary qualifications and enjoy the confidence of the other shareholders, a seat on the board could also be a means to the end of integration. Still, governance has to nurture the emotional bond between NAS to the firm in order to maintain shared values and cohesion and avoid increasing distance and
alienation. A structured and open communication policy, regular meetings or common group trips to subsidiaries or plants (as in the case of company E) are helpful to maintain the collective feeling of belonging. Furthermore, the joint development of a family charta is very useful as it documents shared values and goals. Regularly revising such a charta provides an opportunity to integrate later generations and give them the chance to find their own position within the family and business systems.

By contrast, if NAS choose roles that are characterized by goal misalignment (i.e. active investors, silent shareholders), the corporate governance has to be structured in such a way as to cushion existing conflicts and avoid escalation. In such situations, the competing attitudes should be channeled into a structured mediation process that enables resolution and reaching of consensus. Active investors are aware that their economic driven goal-set is antithetic to the goals of the active shareholders, so they try to participate and influence the TMT. Such participation is most effective through a seat on the board. Accordingly, the board should be able to fulfill its mediation task, meaning that it should be dominated by externals, as external directors can help to keep discussions focused on objective facts, support the reaching of consensus and provide more balanced perspectives. Moreover, topics that are known to have inherent potential for conflict (such as dividend payments or shareholder exits) should be ruled in the articles of association or shareholders' agreement, as is done by companies B, C, E, in order to avoid recurring discussions. Nevertheless, in these situations also family governance tools are still of great value. These tools can help improve the overall relationship between active investors or silent shareholders and the active management by supporting integration and identification. An open and transparent information policy that enhances trust and avoids the feeling that the TMT withholds important information is a first step in this direction. Furthermore, if silent shareholders begin to feel alienated from the firm because of their different lifestyles
and attitudes (e.g. in company D one NAS is an environmental activist and therefore has trouble to indentify with the firm due to the CO2-emission of the truck fleet), family governance initiatives can help counteract this development. Examples of such activities are provided by Company A and D, who set up charitable trusts and thereby indirectly support the reintegration of certain distant shareholders, who now participate in the voting process about which projects should be supported.

4.5 Discussion

This study adds to literature on corporate governance in family firms and improves our understanding of the relationship between active shareholders and NAS. Recent research has shown that NAS play a critical role in family firms, impacting the continuity and development of this type of enterprise (Gersick et al. 1997; Jaskiewicz et al. 2006; Vilaseca 2002). Nevertheless, the discussion of corporate governance in family firms has largely ignored the important relationship between active shareholders and NAS. Based on a generic role definition and associated goal -functions for NAS (see Chapter 3), I propose a theoretical model explaining why and how the configuration of the corporate governance structure influences role selection and role stability of NAS, and hence the level of goal alignment between active shareholders and NAS. Furthermore, the proposed model highlights how possible goal conflicts can be addressed, resolved or cushioned through the configuration of the governance structure.

The role selection of NAS is influenced by the degree of identification/emotional proximity and active participation (see Chapter 3). My findings therefore suggest that corporate governance configuration affects these dimensions as it provides the boundary conditions that either support or constrict identification and active participation. In particular, my theoretical construct proposes that (1) family governance influences the
level of identification and thus the level of goal alignment, having a preemptive effect on conflict within the firm, while (2) business governance improves the willingness to engage in give-and-take, having a curative effect on the level of conflict within the firm (see Figure 6). Furthermore, the framework proposes that the corporate governance structure in family firms simultaneously follows agency and stewardship prescriptions, supporting the idea suggested by other scholars that both theories should be regarded as complementing rather than competing perspectives (Donaldson and Davis 1991; Lee and O’Neill 2003).

First, regarding the configuration of the family governance system, I propose that transparency and an open information policy are important criteria for increasing identification and supporting the emergence of trust and ultimately identification between active shareholders and NAS. A high level of trust is where protagonist A believes that he or she can predict the actions of protagonist B and that these actions comply with the actions that protagonist A considers appropriate (Klein 2009). By contrast, high levels of distrust can result in problems of coordination and control undermining the firm (Steier 2001). In fact, different scholars (Das and Teng 1998; Sundaramurthy 2008; Ward 2004) propose that high levels of open, honest and consistent communication help to develop stronger bases for interpersonal trust, which supports my reasoning. Moreover, trust is associated with a stewardship-setting, which also fits the proposed framework (Davis et al. 1997; Schoorman, Mayer and Davis 2007).

Second, the model suggests that bi-directional communication processes and platforms in the form of family management, family councils, family offices and family gatherings promote exchange between shareholders and thereby help to integrate NAS and nurture the feeling of affiliation (i.e. identification). In fact, Davis and Herrera (1998) argue that family councils serve as communication bodies, reducing information asymmetry and promoting shareholder cohesion. These coherences are also mentioned by
other scholars (Mustakallio et al. 2002; Redlefsen 2004), who argue that family councils can increase social interaction, the development of shared visions and the emergence of trust. Family gatherings and informal meetings are also perceived as helpful platforms for maintaining networks between family groups or branches of the family, offering the opportunity to identify conflicting interests before they escalate (Gersick et al. 1997; Koeberle-Schmid 2008b; Stöhlker and Müller Tiberini 2005).

Third, I find evidence that family governance can maintain cohesion among shareholders by implementing common rules and defining common values, as these factors support identification and goal alignment, while avoiding unnecessary conflicts. The literature (e.g. Angus 2005; Baus 2010; Lange 2010; May 2007) mentions the development of a family charta\(^{28}\) as a means to achieve this end, thereby supporting my proposition. In particular the need for a collective development process for such a charta has recently been emphasized by researchers (Koeberle-Schmid, Witt and Fahrion 2010), who note that all shareholders should be involved in order to get a better understanding of the different strengths and weaknesses of each individual. In this vein, the family charta is described as an evolving document that contributes to securing and enhancing the economic and emotional value of a family firm across generations.

Fourth, regarding business governance, the proposed model provides initial evidence that the board of directors has to fulfill a mediation task, thereby enabling goal negotiation and consensus between active shareholders and NAS. This notion finds support in the literature, which suggests that conflict mitigation can indeed be performed at the board level with impartial outside directors conciliating between different family factions (e.g. Bammens et al. 2010; Lester and Canella Jr. 2006; Voordeckers et al. 2007). A

\(^{28}\)Family-Codex, Family-Constitution or Family-Contract are used as synonyms for family charta in the literature.
Theoretical perspective for this board task is provided by stakeholder theory (Donaldson and Preston 1995), which proposes that overall firm goals should be developed by balancing and reconciling the often competing interests of different stakeholders (Corbetta and Salvato 2004b; Freeman and Reed 1983). In this context, Zellweger and Nason (2008) propose that the family (i.e. the NAS) can be considered an additional stakeholder group with a unique goal set that includes non-economic goals. Although some scholars (cf. Eddleston and Kellermanns 2007, Kellermanns and Eddleston 2004) point out that boards should not get involved in so-called relationship or process conflicts, my analysis comes to different results. My definition of the mediation task includes the conciliation of these kinds of conflicts. Yet, I do not propose that the mediation has to be performed by the directors in person. In fact, in certain situations it might be better to recruit family therapists or external facilitators to resolve such conflicts. However, the responsibility to integrate these external specialists lies with the board.

Fifth, the analysis of the data from the sample indicates that dividend and exit regulations have a positive effect on the level of goal alignment and a mitigating effect on the level of conflicts. While some scholars (Baus 2010; Koeberle-Schmid et al. 2010) suggest that these topics should be defined in the family charta, the data from the sample indicates that they should also be incorporated in the articles of association or the shareholders' agreement, as these documents are legally binding, unlike the family charta. In fact, in his detailed study about shareholder exits in family firms, Redlefsen (2004) finds no cases in his sample in which shareholder exits occurred once a family charta had been developed. It can be inferred that the preparation of such regulations has a compromising effect and thus leads to goal alignment among parties. If clear and accepted regulations are in place, the need for extensive discussion is reduced, resulting in a mitigating effect on the level of conflict between shareholders.
To summarize, the proposed model provides an integrated perspective on corporate governance in family firms and follows the call of numerous scholars (e.g. Bammens et al. 2010; Lee and O’Neill 2003) to combine different theoretical perspectives. The literature suggests that PAT-based predictions can be appropriate if shareholder relationships are characterized by mistrust, the absence of emotional value and ignorance of the behavioral learning effect derived from repeated social interaction (Astrachan and Zellweger 2008; Zellweger and Astrachan 2008). This situation may occur if NAS assume the roles of active investors or silent shareholders. By contrast, if shareholder relationships are characterized by trust, strong emotional value and consideration of the behavioral learning effect derived from repeated social interaction – situations that are largely congruent with NAS taking the roles of co-entrepreneurs and traditionalists in my model – the literature proposes ST as a suitable explanatory perspective (Corbetta and Salvato 2004a; Zellweger and Astrachan 2008). In this context, I argue that the corporate governance configuration influences the role selection and role stability of NAS and thereby the level of goal alignment between shareholders, high levels of goal alignment indicating stewardship settings and low levels indicating agency settings. Jaskiewicz and Klein (2007) come to similar conclusions and propose that the usefulness of the explanatory theories depends on the level of goal alignment. Still, I would argue that both settings can coexist within one family firm and that corporate governance can indeed shape this setting by using different tools to increase identification and active participation by NAS. As such, family governance initiatives can be regarded as being directly supportive in fostering the development of a stewardship setting, while business governance structures have the task of preventing existing conflicts from escalating. Moreover, the predictions of stakeholder theory should also be considered when defining board composition, so as to enable goal negotiation on this level. Thus, family firms have to consider the predictions of multiple
theories (PAT, ST & stakeholder theory). They face the challenge to structure their business governance comparable to the PAT-prescriptions for an anonymous capital company but at the same time use the tools of the family governance to remain emotionally a family firm.

4.6 Limitations and future research

The aim of this study was to develop a conceptual model that explains why the relationship between active shareholders and NAS is influenced by the configuration of the corporate governance structure and how corporate governance can be aligned to cushion potential shareholder conflicts. However, as with all research, this study is not without its limitations.

First, I included only non-public German family firms in the sample. Although I consider this as a good proxy for other Western cultures as well, I cannot preclude that the proposed coherences behave differently in other cultural settings.

Second, since I conducted a multiple-case, inductive study (Eisenhardt 1989b), the sample size is limited. Therefore, future replication studies and large-scale empirical testing would be useful next steps.

Third, the scope of this study is limited to the development of a conceptual model. As such, this study does not address several more detailed governance issues, such as the optimal composition of family governance bodies, the ideal frequency of meetings or interaction processes with the business governance dimension. Also the goal negotiation process on the board level has not been investigated in detail. The analysis of these topics offers a fruitful area for future research.

Finally, this study does not implement links between corporate governance configuration and performance or goal alignment and performance. Thus, future research
should establish these links between corporate governance variables and the predictions of PAT, ST and stakeholder theory in order to measure the impact on corporate performance.

As the proposed framework is an initial attempt to explain the complexities of family firms by combining different theoretical perspectives, subsequent studies could also enlarge the theoretical foundation of the model, for example by analyzing shareholder relationships from a resource-based perspective (Barney 1991; Sirmon and Hitt 2003) and in doing so assist the development of a comprehensive theory of the family firm.
5 Managing shareholder relationships in family businesses – A practitioner-oriented concept

5.1 Introduction

"How family members interact can cause the downfall of family firms..." (Eddleston and Kellermanns 2007, p. 546). This statement sounds dramatic, but in fact it describes rather well one of the key challenges facing family firms: managing shareholder relationships.

Family firms are, unlike their non-family counterparts, exposed to a number of psychodynamic effects such as sibling rivalry, the desire of children to emancipate themselves from their parents, identity conflict, dispersion of ownership and marital discord, which can easily escalate into severe conflicts (Dyer jr. 1994; Eddleston and Kellermanns 2007; Schulze et al. 2001; 2003a). Particularly in later generations, when company shares have been inherited and distributed among a number of siblings and across generations, managing shareholder relationships becomes key. In such situations, some shareholders may squabble about their roles and ranks in the business (Degadt 2003) while others may aspire to influential positions on the corporate governance bodies of the firm or alternatively desire truly passive roles. The importance of NAS has long been overlooked here (Gersick et al. 1997), despite the fact that, at least in Germany, NAS hold the majority shares in almost every second family firm (cf. Jaskiewicz et al. 2006). Both active shareholders and NAS are influential due to their management positions and ownership rights, so the development and continuity of the firm is directly affected by the nature of the relationship between them. Accordingly, scholars agree that the ability to manage and resolve competing goals and interests is one of the major success factors in family firms (Dyer jr. 1986; Sorenson 1999; Ward 1987).
Despite the relevance of this topic for the day-to-day management of family firms, research has concentrated to date on developing conceptual models, with no clear recommendations for practitioners. Taking this as a background, the aim of this chapter is to provide some guidance on the active management of family firms. I will use existing academic insights into the relationship between active shareholders and NAS and propose a practitioner-oriented concept that provides family managers and family shareholders with guidelines on how to assess their own situation and afterwards derive recommendations for maintaining or improving shareholder harmony.

This chapter is structured as follows: section 5.2 briefly expounds the theoretical background. Afterwards, section 5.3 summarizes the latest findings concerning NAS and corporate governance in family firms. Section 5.4 outlines the proposed framework for practitioners, before section 5.5 summarizes and discusses my recommendations. Finally, section 5.6 highlights the limitations of this study and directs attention to areas for future research.

### 5.2 Theoretical background

Prior research concerning the relationships between shareholders and (owner-) managers in family firms is dominated by the principal-agent theory (PAT) (Jensen and Meckling 1976) and the stewardship theory (ST) (Davis et al. 1997), providing our theoretical background.

PAT assumes diverging goals and interests of principal (i.e. shareholder) and agent (i.e. manager) and proposes monitoring and control mechanisms, such as externally dominated boards of directors, to align these goal conflicts (Bammens et al. 2010; Eisenhardt 1989a). Moreover, PAT presumes that principal and agent have an a priori defined set of shared interests which is typically (economic) performance (Bammens et al. 2010; Chrisman et al. 2004). Thus, both act opportunistically and seek to maximize their
own (economic) welfare (Jensen and Meckling 1976). In addition, scholars suggest that family firms are exposed to agency costs stemming from altruistic transfers (e.g. perquisites) between family members or adverse selection enabling free-riding or shirking of some shareholders (Chua et al. 2009; Schulze et al. 2001; 2003b). In particular with increasing dispersion of ownership, shareholders seem to have an incentive to maximize the welfare of their nuclear family instead of that of the collective shareholder group (Lubatkin et al. 2005).

By contrast, ST suggests that agents (i.e. stewards) behave socially and pro-organizational and derive greater utility from the pursuance of collective goals, rather than self-directed ones (Donaldson and Davis 1991). Moreover, scholars argue that control mechanisms would lower the stewards' intrinsic motivation to behave pro-organizational (Corbetta and Salvato 2004a; Davis et al. 1997) and stress for example the advisory task of the board as compared to PAT, favoring the control task (Bammens et al. 2010). Stewardship-behavior is directly related to intrafamily dynamics and the prevailing level of harmony within the (extended) family (Corbetta and Salvato 2004a; Eddleston et al. 2008b). Thus, the sustainment of harmony is of significant importance as otherwise stewardship attitudes are likely to fade (Bammens et al. 2010).

On their own, neither of these theoretical perspectives fully explains the complexities of family firms or the relationship between active shareholders and NAS. Accordingly, scholars have called for the application of multi-theoretic models combining the perspectives of both theories (Bammens et al. 2010; Lee and O’Neill 2003; Donaldson and Davis 1991). In Chapter 3 and 4 I proposed such an integrative conceptual model explaining the relationship between active shareholders and NAS. In the following section I will briefly outline and slightly expand the conceptual framework, before taking it as a
basis to sketch out some recommendations for a structured shareholder relationship management process.

5.3 Non-active shareholders and corporate governance

The role selection of each family shareholder describes his or her position within the overlapping family- and business- system. Accordingly, the shareholders' role selection defines the individual attitudes that ultimately affect the cognitive and emotional posture of the shareholders towards the family and the firm. Based on this role selection, each NAS derives certain discrete objective functions that reflect these attitudes (see also Chapter 3).

Moreover, the relationship between active shareholders and NAS is influenced by the corporate governance configuration, which stabilizes or destabilizes the role selection by NAS. As NAS derive specific needs (e.g. concerning participation interfaces) from their role selection, they will start to adjust their roles and the corresponding objective functions if these expectations are not satisfied or supported by the governance structure of the firm. Thus, by providing the boundary conditions for the interaction between family shareholders, corporate governance influences the level of goal alignment or misalignment and the aptitude conflict between shareholders in family firms (see also Chapter 4).

5.3.1 A role-typology of non-active shareholders

Families are heterogeneous groups with different interests and objectives (Sharma et al. 1997). The same is true of NAS, who are able to take up a variety of positions in the family and business systems. As proposed in Chapter 3, I find that these multiple positions of NAS are influenced by (1) the level of identification with and emotional proximity of the shareholders to the firm and (2) the level of active participation of the shareholders. The level of identification and emotional proximity of NAS is affected by antecedent factors
such as emotional value, in the form of social status, reputation or feeling of belonging, and emotional costs, which take the form of the reputational risk, conscientiousness or social constraints. By contrast, the level of active participation is influenced by the (relative) number of shares that NAS hold and the degree of their (self-) perceived competence concerning business related issues. Taking the dimensions of identification/emotional proximity and active participation as consecutive scales in a two-dimensional coordinate system, the positions of the NAS can be aggregated into four generic roles, being co-entrepreneurs, traditionalists, active investors and silent shareholders. As the scales are consecutive, each role contains different nuances of that role.

Co-entrepreneurs show a high level of identification with and emotional proximity to the firm, combined with a strong desire to actively participate and support the development of the firm (see Chapter 3). They identify with the rules and values of the firm, derive a strong business-first attitude and share the goal-set of the active, managing shareholder(s). Thus, the relationship between co-entrepreneurs and active shareholders is characterized by goal alignment and low aptitudes for conflict.

Traditionalists are also characterized by high levels of identification with and emotional proximity to the firm. They perceive the firm as an extension of themselves and consider their shares as certificate of affiliation. However, they are often busy with their own professions and take rather passive positions, not feeling the desire to actively participate in the firm. As long as the firm behaves in line with the family values, the level of goal alignment between traditionalists and active shareholders is high and the aptitude for conflict is low (see Chapter 3).

Active investors show low levels of identification with and emotional proximity to the firm. They are primarily concerned with the financial performance of their shares in
form of dividend payments and firm value. By contrast, they attach little importance to company-related goals such as for example safeguarding the influence of the family. Thus the interests of active investors usually compete with those of the active management and the relationship between both groups is often derogated by mistrust and suspicion. This situation gives active investors an incentive to participate in the firm to control and ensure that their interests are taken into account. As a result, the aptitude for conflict between active investors and active shareholders is rather high (see Chapter 3).

Silent shareholders show low levels of both identification with and active participation in the firm. Silent shareholders derive hardly any emotional value from their shareholding and are happy if they receive a yearly dividend and are otherwise left alone, others perceive their shareholding as more of a burden than a privilege as it impacts their individual position within society. In the former case, the level of goal alignment and the corresponding aptitude for conflict between NAS and the active shareholders can be described as above average. However, in the latter case, silent shareholders are discontent with their situation. As they fear the repercussions a sale of shares would have on their social lives, they refrain from this step. Still, the inherent discontent with the situation remains, affecting different levels of their behavior. As a result, the level of goal alignment between them and the active shareholders is relatively low, while the aptitude for conflict is relatively high (see Chapter 3).

To summarize, this assessment shows that it depends on the role selection of NAS whether the relationship between active shareholder and NAS shows more stewardship-like traits, characterized by goal alignment and harmony, as it is the case if NAS assume roles as co-entrepreneurs or traditionalists, or more agency-like traits, characterized by misaligned goals and suspicion, as it is the case if NAS assume roles as active investors or silent shareholders.
5.3.2 The impact of corporate governance

Within the family business system, the corporate governance structure provides certain rules defining the "rights" of each shareholder and thereby affecting his or her behavior. Thus, changing the corporate governance structure can be compared to changing the rules of the game, and thus also changing shareholders' ideas about what behavior is acceptable and what is not. In this context, the corporate governance configuration has an impact on role selection by NAS because it provides the structures that influence their level of identification and active participation, which are the dimensions that define the role selection of NAS (see Chapter 3). In other words, a sophisticated configuration of the governance elements can help foster identification and facilitate active participation by NAS. The composition of the corporate governance structure can therefore support or constrict the role selection and role stability of NAS in family firms. Despite this, when assessing the governance structure, we need to differentiate between the family governance and the business governance system as they have differing impacts on the shareholder relationships.

The family governance system ensures cohesion within the family (Gallo and Kenyon-Rouvinez 2005; Gersick et al. 1997; Mustakallio et al. 2002). Therefore, it can be regarded as a relationship management system, whose purpose is to maintain and support positive and stable shareholder relationships. The composition of family governance elements influences the level of integration and identification of NAS with the firm. Whether this influence has a positive or negative effect depends on the presence or absence of certain characteristics regarding the composition of the governance elements. These characteristics include information & transparency, bi-directional communication processes and jointly defined rules and values (see Chapter 4). A developed family governance structure that has these characteristics has a positive influence on the level of
identification and emotional proximity of NAS, inducing them to migrate from roles characterized by low levels of identification (i.e. active investor, silent shareholder) to roles characterized by high(er) levels of identification (i.e. co-entrepreneur, traditionalist) or to maintain such roles. Even if a complete transition from one role to another does not occur, fostering identification by NAS with the firm can help avoid potentially extreme positions on the part of certain shareholders and so help mitigate the level of goal misalignment and potential conflict. As such, family governance can have a preemptive impact on shareholder conflict, fostering goal alignment between active shareholders and NAS.

Business governance is defined to organize the administration and control of the business and consists mainly of the top management team (TMT), board of directors and shareholders' meeting (Gallo and Kenyon-Rouvinez 2005; Neubauer et al. 1998). The structure of the business governance system defines how shareholders can influence the business. Thus, the business governance system provides the cornerstones for the business-directed interaction between active shareholders and NAS.

Within the business governance system, the composition of the board is of great importance, as it defines how influential the position of the family is and how NAS who take board seats can exert pressure on the active shareholders. Apart from its controlling and advisory tasks (e.g. Heuvel et al. 2006; Zahra and Pearce 1989), the board has also a mediating task (see Chapter 4), thereby affecting the level of goal alignment between shareholders. For the board to be in a position to fulfill this mediation task, it should be dominated by independent, external directors, as this is the only way to avoid family directors believing mistakenly that they have the better arguments, only because they have the stronger power position. Furthermore, distributing seats on the board like this helps to

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29 The shareholders' meeting is part of both, the family- and the business governance system.
5.3 Non-active shareholders and corporate governance

keep discussions focused reducing the risk of emotional arguments from the shareholders' side. Moreover, clear and binding regulations concerning common points of dispute such as dividend payments schemes and shareholder exits also need to be defined. The mere existence of such rules reduces the aptitude for conflicts by eliminating the reason for discussions.

The business governance configuration affects the shareholder relationships by providing structures that enable goal negotiation and consensus, as discussed in Chapter 4. As shareholders with competing goals feel integrated and respected, their willingness to arrive at outcomes that are acceptable for all parties increases. To summarize, a well-developed business governance structure improves the relationship between active shareholders and NAS and increases their willingness for compromise. A sophisticated configuration of the system can therefore unfold a curative impact on the level of shareholder conflict resulting from misaligned goals (see Chapter 4).

5.3.3 Extending the model: The role of trust

The framework discussed above, explains why NAS select certain roles and how this role selection can be influenced by the corporate governance structure. However, on the individual level, the social interaction and behavior between family members is also affected by another important aspect: trust. Trust is mentioned to function as a basis for cooperation (Steier 2011). It is likely to affect shareholder relationships in family firms and should therefore be incorporated into the framework. Accordingly, the concept of trust and its implications for shareholder relationships and corporate governance will be discussed in the following section.
5.3.3.1 The concept of trust

Trust is repeatedly cited in the literature as playing an important role in the organizational governance of firms (e.g. Kramer and Tyler 1996; Powell 1987; Rousseau, Sitkin, Burt and Camerer 1998). It is defined by Mayer, Davis and Schoorman (1995, p. 712) as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party." Researchers and practitioners argue that the presence of trust potentially contributes to lower transaction costs, while helping to improve effective managerial coordination and collaboration within a firm (Steier 2001).

There is a strong body of research on trust in organizations (Kramer and Tyler 1996; Lane and Bachmann 1998; Rousseau et al. 1998), which helps us understand how trust is developed, sustained and eventually destroyed (Sundaramurthy 2008). Here, it is important to recognize that trust is a multi-faceted concept having different bases. Lewicki and Bunker (1996) propose that there are three distinct bases of trust that are build up over time and to which they refer as calculus-based, knowledge-based and identification-based trust.

Calculus-based trust concerns the fear of the consequences of a breach of trust and the rewards for preserving trust. Among individuals who do not know each other, relationships usually start with this calculus-trust. At this stage, individuals calculate the risk and benefits of dependence and are willing to take certain risk stemming from some deterents. The second base is knowledge-based trust and endorses the predictability of the other party. This predictability can emerge from information and knowledge about the reliability, integrity and competence of the trustee, which the protagonists derive from repeated interaction. Lane (1998) refers to this kind of trust as competence trust. The third
base of trust is identification-trust which, according to Lewicki and Bunker (1996), arises if both parties effectively understand and reflect the desires and needs of the other and when their goals are aligned. Shared norms, rules and values that have been developed for example by joint socialization, support this type of trust (Fukuyama 1995). Still, the authors suggest that only a few relationships attain this third level.

In family firms the sequence of levels of trust is inverted. Trust is initially based on identification-trust, which can be supported through cognitive bases over time (Sundaramurthy 2008). To structure these coherences, Sundaramurthy (2008) proposes a three-phase "cycle of trust", while each phase is associated with a certain developmental phase of the firm. Moreover, the cycle is regenerative, indicating that family firms pass through each phase over and over again.

The cycle starts with interpersonal-based (i.e. identification-based trust) trust which is common in the early stage of family firms and which is based on kinship, familiarity, shared history, tradition, rituals and personal characteristics (Carney 2005; Gersick et al. 1997; Kets de Vries 1993; Lane and Bachmann 1998). Different organizational life-cycle models (e.g. Hollander and Elman 1988) indicate that, as family firms grow over time, also the complexity of the organization increases. A key aspect here is the dispersion of ownership between cousins and across generations. Usually, not all family members take up active positions in the firm, many preferring to have their own careers. Thus, the intimate knowledge of each other and the common experiences and interactions may dilute over time and impair the level of interpersonal trust (Sundaramurthy 2008).

Accordingly, a second form of (knowledge based) trust can be developed to complement interpersonal trust: competence trust. According to Mishra (1996), competence trust is the belief that a person is not only willing to perform a certain task, but also capable of doing so. This is of particular importance in the relationship between active
shareholders and NAS. The shareholders (or family members) who are not actively running the firm need to have confidence that the active shareholders are capable of adapting to changing environments and make the business flourish (Sundaramurthy 2008). Sundaramurthy suggests that this type of confidence can be achieved if the family business system is open to external influences and expertise. One way to support the emergence of competence trust is to encourage active family managers to gain practical experience outside the family firm before taking up leading positions in the firm (Sundaramurthy 2008). Another option is to install boards with independent outside directors as they provide access to external resources in the form of networks, expertise and know-how (Aronoff and Ward 1996; Schwartz and Barnes 1991; Lane et al. 2006).

The third phase in the "cycle of trust" is system trust. Sundaramurthy (2008) describes system trust as the trust that individuals place in the system itself and the associated processes. The author states that as family firms grow, interpersonal trust cannot be maintained without sustaining trust in the system, which defines how interpersonal exchange processes are governed. Transparent, formal rules and accepted policies are possible means to support system trust (Sydow 1998). Some scholars (Jurinski and Zwick 2001) also mention family constitutions as suitable ways to document the rights and obligations of each family member. Such clear policies could contain the family's intention to keep the business in the family, as well as clear regulations on performance appraisals and the compensation of active family managers (Sundaramurthy 2008).

As mentioned above, the "cycle of trust" is iterating. With increasing shareholder complexity resulting from multiple nuclear families and different generations being involved in the business, open and transparent communication becomes vital in order to maintain interpersonal trust (Das and Teng 1998; Ward 2004). Indeed, Habbershon and Astrachan (1997) argue that consistent and open communication can help translate system
trust into interpersonal trust based on "renegotiated" values and shared beliefs between generations and family members.

5.3.3.2 The implications of trust for shareholder relationships and corporate governance

Trust has been described as a source of competitive advantage for family firms in their early stages, which often fades as the organization grows and becomes more complex (Carney 2005; Sundaramurthy 2008). Consequently, family firms have to sustain structures and processes that enhance multiple trust bases (i.e. competence trust, system trust) in order to preserve the initial family-based interpersonal trust (Sundaramurthy 2008). Trust represents "a fundamental basis for cooperation" (Steier 2001, p. 354) and can be seen as a "lubricant" in shareholder relationships that assists to reduce disruptive conflict and transaction costs (Rousseau et al. 1998), ultimately fostering harmony within the firm. As discussed above, in particular the relationship between active shareholders and NAS can be characterized by different levels of trust. For example, NAS acting as co-entrepreneurs or traditionalists show relatively high levels of interpersonal-, competence- and system-based trust, while NAS acting as active investors or silent shareholders are characterized by low levels of all types of trust.

The literature offers a number of different perspectives on the role of trust in the context of corporate governance, indicating that the presence or absence of trust can also be related to the corporate governance setup. Some scholars propose that trust can be considered as a control mechanism (Bradach and Eccles 1989), others argue that "while trust might be seen as a reason not to use objective controls, trust is not, in and of itself, a control mechanism" (Leifer and Mills 1996, p. 129). As such, trust should rather be regarded as a substitute for control. Hence, if individuals (e.g. active shareholders and NAS) completely trust each other, there is no need for control. By contrast, in the absence
of adequate levels of trust, control mechanisms come into play as substitute (Das and Teng 1998). Furthermore, Klein (2009) proposes that the complexity of the corporate governance of a family firm has to be in line with the complexity of the family business system and that it is trust that moderates this relationship.

Coming back to the proposed framework, the explanations above show that the maintenance of trust can be perceived as a facilitator, indirectly supporting the development and sustainment of identification and emotional proximity by NAS. Now, taking a closer look at the prescriptions for how to sustain trust, we find notions such as outside influence, clear and transparent rules and policies and open and honest communication as factors that can promote and cultivate trust (Sundaramurthy 2008). Interestingly, these levers are comparable to the ones that have been found to be influential in the role selection and role stability of NAS. For example, external directors are a prerequisite for the board to be able to fulfill its mediation task, while clear and transparent rules and policies and open bi-directional communication processes foster the integration and emotional identification of NAS. These trust-building factors are operationalized through the layout and configuration of the corporate governance structure. In this way, the concept of trust indirectly supports the proposed construct and the proposition that corporate governance structure influences the role selection and role stability of NAS and hence shareholder behavior, which is derived from their role selection (see Chapters 3 and 4).

5.4 A practitioner-oriented concept for managing shareholder relationships

The management of shareholder relationships and the corresponding configuration of the corporate governance structure in family firms is a difficult and challenging task
(Mustakallio et al. 2002). It is essential to understand the coherences between corporate governance and shareholder relationships. Taking the theoretical models discussed in the last section as a basis, I now turn to the application of these concepts in practice.

Family firms are heterogeneous constructs. Accordingly, there is not one optimal structure for the corporate governance of a family firm, but many adequate configurations, depending on the situational context, ownership configuration (Chen 2010), generational life-cycle (Bettermann 2009), complexity of the firm (Klein 2009) and the governance tasks that should be fulfilled (Jaskiewicz and Klein 2007; Klein 2008). Thus, in terms of managing relationships between active shareholders and NAS, I do not propose a single optimal governance structure, but rather a three-step analysis process that helps managers to apply the proposed model in their individual context. The process starts with the analysis of the initial situation. Next, different alternatives for action are developed. Finally, I will shed some light on possible pitfalls that should be kept in mind when implementing the measures in step three.

5.4.1 Step 1: Analyze the current situation
As a first step we take stock of the initial situation. At this phase of the analysis, it is important to consider the specific context and the situation of the firm. As a starting point, the shareholder structure should be investigated. To do so, managers should draw up a list of all (family) shareholders, including their name, age, address, generation, clan affiliation (if relevant), share size and official position(s), such as e.g. mandates on the board or chair of the shareholders' meeting. It should also be noted whether the respective shareholder is classified as active (i.e. taking active operating management responsibility) or non-active
Managing shareholder relationships in family businesses – A practitioner-oriented concept

(i.e. holding no management position)\textsuperscript{30}. If the firm is in a transition phase and about to transfer certain shares to later generations, the prospective shareholders should also be included on the list. Upon completion of the list, the attitude and position of each individual shareholder toward the firm should be analyzed. For this purpose I recommend using individual interviews or short questionnaires. In either case, the data gathering should be conducted by an independent, neutral person in order to encourage candor and avoid interviewees hiding their true attitudes. In some cases, it might be even appropriate to conduct this inquiry anonymously. The aim of these interviews is to assess the level of identification/emotional proximity and desire for active participation of each shareholder.

By identification I refer to the sharing of common values, culture and traditions that manifest in the way individuals interact with each other. According to Davis, Allen and Hayes (2010) identification is characterized by the strong belief and acceptance of an organization's or group's rules, goals and values and the willingness to be and stay part of that group. Suitable questions that could be asked here are open in their structure, for example: "Please describe your perception of the core values of your firm" or "What goals regarding the business and the family dimension are most important to you?" (see Table 15 for further examples).

Furthermore, the shareholder's desire to actively participate in the firm should also be assessed. The desire for active participation is usually triggered by the (relative) number of shares that NAS own, as these may constitute a significant part of their wealth. However, the level of (self-) perceived competence regarding business-related issues also affects the desire to get involved in running the firm. To assess the desire for active participation, open-ended questions should again be used, such as: "How would you describe your level of information concerning business-related issues? How satisfied are

\textsuperscript{30} A board seat is not considered an active management position.
5.4 A practitioner-oriented concept for managing shareholder relationships

you with this level of information?" or "Do you hold or do you aspire to hold a mandate in a formal governance body of the firm? If yes, which? If no why or why not?" (see Table 16 for further examples).

Table 15: Possible questions for assessing the level of identification/emotional proximity of NAS

<table>
<thead>
<tr>
<th>Possible Questions: Identification / Emotional Proximity</th>
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</thead>
<tbody>
<tr>
<td>- Please describe your perception of core values of your firm.</td>
</tr>
<tr>
<td>- Which of the following goals regarding the firm are most important to you (please rank)?</td>
</tr>
<tr>
<td>- Growth &amp; Profitability</td>
</tr>
<tr>
<td>- Safeguarding of the Family Influence</td>
</tr>
<tr>
<td>- Increasing Company Value</td>
</tr>
<tr>
<td>- Continuance of the Business</td>
</tr>
<tr>
<td>- Preservation of the Shareholder Structure</td>
</tr>
<tr>
<td>- etc.</td>
</tr>
<tr>
<td>- Which of the following goals regarding the family are most important to you (please rank)?</td>
</tr>
<tr>
<td>- Harmony</td>
</tr>
<tr>
<td>- Payment of a Dividend</td>
</tr>
<tr>
<td>- Reputation</td>
</tr>
<tr>
<td>- Dissemination of the Business</td>
</tr>
<tr>
<td>- Employment of Family Members</td>
</tr>
<tr>
<td>- etc.</td>
</tr>
<tr>
<td>- What other goals are important to you?</td>
</tr>
<tr>
<td>- Which roles do you take within the family and within the business? Please describe.</td>
</tr>
<tr>
<td>- Do your shareholdings affect your everyday life? If yes, how?</td>
</tr>
<tr>
<td>- If you would have to decide, which goals would you prioritize over the other? Business goals (i.e. Business First) or family goals (i.e. Family First)?</td>
</tr>
<tr>
<td>- How important is a positive reputation of the firm to you?</td>
</tr>
<tr>
<td>- Would you consider selling your shares if alternative investments would offer a better performance?</td>
</tr>
<tr>
<td>- etc.</td>
</tr>
</tbody>
</table>
Table 16: Possible questions for assessing the desire for active participation of NAS

<table>
<thead>
<tr>
<th>Possible Questions: Active Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Please describe the interaction/collaboration with the active shareholder(s).</td>
</tr>
<tr>
<td>- Do you hold or do you aspire to hold a mandate in a formal governance body of the firm? If yes, which? If no, why or why not?</td>
</tr>
<tr>
<td>- Board of Directors</td>
</tr>
<tr>
<td>- Family Council</td>
</tr>
<tr>
<td>- Chairmanship of the Shareholder’s Meeting</td>
</tr>
<tr>
<td>- Mandate on the Family Office</td>
</tr>
<tr>
<td>- etc.</td>
</tr>
<tr>
<td>- How important is a formal organisation of the family to you? In form of:</td>
</tr>
<tr>
<td>- Family Council</td>
</tr>
<tr>
<td>- Family Charter / Family Constitution</td>
</tr>
<tr>
<td>- Family Office</td>
</tr>
<tr>
<td>- etc.</td>
</tr>
<tr>
<td>- Does the board of directors sufficiently represent your individual goals and interests?</td>
</tr>
<tr>
<td>- Does the Top-Management-Team consider your individual goals and interests?</td>
</tr>
<tr>
<td>- How would you describe your level of information concerning business-related issues? How satisfied are you with this level of information?</td>
</tr>
<tr>
<td>- Are there any decision-processes in which you, as a NAS, are integrated? Please describe.</td>
</tr>
<tr>
<td>- Do you feel sufficiently integrated through the active management of the firms?</td>
</tr>
<tr>
<td>- Which are the main communication channels that you use to interact with the active shareholders? Are these of formal or informal nature?</td>
</tr>
<tr>
<td>- Do you follow a full-time profession outside of the family firm?</td>
</tr>
<tr>
<td>- etc.</td>
</tr>
</tbody>
</table>

Once the data has been compiled, it should be coded and evaluated for each shareholder. This will indicate whether he or she shows a rather high or low level of identification/emotional proximity and a rather high or low desire for active participation. Based on these results, the role-portfolio of NAS (see Figure 8) can be derived. This four-square box provides a clear overview of how the NAS are distributed among the four generic roles, namely co-entrepreneurs, traditionalists, active investors or silent.

31 The more nuanced the evaluation of the levels of identification/emotional proximity and desire for active participation is, the more accurate will be the analysis.
shareholders. As each role is associated with certain characteristics (see section 3.4.2), this portfolio of NAS increases transparency about the actual situation and can be used to determine the status quo regarding the level of goal alignment and aptitude for conflict within the firm. This first step of the analysis process is summarized in Figure 8.

**Figure 8: Step 1: Analysis of the initial situation**

5.4.2 Step 2: Derive alternative actions
The distribution of NAS within the role portfolio gives managers a good impression about the current level of goal alignment between active shareholders and NAS and hence the propensity for conflict in the firm. If the portfolio shows a stronger concentration of NAS on the left-hand side of the portfolio (i.e. active investors, silent shareholders), there is an indication that goal conflicts exist, either openly articulated or beneath the surface. Accordingly, an action plan should be developed addressing these conflicting interests.

The first option is to try to "reposition" certain NAS within the portfolio (see Figure 9), inducing migration to roles that are characterized by higher levels of goal alignment and lower aptitudes for conflict (e.g. co-entrepreneurs, traditionalists). For this, the
variables influencing the role selection have to be adjusted. To trigger a movement along the X-axis (see Figure 9), the level of identification/emotional proximity has to be increased (movement to the right) or decreased (movement to the left). As discussed above, this dimension is determined by the emotional value (i.e. social status, reputation, feeling of belonging) and the emotional costs (i.e. reputational risk, conscientiousness, social constraints) that NAS derive from their shareholdings (see Chapter 3). To induce a movement along the Y-axis (see Figure 9), the desire for active participation has to be increased (movement upwards) or decreased (movement downwards). This dimension is influenced by the relative number of shares held by NAS and the level of (self)-perceived competence in business matters. In both cases trust is identified as a helpful facilitator.

Bearing this in mind, the management then has to assess the current corporate governance structure in order to identify possible levers that support a repositioning. As outlined above, the configuration of the family governance system provides structures that can influence the level of identification and emotional proximity (see section 3.4.1.1). The presence of information transparency, bi-directional communication processes and jointly
defined rules and values are said to have a positive influence on identification/emotional proximity (see Chapter 4). This can be operationalized and encouraged through a number of initiatives. I present some examples below.

In order to achieve information transparency, it is important that the reporting is structured and presented in a format that is suitable for the target audience. Simply distributing all kinds of financials and other company-related information to shareholders can quickly result in confusion rather than education. Moreover, the desire to be informed differs among NAS, so the reporting should be structured e.g. in three levels such as basic, advanced and expert information. Still, management should also ensure that all NAS have access to the same information upon request.

Moreover, the governance structure should enable bi-directional communication as NAS need to have a channel to express their views. Apart from the shareholders' meeting, regular (e.g. bi-monthly or quarterly) telephone conferences are one possible option for such a process. During these calls, the active management can also report on the main business-related topics, as a way of educating less financially well versed NAS. Another potential lever is the establishment of a dedicated family manager (ideally a NAS) who serves as relationship manager and information broker between the family and the business. If the shareholder structure is more dispersed, setting up a family council or more regular family gatherings are additional means that can serve this end. Finally, the establishment of a family office, offering shareholder services such as advice on tax or legal issues can support the integration and identification of NAS with the firm.

Apart from these structural considerations the firm should define jointly accepted rules and values. As social rules and values define what behavior by individuals is considered acceptable and what is not, it is recommended that firms agree on and document such rules. This can, depending on the topic, take the form of a legally binding
shareholder contract or a morally binding family charta$^{32}$. One main advantage here is that during the preparation and negotiation of such rules different viewpoints are expressed, discussed and reconciled, meaning that a consensus is reached by all shareholders. Typical topics that should be included in such a document are the leadership concept of the firm (family vs. external management), employment of family members, succession rules and the definition who qualifies as shareholder of the firm (Are spouses acceptable?). As these topics are common sources of disputes once they become relevant, clear and accepted rules avoid that severe strife ignites out of it. Moreover, clear rules and policies support and sustain system trust (Sundaramurthy 2008).

If a "repositioning" of the NAS is not necessary, I portend that the portfolio only gives a snapshot view of the situation, while the role selection of NAS is dynamic in nature and may change over time. Accordingly, managers may still want to assess the family governance structure and critically ask themselves if additional elements or initiatives might help to sustain the status quo. As mentioned above, if a generational change is due in the years ahead, the position of prospective shareholders should also be considered. Moreover, most initiatives unfold synergistic, overlapping effects as they indirectly affect the level of active participation by offering the necessary interfaces (see Chapters 3 and 4). Furthermore, they promote the emergence and sustainment of interpersonal- and system-trust which supports the sustainment of shareholder harmony and goal alignment (cf. Sundaramurthy 2008).

In some cases "repositioning" of NAS can also be unsuccessful. In this case, it is necessary to address goal incongruencies through alternative means. As some NAS have interests that diverge from those of the active management, they usually try to exert pressure on the firm and add authority to their goals. In such situations, the business

$^{32}$ Also referred to as family constitution.
governance system is of significant importance, because it determines how shareholders can influence the operating business. The board of directors plays a central role here, functioning as a structured nexus between the family and business dimensions. Apart from the usual tasks of controlling and advising (Heuvel et al. 2006), the board should be able to provide a mediating task. The composition of the board is crucial here, as it defines how influential the family will be and how dutiful the board can conduct this task. Consequently, the board should be dominated by external, independent directors. The effect of such a setup is threefold. First, the risk of creating a "follower board" that falls into line with the family shareholders with the largest stake is avoided. Second, the independence and authority of the board is needed to keep the risk of undesired emotional arguments under control and to balance and conciliate antithetic points of view. Third, outside directors can support the emergence of competence- and system-trust by providing access to external resources such as personal networks, expertise or information (Aronoff and Ward 1996; Schwartz and Barnes 1991; Sundaramurthy 2008).

Critical topics such as dividend payment schemes and exit regulations should be clearly defined, ideally in a legally binding structure such as the articles of association or partnership agreement. By doing so, the company avoids recurrent discussions and shareholders in later generations get a clear understanding of what they can expect of the firm and what the firm expects of them. Again, the existence of such rules supports the development and sustainment of system trust.

To summarize, what levers to pull depends on the particular situation and developmental stage of the corporate governance structure. In all cases managers should rank the initiatives and avoid trying to implement them all at once. While some initiatives, such as telephone conferences, can easily be implemented, others such as the establishment of a dedicated family manager or development of a family charter, are highly complex
processes requiring significant effort and time. This second step of the process in summarized in Figure 9.

5.4.3 Step 3: Implement measures
Adjusting the governance structure of a family firm is a sensitive exercise because it affects all dimensions of the family firm system. Accordingly, some basic rules should be considered during the implementation of such initiatives (see Figure 10).

![STEP 3: Implement measures](image)

**Figure 10: Step 3: Implement measures**

First, timing is critical. Initiatives have to be implemented before they become urgent and before everyone recognizes the necessity of making adjustments. As implementation requires resources in the form of time and money, managers might be reserved not seeing the direct benefit of such a project. However, once severe emotional rifts between shareholders exist, the negotiation and establishment of e.g. a family charta becomes hard, if not impossible. In such cases the relationships between shareholders may become unmanageable and the consultation of mediators or family therapists may prove to be of more value than trying to influence the relationships by redesigning the governance structure.
Second, managers should prioritize the initiatives according to complexity. Trying to implement all measures at once will likely result in the confusion and discontentment of all parties involved. Moreover, it is recommendable to start with basic steps, such as a family charta, and to define and agree on basic rules of interactions, values and the way family and business parties want to treat each other. Independent, neutral facilitators should be involved to avoid that some shareholders feeling shut out by others. Once such an agreement has been reached, additional structural initiatives (e.g. setting up official bodies such as a family council) and process-driven steps (e.g. shareholder reporting, telephone-conferences) can be added, building on this groundwork.

Third, when adjusting corporate governance structures, it is crucial to involve all relevant stakeholders. This may be time-consuming and exhausting, but it is the only way to get the support necessary for corporate governance to work. In fact, this process can require extensive amounts of time. One of the firms in which we conducted interviews to prepare for this study reported that it took them almost two years to finalize their family governance setup. Nevertheless, if individual shareholders or shareholder-groups feel passed over, the success of the whole project is at stake, showing that time and effort to include all shareholders will be well placed.

Finally, managers should not try to set the rules themselves. A more promising alternative is to propose a detailed concept that can be used as a suggestion and basis for discussion. The negotiations that follow might be strenuous, but managers should be aware that these iterations are not only part of the process, but already part of the result. For example, during the developmental phase of a family charta, everyone has to express their views and attitudes. In such situations it can be surprising how differently people can look

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33 As synonym for family constitution, family codex, family contract.
at the same thing. Consequently, these discussions are necessary in order to grow together, to define a common basis and to find consensus.

In summary, although the recommendations presented in this section cannot guarantee a successful outcome, they represent some basic do's and don'ts. Keeping them in mind will without doubt increase the likelihood of establishing a functioning governance structure that supports the improvement or maintenance of shareholder relationships.

5.5 Summary and discussion

This study adds to our understanding of family firms and in particular to the relationship between active shareholders and NAS and its implications for corporate governance. The critical role played by NAS within the family business system has recently been identified in the literature (Jaskiewicz et al. 2006; Vilaseca 2002). In particular the severe impact that potential conflicts between active shareholders and NAS can have for the continuity of the business have been emphasized (Harvey and Evans 1994; Eddleston and Kellermanns 2007). Despite this, a comprehensive theoretical model explaining the drivers and influencing factors as well as incorporating the role of corporate governance was missing.

In Chapters 3 and 4 I proposed such a model, suggesting that NAS engage in four generic roles associated with higher or lower levels of goal alignment with the active shareholders and thus resulting in higher or lower aptitudes for shareholder conflict. The role selection by NAS is influenced by their level of identification and active participation, two dimensions which are in turn influenced by the structure and design of the corporate governance system of the family firm. Building on these findings, the core contribution of this chapter is an extension of the theoretical construct incorporating the concept of trust and the translation of my propositions into a practitioner-oriented concept.
First, I find that the concept of trust supports my propositions and that most of the prescriptions concerning the design of the governance structure (i.e. information & transparency, bi-directional communication, jointly defined rules and values, external board members etc.) will have synergistic effects supporting also the development and sustainment of trust (Sundaramurthy 2008). This is of great importance as the level of identification trust, if not supported by other trust bases (i.e. competence-, system- trust), is likely to fade over time as the company grows, also affecting shareholder relationships. Moreover, the model combines PAT and ST proposing that low levels of identification and emotional proximity will result in a more agency-like environment, while high levels will result in a more stewardship-like environment. The concept of trust supports also this assessment: as PAT assumes per se a low level of goal alignment (Jaskiewicz and Klein 2007) and neglects the behavioral learning effect stemming from repeated social interaction, the emergence of trust is excluded from the model and PAT assumes suspicion and low levels of trust between shareholders. By contrast, ST assumes high levels of goal alignment (Jaskiewicz and Klein 2007) and accounts for the learning effect resulting from repeated social interaction, thereby integrating the concept of trust into the model and suggesting that it is one of the most important factors promoting a stewardship environment.

Second, my findings suggest that corporate governance influences the relationship between active shareholders and NAS. Accordingly, it is crucial for managers to understand the coherences between corporate governance and shareholder relationships when designing, reviewing or adjusting the system of corporate governance in their firms. For this reason I translate my findings into a three-step analysis process that is intended to provide practitioners with basic guidelines on how to apply the construct in practice. As family firms differ in their developmental stages with regard to the governance structure
and in order to keep my recommendations as universal as possible, I decided to propose an analysis process rather than a series of steps outlining what to implement first, what next, and so on. I do, however, provide a number of examples of concrete initiatives that could be implemented, pointing out how such a project is likely to affect the behavior of NAS. Keeping this in mind will enable managers to act in a targeted manner and shape the corporate governance in line with the needs of the firm.

5.6 Limitations and future research

The aim of this chapter of the study was to expand our understanding about the coherences between shareholder relationships and corporate governance in family firms and to derive recommendations for practitioners on how to manage the important relationship between active shareholders and NAS. As with all research, the study has a number of limitations, which I discuss below.

First, as mentioned above, family firms are heterogeneous constructs, making it unfeasible to derive all-encompassing step-by-step recommendations applicable to all family firms in every context. Therefore, I propose a standardized analysis process that is more universal and applicable to the majority of family firms.\(^34\) Still, as each model is per definition simplifying in its nature, so is mine and I cannot rule out that some recommendations fail to take all the contingency factors of individual cases into account. As such, I recommend that managers consider the respective context of their individual firm before acting.

Second, the sample used for the development of the framework, although considering different firm sizes, different industries and different degrees of ownership

\(^{34}\) At least to family firms with active shareholders and NAS.
dispersion, consists only of German firms. Though I have strong confidence that this sample is a good proxy for other Western cultures as well, I cannot preclude that the coherences presented behave differently in other cultural settings.

To summarize, the proposed three-step process is an initial attempt to provide managers with a ready-to-use analysis tool that enables them to actively manage shareholder relationships and to design an appropriate corporate governance structure. However, the framework does not give detailed prescriptions about e.g. the optimal size or frequency of meetings of all governance bodies. Nor does it implement direct connections between corporate governance or shareholder harmony and corporate performance of the family firm. Such topics would without doubt contribute to further refine the theory of corporate governance in family firms, and are useful avenues for future research.
6 Concluding remarks

The aim of this dissertation is to develop new insights into the important relationship between active shareholders and NAS in family firms and to derive implications for the corporate governance structure of these organizations.

To operationalize this goal, the study first reviews the current state of theory directed research into family firms and corporate governance (Chapter 2), before it investigates, analyses and interprets the empirical reality of family firms in order to derive new theoretical constructs that improve our understanding of the topic (Chapters 3 and 4). The resulting conceptual model has been consolidated into a set of fresh new propositions that are critically discussed in the context of existing theory. Finally, I translate the emerging framework into a practitioner-oriented three-step analysis process (Chapter 5) intending to operationalize the framework for the application in practice. The contents and results of each chapter are briefly summarized below.

Chapter 2 provides a comprehensive and exhaustive review of the prevailing theories in family business research and their implications for corporate governance. The review covers empirical articles published in different academic journals between 1964 and 2010 as well as books and dissertations published between 1957 and 2010. Overall the sample comprises of 235 publications including journal articles (82%), books (9%) dissertations (3%) and other sources (6%). The results indicate that a comprehensive theory of the family firm is missing and that the theory-based discussion of family firms is dominated by three commonly accepted frameworks being PAT, ST and RBV. On their own none of these frameworks explains either the specificities and dynamics of family firms in general, or the nature and dynamics of the relationship between active shareholders and NAS. Accordingly, existing theoretical constructs are unable to explain
why NAS follow complementing or conflicting objective functions as compared to their active counterparts and how corporate governance influences this relationship.

Based on the results of the literature review, Chapter 3 develops a theoretical explanation why NAS choose certain roles and how this role selection affects their objective functions. Based on the analysis of the empirical data gathered in seven case studies, I propose a conceptual framework suggesting that NAS engage in four generic roles being co-entrepreneurs, traditionalists, active investors and silent shareholders. For each role the framework indicates why and under which circumstances goal alignment or goal misalignment occurs and why, as a result, conflicts between active and NAS may arise. My results indicate that the role selection by NAS is influenced by the level of identification/emotional proximity and the desire for active participation on the part of the individual shareholders. The level of identification/emotional proximity is influenced by the emotional value (i.e. social status, reputation, feeling of belonging) and emotional costs (reputational risk, conscientiousness, social constraint) of the NAS, while the desire for active participation depends on the relative size of the shareholding of the NAS and their (self-) perceived level of competence.

Chapter 4 expands the analysis to include corporate governance. I find that corporate governance indeed influences the relationship between active shareholders and NAS by providing the boundary conditions for interactions between shareholders. It thus influences the role selection and role stability of NAS. The proposed construct suggests that family governance influences the dimension relevant for role selection by NAS and thus the level of goal alignment between active shareholder and NAS, unfolding a preemptive impact on conflict within the firm. By contrast, I propose that a well-defined business governance improves the willingness to engage in give-and-take, unfolding a curative effect on the conflict level within the firm. Moreover, the proposed model extends
the theoretical discussion of corporate governance in family firms by combining the perspectives of PAT and ST, suggesting that both may be equally valid for family firms, depending on the distribution of NAS among the different roles. Thus, PAT prescriptions are more applicable if shareholder relationships are characterized by a low level of identification and goal alignment, while ST finds application if the reverse is true. To summarize, these findings propose that corporate governance configuration can in fact influence the behavioral outcomes of family shareholders and therefore can be used to influence the level of goal alignment between active shareholders and NAS in family firms.

The proposed framework and associated insights have important implications for the management and governance of family firms with dispersed ownership structures. For this reason Chapter 5 offers some guidelines for practitioners. I summarize the proposed framework, slightly extending it by incorporating the concept of trust and translating it into a three-step-analysis process. This process can be used by managers to assess the level of goal alignment and the corresponding aptitude for conflict within their own firm, and to identify levers for adjusting corporate governance to tackle such situations.

The results of this dissertation indicate that the active management of shareholder relationships can affect the level of goal alignment and conflict within family firms and thereby provides important insights for the strategic management of family firms. Furthermore, the results indicate that the configuration of the corporate governance structure can be used as a tool to actively influence the role selection and role stability of NAS, which in turn leads to goal alignment or misalignment and lesser or greater propensity for conflict. The study thus contributes another piece of theory-directed research of the family firm. Moreover, active managers should also take the proposed coherences between corporate governance and shareholder relationships into account when
reviewing, adjusting or designing the governance structure of their firms. Therefore, the results are of equal interest, I believe, to both researchers and practitioners.

Looking forward, a deeper understanding about the performance implications of the proposed model and the large-scale empirical validation of the construct presented here, offer promising avenues for future research. Also replication studies might help to sharpen and refine propositions and conclusions. Nevertheless, the theoretical construct and empirical evidence presented in this dissertation may serve as points of orientation for future research in the field. As the ultimate goal of developing a comprehensive theory of the family firm has not yet been achieved, the field of family business research will remain an interesting and exciting area of research.
### Table 17: Overview of Journals in the review of the literature (Chapter 2)

<table>
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<th>% of sample</th>
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<tr>
<td>41</td>
<td>International Journal of Entrepreneurship and Small Business</td>
<td>1</td>
<td>0.5%</td>
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<tr>
<td>42</td>
<td>International Journal of Management Review</td>
<td>1</td>
<td>0.5%</td>
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<td>43</td>
<td>Journal of Banking and Finance</td>
<td>1</td>
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<td>44</td>
<td>Education and Training</td>
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<td>45</td>
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<td>46</td>
<td>Organizational Science</td>
<td>1</td>
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<td>47</td>
<td>IO New Management</td>
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<tr>
<td>48</td>
<td>International Journal of Entrepreneurship Behavior &amp; Research</td>
<td>1</td>
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<tr>
<td>49</td>
<td>Review of Financial Studies</td>
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<td>50</td>
<td>Sum</td>
<td>193</td>
<td>100%</td>
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### Table 18: Goals of active shareholders Cases A-D

<table>
<thead>
<tr>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Separation of roles</strong></td>
<td><strong>We are a corporation, there are clear role allocations</strong> - Family CEO</td>
<td><strong>These roles [business and family] are clearly separated</strong> - Family managing partner</td>
<td><strong>We are currently still in a state were no huge role-discrepancies exist. I don’t separate precisely whether I am acting in the shareholders’ meeting or in the TMT […]</strong> - Family managing partner</td>
</tr>
<tr>
<td><strong>My personal position is that I say, I have to be able to live on my salary even if the dividend is small. I have to organise myself in a way that I don’t get tempted to say I need the dividend</strong> - Family CEO</td>
<td><strong>My personal position is that I say, I have to be able to live on my salary even if the dividend is small. I have to organise myself in a way that I don’t get tempted to say I need the dividend</strong> - Family CEO</td>
<td><strong>The worst thing I could do is not to carry out my management duties with the necessary professionalism due to personal interests, because I would harm my economic interests far more by doing so than I would generate value for myself through this behaviour</strong> - Family managing partner</td>
<td><strong>The worst thing I could do is not to carry out my management duties with the necessary professionalism due to personal interests, because I would harm my economic interests far more by doing so than I would generate value for myself through this behaviour</strong> - Family managing partner</td>
</tr>
<tr>
<td><strong>Role in the business</strong></td>
<td><strong>Chairman of the board</strong></td>
<td><strong>Managing partner</strong></td>
<td><strong>Chairman of the board</strong></td>
</tr>
<tr>
<td><strong>My first role is the chairman of the board. In addition I am responsible for the complete commercial department. That means, regarding the interests of the shareholders I am also conversational partner e.g. for tax issues</strong> - Family CEO</td>
<td><strong>In my function as a managing director I have a normal contract, similar to the ones of my external management colleagues, which is negotiated with the board of directors</strong> - Family managing partner</td>
<td><strong>In my function as a managing director I have a normal contract, similar to the ones of my external management colleagues, which is negotiated with the board of directors</strong> - Family managing partner</td>
<td><strong>In my function as a managing director I have a normal contract, similar to the ones of my external management colleagues, which is negotiated with the board of directors</strong> - Family managing partner</td>
</tr>
<tr>
<td><strong>Role in the family</strong></td>
<td><strong>Family director</strong></td>
<td><strong>Family managing partner</strong></td>
<td><strong>(Relationship) Manager</strong></td>
</tr>
<tr>
<td><strong>Within the family clan that holds the majority stake in the firm, I am the oldest and therefore virtually automatically the family director</strong> - Family CEO</td>
<td><strong>In my role as a shareholder, I have […] a bridging function - a bridging function that has to ensure that the shareholders get the feeling that they are fully informed and integrated in the decisions to which they are entitled</strong> - Family managing partner</td>
<td><strong>That will have increasing importance [relationship management] in the future</strong> - Family managing partner</td>
<td><strong>In my role as the spokesman of the TMT […] I perceive myself as the one who also conducts shareholder relations management. However, I have aligned this shareholder relations management with the needs of my clientele, namely the family</strong> - Family spokesman of the TMT</td>
</tr>
</tbody>
</table>

*The family managing partner describes a situation in which the three brothers actively managing the firm hold 84% of the shares.*
### Table 19: Goals of active shareholders Cases E-G

<table>
<thead>
<tr>
<th>Role of Active Shareholders</th>
<th>Case E</th>
<th>Case F</th>
<th>Case G</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Role in the business</strong></td>
<td>&quot;There is one basic principle that has been drummed into us from our parents: The interest of the firm has priority over the interests of the family or individual interests.&quot; - Family chairman of the board (former managing partner)</td>
<td>&quot;I feel like a shareholder once a year, when the board of directors is relieved [...]. Otherwise, as a family entrepreneur you are concentrated on the managing the business and not to take the decisions that harm the business.&quot; - Family member of the board (former managing partner)</td>
<td>&quot;For me, the direction was always business first. Insofar I had never a conflict from the different roles.&quot; - Family managing partner</td>
</tr>
<tr>
<td><strong>Role in the family</strong></td>
<td>&quot;The second [dimension] is the profitable administration of the business. [...] You have to keep the family together.&quot; - Family chairman of the board (former managing partner)</td>
<td>&quot;I think the most important thing is the continuance of the business and safeguarding of the family influence.&quot; - Family member of the board (former managing partner)</td>
<td>&quot;I am managing director, I lead the meetings of the TMT, which are held once a week; I lead the strategy meetings and I prepare the meetings of the board of directors.&quot; - Family managing partner</td>
</tr>
</tbody>
</table>
| **Goal ranking**            | 1. Harmony & Freedom  
2. Growth & Profitability  
3. Continuance of the business  
4. Safeguarding of the family influence  
5. Payment of a dividend | 1. Continuance of the business  
2. Safeguarding of the family influence  
3. Harmony (integration NAS)  
4. Growth and profitability  
5. Payment of a dividend | 1. Continuance of the business  
2. Growth and profitability  
3. Safeguarding of the family influence  
4. Harmony (relationship management NAS)  
5. Payment of a dividend |

b The interviewee has been managing partner until 2005 and is now chairman of the board of directors.

c The interviewee has been managing partner until 31st of December 2010 and is now chairman of the board of directors.
Table 20: Overview of literature reviews on family businesses

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bammens et al. (2010)</td>
<td>Article</td>
<td>Boards of directors in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Performance effects of boards are unclear. Process factors should be considered in the research models. Future research should use multi-theory approaches.</td>
</tr>
<tr>
<td>Bird et al. (2002)</td>
<td>Article</td>
<td>Review of family business publications between 1997-2002</td>
<td>4 Journals (FBR, ET&amp;P, JBV, JSBM)</td>
<td>n= 148 articles between 1997-2002</td>
<td>Family business research has become increasingly empirical and rigorous. Family business research should either concentrate on and define a niche outside mainstream intellectual disciplines or infiltrate the mainstream by encouraging leading scholars to submit papers to large reknown venues for publication (i.e Academy of Management).</td>
</tr>
<tr>
<td>Chrisman et al. (2010)</td>
<td>Article</td>
<td>Review of 25 influential articles, published during 2004-2010</td>
<td>4 Journals (FBR, ET&amp;P, JBV, JSBM) accessed via Web of Science, SSCI</td>
<td>n=25 most cited articles</td>
<td>Further continue to draw on agency theory, resource-based theory as well as other theoretical approaches (i.e. stakeholder theory, institutional theory, and transaction cost theory) in order to develop a comprehensive theory of the family firm.</td>
</tr>
<tr>
<td>Chrisman et al. (2005)</td>
<td>Article</td>
<td>Review of important trends in the strategic management approach of studying family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Key to the development of a theory of the family firm is to examine whether existing theories of the firm can be applied to settings and specifications of family businesses. Especially (non-economic) utility-functions and family/business governance mechanisms should be investigated and theorized.</td>
</tr>
<tr>
<td>Debicki et al. (2009)</td>
<td>Article</td>
<td>Family business research 2001-2007</td>
<td>30 Management Journals</td>
<td>n= 291 articles</td>
<td>The most important journals for family business research are Family Business Review; Entrepreneurship, Theory &amp; Practice; Journal of Business Venturing and Journal of Small Business Management. The field is dominated by a relatively small number of scholars.</td>
</tr>
<tr>
<td>Dyer jr., Sanchez (1998)</td>
<td>Article</td>
<td>Family business research published in Family Business Review 1988–1997</td>
<td>FBR publications 1988-1997</td>
<td>n= 186 articles</td>
<td>FBR has made a significant contribution to the development of the field. The most important topics during the time of investigation have been interpersonal family dynamics and succession.</td>
</tr>
<tr>
<td>Hack (2009)</td>
<td>Article</td>
<td>Comparison of family vs. non-family businesses</td>
<td>n.a.</td>
<td>n=26 (empirical) studies on performance comparison</td>
<td>Family businesses differ in fundamental economic dimensions from non-family businesses, which justify the establishment of family business research as an independent field.</td>
</tr>
<tr>
<td>Handler (1989)</td>
<td>Article</td>
<td>Methodological issues in studying family businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Five methodological issues are critical to develop the field: defining the family firm, using process reporting, using self-scrutiny, alternatives to research based on individual consulting efforts and broadening the range of research methods.</td>
</tr>
<tr>
<td>Heck et al. (2008)</td>
<td>Article</td>
<td>Development of family business</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Before the 1980s not much attention was paid to family business research. Today academia has gained momentum and more and more books,</td>
</tr>
</tbody>
</table>
## Appendix I: Chapter 1 and 2

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sharma (2004)</strong></td>
<td>Article</td>
<td>Review of the literature based on the level of investigation (i.e. individual, interpersonal/group, organizational, societal/environmental level)</td>
<td>Based on previous papers of Chrisman, Sharma et al.</td>
<td>n=217 articles</td>
<td>Majority of research has been directed toward the individual or group levels, with only scant interest in the organizational level; accepted theories should be reexamined in the domain of family firms.</td>
</tr>
<tr>
<td><strong>Sharma et al. (1997)</strong></td>
<td>Article</td>
<td>Goals for further family business research</td>
<td>32 Journals between 1980-1994</td>
<td>n=204 articles</td>
<td>Family businesses are not a homogeneous group; family and business goals and strategies to achieve these goals are not always compatible.</td>
</tr>
<tr>
<td><strong>Witt (2008)</strong></td>
<td>Article</td>
<td>Corporate governance in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Corporate governance structures of family firms differ from non-family firms. Identity of ownership and control and independence from capital markets are a typical strength, while family influence and lacking control are, among others, typical weaknesses. Corporate governance in family firms should not only be based on PAT, but also involve altruism and stewardship-theory.</td>
</tr>
<tr>
<td><strong>Zahra, Sharma (2004)</strong></td>
<td>Article</td>
<td>Family business research</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Trends in family business research include: pursuit of few topics (e.g. succession), trend toward practice-oriented research methods, tendency to borrow from other disciplines without giving back, too little communication with researchers from other disciplines. Family business research has to advance to gain further theoretical grounding.</td>
</tr>
</tbody>
</table>
Table 21: Literature on the definition of family businesses

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Astrachan et al. (2002)</td>
<td>Article (Conceptual)</td>
<td>Development of the F-PEC scale of family influence</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Scholars should depart from a dichotomous definition of family business vs. non-family business and rather measure the degree of family influence on a continuous scale (the proposed F-PEC scale of family influence).</td>
</tr>
<tr>
<td>Chua et al. (1999)</td>
<td>Article (Empirical)</td>
<td>How to define a family business</td>
<td>Canadian Association of Family Enterprises (CAFE); Mailing lists; Deloitte &amp; Touche (Canada)</td>
<td>Convenience sample of n= 453 family firms</td>
<td>The definition of the family business should distinguish between a theoretical (essence) and an operational definition (i.e. components-of-involvement). The theoretical definition forms the standard against which operational definitions must be measured (essence-approach): empirical validation that component-of-involvement measures are weak predictors of family firm behavior.</td>
</tr>
<tr>
<td>Cliff, Jennings (2005)</td>
<td>Article (Conceptual)</td>
<td>Validity of the F-PEC Scale</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Comment on Klein et al. (2005): F-PEC scale helpful to push family business research forward.</td>
</tr>
<tr>
<td>Holt, Rutherford et al. (2010)</td>
<td>Article (Empirical)</td>
<td>Examination of the (construct) validity of the F-PEC Scale</td>
<td>2002 American Family Business Survey</td>
<td>n= 831 U.S. family firms</td>
<td>F-PEC is a valid and reliable scale to classify family businesses more precisely.</td>
</tr>
<tr>
<td>Klein, et al. (2005)</td>
<td>Article (Empirical)</td>
<td>Further validation of the introduced F-PEC scale of family influence</td>
<td>Hoppenstedt Database</td>
<td>n= 1,116 randomly selected companies</td>
<td>Shows empirically the (construct) validity and reliability of the F-PEC scale.</td>
</tr>
<tr>
<td>Martos (2007)</td>
<td>Article (Conceptual)</td>
<td>Development of a comprehensive definition for family businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Most important definition criteria for family business are the majority of the control-rights and the intention to keep the business in the family over generations.</td>
</tr>
<tr>
<td>Rutherford, et al. (2008)</td>
<td>Article (Empirical)</td>
<td>Examination of the link between “familiness” (family-involvement) and performance; empirical Validation of F-PEC scale</td>
<td>2002 American Family Business Survey</td>
<td>n= 831 U.S. family firms</td>
<td>“Familiness” shows associations with revenue, capital structure, growth, and perceived performance; however, relationships are both positive and negative. Family firms perform similar to non-family firms. F-PEC scale measures rather the “potential” than the “actual” family involvement.</td>
</tr>
<tr>
<td>Westhead, Howorth (2007)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Typologies of family businesses</td>
<td>Usage of a &quot;historical&quot; database from the UK</td>
<td>n= 237 private family companies with an age of &gt;10 years</td>
<td>Identification of six different conceptualized “types” of family firms depending on the degree of ownership dispersion and management involvement, of which four are empirically validated.</td>
</tr>
</tbody>
</table>
## Table 22: Literature on the performance of family businesses

<table>
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<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anderson, Reeb (2003)</td>
<td>Article (Empirical)</td>
<td>Relationship between founding family ownership and firm performance in large public firms</td>
<td>Compustat database</td>
<td>n= 403 nonutility/ nonbanking firms from the Standard &amp; Poors 500 firms as of December 31st 1992</td>
<td>Family firms perform better than non-family firms, the performance first increases with ownership but then decreases with increasing family ownership. Performance measures: return-on-assets, return on equity, Tobin’s Q. Family firms with family-member-CEO, perform better than family firms with outside CEO.</td>
</tr>
<tr>
<td>Habbershon et al. (2003)</td>
<td>Article (Conceptual)</td>
<td>Development of a unified systems model of performance that links the resources and capabilities generated in the enterprising families system with their potential for trans-generational wealth creation.</td>
<td>n.a</td>
<td>n.a</td>
<td>Family and business systems should be viewed from a unified systems perspective. Proposed model demonstrates how the systemic interactions of the family unit, business entity, and individual family members are linked to performance outcomes. Result: Family-influenced firms hold the potential for positive and synergistic outcomes.</td>
</tr>
<tr>
<td>Gallo, Vilaseca (1998)</td>
<td>Article (Empirical)</td>
<td>A financial perspective on structure, conduct, and performance in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Firm performance is not affected by whether the CFO is a family member or not. However, non-family CFOs can have a positive impact on performance when they are in a position to influence the strategic direction of a firm.</td>
</tr>
<tr>
<td>Jakiewicz et al. (2005)</td>
<td>Article (Empirical)</td>
<td>Examination of the long-run stock market performance of German and Spanish initial public offerings (IPOs) 1990-2000</td>
<td>Stock exchange statistics</td>
<td>n= 116 (95 German and 21 Spanish Family Business IPOs)</td>
<td>Three years after going public, investors, on average, realized an abnormal return of -32.8% for German and -36.7% for Spanish IPOs. Strong family involvement has a positive impact on the long-run stock market performance. (Usage of the F-PEC scale to define family businesses).</td>
</tr>
<tr>
<td>Klein et al. (2005)</td>
<td>Article (Empirical)</td>
<td>Corporate Governance, firm value and performance of family firms</td>
<td>Globe and mail &quot;Report on Business&quot;; Globinvestor.com</td>
<td>n= 263 Canadian firms</td>
<td>Not all elements of measured governance are important, and the effects of governance do differ by ownership category. No evidence that board independence has an effect on firm performance. In family firms the effect is even negative.</td>
</tr>
<tr>
<td>Kowaleski et al. (2010)</td>
<td>Article (Empirical)</td>
<td>Performance implications of family involvement</td>
<td>Annual statements, SEC filings</td>
<td>n= 217 public Polish companies</td>
<td>There is an inverted u-shaped relationship between the degree of ownership and firm performance. Firms with family CEO are likely to outperform their counterparts, increasing firm value.</td>
</tr>
<tr>
<td>Miller, Le Breton-Miller (2006)</td>
<td>Article (Conceptual)</td>
<td>Nature of publicly traded family business and explanation of their performance</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family businesses are very heterogeneous. They should reduce the degree to which they are exposed to agency costs and elicit stewardship-behavior of managers. &quot;This is most probable to occur when voting control requires significant family ownership, when there is a strong family CEO without complete voting control and accountable to independent directors, when multiple family members serve as managers, and when the family intends to...&quot;</td>
</tr>
<tr>
<td>Contribution</td>
<td>Type of Contribution</td>
<td>Research Focus</td>
<td>Data Source</td>
<td>Sample</td>
<td>Key Findings</td>
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<tr>
<td>Miller et al. (2007)</td>
<td>Article (Empirical)</td>
<td>Performance of family vs. non-family businesses</td>
<td>Compact Disclosure, Hoover’s, Compustat, Company’s Websites</td>
<td>n= 896 US firms with publicly avail. data 1996-2000 (Fortune 1000 + 100 random smaller firm)</td>
<td>Fortune 1000 companies with family management never outperform market; Only lone founder businesses outperform (Tobins Q as indicator). Neither first nor subsequent generation family businesses outperform other businesses. Performance varies greatly depending on the definition of family business.</td>
</tr>
</tbody>
</table>
### Table 23: Literature on ownership and control of family businesses

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claessens et al. (2000)</td>
<td>Article (Empirical)</td>
<td>Separation of ownership and control in East Asian Corporations</td>
<td>Worldscope 1998 database, Different ownership handbooks issued by the local stock exchanges</td>
<td>n= 2,980 East Asian corporations</td>
<td>Separation of ownership and control is most pronounced among family-controlled firms and small firms. More than two-thirds of firms are controlled by a single shareholder. Older firms are most often family-controlled, contradicting the notion that ownership becomes dispersed over time. Ownership structures are often characterized by pyramids and cross-holdings, calling for a reassessment of the relation between ownership and performance based on ultimate ownership.</td>
</tr>
<tr>
<td>Daily, Thompson et al. (1994)</td>
<td>Article (Empirical)</td>
<td>Relationship between ownership structure and strategic posture</td>
<td>North American Heating and Air Conditioning Wholesalers Association</td>
<td>n= 122 questionnaires</td>
<td>Family firms are identified by their ownership structure. Strategic posture does not differ based on the ownership structure of a firm.</td>
</tr>
<tr>
<td>Daily, Dollinger (1992)</td>
<td>Article (Empirical)</td>
<td>Ownership structure in family and professionally managed firms</td>
<td>Harris Indiana Industrial Directory (1988)</td>
<td>n= 101</td>
<td>Although not statistically relevant, there are apparent performance advantages for family firms. Family firms have significantly fewer formal internal control systems.</td>
</tr>
<tr>
<td>Faccio, Lang (2002)</td>
<td>Article (Empirical)</td>
<td>Analysis of the ultimate ownership and control of Western European companies</td>
<td>Worldscope, Official Stock Exchange date (e.g. Comision Nacional del Mercado de Valores, Spain)</td>
<td>n= 5,232 publicly listed firms in 13 Western Europe</td>
<td>Overall 44% of firms within the sample are family-controlled against 37% that were considered to be widely held.</td>
</tr>
<tr>
<td>Klein (2000)</td>
<td>Article (Empirical)</td>
<td>Relevance of family businesses in the German economy</td>
<td>Hoppenstedt, German Trade Register</td>
<td>n= 1,085 German businesses</td>
<td>&quot;...ownership, rather than governance or management, is the key to differentiating family from non-family businesses&quot;. German family businesses influence their firms via family members on the advisory board or board of management. Approximately 58% of all business with sales &gt; 1 m EUR are family businesses in Germany.</td>
</tr>
<tr>
<td>Lee, O’Neill (2003)</td>
<td>Article (Empirical)</td>
<td>Ownership structures and R&amp;D investments in U.S. and Japanese firms</td>
<td>SIC-Codes, Japan Company Handbook (JCH)</td>
<td>n= 1,314 (1,044 U.S., 270 Japanese firms)</td>
<td>Stock concentration is positively related to R&amp;D-to-sales ratio in the U.S. (which is considered an agency-dominated governance system). In Japan (considered a stewardship-like governance environment), an increasing concentration of ownership does not lead to higher R&amp;D expenditures. Multiple measures and perspectives PAT/stewardship should be combined in future research.</td>
</tr>
<tr>
<td>Contribution</td>
<td>Type of Contribution</td>
<td>Research Focus</td>
<td>Data Source</td>
<td>Sample</td>
<td>Key Findings</td>
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</tr>
<tr>
<td>Morck et al. (1988)</td>
<td>Article (Empirical)</td>
<td>Relationship between managerial ownership and market valuation (Tobins Q)</td>
<td>Corporate Data Exchange, Griliches R&amp;D Master File (1980), S&amp;P</td>
<td>n= 371 Fortune 500 companies</td>
<td>Potential agency problems exist between owners, who have varying capabilities to extract benefits from the firm at the expenses of overall performance. Performance rises as ownership increases from very small levels to levels below 5%, decreases between 5-25% and afterwards increases, if ownership grows above 25%.</td>
</tr>
<tr>
<td>Randoy, Goel (2003)</td>
<td>Article (Empirical)</td>
<td>Ownership structure, leadership and performance of Norwegian SMEs</td>
<td>Oslo Stock Exchange</td>
<td>n= 68 publicly traded Norwegian SMEs</td>
<td>Firms under founder-leadership, and those that are not, face very different agency contexts, especially with regard to financing entrepreneurial opportunities. Financing costs for founder-led firms are lower due to their ability to exploit their low agency cost status and use their board as insiders for strategic purposes.</td>
</tr>
<tr>
<td>Villalonga, Amit (2009)</td>
<td>Article (Empirical)</td>
<td>Control of U.S. firms</td>
<td>Compustat, SEC (Security and Exchange Commission), Edgar database, Thompson research</td>
<td>n= 515 U.S. firms</td>
<td>Founding families are the only blockholders, whose control rights on average exceed their cash flow rights. While pyramidal ownership is uncommon in the U.S., dual-class shares and voting agreements among shareholders are the primary sources for this wedge.</td>
</tr>
<tr>
<td>Villalonga, Amit (2006)</td>
<td>Article (Empirical)</td>
<td>Effect of ownership, control and management on firm value</td>
<td>Compustat, SEC (Security and Exchange Commission)</td>
<td>n= 508 publicly traded firms (of which 193 are family firms)</td>
<td>Family ownership creates value only when the founder serves as CEO or as chairman in cooperation with a hired CEO. However, dual shares, pyramids and voting agreements reduce founder premium. When descendants serve as CEOs firm value is diminished.</td>
</tr>
<tr>
<td>Contribution</td>
<td>Type of Contribution</td>
<td>Research Focus</td>
<td>Data Source</td>
<td>Sample</td>
<td>Key Findings</td>
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<tr>
<td>Ang et al. (2000)</td>
<td>Article (Empirical)</td>
<td>Agency costs and ownership structure</td>
<td>FRB/NSSBF (National Survey of Small Business Finances) database</td>
<td>n= 1,708 small corporations</td>
<td>Agency costs (i) are (significantly) higher when an outsider rather than an insider manages the firm; (ii) are inversely related to the manager's ownership share; (iii) increase with the number of non-manager shareholders, and (iv) to a lesser extent, are lower with greater monitoring by banks.</td>
</tr>
<tr>
<td>van den Berghe, Carchon (2003)</td>
<td>Article (Conceptual)</td>
<td>Optimal contracts for family firm agency relationships</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Agency theory establishes the foundation for the optimal contract conditions between principal and agent dependent on their individual agency characteristics (altruism vs. agency). No conflicts will arise (i.e. no governance mechanisms are necessary to monitor and discipline the agent in his job) when the wage paid to the agent (son) fully reflects the distribution of risk between the principal (father) and the agent (son).</td>
</tr>
<tr>
<td>Blanco-Mazagatos et al. (2007)</td>
<td>Article (Conceptual)</td>
<td>Trade-off between agency cost and financial resources in family firms</td>
<td>Iberian Balance Sheets Analysis System database</td>
<td>n= 654 firms (477 family business, 177 non-family business)</td>
<td>First generation family businesses enjoy lower agency costs (through establishment of efficient relationships between the resource owners) that balance the negative effect of scarce financial structure. After descendants join the firm, the increasing agency costs are compensated by the enlargement of the firm’s financial structure.</td>
</tr>
<tr>
<td>Chrisman et al. (2007b)</td>
<td>Article (Commentary)</td>
<td>Introduction to a special issue of Journal of Business Research 2007</td>
<td>n.a.</td>
<td>n = 10 articles of the special issue</td>
<td>Multi-level analyses are necessary in order to get a more integrated understanding of the family firm.</td>
</tr>
<tr>
<td>Chrisman et al. (2004)</td>
<td>Article (Conceptual)</td>
<td>Are agency costs in family business higher or lower than in non-family businesses?</td>
<td>Small Business Development Center (Small privately held U.S. family and non-family firms)</td>
<td>n= 1,141 (survey based)</td>
<td>Agency costs can be efficiently applied to small, privately held family and non-family businesses.</td>
</tr>
<tr>
<td>Chua et al. (2009)</td>
<td>Article (Conceptual)</td>
<td>Agency theoretic analysis of the professionalized firm</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Agency costs could be higher for professionalized family firms. Asymmetric altruism may result in overpayment of family managers relative to their effort and ability. Non-family managers are motivated to lower their commitment to the professionalized family firm by a general sense of injustice and the underpayment of incentives due to the underestimation of their contributions to firm performance.</td>
</tr>
<tr>
<td>Corbetta, Salvato (2004a)</td>
<td>Article (Commentary)</td>
<td>Commentary on Chrisman et al. (2004): Are agency costs in family business higher or lower than in non-family businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Differences in organizational performance are not driven by family involvement or lack thereof, but by the prevalence of agency or stewardship relationships within the firm, whatever the degree of family involvement.</td>
</tr>
<tr>
<td>Contribution</td>
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<tr>
<td>Dyer, Sanchez (2006)</td>
<td>Article (Conceptual)</td>
<td>The family effect on firm performance</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Agency costs depend on the &quot;type&quot; of family firm. Four types are proposed: the clan family, the professional family firm, the mom &amp; pop family firm and the self-interested family firm. Each type has individual characteristics and is more or less exposed to agency costs.</td>
</tr>
<tr>
<td>Eisenhardt (1989a)</td>
<td>Article (Conceptual)</td>
<td>Assessment and review of the agency theory</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Agency theory provides a unique, realistic and empirically testable perspective on problems and cooperative efforts.</td>
</tr>
<tr>
<td>Fama, Jensen (1983a)</td>
<td>Article (Conceptual)</td>
<td>Explanation of the survival of organizations characterized by separation of ownership and control</td>
<td>n.a.</td>
<td>n.a.</td>
<td>An Organization is seen as the nexus of contracts. (1) Separation of residual risk-bearing from decision management (initiation, implementation) leads to decision systems that separate decision management from decision control (ratification, monitoring). (2) Combination of decision management and decision control in a few agents leads to residual claims that are largely restricted to these agents.</td>
</tr>
<tr>
<td>Fama, Jensen (1983b)</td>
<td>Article (Conceptual)</td>
<td>Special features of the residual claims of different organizational forms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The characteristics of residual claims distinguish organizations from one another. Controlling of the agency problems is a key to ensure survival of the organization. Characteristics of the residual claims impact their ability to control agency costs. Companies with more than 50% ownership stake have a hard time surviving.</td>
</tr>
<tr>
<td>Gomez-Mejia et al. (2007)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Risk attitude and CEO tenure in (small) family businesses</td>
<td>Government mandated registries</td>
<td>n= 1,237 Olive Oil mills from Spain</td>
<td>Family businesses distinguish between performance risk and venturing risk. Performance risk is influenced by the socioemotional wealth they extract from being independent owners. Preservation of this ownership leads in turn to risk aversion toward venturing. Thus family businesses can be risk averse and risk willing at the same time.</td>
</tr>
<tr>
<td>Habbershon (2006)</td>
<td>Article (Commentary)</td>
<td>Commentary on Karra et al. (2006)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Introduction of the eco-system framework, suggesting that agency costs associated with family firms can be both higher and lower, depending upon the organizational circumstances. When organizations grow more complex, firms have to make the transition from unbounded to bounded family-influenced relationships and governance practices.</td>
</tr>
<tr>
<td>Hendry (2002)</td>
<td>Article (Conceptual)</td>
<td>Expansion of agency theory: Introduction of the concept of honest incompetence</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Even under the assumption of stewardship behavior, agency cost may arise due to honest incompetence of the agent. The principal might try to mitigate these costs through guidance or training.</td>
</tr>
<tr>
<td>Holström (1979)</td>
<td>Article (Conceptual)</td>
<td>Moral hazard and observability</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Any imperfect information about actions or the character of the agent can be used to improve contracts between principal and agent.</td>
</tr>
<tr>
<td>Contribution</td>
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<tr>
<td>Jensen, Meckling (1976)</td>
<td>Article (Conceptual)</td>
<td>Theory of the firm: managerial, behavior, agency costs and ownership structure</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Agency relationship is a contract under which the owner (principal) engages another person (agent) to perform some service for him, while delegating some decision-making authority to the agent. If both are utility maximizers, there are good reasons for the agent to act not always in the interest of the principal. Agency costs are the sum of monitoring costs by the principal, bonding costs of the agent and the residual loss.</td>
</tr>
<tr>
<td>Lubatkin et al. (2007b)</td>
<td>Article (Conceptual)</td>
<td>Justice-based assessment of agency costs in family businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Whether or not these firms are able to leverage their family-based advantages is contingent on the CEO’s self-control. Justice-based theory implies that agent’s value fairness and will only act opportunistically if they feel provoked by unfair treatment. Perceptions of injustice, whether caused by improper implementation of procedures or unfair distribution of outcomes, increase a firm’s agency costs.</td>
</tr>
<tr>
<td>Morck, Yeung (2004)</td>
<td>Article (Conceptual)</td>
<td>Family control and the effects of potential rent-seeking society</td>
<td>n.a.</td>
<td>n.a.</td>
<td>A high level of trust within an elite promotes political rent-seeking, which retards growth. Within large influential families a high level of trust might incentivize family members to engage in political rent-seeking rather than managing the operating business.</td>
</tr>
<tr>
<td>Morck, Yeung (2003)</td>
<td>Article (Conceptual)</td>
<td>Agency problems in large family groups</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family businesses may not always be a positive contributor to the economy of a nation, because family firms in most countries (except US and UK) are organized in large pyramidal structures that lead to agency problems such as tunneling, moral hazard and entrenchment.</td>
</tr>
<tr>
<td>Ross (1973)</td>
<td>Article (Conceptual)</td>
<td>Agency problems and utility functions under uncertainty</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The solution to the principal’s problem will not be pareto-efficient. Summarizing for an interesting class of utility functions and for a very broad and relevant class of payoff structures, the need to motivate agents does not conflict with the attainment of pareto efficiency.</td>
</tr>
<tr>
<td>Schulze et al. (2003a)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>The effect of ownership dispersion on the use of debt</td>
<td>Arthur Andersen Center for Family: American Family Business Survey (1995)</td>
<td>n= 1,464 (Field study)</td>
<td>A curvilinear relationship exists with both high and low levels of ownership dispersion and the use of debt. Altruism, over-investment, hold-up and free riding give rise to both owner-manager and owner-owner agency costs. Problems are most severe if ownership is distributed equally among a small number of family members.</td>
</tr>
<tr>
<td>Schulze et al. (2003b)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Effect of ownership dispersion on the use of debt</td>
<td>Arthur Andersen Center for Family: American Family Business Survey (1995)</td>
<td>n= 883 large, established, family-owned and controlled corporations</td>
<td>In certain situations the family’s welfare is positively related to the use of pay-incentives for family managers due to altruism on the part of the owner-CEO. There is a positive relationship between firm performance and pay incentives, when CEOs plan to sell the firm, when share-transfer plans have been communicated and if the time of transfer is close rather than distant.</td>
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### Contribution

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<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
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</thead>
<tbody>
<tr>
<td>Schulze et al. (2002)</td>
<td>Article (Conceptual)</td>
<td>Agency costs in businesses with unified ownership and control</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The agency costs of ownership are not eliminated by family owner-management. Altruism is problematic since it adds to the self-control problems that accompany owner-control and owner-management in family firms.</td>
</tr>
<tr>
<td>Schulze et al. (2001)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Agency costs in family businesses</td>
<td>Arthur Andersen Center for Family: American Family Business Survey (1995)</td>
<td>n= 883 large, established, family-owned and controlled corporations</td>
<td>Private ownership, owner management or family management does not eliminate the agency costs of ownership. Family businesses have different sources of agency costs. Introduction of the concepts of self-control and altruism.</td>
</tr>
<tr>
<td>Zellweger, Astrachan (2008)</td>
<td>Article (Conceptual)</td>
<td>Emotional value of owning a firm</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Most family firms deliberately strive for a mix of pecuniary and non-pecuniary performance outcomes. The value of the business for the owner consists of financial and socioemotional aspects. The emotional value is the difference between emotional benefit (e.g. social status) and emotional costs (e.g. role conflicts).</td>
</tr>
<tr>
<td>Contribution</td>
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<tr>
<td>Bergstrom (1989)</td>
<td>Article (Conceptual)</td>
<td>Household utility functions</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The Rotten Kid theorem is not true without assuming transferable utility. Bergstrom finds a &quot;condition on utility functions that is necessary and sufficient for there to be the kind of transferable utility needed for a Rotten Kid theorem.&quot;</td>
</tr>
<tr>
<td>Chami (2001)</td>
<td>Article (Conceptual)</td>
<td>Microeconomic assessment of the differences of family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Trust is one factor that distinguished successful and unsuccessful family firms. To develop trust, a high level of mutual (reciprocal) altruism is necessary.</td>
</tr>
<tr>
<td>Karra et al. (2006)</td>
<td>Article (Empirical)</td>
<td>Impact of altruism in family firms</td>
<td>Single case study &quot;Neroli&quot;</td>
<td>n.a.</td>
<td>Altruism has the potential to align the interests of family members and to reduce agency costs in the family firm, providing it is reciprocal and symmetrical. However, there are limits to altruism as family businesses become larger and more mature (shirking, free-riding and adverse selection re-occur).</td>
</tr>
<tr>
<td>Keller-manns, Eddleston (2004)</td>
<td>Article (Conceptual)</td>
<td>Positive aspects of (task-, process-, and relationship-) conflicts within family businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Moderate levels of task- and process-conflict benefit the family business. High levels of reciprocal altruism are negatively related to relational conflicts. The degree of relational conflicts in turn determines whether the positive aspects of (medium) levels of task- and process conflict are advantageous.</td>
</tr>
<tr>
<td>Ling, et al. (2002)</td>
<td>Article (Conceptual)</td>
<td>Utility functions of altruism and agency in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Altruism does not necessarily lead to higher agency costs. If the owner's utility function is based on a long-term perspective, family agents tend to display less opportunistic behavior (with increasing degree of the owner's altruism).</td>
</tr>
<tr>
<td>Lubatkin et al. (2005)</td>
<td>Article (Conceptual)</td>
<td>Parental altruism and governance in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Altruism combined with private ownership affects the individual’s ability to exercise self-control.</td>
</tr>
<tr>
<td>Lubatkin et al. (2007a)</td>
<td>Article (Conceptual)</td>
<td>&quot;Types&quot; of altruism in family businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Based on self-other relationships, five types of parental altruism are found that might help explain the variance in efficiency of family firm governance.</td>
</tr>
<tr>
<td>Stark, Falk (1998)</td>
<td>Article (Conceptual)</td>
<td>Transfer, empathy formation and reverse transfer</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Altruism and exchange are possibly intertwined. &quot;A lower recipient's income may be positively correlated with a seemingly altruistic transfer because such an income is associated with a stronger sense of gratitude&quot;.</td>
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### Table 26: Literature on entrenchment in family businesses

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<th>Contribution</th>
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<th>Research Focus</th>
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<tbody>
<tr>
<td>Claessens et al. (2002)</td>
<td>Article (Empirical)</td>
<td>Effects of entrenchment on large company's valuation</td>
<td>Worldscope</td>
<td>n= 1,301 east Asian publicly traded companies</td>
<td>Firm value increases with the cash-flow ownership of the largest shareholder, but falls when the control rights of the largest shareholder exceed its cash-flow ownership, consistent with an entrenchment effect. Hence, the difference between control rights and cash-flow rights is associated with a value discount (generally increasing with the size of the wedge between control rights and cash-flow rights).</td>
</tr>
<tr>
<td>Faccio, et al. (2001)</td>
<td>Article (Empirical)</td>
<td>Expropriation of minority shareholders via dividend payments (comparison Europe vs. Asia)</td>
<td>Worldscope (1992-1996), National stock exchanges</td>
<td>n= 5,897 corporations</td>
<td>Dividends remove corporate resources from the control of insiders. Group-affiliated corporations in Europe pay higher dividends than in Asia, thereby dampening insider expropriation. Dividend rates are higher in Europe, but lower in Asia, when there are multiple large shareholders, suggesting that they dampen expropriation in Europe, but exacerbate it in Asia.</td>
</tr>
<tr>
<td>Gomez-Mejia et al. (2001)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Management entrenchment in family businesses</td>
<td>Registry of newspapers; Media guide of Spain; Oficina de justificacion de la difusion</td>
<td>n= 276 newspapers form Spain between 1966-1993</td>
<td>Differences exist between family-related and non-family-related contracts (control mechanisms work differently). Besides agency problems due to altruism, family businesses suffer from owner-owner agency problems due to a likely divergence of interests between the owner-CEO and other shareholders.</td>
</tr>
<tr>
<td>Hillier, McColgan (2005)</td>
<td>Article (Empirical)</td>
<td>Performance, entrenchment and succession in family firms</td>
<td>London Stock Exchange, Annual reports</td>
<td>n= 545 listed companies</td>
<td>Family firms are characterized by higher levels of board control and weak internal governance. Stock prices react favorably and performance improves upon the replacement of a family-CEO by a non-family CEO supporting the hypotheses of managerial entrenchment.</td>
</tr>
<tr>
<td>Johnson et al. (2000)</td>
<td>Article (Conceptual)</td>
<td>(Possible) Expropriation of minority shareholders within different legal systems</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Even in developed countries, tunneling activities can be substantial. Most tunneling activities are legal (asset transfers at nonmarket prices, pledging of assets as collaterals).</td>
</tr>
<tr>
<td>Oswald et al. (2009)</td>
<td>Article (Empirical)</td>
<td>Influence of large stakeholder control on performance: Agency or entrenchment?</td>
<td>Arthur Andersen/ Mass Mutual American Family Business Survey (AFBS) 1997</td>
<td>n= 2,631</td>
<td>There is a statistically negative relation between the percentage of family control and sales growth and an inverse relationship between the percentage of family controlling the top management and all other financial measures.</td>
</tr>
<tr>
<td>Walsh, Stewart (1990)</td>
<td>Article (Conceptual)</td>
<td>Efficiency of internal and external control mechanisms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Internal organizational-based or external market-based control mechanisms can be used to align interests of managers and shareholders. Both can be compromised through entrenchment practices of the management.</td>
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Table 27: Literature on stewardship theory in family businesses

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<th>Contribution</th>
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</thead>
<tbody>
<tr>
<td>Chrisman et al. (2007a)</td>
<td>Article (Empirical)</td>
<td>Prevalence of agency or stewardship structures in family businesses</td>
<td>Small Business Development Center</td>
<td>n = 208 firms (survey based)</td>
<td>Consistent with agency theory, family firm owners monitor and provide incentives to family firm managers and doing so improves family firm performance.</td>
</tr>
<tr>
<td>Davis et al. (1997)</td>
<td>Article (Conceptual)</td>
<td>Further development of the stewardship theory</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The propositions of agency theory may not apply in all situations. Managers choose to behave as agents or stewards based on their psychological motivation and perception of the situation. For example in situations in which the managerial philosophy is based on involvement and trust and the culture is based on collectivism and low power distance, a principal-steward relationship is favored.</td>
</tr>
<tr>
<td>Donaldson, Davis (1991)</td>
<td>Article (Empirical)</td>
<td>Effect of CEO duality on the shareholder performance</td>
<td>Standard and Poor’s Compustat Services Inc.</td>
<td>n= 321 U.S. corporations</td>
<td>Agency theory would call to separate the duties of CEO and chairman of the board; stewardship in contrast would favor the dual CEO role as CEO and chairman of the board. As measured by ROE (Return on equity) some, although not statistically significant, evidence is found in favor of the stewardship theory for the US sample.</td>
</tr>
<tr>
<td>Eddleston, Kellermanns (2007)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Impact of family relations and interactions on family firm performance (Stewardship theory)</td>
<td>Family business centers and associated contacts of two universities in the US</td>
<td>n= 107 questionnaires from 60 family businesses</td>
<td>Negative relationship between relationship conflict and performance. Altruism was found to significantly reduce relationship conflict and enhance a participative strategy process. However, control concentration was not significantly related to relationship conflict or a participative strategy process.</td>
</tr>
<tr>
<td>Le Breton-Miller, Miller (2009)</td>
<td>Article (Conceptual)</td>
<td>Reconciliation of agency- and stewardship-theory in public family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The embeddedness-perspective is suitable to reconcile agency and stewardship perspectives. The embeddedness of the firm within the social system of family and the actor (e.g. owner/ manager) within the social system of family determines whether a more agency-like behavior (family-focus) or a more stewardship-like behavior (business-focus) emerges; Modes of embeddedness include structural, cognitive, political and cultural-normative dimensions.</td>
</tr>
<tr>
<td>Miller et al. (2008)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Comparison of the stewardship and stagnation perspectives of family businesses</td>
<td>Small business specific local databases in Manitoba, Saskatchewan, Alberta and British Columbia</td>
<td>n= 676 family firms with &lt; 100 employees</td>
<td>Stewardship in family businesses can be observed in three forms: (1) assuring the longevity and continuity of the business for the long-run benefit of family members, (2) creating a community culture an (3) creating strong connections with outside stakeholders; Empirical test shows stronger support for stewardship perspective than stagnation view.</td>
</tr>
<tr>
<td>Pierce et al. (2001)</td>
<td>Article (Conceptual)</td>
<td>Psychological ownership in organizations</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Under certain conditions organizational members can start to develop feelings of ownership toward the organization and various organizational factors. Psychological ownership answers the question “What do I feel is mine?” and it is different from other concepts like commitment, identification and internalization.</td>
</tr>
</tbody>
</table>
### Table 28: Literature on the RBV of family businesses (general)

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aldrich, Cliff (2003)</td>
<td>Article (Conceptual)</td>
<td>Effect of the family on entrepreneurial decisions</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family and business should not be treated as separate institutions, but rather a family embeddedness perspective should be applied. Through this connection, demographic changes in family structure also affect the emergence of new business opportunities, opportunity recognition, business start-up decisions and the resource mobilization process. The founder’s social ties strongly impact the firm’s resource base.</td>
</tr>
<tr>
<td>Barney (1991)</td>
<td>Article (Conceptual)</td>
<td>Firm resources and competitive advantage</td>
<td>n.a</td>
<td>n.a</td>
<td>There are four empirical indicators that describe the potential of resources to generate a sustainable competitive advantage. Resources should be valuable, rare, inimitable and nonsubstitutable.</td>
</tr>
<tr>
<td>Carney (2005)</td>
<td>Article (Conceptual)</td>
<td>Relationship between form of governance and competitive advantage in family controlled firms</td>
<td>n.a</td>
<td>n.a</td>
<td>Identification of three unique attributes of family governance: (1) parsimony (because owners spend their own money), (2) personalism (unconstrained decision making), (3) particularism (idiosyncratic criteria in decision making). Attributes enable family business to better compete in scarce environments and make better use of social capital.</td>
</tr>
<tr>
<td>Eddleston et al. (2008a)</td>
<td>Article (Empirical)</td>
<td>Resource configurations in family firms</td>
<td>Mailing list of two north American universities</td>
<td>n= 74 privately held businesses</td>
<td>Family firm specific resources (e.g. reciprocal altruism) and family relationships can lead to competitive performance. Since resources must be integrated and deployed effectively strategic management serves as a moderating variable. Strategic planning is more important for firms that lack innovative capabilities.</td>
</tr>
<tr>
<td>Graves, Thomas (2004)</td>
<td>Article (Empirical)</td>
<td>Internationalization of family businesses</td>
<td>Business Longitudinal Survey (BLS), Australian Bureau of Statistics (ABS)</td>
<td>n= 9,731 SMEs from Australia</td>
<td>Family firms are less likely to internationalize as compared to non-family firms. Furthermore, family firms are less likely to engage in networks or cooperation with other firms.</td>
</tr>
<tr>
<td>Habbershon, Williams (1999)</td>
<td>Article (Conceptual)</td>
<td>Application of the RBV to family business</td>
<td>n.a</td>
<td>n.a</td>
<td>The bundles of resources that are distinctive to a firm as a result of family involvement are identified as the “familiness” of the firm. The RBV offers a new framework to assess the specific behavioral and social phenomena within a firm that provide competitive advantages.</td>
</tr>
<tr>
<td>Horton (1986)</td>
<td>Article (Conceptual)</td>
<td>Managing a family way</td>
<td>n.a</td>
<td>n.a</td>
<td>Family firms have the advantage of high congruency between the values of the family and those which guide the company’s actions. The relationship with external management and succession are the main challenges for family firms.</td>
</tr>
<tr>
<td>Contribution</td>
<td>Type of Contribution</td>
<td>Research Focus</td>
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<td>Sample</td>
<td>Key Findings</td>
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<tr>
<td>Kellermanns (2005)</td>
<td>Article (Commentary)</td>
<td>Family firms resource management</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The model of Sharma, Manikutty (2005) is extended by designing a longitudinal model. Resource evaluation decisions in family firms are subject to unique psychodynamic influences. The bias is influenced by family involvement, ownership, family management and transgenerational sustainability.</td>
</tr>
<tr>
<td>Le Breton-Miller, Miller. (2006)</td>
<td>Article (Conceptual)</td>
<td>Competitive advantages of family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Due to lower agency costs, family firms will generate resources that are available to pursue long-term strategies. Thus family firms are more likely to pursue long-term strategies and thereby are able to build up competitive advantages (e.g. through development of human capital, social capital or relationship capital).</td>
</tr>
<tr>
<td>Sharma, Manikutty (2005)</td>
<td>Article (Conceptual)</td>
<td>Divestment decisions in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Community culture and family structure affect the strategic divestment-decisions in family firms. Family firms controlled by community families, valuing the authority of the senior generation and equality among siblings are likely to be slow in their ability to make divestment decisions. If those firms reside in collectivistic community cultures divestment inertia is even stronger.</td>
</tr>
<tr>
<td>Sirmon, Hitt (2003)</td>
<td>Article (Conceptual)</td>
<td>Linkage of unique resources and management to wealth creation</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Proposal of a resource-management process model consisting of three components (resource inventory, resource bundling and resource leveraging); Family firms must continuously build their resource bundles and leverage them to achieve a competitive advantage and to create wealth.</td>
</tr>
<tr>
<td>Teece et al. (1997)</td>
<td>Article (Conceptual)</td>
<td>Dynamic capabilities and strategic management</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The dynamic capabilities framework refers to sources of wealth-creation and -capture in environments with rapid change. Identifying new opportunities and shaping organization and processes to exploit them might be more important than strategizing.</td>
</tr>
<tr>
<td>Zahra et al. (2004)</td>
<td>Article (Empirical)</td>
<td>Entrepreneurship and organizational culture in (non-) family firms</td>
<td>Mail survey n= 536 U.S. manufacturing companies</td>
<td>The strategic resource of organizational culture can lead family firms to gain a competitive advantage. There is a nonlinear relationship between the cultural dimension of individualism and entrepreneurship. In addition there are positive linear relationships between external orientation, decentralization, long-term orientation and entrepreneurship. These effects are stronger in family firms.</td>
<td></td>
</tr>
<tr>
<td>Zahra et al. (2007)</td>
<td>Article (Empirical)</td>
<td>Moderating role of family in knowledge sharing and technological capabilities</td>
<td>Compustat research insights n= 209</td>
<td>Family involvement moderates the effect of formal and informal knowledge sharing on technological capabilities of the firm. The number of generations involved in the business strengthens both formal and informal knowledge sharing mechanisms, while the percentage of family managers in the TMT strengthens the informal knowledge sharing mechanisms.</td>
<td></td>
</tr>
</tbody>
</table>
Table 29: Literature on human capital in family businesses

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
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<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covin (1994)</td>
<td>Article (Explorative)</td>
<td>Employment preferences in family owned firms</td>
<td>College in the southeast of the U.S.</td>
<td>n= 225 (under-) graduate students</td>
<td>Study participants indicated a strong preference to work for their own family business as compared to other organizations. However, they indicated a very low preference to work for family businesses that are not their own. Hence, recruitment of non-family members may be particularly difficult.</td>
</tr>
<tr>
<td>Davis (1983)</td>
<td>Article (Conceptual)</td>
<td>Potential of family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Consensus sensitivity (based on trust) is the predominant paradigm for the sentient system in the family business and gives rise to consensus-sensitive organizing principles. High levels of commitment and sense of purpose lead to countervailing advantages.</td>
</tr>
<tr>
<td>Dunn (1995)</td>
<td>Article (Conceptual)</td>
<td>Family firms in Scotland</td>
<td>Contacts acquired during workshop</td>
<td>n= 10 Interviews</td>
<td>When dealing with family firms, the family component cannot be ignored. Success is defined differently by family firms and also includes non-financial aspects e.g. employing family members. Values include &quot;job as a birthright&quot; although firms acknowledge that this might lead to suboptimal performance.</td>
</tr>
<tr>
<td>Reid, Harris (2002)</td>
<td>Article (Empirical)</td>
<td>Human resources in family firms (training)</td>
<td>CRANET (Survey on International strategic HR management)</td>
<td>n= 212 (questionnaires from Northern Ireland)</td>
<td>The existence of HR functions affect the amount of resources spent for training purposes in SMEs. Whether the firm is family-owned or -managed is a major factor determining the budgets spent on training.</td>
</tr>
</tbody>
</table>
### Table 30: Literature on social capital in family businesses

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Arregle et al. (2007)</td>
<td>Article (Conceptual)</td>
<td>Development of organizational social capital in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family social capital affects how organizational social capital is built (through organizational identity, rationality, HR practices, social network overlaps etc.).</td>
</tr>
<tr>
<td>Cabrera-Suarez et al. (2001)</td>
<td>Article (Conceptual)</td>
<td>Succession from a resource-based and knowledge-based view</td>
<td>n.a</td>
<td>n.a.</td>
<td>Family firms have some distinctive assets such as commitment, trust, reputation, know-how which can lead to competitive advantages based on the tacitness of the knowledge which is embedded in these resources. The tacit knowledge of the founder is a strategic asset which should be passed on to succeeding generations.</td>
</tr>
<tr>
<td>Coleman (1988)</td>
<td>Article (Conceptual)</td>
<td>Introduction of the concept of social capital</td>
<td>n.a</td>
<td>n.a.</td>
<td>Social capital is embodied in the relations among people. Three forms are identified: obligations and expectations, depending on the trustworthiness of the social environment, information-flow capability of the social structure and norms accompanied by sanctions.</td>
</tr>
<tr>
<td>Das, Teng (1998)</td>
<td>Article (Conceptual)</td>
<td>Developing trust in partner cooperation</td>
<td>n.a</td>
<td>n.a.</td>
<td>Cooperation leads to competitive advantages. Trust and control are two alternative sources to develop confidence in cooperation and strategic alliances. Trust building techniques include: risk taking, equity preservation, communication and interfirm adaptation; key control mechanisms are: goal setting, structural specifications and organizational culture blending.</td>
</tr>
<tr>
<td>Hoffman et al. (2006)</td>
<td>Article (Conceptual)</td>
<td>Family capital</td>
<td>n.a</td>
<td>n.a.</td>
<td>Family firms are able to achieve a competitive advantage from family capital. Family capital has many traits of social capital, but describes only the relationships of the core family.</td>
</tr>
<tr>
<td>Pearson et al. (2008)</td>
<td>Article (Conceptual)</td>
<td>Social capital perspective of familiness</td>
<td>n.a</td>
<td>n.a.</td>
<td>Unique behavioral and social resources that constitute familiness have not been identified and the nomological net of familiness has not been conceptualized. Structural, cognitive and relationship dimensions of social capital serve as unique behavioral and social resources that constitute familiness.</td>
</tr>
</tbody>
</table>
### Table 31: Literature on patient and survivability capital in family businesses

<table>
<thead>
<tr>
<th>Contribution</th>
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<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harris et al. (1994)</td>
<td>Article (Conceptual)</td>
<td>Strategy in family-owned businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Although the strategic management process is similar for family and non-family firms, the family affects strategy formulation and implementation. (characteristics include: inward orientation, long-term orientation, less capital intensive, caring for employees, loyalty etc.).</td>
</tr>
<tr>
<td>Haynes, et al. (1999)</td>
<td>Article (Empirical)</td>
<td>Intermingling of family and business finances</td>
<td>Household sample purchased from Survey Sampling</td>
<td>n= 673 business owning households</td>
<td>The use of family resources in business is more likely, if the firm is a sole proprietorship, has debt and the owner is older without children. Family use of business resources is more likely, if the firm is incorporated, located in rural areas or small towns and borrows money.</td>
</tr>
<tr>
<td>McConaughy, Phillips (1999)</td>
<td>Article (Empirical)</td>
<td>Differences between founder-controlled and descendant-controlled family firms</td>
<td>Business Week, Compustat, n= 147 family firms (large public)</td>
<td>Founder-controlled firms grow faster and invest relatively more in capital assets and R&amp;D than firms controlled by descendants or relatives of the founder. Consistent with life-cycle theory, older descendant-controlled firms are more profitable. They are more concerned with maintaining the business and thus follow rather long-term strategies.</td>
<td></td>
</tr>
<tr>
<td>Tagiuri, Davis (1992)</td>
<td>Article (Conceptual)</td>
<td>Goals of successful family firms</td>
<td>Owner President Management (OPM) - program</td>
<td>n= 74 questionnaires</td>
<td>Owner managers of family firms usually have a broad set of goals, which they need to structure and communicate clearly in order to influence the behavior of people within the organization. Among the most important goals are the aims to protect the manager and his family against financial adversities and to gain esteem and respect in his/her community.</td>
</tr>
</tbody>
</table>
Table 32: Literature on corporate governance in family businesses (general)

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bartholomeusz, Tanewski (2006)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Relations between family control and corporate governance structure</td>
<td>Australian Stock Exchange, Datastream</td>
<td>n= 100 firms of which 50 are family firms</td>
<td>Family firms utilize substantially different corporate governance structures from non-family firms and these differences lead to performance differentials. Indeed, results suggest that family control creates, rather than negates, agency costs.</td>
</tr>
<tr>
<td>Bettermann (2009)</td>
<td>Article (Conceptual)</td>
<td>Corporate governance in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The design of the corporate governance structures depends on the life-cycle of the firm: entrepreneurial stage, sibling partnership, collaborative stage, listed family business.</td>
</tr>
<tr>
<td>Blair (2007)</td>
<td>Article (Conceptual)</td>
<td>Theoretical foundations of corporate governance</td>
<td>n.a.</td>
<td>n.a.</td>
<td>If shareholders are accepted to bear the residual risk and to be the residual claimants, advisory boards are important governance elements serving as substitutes for direct monitoring by shareholders. However, today corporations should be seen as &quot;wealth-creating machines with a social purpose of maximizing wealth&quot;.</td>
</tr>
<tr>
<td>Daily et al. (2003)</td>
<td>Article (Conceptual)</td>
<td>Review of corporate governance discussion</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Corporate governance mechanisms and their influence on e.g. firm performance are not simple and direct, but rather complex and indirect. In order to push research forward, multiple theoretical perspectives should be applied.</td>
</tr>
<tr>
<td>Dalton (2003)</td>
<td>Article (Empirical)</td>
<td>Meta-analysis equity holdings and financial performance</td>
<td>229 studies</td>
<td>Meta-analysis of 1,880 bivariate correlations</td>
<td>Meta-analyses provide few examples for systematic relationships between equity holding (by CEO, officer, director, institutional, blockholding) and firm performance, lending little support for PAT. Different theories should be applied in future research.</td>
</tr>
<tr>
<td>Eisenmann-Mittenzwei (2006)</td>
<td>Dissertation (Explorative)</td>
<td>Corporate governance in family firms</td>
<td>Hoppenstedt</td>
<td>n= 370 questionnaires</td>
<td>Family governance (family council, family constitution) is still uncommon in Germany. Main tasks of family councils include mediation between shareholders, mediation between shareholder and management, support of the management and succession.</td>
</tr>
<tr>
<td>Huse (2005)</td>
<td>Article (Conceptual)</td>
<td>Boards, Governance and value creation</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Corporate governance and the role and tasks of boards have been investigated from different strategic perspectives, of which none is superior. All of these frameworks explain parts of the governance issues. Insofar a combination of theories might help to gain a comprehensive understanding.</td>
</tr>
<tr>
<td>Jaskiewicz et al. (2006)</td>
<td>Article (Empirical)</td>
<td>Governance-Competence in SMEs</td>
<td>INTES-Academy</td>
<td>n= 182 questionnaires</td>
<td>Non-active shareholders are of significant importance in family firms. Non-active shareholders have a strong control-influence in their firms and usually have the necessary qualification/education to exert their control power.</td>
</tr>
<tr>
<td>Klein (2009)</td>
<td>Article (Conceptual)</td>
<td>Corporate governance in family firms (introduction of the complexity theorem)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family firms are heterogeneous and need specific corporate governance structures. The complexity theorem states that the optimal level of governance is the point where the complexity of the firm (sum of the subsystems of family, ownership, business and governance) equals the complexity of the corporate governance system.</td>
</tr>
<tr>
<td>Contribution</td>
<td>Type of Contribution</td>
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</tr>
<tr>
<td>Klein (2008)</td>
<td>Article (Conceptual)</td>
<td>Corporate governance in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family firms are heterogeneous and need specific corporate governance structures. Family governance is a main difference between family and non-family firm. Independent boards are less established in family businesses than in non-family businesses. PAT and stewardship complement each other.</td>
</tr>
<tr>
<td>Lubatkin (2007)</td>
<td>Article (Conceptual)</td>
<td>Theory of corporate governance</td>
<td>n.a.</td>
<td>n.a.</td>
<td>PAT as a governance theory is incapable of capturing the complexities of organizations. PAT is not generalizable, since it was developed to explain problems in &quot;large-for-profit organizations operating in developed markets with widely-diversified shareholdings&quot;.</td>
</tr>
<tr>
<td>McCollom (1988)</td>
<td>Article (Conceptual)</td>
<td>Interaction of family and business system</td>
<td>Field research, data gathered from 1 company</td>
<td>n.a.</td>
<td>In the case study family and business systems achieve a stable equilibrium. “Viewed separately, the business and the family systems were flawed, viewed as parts of a larger interacting system, they were complementary”. Equilibrium between family and business system is crucial for success.</td>
</tr>
<tr>
<td>Mustakallio et al. (2002)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Influences of contractual (formal control) and relational (social control) governance mechanisms on strategic decision-making processes in family firms</td>
<td>Family Business Network Finland</td>
<td>n= 192 family firms form Finland</td>
<td>The unique ownership structures enable family businesses to maintain two systems of governance that combine both contractual and relational aspects. (Main findings: shared vision is positively associated with strategic decision quality and commitment; the intensity of the board’s counseling activity is positively associated with the quality of strategic decisions reached).</td>
</tr>
<tr>
<td>Navarro, Ansón (2009)</td>
<td>Article (Empirical)</td>
<td>Corporate Governance structures of family and non-family firms</td>
<td>Madrid Stock Exchange</td>
<td>n= 132 Spanish firms of which 66 are family firms</td>
<td>Family firm boards show different characteristics. Different ownership patterns do not affect corporate governance structures. Family firm boards are biased toward insiders.</td>
</tr>
<tr>
<td>Shleifer, Vishny (1997)</td>
<td>Article (Conceptual)</td>
<td>Corporate governance systems</td>
<td>n.a.</td>
<td>n.a.</td>
<td>A good corporate governance system should combine some type of large investors with legal protection of both their rights and the rights of small minority shareholders.</td>
</tr>
<tr>
<td>Sundara-murthy; Lewis (2003)</td>
<td>Article (Conceptual)</td>
<td>Control and collaboration in corporate governance</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Evaluation of control and collaboration as means of corporate governance using PAT and stewardship theory. Control and collaboration approaches are not either/or but rather need to be balanced according to the situational context of the firm.</td>
</tr>
<tr>
<td>Zahra (2007)</td>
<td>Article (Conceptual)</td>
<td>Embeddness framing of governance and opportunism</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Corporate governance assessments are based on PAT. However, a comprehensive investigation should also pay attention to social aspects and environmental (i.e. national) frameworks.</td>
</tr>
</tbody>
</table>
Table 33: Literature on corporate boards in family businesses

<table>
<thead>
<tr>
<th>Contribution</th>
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<tbody>
<tr>
<td>Anderson, Reeb (2004)</td>
<td>Article (Empirical)</td>
<td>Board composition in S&amp;P 500 firms</td>
<td>Compustat database</td>
<td>n = 403 of which 141 with family ownership of avg. 17.9%</td>
<td>Most valuable firms are those, in which independent directors are on the board balancing family representation. In family firms there is a positive relationship between performance and board independence. Independent directors minimize conflicts between shareholder groups with diverging interests.</td>
</tr>
<tr>
<td>Arosa et al. (2010)</td>
<td>Article (Empirical)</td>
<td>Board composition and firm performance</td>
<td>Spanish non-listed family firms</td>
<td>n.a.</td>
<td>Affiliated directors have a positive impact on firm performance in family firms. Independent board members have a positive impact on performance when the firm is run in the first generation. In second and subsequent generations independent board members have no performance effect.</td>
</tr>
<tr>
<td>Chen (2010)</td>
<td>Article (Empirical)</td>
<td>Optimal board monitoring in family businesses</td>
<td>Compustat, Annual reports</td>
<td>n= 185 Asian companies (of which 100 are family-owned)</td>
<td>At moderate levels of board monitoring there is a concave relationship between board monitoring variables and firm performance. The optimal level of independence in the underlying sample is 38% and includes separation of chairman and CEO position and establishment of audit and remuneration committees.</td>
</tr>
<tr>
<td>Corbetta, Salvato (2004b)</td>
<td>Article (Conceptual)</td>
<td>Board of directors in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Board roles and characteristics vary among company types and countries. Board characteristics are a reflection of a firm’s power, experience and cultural makeup. Therefore, board configurations in family firms should consider the contingencies derived from family involvement.</td>
</tr>
<tr>
<td>Dalton et al. (1998)</td>
<td>Article (Empirical)</td>
<td>Meta-analyses of 54 empirical studies on board composition and 31 empirical studies on board leadership structure</td>
<td>54 empirical studies on board composition and 31 empirical studies on board leadership structure</td>
<td>n= 40,160 (board composition); n= 12,915 (board leadership structure)</td>
<td>The analysis of the sample suggests that there is no significant relationship between board composition or board leadership structure and performance.</td>
</tr>
<tr>
<td>Dalton et al. (1999)</td>
<td>Article (Empirical)</td>
<td>Meta-analysis number of directors and financial performance</td>
<td>27 studies</td>
<td>Meta-Analysis of 131 samples (n= 20,620)</td>
<td>Based on meta-analysis, there is a positive, nonzero board size-corporate performance relationship. Firm size moderates this relationship.</td>
</tr>
<tr>
<td>Eisenberg et al. (1998)</td>
<td>Article (Empirical)</td>
<td>Board size and firm value</td>
<td>Asia-kastieto Oy, Department of Trade and Manufacturing</td>
<td>n= 879 Finnish SMEs</td>
<td>There is a significant negative relationship between board size and profitability in Finnish SMEs, supporting the hypothesis that problems in communication and coordination also apply to smaller boards and businesses.</td>
</tr>
<tr>
<td>Fiegner et al. (2000)</td>
<td>Article (Empirical)</td>
<td>Adoption of outside boards in small private US firms</td>
<td>Cross-industry mail survey</td>
<td>n= 3,070 respondents</td>
<td>Outside boards are more likely if more equity is held by individuals outside the firm, if the CEO is older or if he plans not to implement an inter-family transition of leadership. Outside boards are primarily adopted to satisfy desires of external owners and only secondarily for service and resource benefits.</td>
</tr>
<tr>
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<tr>
<td>Heuvel et al. (2006)</td>
<td>Article (Empirical)</td>
<td>Role of boards in SMEs</td>
<td>Family business database, mail survey</td>
<td>n= 286 Belgian family firm</td>
<td>Boards in SMEs perform two major roles: control and service. CEOs in SMEs perceive the service role as more important than the control role.</td>
</tr>
<tr>
<td>Hermelin, Weisbach (2003)</td>
<td>Article (Conceptual)</td>
<td>Boards of directors as endogenously determined institutions</td>
<td>n.a.</td>
<td>n.a.</td>
<td>&quot;Boards of directors are an institution that has arisen endogenously in response to the agency problems inherent in governing any organization.&quot; Board composition is not related to corporate performance (in large publicly traded companies).</td>
</tr>
<tr>
<td>Hillmann Dalziel (2003)</td>
<td>Article (Conceptual)</td>
<td>Boards of directors and firm performance</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Boards of directors have two important functions: monitoring and providing resources. Agency theory states that monitoring is a function of board incentives, while resource dependency theory sees that the provision of resources is a function of board capital. Board capital affects both monitoring and provision of resources and is moderated through board incentives.</td>
</tr>
<tr>
<td>Jaskiewicz, Klein (2007)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Impact of goal alignment on board composition and board size</td>
<td>Companies listed at the German Trade Register</td>
<td>n= 351 family businesses, random sample</td>
<td>Goal alignment leads to significantly smaller board sizes and different board compositions. However, both goal alignment and complexity of the firm seem to determine the right mixture of board composition and board size.</td>
</tr>
<tr>
<td>Jensen (1993)</td>
<td>Article (Conceptual)</td>
<td>Failure of internal control systems</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The internal control systems have failed to cope with the demands derived from a changing environment (modern industrial revolution). Therefore, it will be a challenge for Western firms and political systems to address these issues. (Boards effectiveness tends to decrease with increasing size - inverted u-shaped relation).</td>
</tr>
<tr>
<td>Johannisson and Huse (2000)</td>
<td>Article (Empirical)</td>
<td>Selection process of board members</td>
<td>Interviews with 12 family firms from Sweden</td>
<td>12 family businesses</td>
<td>The selection process of board member depends on the ideology in the family firm. Entrepreneurial firms avoid outside directors, managerial firms welcome outside directors, paternally run family firms are ambivalent.</td>
</tr>
<tr>
<td>Johnson et al. (1996)</td>
<td>Article (Literature Review)</td>
<td>Boards of directors (in nonfamily firms)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Little consistence regarding the relationship between board composition (and other attributes) and financial performance. More (standardized) research necessary (e.g. standardized performance measure variables).</td>
</tr>
<tr>
<td>Klein (2005)</td>
<td>Article (Conceptual)</td>
<td>Advisory boards in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Advisory boards are either able to efficiently advise or to efficiently control, because successful advice demands a high degree of trust and competence, as well as a high degree of interest congruency.</td>
</tr>
<tr>
<td>Koebeler-Schmid et al. (2009)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Performance implications of board demographics/characteristics</td>
<td>Hoppenstedt, Bureau van Dijk Amadeus, Database of a Business</td>
<td>n=117</td>
<td>Advisory boards in Germany have the tasks of controlling, advising, networking and maintaining family relationships. The degree of control has a statistically positive influence on performance. However, the maintenance of family relationships through the advisory board</td>
</tr>
<tr>
<td>Contribution</td>
<td>Type of Contribution</td>
<td>Research Focus</td>
<td>Data Source</td>
<td>Sample</td>
<td>Key Findings</td>
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<tr>
<td>Lane et al. (2006)</td>
<td>Article (Conceptual)</td>
<td>Family business boards of directors</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family firms have specific demands toward corporate governance, because they follow a control- and not a market-model of governance. Larger board sizes lead to higher accountability in the control-model. Introduction of four governance models depending on shareholder activism and number of shareholders.</td>
</tr>
<tr>
<td>Lange (2009)</td>
<td>Article (Conceptual)</td>
<td>Boards in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Boards are important elements of the corporate governance structure in family firms. They can take either a stronger control function or a stronger service (i.e. advice) function. Duties and responsibilities have to be defined in the bylaws of the company (for the German GmbH).</td>
</tr>
<tr>
<td>Long (2005)</td>
<td>Article (Empirical)</td>
<td>Role of non-executive directors in listed and unlisted boards</td>
<td>n.a.</td>
<td>n= 25 (semi-)structured interviews</td>
<td>On unlisted boards, directors have a stronger influence on strategic development, financial monitoring, shareholder communication and overall contribution. Influence on monitoring, executive remuneration, appointment and removal of executives and succession is stronger on listed boards.</td>
</tr>
<tr>
<td>Minichilli et al. (2009)</td>
<td>Article (Empirical)</td>
<td>Board task performance</td>
<td>Large Italian companies, Data-stream, Aida</td>
<td>n= 301 questionnaires</td>
<td>Commitment of the board members has a strong impact on task performance. Firm and industry context exert a significant impact on task performance. Predictors have different impacts on specific sets of tasks. Board design should consider several contingencies at the firm and individual levels.</td>
</tr>
<tr>
<td>Nicolsen, Kiel (2007)</td>
<td>Article (Empirical)</td>
<td>Impact of directors on performance</td>
<td>Purposive theoretical sampling (annual reports, board papers)</td>
<td>n= 7 case studies</td>
<td>PAT, stewardship and resource dependence theory each explain particular cases, but none of them the general pattern. Process variables need to be taken into consideration. While each theory matches for a specific case, none matched for all cases. Conditions necessary for each theory to hold should be investigated.</td>
</tr>
<tr>
<td>Oxelheim, Randoy (2003)</td>
<td>Article (Empirical)</td>
<td>Impact of foreign (Anglo-American) board membership on firm value</td>
<td>Annual reports</td>
<td>n= 225 Swedish and Norwegian traded companies</td>
<td>Anglo-American board members exert stricter corporate monitoring. Anglo-American board members have a significantly positive impact on traded Swedish and Norwegian firms. If cross-listing is considered, Anglo-American board members may be a low cost alternative to increase firm value and reduce cost of capital.</td>
</tr>
<tr>
<td>Pearce, Zahra (1992)</td>
<td>Article (Empirical)</td>
<td>Board composition</td>
<td>Direct mailings</td>
<td>n= 119 Fortune 500 companies</td>
<td>Board composition is determined and influenced by the environment, corporate strategy and past performance. The size of the board and the number of outsiders reflects the effort to reduce environmental uncertainty, ensuring strategic excellence and correcting poor past performance. The number of external directors is seen as a measure of board independence.</td>
</tr>
<tr>
<td>Voordeekers et al. (2007)</td>
<td>Article (Empirical)</td>
<td>Board composition in SMEs</td>
<td>Family-business database</td>
<td>n= 211 Belgian family firms</td>
<td>Board composition in family firms is a reflection of objectives and characteristics of the family. &quot;Family-related contingency variables are far more important than CEO-related or control variables.&quot;</td>
</tr>
<tr>
<td>Contribution</td>
<td>Type of Contribution</td>
<td>Research Focus</td>
<td>Data Source</td>
<td>Sample</td>
<td>Key Findings</td>
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<tr>
<td>Whisler (1988)</td>
<td>Article (Conceptual)</td>
<td>The role of the board</td>
<td>n.s.</td>
<td>n.a.</td>
<td>The role of the board depends on company size and developmental stage. Smaller firms do better without an outside director, larger firms do better with an outside director.</td>
</tr>
<tr>
<td>Yermack (1996)</td>
<td>Article (Empirical)</td>
<td>Board size and market valuation</td>
<td>Forbes Magazine</td>
<td>n= 452 industrial U.S. corporations</td>
<td>There is an inverse relation between firm value (measured by Tobin’s Q) and board size in the sample of major U.S. companies.</td>
</tr>
<tr>
<td>Zahra, Pearce (1989)</td>
<td>Article (Literature Review)</td>
<td>Boards of directors and corporate financial performance</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Review of research on boards from the legalistic, resource dependence, class hegemony and agency-perspective. Results about the relationships between boards and performance are unclear. The relationship could also be indirect. In general there is need for further research.</td>
</tr>
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</table>
Table 34: Literature on family governance in family businesses

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample Size</th>
<th>Key Findings</th>
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</thead>
<tbody>
<tr>
<td>Angus (2005)</td>
<td>Article (Conceptual)</td>
<td>Family governance system</td>
<td>n.a.</td>
<td>n.a.</td>
<td>A family governance system develops in three phases: chaos, coordination, cohesion. A family council should be formed in the coordination phase in order to give the governance a structure. Family governance has to constantly adapt to changing needs and circumstances of the family.</td>
</tr>
<tr>
<td>Davis, Herrera (1998)</td>
<td>Article (Conceptual)</td>
<td>Family shareholder behavior</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family shareholder group is relatively unexplored. Social psychology theory might help to explain why family shareholders behave as they do. Concepts include group cohesion, conformance, and diffusion of responsibility, deindividuation, and social power.</td>
</tr>
<tr>
<td>Gallo, Kenyon-Rouvinez (2005)</td>
<td>Article (Conceptual)</td>
<td>Family businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Discussion of key issues on family firms. Good governance and organization of the family e.g. via family council helps to promote transparency, clarity and trust and lead to more successful businesses.</td>
</tr>
<tr>
<td>Koeberle-Schmid (2008a)</td>
<td>Article (Conceptual)</td>
<td>Family business governance</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family business governance systems differ from the system of non-family firms. External governance factors (capital markets, manager markets etc.) have different effects on family firms. The main elements of the internal governance system are the shareholders meeting, the TMT, the advisory board and a family representation. Heterogeneity of family firms leads to a different (ideal) configuration of family business governance (conceptualization).</td>
</tr>
<tr>
<td>Koeberle-Schmid, Nützel (2003)</td>
<td>Article (Explorative)</td>
<td>Family business governance</td>
<td>Intes Academy, Buraeu van Dijk, Amadeus, Hoppenstedt</td>
<td>n=117 German family firms</td>
<td>Advisory boards fulfill the tasks of controlling, advising, networking and maintenance of the family relationship intensely. Family councils fulfill the tasks of influencing the family business, safeguarding of family cohesion and maintaining family ownership intensively.</td>
</tr>
<tr>
<td>Koeberle-Schmid (2008b)</td>
<td>Dissertation (Empirical)</td>
<td>Family business governance</td>
<td></td>
<td></td>
<td>Corporate governance structures depend on the “type” and life-cycle of the firm. Controlling owners should start early to establish mechanisms that help to mitigate the challenges of leadership succession. The complexity of the governance structure should grow with the complexity of the company.</td>
</tr>
<tr>
<td>Lange (2010)</td>
<td>Article (Conceptual)</td>
<td>Family governance codex and family constitution</td>
<td>n.a.</td>
<td>n.a.</td>
<td>A general corporate governance codex for family firms is likely to fail due to the heterogeneity of family firms. However, a family constitution is an effective measure to safeguard the success of a family firm and to professionalize the way the family is influencing the business.</td>
</tr>
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</table>
### Appendix I: Chapter 1 and 2

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
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<tbody>
<tr>
<td>May (2007)</td>
<td>Article (Conceptual)</td>
<td>Family strategy</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The development process for a family strategy must consider the following steps: (1) Development should involve an external moderator, (2) the results of the process should be open, (3) the process has no determined time frame, (4) several workshops should be used, (5) workshops should involve shareholders and family members (6) the final results should be written down in a family constitution, (7) the process is finalized when all prerequisites defined in the family constitution are implemented.</td>
</tr>
<tr>
<td>Stöhlker, Tiberini (2005)</td>
<td>Article (Conceptual)</td>
<td>Family councils</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family councils are platforms in which different opinions and attitudes of family members are discussed and (hopefully) resolved. In this regard, family councils help to mitigate potential conflicts among shareholders.</td>
</tr>
<tr>
<td>Suaré, Santana-Martin (2004)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Family business governance</td>
<td>14 regional family firm associations throughout Spain</td>
<td>n= 112 Spanish family firms</td>
<td>Approximately half of the members of the board tend to be insiders and more than two-thirds are family members (average size is 6 compared to 4 in Italy and the U.S.). Family firms have a very low degree of board regulation by formal rules and family governance systems are hardly developed.</td>
</tr>
<tr>
<td>Uhlaner (2006)</td>
<td>Article (Conceptual)</td>
<td>Family business from a team-theoretic perspective</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family firms have either a stronger business or family orientation and differ in regard to group cohesion and performance-norms. Family orientation can have positive effects on market strategy, workflow, employee relations, government/community relations, resource acquisition and technical mastery. However, overemphasis and absence of business orientation will lead to inferior performance.</td>
</tr>
<tr>
<td>Ward (2004)</td>
<td>Article (Conceptual)</td>
<td>Family business governance</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family governance develops over time and gains higher importance with dispersion of ownership. Main task of family governance is to ensure the cohesion within the family through creation and updating of family and ownership policies, and renewing intangible assets of ownership, trust and commitment.</td>
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Table 35: Literature on conflict in family businesses

<table>
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<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
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<tr>
<td>Degadt (2003)</td>
<td>Article (Conceptual)</td>
<td>Competing values of family and business</td>
<td>Center of Economics and Ethics Catholic University of Louvain</td>
<td>n= 1,032 Belgian Entrepreneurs (501 from agriculture and 531 from outside agriculture) with less than 50 employees</td>
<td>The objectives and values of the family business and the respective family can be complementary and also conflicting. Owners and family members take different roles within the business and family dimension in order to account for the different demands of business and family.</td>
</tr>
<tr>
<td>Eddleston, et al. (2008b)</td>
<td>Article (Empirical)</td>
<td>Impact of participative decision making on conflict in family firms with dispersed ownership</td>
<td>Mailing list of two university business centers</td>
<td>n= 86 family members; n= 37 family firms</td>
<td>When ownership is dispersed through multiple generations, participative decision-making is found to be positively related to cognitive and relationship conflict; However, in one- and two-generation ownership firms participative decision-making was found to be negatively related to cognitive and relationship conflict.</td>
</tr>
<tr>
<td>Fabis (2009)</td>
<td>Article (Conceptual)</td>
<td>Conflicts in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The usual legal instruments to mediate conflicts are not suitable for family firms. Family governance consisting of family constitution, family councils are useful means to address conflicts.</td>
</tr>
<tr>
<td>Harvey, Evans (1994)</td>
<td>Article (Conceptual)</td>
<td>Multiple levels of conflicts in family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Each state of development (life-cycle) of family firms will encounter conflict. Once the systems of family, business and external stakeholders overlap and start to stimulate conflict, resolution becomes hard. Conflict resolution techniques should be coordinated according to the complexity of the conflict.</td>
</tr>
<tr>
<td>Kellermanns, Eddleston (2007)</td>
<td>Article (Conceptual)</td>
<td>(Positive) Impact of conflicts on firm performance in family firms</td>
<td>Contacts of business centers of two U.S. universities</td>
<td>n= 51 family firms (survey-based)</td>
<td>Family member exchanges and generational ownership dispersion moderate the relationship between cognitive- and process-conflicts and performance. If exchanges among family managers are more distant, cognitive conflict might enhance performance, if exchange is high it hampers performance because conflict is taken personally.</td>
</tr>
<tr>
<td>Lambrecht, Lievens (2008)</td>
<td>Article (Empirical)</td>
<td>Pruning the family tree (increasing simplicity)</td>
<td>Contact database</td>
<td>n=17 case studies</td>
<td>Complex family business structures can be simplified by reducing the number of shareholders (buy-out) or splitting up the business. In turn, conflict potential hampering growth and performance can be reduced.</td>
</tr>
<tr>
<td>Levinson (1971)</td>
<td>Article (Conceptual)</td>
<td>Conflicts within family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family firms are fertile fields for conflicts. The only “real” solution is to move toward professional management.</td>
</tr>
<tr>
<td>Oetker (1999)</td>
<td>Dissertation (Explorative)</td>
<td>Stakeholder conflicts in family firms</td>
<td>n.a.</td>
<td>n= 21 case studies (Expert interviews)</td>
<td>Stakeholder conflicts depend on the different roles and circumstances within the family firm. Adequate instruments for mitigation depend on the situational context. Dimensions include culture, company goals, strategies, organization and legal structure and leadership-system.</td>
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<tr>
<td>Contribution</td>
<td>Type of Contribution</td>
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<td>Data Source</td>
<td>Sample</td>
<td>Key Findings</td>
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<tr>
<td>Redlefsen (2006)</td>
<td>Article (Empirical)</td>
<td>Exit of family shareholders</td>
<td>INTES Akademie für Familienunternehmen GmbH-Database</td>
<td>n= 55</td>
<td>Private motives have a stronger impact on the exit decision of family shareholders than business-related issues. Institutions like advisory boards, family councils or a family-internal stock-exchange can help to mitigate negative implications derived from shareholder exit.</td>
</tr>
<tr>
<td>Redlefsen (2004)</td>
<td>Dissertation (Empirical)</td>
<td>Shareholder exit in family firms</td>
<td>INTES Academy, Family Business Network e.V.</td>
<td>n= 55 (semi-)structured interviews</td>
<td>Exit of family shareholders is not sufficiently planned. An institutionalization of the family has a positive impact on the exit-behavior of shareholders and can help to mitigate negative repercussions. The handling of the shareholder exit is an indicator of the cohesion within the family.</td>
</tr>
<tr>
<td>Schlippe, (2009)</td>
<td>Article (Conceptual)</td>
<td>Emotional conflicts in family businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Emotional conflicts can have significant detrimental effects on business performance and need to be addressed and mitigated. Sources for conflicts can be structured in role ambiguity, succession, social comparison among shareholders, centralization and the role of women.</td>
</tr>
<tr>
<td>Terberger (1998)</td>
<td>Dissertation (Explorative)</td>
<td>Conflict solving in family firms</td>
<td>n.a.</td>
<td>n= 24 interviews</td>
<td>There is not one single strategy to resolve conflicts. The necessary measures depend on the situation and type of conflict (e.g. relationship conflict, task conflict or both) and legal, process and structural elements. Conflict management is one of the key responsibilities of the owner.</td>
</tr>
<tr>
<td>Vilaseca (2002)</td>
<td>Article (Conceptual &amp; Empirical)</td>
<td>Measurement of the level of organizational commitment of family business shareholders</td>
<td>n.a.</td>
<td>n= 156 Questionnaires from 10 family firms in Spain</td>
<td>The employment of the shareholder in the family business is directly correlated and statistically significant with it’s organizational commitment. In turn, the commitment of shareholders is negatively related to the number of total shareholders and positively with the individual equity stake. Organizational commitment is negatively related to the relative number of family members on the board.</td>
</tr>
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</table>
### Table 36: Comprehensive literature on family businesses (miscellaneous)

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
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<tr>
<td>Astrachan, Jaskiewicz (2008)</td>
<td>Article (Conceptual)</td>
<td>Emotional returns and emotional cost in family businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Utility functions of owners and entrepreneurs comprise financial and nonfinancial components (i.e. the employment of family members). Therefore, the value of a business to the owner always includes an &quot;emotional&quot;, non-financial component.</td>
</tr>
<tr>
<td>Astrachan, Shanker (2003)</td>
<td>Article (Empirical)</td>
<td>Contribution of family firms to the U.S. economy</td>
<td>IRS, National statistics</td>
<td>n.a.</td>
<td>Family firms play a dominant role in the U.S. economy. In the broadest definition they account for 89% of total tax returns, 64% of the GDP and employ 62% of the total workforce.</td>
</tr>
<tr>
<td>Burkart et al. (2003)</td>
<td>Article (Conceptual)</td>
<td>Succession model of family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Upon succession, the decision of the owner to keep the firm within the family or to hire an external manager depends on the degree of legal minority shareholder protection. In regimes with the strongest legal protection of minority shareholders, the optimal solution for the founder is to hire the best professional manager and sell off the entire firm in the stock market -unless his amenity potential of keeping control in the family is huge. When the protection of minority shareholders is the weakest, the agency problems are too severe to allow for separation of ownership and management.</td>
</tr>
<tr>
<td>Davis, Tagiuri (1989)</td>
<td>Article (Empirical)</td>
<td>Effects of father-son working relationship on succession and business</td>
<td>Questionnaires; Smaller Company Management Program (SCMP) Harvard Business School</td>
<td>n= 222 responses that described 133 working relationships</td>
<td>Work relationship quality varies depending on the intersection of the life stages of father and son. Sons tend to judge the relationship more critically than fathers.</td>
</tr>
<tr>
<td>Donckels (1991)</td>
<td>Article (Empirical)</td>
<td>Distinctiveness of family firms</td>
<td>STRATOS database</td>
<td>n= 1,132 SMEs from eight countries</td>
<td>Family firms are inwardly directed or closed systems. Their managers are &quot;all-rounders&quot; or organizers rather than pioneers leading to a rather conservative strategy and making family firms a stable factor of the economy.</td>
</tr>
<tr>
<td>Donnelley (1964)</td>
<td>Article (Conceptual)</td>
<td>Strength and weaknesses of family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family firms develop strengths and weaknesses through the interaction of both systems. Ignorance of the relations involved instead of family participation per se is the main reason for success or failure of such firms.</td>
</tr>
<tr>
<td>Gallo, Vilaseca (1996)</td>
<td>Article (Explorative)</td>
<td>Finance in family businesses</td>
<td>ISE database</td>
<td>n= 104</td>
<td>Family firms have low debt/equity levels, especially those with a leading position in their industry. These firms have lower financial performance as compared to the family businesses that are followers. Banks should start to value the long-term orientation and give greater importance to future cash flows than to the wealth of the owner.</td>
</tr>
<tr>
<td>Contribution</td>
<td>Type of Contribution</td>
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<tr>
<td>Guzzo, Abbott (1990)</td>
<td>Article (Conceptual)</td>
<td>Family firms compared to utopian organizations</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family businesses and utopians share, through the fusion of family and work life, a number of similarities (i.e. with regard to their organizational ideals, mechanisms of commitment and exercise of authority).</td>
</tr>
<tr>
<td>Ifera (2003)</td>
<td>Article (Conceptual)</td>
<td>Economic role family businesses</td>
<td>n.a.</td>
<td>n=60 interviews with researchers</td>
<td>Family businesses play a dominant role throughout most economies.</td>
</tr>
<tr>
<td>Kets de Vries (1993)</td>
<td>Article (Conceptual)</td>
<td>Characteristics of family businesses</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family businesses are exposed to advantages (e.g. long-term orientation, less bureaucracy, etc.) and disadvantages (less access to capital markets, confusing organization, nepotism, spoiled kid syndrome etc.).</td>
</tr>
<tr>
<td>Mertens (2009)</td>
<td>Dissertation (Empirical)</td>
<td>Challenges of family business over time using succession and internationalization as examples</td>
<td>Individual Case Studies</td>
<td>n= 12 case studies</td>
<td>The older a family firm grows, the more likely is a family-internal succession. Succession planning starts earlier today and qualifications of the successor gain importance. Family firms that started to internationalize early continue to follow this path.</td>
</tr>
<tr>
<td>Moores (2009)</td>
<td>Article (Conceptual)</td>
<td>Establishment of family business research as an independent field</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family business research is in a normal science stage and has an accepted paradigm (three-circle framework, intersection of family, business and ownership). An advanced theory of the family firm needs to incorporate the family dimension.</td>
</tr>
<tr>
<td>Tagiuri, Davis (1996)</td>
<td>Article (Conceptual)</td>
<td>Characteristics of family firms</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Family firms have “bivalent” attributes derived from the overlap of family, ownership and management. These unique and inherent features can be sources of advantages and disadvantages.</td>
</tr>
<tr>
<td>Watermann (1999)</td>
<td>Dissertation (Explorative)</td>
<td>Management holding for family firms</td>
<td>n.a.</td>
<td>n= 7 case studies (Expert interviews)</td>
<td>The organizational form of a management holding offers several advantages for family firms. Decentralization leads to increased innovative power, flexibility and cooperativeness, while centralization of certain functions results in stronger financial power and economies of scale. A holding decouples the operating business from the shareholders.</td>
</tr>
<tr>
<td>Zahra (2003)</td>
<td>Article (Explorative)</td>
<td>Effect of ownership and involvement on international expansion</td>
<td>State directories, Mail survey 1997, Lexis Nexis database</td>
<td>n= 409 U.S.: manufacturing firms (174 family firms)</td>
<td>Family ownership and involvement, as well as interaction of this ownership with the family involvement are positively related to the internationalization of the firm.</td>
</tr>
</tbody>
</table>
Table 37: Literature on methodology and other theories

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Type of Contribution</th>
<th>Research Focus</th>
<th>Data Source</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Akerlof (1970)</td>
<td>Article (Conceptual)</td>
<td>Uncertainty, information asymmetry and adverse selection in economics</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Information asymmetry and uncertainty can be found everywhere in economics. Informal unwritten certifications or guarantees are preconditions for trade and production. The problem of distinguishing good quality from bad quality is inherent in the business world and probably explains the existence of many economic institutions.</td>
</tr>
<tr>
<td>Batson (1990)</td>
<td>Article (Conceptual)</td>
<td>Social behavior of people</td>
<td>n.a.</td>
<td>n.a.</td>
<td>People are not social egoists, but have a capacity for altruism. People not only care for each other, but in situations in which they feel empathy for others in need, they are able to care for them for their sakes and not their own.</td>
</tr>
<tr>
<td>Donaldson and Preston (1995)</td>
<td>Article (Conceptual)</td>
<td>Concept and implications of stakeholder theory</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Stakeholder theory is an important framework, because it is descriptive, influential, normative and managerial.</td>
</tr>
<tr>
<td>Hoy, Verser (1994)</td>
<td>Article (Conceptual)</td>
<td>Entrepreneurship and family business research</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The fields of entrepreneurship and family business consist of separate, but overlapping domains. Entrepreneurship can help to contribute to the body of family business research in six strategic management issues (leadership, culture, board of directors, life cycles, strategic management process and ethics and values).</td>
</tr>
<tr>
<td>Jorissen et al. (2005)</td>
<td>Article (Empirical)</td>
<td>Real and sample-based differences in family business research</td>
<td>Direct mailings to Belgian firms</td>
<td>n= 839 (questionnaires)</td>
<td>Control for &quot;demographic sample&quot; is important in family business research. Significant differences include export, budgeting, variable reward system, profitability, attributes of the CEO. No differences were found for strategy, networking, long-term planning and control, growth and management training.</td>
</tr>
<tr>
<td>Kelly et al. (2000)</td>
<td>Article (Conceptual)</td>
<td>Founder centrality and strategic behavior</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The founder shapes the family firm’s interaction with the external environment: Exploration of different perspectives from which the founder’s influence on behavior and performance can be studied.</td>
</tr>
<tr>
<td>Sharma et al. (2003)</td>
<td>Article (Empirical)</td>
<td>Factors influencing why family firms engage in succession planning</td>
<td>Canadian Association of Family Enterprises</td>
<td>n= 118 family firms</td>
<td>The propensity of a trusted successor to take over significantly affects the incidence of all succession-planning-related activities.</td>
</tr>
<tr>
<td>Contribution</td>
<td>Type of Contribution</td>
<td>Research Focus</td>
<td>Data Source</td>
<td>Sample</td>
<td>Key Findings</td>
</tr>
<tr>
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<tr>
<td>Sharma and Irving (2005)</td>
<td>Article (Conceptual)</td>
<td>Bases of family business successor commitment</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Proposition of four bases of successor commitment to a family firm—affective (based on perceived desire), normative (based on perceived sense of obligation), calculative (based on perceived opportunity costs involved), and imperative (based on perceived need). Development of a model of antecedents and expected behavioral outcomes of each of these bases of commitment.</td>
</tr>
<tr>
<td>Thaler and Shefrin (1981)</td>
<td>Article (Conceptual)</td>
<td>Economic model of self-control</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The individual is assumed to be both a farsighted planner and a myopic doer. The resulting conflict is seen to be fundamentally similar to the agency conflict between the owners and managers of a firm. Both individuals use similar approaches to mitigate this conflict.</td>
</tr>
<tr>
<td>Zellweger and Nason (2008)</td>
<td>Article (Conceptual)</td>
<td>Stakeholder perspective on family firm performance</td>
<td>n.a.</td>
<td>n.a.</td>
<td>Development of a typology of performance relationships between performance outcomes: overlapping, causal, synergistic, and substitutional relationships. When used between constructive (positive) performance outcomes are able to increase stakeholder satisfaction, which in turn increases organizational effectiveness.</td>
</tr>
</tbody>
</table>
Appendix II: Chapter 3

Case studies A-G in Chapter 3

Remarks:
The following case studies have been prepared based on the interviews conducted between February and April 2011. The interviews have been conducted in German, therefore all quotations of the interviewees have been translated directly by the interviewer.

Case study A : Chemical Industry

Sources used:
- Interview with the active family CEO
- Interview with non-active family shareholder (NAS)
- Company information presented on the webpage; press research

Company history

Company A is active in the specialty chemical industry and produces aluminum and gold-bronze powders, compounds, granulates, suspensions as well as metal foils from nonferrous metals. The company was founded in 1879 and started as a small local manufacturer of bronze powder. Over the following 131 years the company continuously expanded its product portfolio adding products such as aluminum powder (1892), copper foils (1928) and aluminum pastes (1956) to name only a few. Today, company A is a leading international player in its niche market, employing roughly 800 people in 9 locations worldwide. In 2010 sales of company A reached approximately EUR 150 m.
Shareholder structure and family

Founded as a German private limited partnership (KG), company A became a stock corporation (AG) in 1897. At that time the company needed financing to acquire a steel mill and therefore decided to sell the majority stake of the equity. A few years later company A withdrew from the steel mill activity and the family decided to buy back the majority stake of the firm. Still, the firm kept a minority shareholder with approximately 30% stake. Finally, in 2010 the family decided to further increase their influence and to buy back the majority of this 30% stake. Today, the firm is again almost 100% (i.e. 99.8%) family owned.

Being in its 4th generation, company A has a total of 12 family shareholders from three different family clans. One member of the most influential clan serves as the CEO and is the only shareholder active in the management of the firm. While another family member from a different clan serves as member of board, the remaining shareholders do not take official mandates in relation with the company apart from participating in the shareholders' meeting. Over the generations the shares have been inherited in a moderate entailed estate principle, in which several progenies gain shares in the company, while one gets the majority share. Accordingly, the smallest shareholder holds around 2% of the equity, while the largest shareholders own double-digit stakes.

Corporate governance structure

As a stock corporation (although not publicly traded) company A’s corporate governance structure comprises of an advisory board and a shareholders' meeting. In addition, the company uses a consortium agreement and a so called pool-meeting in order to prepare the decisions of the shareholders' meeting.
The advisory board in company A is dominated by external directors with five out of six members having neither family ties nor other professional relations with the firm. Company A accentuates the independence of the advisory board and defines in its articles of association that no more than one member of the family is allowed to take a mandate on the board. However, the family CEO emphasizes that the board has not only a control task, but also an important advisory task. In his view, advisory is the necessary prerequisite to efficiently exert control: "In fact, control directly implies a trustful counseling beforehand," explains the family CEO. Furthermore, the advisory board can be considered strong, having all information and decision rights defined in the German stock corporation law including the nomination of the managing directors and approval of the annual report. In the view of the family CEO this setup gives him, as a manager, the necessary independence to emancipate himself from the family and act in the interest of all stakeholders and not only the shareholders.

The pool-meeting has the function of preparing the decisions to be made in the shareholders' meeting such as e.g. the voting of the advisory board. The pool-meeting offers all shareholders the opportunity to express their own perspectives and discuss questions and ideas. The panel gathers once a year, comprises all 12 family shareholders and is headed by a family director, who is currently, but not necessarily, the family CEO.

**Roles and goals of active shareholders**

The family CEO belongs to the family clan who has the majority stake in company A. As the oldest sibling he also serves as the head of the pool-meeting. In his role as CEO he tries to decouple himself as much as possible from the family influence. To do so, he accentuates the necessity to remain financially independent: "I have to be able to live on my salary, also in cases in which the management bonus or dividend is small. I have to
organize myself in a way not to be tempted to say 'I need the dividend.'" He derives a long-term-oriented business first perspective from his role perception, arguing that if the business is not alright he would have failed in his role as CEO. Accordingly, he prioritizes his role as CEO over the one as shareholder. In his view, the goals of the firm dimension and the family dimension are different, but can be reconciled if clearly prioritized. "I don´t have any conflicts at the moment, but I would not preclude that conflicts might occur, although our family is very disciplined in this regard."

Following this line of argumentation he ranks his goals as (1) continuance of the business, being part of the family identity, (2) growth, being a driver for profitability, (3) safeguarding the influence of the family, (4) the dissemination of the business to the following generation, which he considers as his inflicted duty, and (5) payment of a dividend, although underlining that none of the family members should be financially dependent on the dividend. The employment of family members is not regarded as an explicit goal and should only be possible if the family members have the same qualifications and skill-sets as an external candidate. Also, harmony within the family is not an explicitly expressed goal and in his views rather the result of the fulfillment of the goals. In this context the family CEO states that especially in family firms, in which a moderate entailed estate principle is used to inherit the shares to the next generation, harmony is only possible within certain borders. Therefore the company has to be able to cope with short-term dispute, but needs to have the ability to overcome these disputes, as long term conflicts obviously harm the business.

**Roles and goals of non-active shareholders**

Company A has in total 11 NAS. The brother of the family CEO owns a comparably large stake in the firm, which he describes as "a good portion of my wealth". He considers
himself as a return-oriented investor and points out that he is planning to takeover a stronger controlling and counseling function in the future. In his role as an investor, he takes a long-term perspective focusing on the preservation of the monetary family wealth, however, not necessarily in form of a family firm. The preservation of the family influence and independence of the firm are only of value for him if they enable the management to better implement "value-preserving measures". Still, he admits that this would be the case and that the form of a family firm, seen as an asset class, increases the likelihood of long-term value preservation. In line with the family CEO, he supports a business first perspective, although underlining again, that the firm should not be considered as a means in itself. Nevertheless, from his position as NAS he considers himself relatively uninformed about the operating business, as the only formal information that is regularly distributed is an annual report, which gives relatively superficial information about the situation of the firm.

Accordingly, he ranks his goals as (1) increasing company value and supporting this through increased personal commitment, (2) payment of a dividend, (3) growth, stability and profitability, (4) safeguarding the influence of the family and (5) continuance of the business. Still, he observed that other NAS also accentuate different goals: "For a large part of our family, harmony is very important and also reputation. If you hold shares, you are someone and to have this feeling is very important for them." In his opinion this applies not only, but especially to the family members who still live in the region of company A's headquarters. Since he is not living in the region anymore the reputational aspects of being a shareholder are only of minor importance for him. In his view, the goal sets of NAS are heterogeneous and seem to be affected by the proximity of the shareholder and the firm.
Shareholder roles and goals – Competing or complementing?

When asking the family-CEO which are the most important goals of the NAS, he quotes that value management and dividend payment are always central goals and that there is a need to accompany and address these goals. Indeed, such goals have also been expressed by the NAS. Nevertheless, goal prioritization of the active and non-active shareholders differs, indicating a relative misalignment of goals, which has to be addressed. Furthermore, the strong emphasis the family-CEO puts on his role as the managing director and the business dimension of the firm seem to indicate a relative disregard of the emotional family dimension. In fact the NAS, although considering himself a return-oriented investor, points out that he and his fellow shareholders have insufficient transparency about what is really going on in the business. A situation which prevents the NAS to contribute in form of counseling or to engage in the aspired controlling function. So far this information asymmetry is largely tolerated, since the degree of trust in the family CEO is high. Still, from the perspective of the NAS, higher transparency and better information would help to sustain this situation thereby preserving the harmony within the family, which is an important goal for the family shareholders in company A. In addition the NAS described that there is also an emotional value for many of his fellow shareholders which they derive from being shareholder. This emotional attachment has to be nurtured and managed, because it seems to moderate their behavior (e.g. tolerance, trust) regarding the company and the management.
Case study B: Textile industry

Sources used:

- Interview with the active family CEO
- Interview with external chairman of the board of directors
- Company information presented on the webpage (company profile etc.); press research

Company history

Founded in 1852, company B started to produce latch and bearded needles for knitting machines and quickly captured a leading position in the industry. The first foreign sales outlet was founded in the U.S. already in 1918 and several additional outlets followed over the years. In the 1950s, company B took a big step and started to open up production facilities outside of Germany. Today, the company maintains production facilities in Germany, the Czech Republic, Portugal, India and China. The youngest plant is currently being constructed in Vietnam. From the 1980s onwards the firm started to expand its product portfolio, adding industrial sewing and shoe machine needles as well as felting and structuring needles. Today company B has a comprehensive product portfolio comprising of knitting machine parts, weaving machine parts, felting machine parts, gauge parts tufting and sewing machine parts. Catering to over 150 international markets, company B employs approximately 6,500 people and reached sales revenues of EUR 530 m in 2010.

Shareholder structure and family

Company B, in its current form, has been merged from two separate family firms in 1937. Today, the firm is a German private limited partnership (KG) and 100% owned by two
family clans. The management of the firm is dominated by external managers, with one family representative taking the active shareholder role as the CEO. With an equity share of 9%, the active shareholder has, although not the majority, still a strong and influential position in the firm and the family. Furthermore, two NAS take positions on the board of directors representing the family clan, which is not active in the management. The remaining family shareholders are part of the shareholders' meeting without taking additional mandates in the firm. Over the generations the company shares have been inherited without a strict rule. The firm is in its 5-6th generation and the shareholder structure is widely dispersed counting approximately 130 family shareholders with share sizes ranging between 0.1% and 9% of the equity.

Corporate governance structure

The corporate governance structure of company B consists of a board of directors, a shareholders' meeting and a small family office.

The board is dominated by external, independent directors. It comprises of seven members of which only two are family members representing the inactive family clan. The remaining five directors do not have professional or personal affiliations with the firm. As a private limited partnership (KG), the firm is not obliged to install an advisory board. Nevertheless, the firm decided to setup a board and to assign comprehensive rights to it, which are comparable to the ones defined in the German stock corporation law. Accordingly, it fulfills controlling as well as counseling tasks. The board is elected in the shareholders' meeting. The CEO explains: "The advisory board is elected with a ¾ majority, which means that a relatively high consensus concerning the board composition is necessary. Accordingly, considerable factions cannot feel excluded and reversely we are not susceptible to the individual interests of small minorities."
The shareholders' meeting gathers at least once a year and invites all family shareholders. The gathering usually takes place on a weekend and is rounded off by an extensive social program. In addition, company B organizes at least one additional family weekend per year in order to strengthen family relationships and support social exchange.

Apart from the described panels, company B has a small family office which is operated by two people. Initially the family office had been established to administrate the shareholder loans, which unfolded whenever shareholders did not take out their dividends. Today, the family office functions as a nexus between the company and the NAS. It is a contact point for the NAS and provides additional services such as counseling or recommendations with regard to e.g. deeds of gift or testaments. Furthermore, it is a useful instrument for the management to assess the mood and climate of opinion within the group of shareholders. As the family CEO puts it: "[It] is an instrument for the management to avoid 'foolish actions' [by NAS], […] to recognize the mood and climate of opinion of shareholders, and send informal messages to the them."

**Roles and goals of active shareholders**

The family CEO represents the stronger clan of the two family factions. As the only active shareholder, he has to deal with the duality of being the CEO on the one hand and being a shareholder on the other hand. In order to avoid potential conflicts of interest he clearly separates both roles: "[…] In my function as a managing director I have a normal contract, similar to the ones of my external management colleagues, which is negotiated with the board of directors." The aim to separate both roles is supported through the organizational structure as well. Fifteen years ago the three family-managers active in the firm decided to delegate their management authority to a limited liability company, which in turn became a full partner of the KG. This construction enables the family CEO today to separate his
roles even legally, because he could quit as manager without abdicating his personal liability and vice versa.

Overall, he values his interests as a shareholder to be more important than the individual interests derived from the CEO position: "The worst thing I could do is not to carry out my management duties with the necessary professionalism due to personal interests, because I would harm my economical interest far more by doing so than I would generate value for myself through this behavior." From his perspective his role as CEO is not confined to the duties of a normal manager, but has to include a certain bridging functionality to the rest of the shareholders. Therefore he has to act as a relationship manager with the rest of the shareholders aiming to integrate the NAS and to keep their interest in the firm high. Regarding the firm dimension, he ranks his primary goals as (1) continuance of the firm, (2) growth and profitability, (3) company value and (4) safeguarding the influence of the family. However, he sees the company goals and the overall profitability of the firm more as a necessary condition in order to achieve the superior goals of the shareholder dimension which he describes as (1) harmony within the family and (2) expertise of the NAS (information and education). As he states: "I think shaping of the relationship dimension [of the NAS] with the firm is in the end the most important topic. I mean, one has to realize that if profitability is insufficient, one can develop many instruments [to support the relationship with the NAS] but in the end there will be trouble." In his view a reasonably developed relationship dimension leads also to a higher willingness to compromise within the shareholder group. Accordingly, also the payment of a dividend is an indirect goal as it supports the contentment of the NAS and thereby family harmony. Still, in order to avoid yearly discussions, the dividend payout scheme is clearly defined in the shareholders' agreement. In contrast, the employment of family members is not a designated goal in company B. The prerequisites for family
members to work in the firm are clearly defined and demand that each candidate has to have the same qualifications as an external candidate. In fact, it is possible that the current family CEO might be the last family member in the management as a successor from the family is currently not in sight.

**Roles and goals of non-active shareholders**

The shares of company B are widely dispersed among approximately 130 shareholders resulting in a very heterogeneous shareholder structure. "If you have 130 shareholder, you have yellow ones, green ones, blues ones, red ones, you have qualified ones and unqualified ones you have farmers and you have professors…," describes the family CEO the situation. Consequently, different roles and interests emerge within the shareholder group.

Two of the NAS take mandates in the board of directors and formally take a controlling and counseling function. Both represent the family faction that is not active in the management. One of them serves as spokesperson for his faction, which is a challenging task because his clan separates into two more family lines on a lower level and he has to induce the forming of opinion within his clan. The other one takes a more neutral role, trying to support the development of the business. "Mr. xx is such a factual lawyer and director, that you can hardly tell to which family faction he belongs," says the external chairman of the board. Both family board members are elected through the shareholders' meeting. The size of the equity share is not an important attribute in this context. As the CEO says: "Only expertise plays a role in this regard."

The remaining shareholders do not get involved in the firm: "[Some] shareholders in company B are really inactive […] they see each other ones or twice a year and are happy if they get a high dividend," explains the external chairman of the board.
Accordingly, the NAS or at least a part of them seem to take a true investor position focusing primarily on the payback on their investments. On the other hand, the proximity and emotional attachment to the firm affects the role of some of the smaller shareholders: "Today, many of the smaller shareholders behave similar to the 'Fress-Aktionäre' of public companies in earlier days. This means that they hold their shares less because of the economic advantages, and more because it makes them part of the family, it leads to invitations to the shareholders' meeting, it leads to integration, which is of higher value for some of the shareholders than the dividend payout," describes the family-CEO the interests of some shareholders. Still, other shareholders are hardly visible and do not regularly attend family or shareholder meetings. This applies especially to shareholders that live far away e.g. in the U.S. or in Spain.

The NAS, with the exception of the directors, are relatively uniformed as company B follows a very restrictive information policy providing only the basic information required by the German publication law to the shareholders. In more detail, the information package comprises only of a roughly structured balance sheet and the relative (in %) development of the financial result. The annual report and additional information about certain projects are presented in the shareholders' meeting. Still, absolute figures are not communicated. As a result, most of the NAS have only limited information about the firm and accordingly have apart from the board of directors only limited possibilities to influence the company. As the chairman of the board says: "If today someone would come forward saying 'I demand more information', we would have to make accommodations, but so far, this has not happened."

Overall, the NAS in company B follow diverse goal-sets and prioritize different goals depending on their individual position and attitude toward the firm. However, their goal dimensions seem also to include the goals of (1) safeguarding of the influence of the
family, (2) safeguarding the continuance of the business, (4) payment of a dividend, (5) growth and profitability, (6) preservation of the shareholder structure or (7) information and (active) participation.

**Shareholder roles and goals – Competing or complementing?**

The family-CEO values his own shareholder interest above the ones as a manager. However, as a CEO he pronounces his independency in managing the firm: "The more operative participation the shareholders have, the more is the danger that conflicts ignite out of it." Following this intention, also the information policy is quite restrictive which prevents the interested part of the NAS to be able to provide a meaningful contribution even if they intend to do so. As the family CEO explains: "[…] In the end 10-15% of the shareholders emerge that accompany their shareholder role with more engagement and competence." Still, as long as the financial performance of company B is in good shape, this situation seems to be accepted by the NAS. Still, the chairman of the board warns that if the performance would decrease "[…] I am not sure if [in such a situation] the one or the shareholder would not step-up and issue some critical comments."

Nevertheless, apart form the management style and information policy, the extreme heterogeneity of the shareholders and the existence of different family factions result automatically in different goal prioritizations and interests. While the small shareholders, living in the founding city of company B, derive a high emotional value just from being a shareholder and thus choose the preservation of the shareholder structure as their highest goal, the smaller shareholders living in Spain or the U.S. are only interested in the dividend payment. Accordingly, conflicting goals and diverging interests exist within company B, but so far the relationship management and the solid performance of the firm has avoided
any escalation. The active integration of the NAS and the consolidation of the competing goals are the main challenges and declared goals in company B.
Case study C: Consumer goods industry

Sources used:

- Interview with the active family CEO
- Interview with a non-active shareholder (NAS)
- Company information presented on the webpage (company profile, annual report etc.); press research

Company history

Company C was founded in 1908 based on a, at that time, ground breaking product innovation in coffee preparation, which banned the coffee grounds from the cups: the filter paper. In the following years company C expanded and introduced its brand name in 1932. A patented integrated filter system followed in 1936. The first international representation was established in 1960 in Canada, before company C was the first to introduce vacuum-boxed grinded coffee in 1962. Later on, the firm entered also adjacent product categories and introduced housekeeping-foils and vacuum cleaner bags. Today, the firm is an international player with a broad and comprehensive product and service portfolio targeting private consumers (80%) as well as business customers (20%). In 2010 company C reached sales of EUR 1.3 bn and employed approximately 3,800 people worldwide.

Shareholder structure and family

Company C has the legal form of a German private limited partnership (KG) and is 100% family owned by three family clans. The company is organized in a holding structure in which at the most aggregated level (i.e. Holding 1) seven shareholders, of which three are personally liable partners, hold the equity of the firm. Below this Holding 1 is an
intermediate Holding 2 in which two of the three personally liable partners serve actively as managing partners. The operating units below Holding 2 have external directors. The three personally liable partners are three brothers, each representing one of the family clans. While historically all three were active as managing partners, one of them retired recently due to his age and has been replaced by an external manager in the beginning of March 2011. After 103 years, this external manager will be the first non-family manager in this position. Nevertheless, to date all three personally liable partners take mandates in the board of directors. However, one of the four NAS is currently preparing to replace one of the personally liable partners on the board of directors, while another NAS is in preparation to take over an active role in TMT of the firm. The remaining NAS form part of the shareholders’ meeting and do not take any mandates regarding the business.

Historically, the shares have been inherited in equal parts. Being in its 3-4th generation, the largest (active) shareholder holds a 33% equity stake and the smallest (non-active) shareholder a 4% stake in the company. Still, this inheritance principle is not part of the shareholders’ agreement and could possibly change in the future.

**Corporate governance structure**

The corporate governance lay-out of company C consists of the basic governance bodies, namely the board of directors and the shareholders’ meeting.

Approximately 20 years ago the board of directors has been established as a sounding board for the management team. At that time the installation of a board in a family firm was a very progressive step. ”We said, we are three brothers now, we sit here in our small village and talk to each other, but it is a dramatic difference if you talk to likeminded or to employees,” says the active shareholder. In its current structure, the board of directors reflects this intention in its demographics, consisting of six members in total,
of which three are completely independent external directors. The remaining three are family directors, or more precisely, the three personally liable partners of which two are still actively managing the company. Following this structure the board of directors has an advisory task with very limited decision-making authority.

The shareholders' meeting consists of all seven family shareholders, gathers twice a year and is framed by a social program in form of a family lunch or dinner. The main task of the shareholders' meeting is the delegation of the family directors from the three family clans to the board and the election of three independent directors. In addition, the shareholders' meeting receives the annual report and appoints the auditor for the following financial year. Apart from that, the body serves also as a forum for opinion formation. As the family directors says: "Forming of opinions happens, but on a very abstract level," because the NAS are not integrated in operative business decisions.

Apart from the described bodies, company C has a family contract, in which different family related issues are regulated. Every five years this contract is reworked, revised and updated in a formal and structured process, which is supported by an external consultant. The family contract defines for example the rules for the dividend payments, the right that every clan is entitled to send out one director to the board or the payout schemes and valuation methods to be used if shareholders decide to exit and sell their shares.

**Roles and goals of active shareholders**

The family director in company C accentuates his role as managing partner: "I think you can clearly say that the business, if you look at dividend payouts or the like, comes clearly first." From his perspective there is no big discrepancy between his role as a manager and as a shareholder and he does not derive different goals from this duality. The reason for
that might be that in the past all shareholders were also active managers in the company and insofar shared the same role duality, which they ultimately solved by pronouncing the interests of the company over the ones of the family. Nevertheless, he admits that with an increasing number of shareholders in the upcoming generation it will become more important to sustain and manage the relationship with the NAS. Consequently, the next-generation family manager will also have a relationship management role, aiming to integrate, inform and educate the other shareholders and to keep their interest in the company high. Accordingly, he ranks his goals overall as (1) growth and profitability of the company which he perceives as a basic goal which translates into increasing company value and equity ratio, (2) harmony within the family, which the family director describes as a massive goal: "[Harmony within the family] is by all means a defined goal. I do not claim that we always succeed in this regard, but especially from a business policy perspective it is an even more important goal […]." (3) safeguarding the influence of the family, especially if the TMT will also incorporate external managers in the future, (4) dissemination of the business to the following generation and (5) payment of an attractive dividend to the shareholders. While the employment of family members is generally desirable, if certain requirements in terms of education and qualification are met, it is not a declared goal of company C: "It [employment of family members] is not a goal in the sense of care taking for the family by employing as many or even all family members just for the sake of it," states the family director. Apart from that, company C tries to increase the interest of all shareholders by following a very open and transparent information policy. Accordingly, all shareholders receive quarter-annual reports, attend the presentations of the auditor and are invited to attend the board meetings as a guest. From the perspective of the family director the particular goal of integrating shareholders will become even more important as the shareholder base will increase in the near future.
Roles and goals of non-active shareholders

The shareholder structure of company C is rather concentrated. However, it is foreseeable that the shareholder base will get more dispersed as the 5th generation attains full age. Nevertheless, already today different shades of NAS are becoming visible in company C: "All get the same information […], nevertheless the proximity [of the shareholders] to the company is very different," says the family director. While one of the NAS gets prepared for a board mandate another one is in preparation to take over an active management function. The remaining two shareholders of the 4th generation take more distant perspectives and are likely to stay in their shareholder role.

The NAS in preparation of the board mandate perceives herself as a co-entrepreneur. Thus, she has a strong emotional attachment to the company and comprehends her family as a long-term oriented "entrepreneurial family" in which the interests of the company clearly outbalance the interests of the individual or the family. However, she feels not sufficiently integrated, saying that there are no workgroups or the like, where NAS can get involved. For example the family contract is revised every five years, but without participation of the NAS. Although the willingness to allow such integration exist from the management’s side, the necessary structures are missing. As she points out, formally she would have to attend only two shareholder meetings a year. In fact, she attends also quarterly meetings und is a guest in most board meetings, but only because of her own initiative: "This is a big difference and I think this will definitely change, the more the managing directors [from the 3rd generation] start to retire." From her perspective the main goals, which she derives from her role as co-entrepreneur are (1) continuance of the business, (2) growth and profitability, (3) safeguarding the influence of the family, (4) harmony in the sense that "you learn a professional working relationship with the other family members and that you learn to separate [personal and professional
issues]" and (5) the payment of a dividend. Apart from that, she regards the employment of family members as an indirect goal which is desirable but by no means an obligation. In her view it is more important that the necessary structures are in place that enable the family to significantly influence the business, than that family members take over as many operating positions as possible.

Nevertheless, the roles and the related interests of the more distant NAS might be slightly different as she points out that "the more distant the position of the shareholder to the company, the more remains the financial interest". With increasing distance also the interest in the company decreases and consequently the level of information of the shareholders. "If there are only so few [shareholders] as in our case, it becomes very difficult if they are not informed and if they don´t have a close relationship with the firm. This is the biggest conflict potential," explains the NAS. Accordingly, it seems possible that single NAS might develop into a more investor-minded role placing the financial payback of their share over other goals and interests.

Shareholder roles and goals – Competing or complementing?

The managing partner in company C puts a strong emphasis on the interests of the company. He perceives his goal-set to be very homogenous with the goal-set of the NAS: "So far, I don´t see that anyone of the other shareholders has completely different weights in his/her goals. At least no one has expressed this." However, he also admits that this situation might change as soon as the distance of the shareholders increases and the shareholder base becomes more dispersed and heterogeneous. He expects especially a stronger focus on the financial payback derived from the shares: "These conflicts do not exist at the moment, but […] they are foreseeable, you have to expect them."
In fact, the NAS in the role of the co-entrepreneur shares most of the goals and interests due to the strong affiliation and emotional bonding with the firm. Nevertheless, the NAS also formulates the demand to get stronger involved in the shareholder related issues such as the revision of the family contract or the by-laws of the board. Consequently, there is a call for "a channel which is created for the purpose of participation, where one can say what oneself thinks of it, because someday one has to co-sign these things" comments the NAS. Furthermore, despite the concentrated ownership structure there are already tendencies of single shareholders taking more abstract roles and distant positions towards the company. Accordingly, the homogeneity within the shareholder base already starts to fade and the more distant shareholders start to lose their interest and emotional bonding, resulting in a stronger focus on the financial performance of their shares. Although in company C this trend is so far only little pronounced, both NAS and managing partner recognize that in the near future the relationship management with the shareholders will gain stronger importance in order to ensure cohesion within the shareholders and to preserve a common and compatible goal-set. "I think it is most important to induce, maintain and strengthen goal homogeneity within the shareholders," describes the family director the most important challenge in company C.
Case study D : Logistics

Sources used:

- Interview with the active family CEO
- Interview with a non-active shareholder (NAS)
- Company information presented on the webpage (company profile, etc.); press research

Company history

Company D is one of Europe’s leading logistic providers. In 1930 the company was founded as a one man operated haulage company that transported mainly Allgäu cheese to the Rhineland. At first the cargo space was not used on the return journey, but the company quickly began to acquire industrial goods in the Rhineland and shipped them to the Allgäu region. The company expanded and soon established a full-coverage network in Germany, while also expanding into air and sea freight from the 1950s onwards. In 1971 the company converted its entire vehicle fleet to swap bodies, thereby shaping the future of the entire industry. Moreover, in the 1980s the firm expanded into food logistics, specializing in the transportation of temperature-sensitive goods. Throughout it’s history the company followed the philosophy to put the customer in the centre of attention accentuating customer value and quality. This approach has proven to be the right track. In 2010 company D generated sales of EUR 3.8 bn. and employed approximately 19,200 people worldwide.
Shareholder structure and family

Company D is a limited partnership with a limited liability company as general partner (GmbH & Co. KG) and 100% family owned by two family clans. The TMT of company D consists of five managers of which only one is a family member and active shareholder. Taking the role as the management spokesman he can be considered as the "primus inter pares" and takes a position comparable to a family CEO. With a 5% equity share the active shareholder has a minority position. The remaining 95% equity is distributed unequally among the remaining 10 non-active family shareholders. Being in its 3rd generation the earlier generations inherited the shares without a strict rule. Accordingly, share sizes range between 2% and 13% among the shareholders. While two of the NAS take mandates in the board of directors, each representing one of the family clans, two additional NAS, again one from each clan, take the position of "family managers" being the chairman and the deputy chairman of the shareholders' meeting. These positions are assigned for four years, while chairmanship and the deputy chairmanship swap after two years. The remaining shareholders do not engage in positions related to the firms and concentrate on their role in the shareholders' meeting.

Corporate governance structure

The corporate governance organization of company D consists of the basic elements, namely the board of directors and the shareholders' meeting. The corporate governance structure has been completely reorganized a couple of years ago as the company recognized that the family was starting to digress from the company due to missing integration. During that time company D developed a comprehensive family charta and
established a family management structure aiming to integrate the family and to focus on the specific interests of all family shareholders.

The board of directors is dominated by external directors, with three out of five members being independent directors, while one of them takes the chairmanship of the board. "We decided that an external director should be chairman of the board as long as a family member is the spokesman of the management, and that it is preferable in case the constellation is reversed that a family member takes the chairmanship of the board," explains the family CEO. Furthermore, in all constellations the majority of the board should be with external members, because otherwise the family might draw the false conclusion that they have the better arguments in difficult times, which are only seen as the better arguments because the family has the more powerful position and external directors might simply follow, refraining to object. Out of this structure the board has controlling functionality and is involved e.g. in personnel issues or important business dealings. In addition, the board provides counseling for the TMT e.g. during the development of the firm’s strategic concept. Finally, the preamble of the articles of the company defines that the company should be preserved as an independent family firm in the long-run. In the view of the family CEO, this goal is operationalized by assuring that the TMT can develop the strategy of the business free from the shareholder’s influence. Accordingly, he infers that the board has also the task to establish an adequate basis for communication between the family and the firm and to ensure that both dimensions get along with each other. Based on this reasoning he derives also a mediating role of the board.

The shareholders' meeting consists of all 11 family shareholders and is chaired by two NAS. The meeting gathers twice a year. The first convention happens at the end of the financial year in July and is integrated in a board meeting during which the annual report is approved. The second meeting coincides with the so called global leadership convention
during which the management of company D meets and discusses about current developments in the industry and the business. As the first, also this second meeting is framed by a social program. The main tasks of the shareholders’ meeting are the appointment of the auditor and the election of the board of directors. "We attached very much importance to displace most of the formal topics to the board of directors and the TMT who are capable of acting," pronounces the family CEO. Accordingly, the decision-making authority of the shareholders' meeting is rather limited.

Apart from these governance bodies, company D has developed a family charta and established a family management. The primary intention of this charta is to document the values of the company and to agree on and define basic rules of interaction between company and family and also between individual family members. Based on the defined values and goals, company D established a family management, having the responsibility to manage the relationship with the shareholders, to integrate them and to ensure harmony between the family and the firm. In order to keep the shareholders informed and interested in the firm, bi-monthly telephones conferences were established, providing a structured communication process between the shareholders.

**Roles and goals of active shareholders**

The active shareholder, who serves as the spokesman of the TMT has a strong influence on the development of the business. Since he is responsible for the corporate development department of the firm, he also shapes the future strategy of the firm. Furthermore, he is the contact person for the board of directors. He explains: "Out of the role as executive director I have for sure a very coining impact on the era in which company D is right now." However, he separates his role as a shareholder and his role in the family completely from his management function. In the past he also lead the family, but during that time he
perceived himself in the position to support the family in setting up the necessary corporate governance structures that were needed in order to sustain the company and pass it on to the upcoming generation. Once the family charta and the family management were in place, he consciously took the decision to step back from this dominating role and concentrated on his management duties. He recalls: "I drew back from this position very consciously, just to say there is one [family member] leading the company and there is another representative of the family leading the family, to establish this discriminatory power." Based on this constellation he perceives himself as an entrepreneur who carries on the values and passion of the former generations which made company D distinctive. He states: "I don’t see myself as an investor at all, but as someone who propels the ideas forward from which the company derives its identity." From this self-perception he derives a long-term orientation combined with a business first attitude, pronouncing that the family does not hold the company out of self-interest, but that the family has to serve the company. Regarding the family and the NAS, he also takes the role of a relationship manager or more specifically as someone who conducts a shareholder relation management, which he designed to the specificities of his clientele, namely the family, and which is aimed to increase the interest of the shareholders and to educate and inform them about business-related topics. As such, company D follows a very transparent information policy. Nevertheless, he acknowledges that the NAS might still feel uninformed because it would be difficult for some of the NAS to filter the information and to extract the relevant points that are necessary to answer their individual questions.

Overall, he derives no goal-conflicts from his multiple roles because he has a clear perception and prioritization of his role accentuating the business perspective and his management position. Consequently he ranks his goals as (1) continuance of the business and (2) safeguarding the influence of the family, as both constitute the values and identity
of the company, (3) sustainable growth and profitability, (4) harmony in the sense that the family is constantly in the position to carry out constructive conflicts in order to develop the necessary ideas and to reach compromises that are necessary to ensure the survival of firm and family and (5) the payment of a dividend, as there are also financial interest of the family, which will become even more important in the upcoming generations. Apart from that, the employment of family members is not a designated goal of the firm. It is also clearly defined under which conditions family members can work in the firm. The shareholders' agreement foresees that family members can either be trainees or interns within the firm or take the position as the spokesman of the TMT. To do so, they need to have the same qualifications, experience and potential as an external candidate.

**Roles and goals of non-active shareholders**

Company D has in total 10 NAS, who show different levels of interest in the company. While the two second-generation shareholders, who take a board mandate show a strong emotional connection with the firm, representing its values and identity, the two family managers leading the shareholders’ meeting take a bridging function to the rest of the shareholders. One of the family managers describes the proximity and interest of the NAS in the company as very heterogeneous. While one of his cousins is the other family manager, the remaining NAS show a stronger distance to the firm. One example is the sister of the first family manager who lives in the U.S. and therefore has a much higher distance to the company. But also the other NAS show a significant lower degree of interest.

From his position as family manager he perceives himself as a co-entrepreneur and investor at the same time. He also separates his roles as family manager and as individual shareholder. As a family manager he reconciles the ideas and wishes of all shareholders
and puts them on the agenda for discussion. He perceives himself and the NAS as very informed about the firm, e.g. the board minutes are distributed on a regular basis. Moreover, he tries to support the other NAS by putting the most important topics on the agenda for the bi-monthly conference calls. Overall, he describes his main goals as (1) the continuance of the business (i.e. preservation of the family wealth), (2) safeguarding the influence of the family, (3) growth and profitability, as this is necessary to pass the firm on to the next generation, (4) harmony within the family in the sense of managing the relationships between the shareholders and (5) payment of a dividend, since a certain dividend payment is necessary to motivate the family to support the firm.

Although he assumes that the goals of the NAS are rather homogenous in company D, focusing on the preservation of the firm, he admits that "[...] problems might occur once the identification [of the NAS] with the company drifts off". Once this happens single shareholders might prefer to exit due to a lack of identification with the company goals. For example one of the NAS has a strong environmental awareness, which collides with the CO2-emission of the truck-fleet. If this relationship is not professionally managed, identification and goal congruency might wane, resulting in conflicting interests and attitudes. Furthermore, as the family manager, he derives a certain emotional value from his position and points out that for him "[...] it would be unthinkable that shares of the firm would be held outside the family". Nevertheless, he admits that the emotional value that the other NAS derive from the company is not always observable for him, indicating that the degree of emotional attachment to the company also differs among the NAS. In summary, the relationship management within the family is of high importance from his perspective, particularly because each shareholder has a relatively high stake in the company and an exit would seriously affect the performance of the firm.
Shareholder roles and goals – Competing or complementing?

The business perspective and the interests of the firm dominate the family and the shareholder interests in company D – a view that is supported by both active and NAS. As a result, the family CEO does not see contradicting goal-sets within the shareholders base at the moment. Still, he admits that things were different before the firm reorganized its corporate governance structure, because at that time the family had started to alienate itself from the firm as they were not integrated at all. "Today there are again many possibilities and arenas in which family can express itself, but without directly impacting the business processes," states the family CEO. Overall, he thinks that the shareholders can be quite content, because the company has a strong strategic position, takes its shareholders seriously and pays a dividend that enables them to enjoy their lives.

In fact, the NAS active in the family management shares most of the goals with the active shareholder. Although he considers himself also as an investor, this role and the associated interests are not strongly formed and seem to be moderated by his emotional attachment to firm: "[I see myself] also as an investor, but, since I cannot choose freely to invest or not, I derive a huge part of my motivation from the idea to preserve the family wealth […]." Overall, the relative large degree of goal congruence is to some extend also the result of the extensive process of developing a family charta, during which all family members agreed on certain rules and interests. In fact, that was not an easy task: "I was very surprised how different everyone is thinking about the same thing," recalls the family CEO.

In order to preserve this situation, the NAS underlines that the relationship with the remaining NAS has to be managed proactively to avoid that different goal-sets start to emerge and that the identification, proximity and emotional attachment of the other NAS decrease. The family CEO shares this assessment and identifies the possibility that
especially in upcoming generations, financial interest will become more important. Furthermore, he observes the phenomenon that some shareholders have problems identifying themselves with the firm, simply because they feel that they did not deserve the wealth and privileges that are connected with the shareholder role. As a result they perceive their shares more as a burden than a privilege, a situation that has been addressed by the family management as well.
Case study E: Direct sales

Sources used:

- Interview with the chairman of the board (NAS), former family CEO
- Company information presented on the webpage (company profile, annual report etc.); press research

Company history

Company E was founded in 1883 as a manufacturer of carpets. In the 1920s the firm expanded into technical equipment and started to produce traveling gears for gramophones. However, as the emergence of the radio turned down the gramophone business at the end of the 1920s, company D had to find a different product to utilize its machinery plant. That was the birth of company E’s first vacuum cleaner, which was equipped with a gramophone engine. In 1930 the company entered a new chapter in its history by introducing the direct sales concept eliminating intermediaries in their sales approach. The product portfolio was further expanded in the following years, adding different household appliances (1955), food processors (1968), cleaning services (1974) and cosmetics (2004). Together with the expansion of the product portfolio, company E expanded also internationally. Today, the firm sells its product in 60 international markets, of which 25 are covered with national affiliates, while 35 are covered with local distributors. In 2010 the firm generated total sales of EUR 2.5 bn and employed roughly 21,600 people worldwide.

Shareholder structure and family

Company E has the legal form of a German private limited partnership (KG). Being in its 5th generation, the family is structured in three clans owning 100% of the shares. Until
2005 the business was lead by one active, personally liable shareholder from the 5th generation, who, following his retirement, took the role as the chairman of the board of directors. Over the generations, shares have been inherited without a strict principle leading to a relatively wide spread of equity shares ranging from 0.7% to 28% among the 20 family shareholders. Besides the chairman of the board, four additional NAS take mandates on board of directors. The remaining NAS are not involved in official mandates in relation with company E and take passive roles. The shareholders' meeting comprises all family shareholders.

**Corporate governance structure**

The corporate governance structure in company E comprises the prevailing elements such as a board of directors and a shareholders' meeting. The relationship between family and firm is partly documented in a family contract.

The board of directors was initially installed as a classical sounding board to provide advice for the personally liable partners. At that time "The board had no authority" explains the chairman of the board. The board consists in total of nine seats and is dominated by the family providing five seats including the chairmanship. The remaining four seats are held by independent directors having no business relation with the firm. While clan affiliation played an important role in the past, this issue has been resolved and the clan affiliation has no impact on the distribution of mandates any more. Nowadays, the situation has changed and the board has similar authorities as the advisory board of a public corporation. During this transition, also the tasks of the board changed and the advisory-task has been augmented by a control- and mediation task. "The company is so big that we cannot be sure that shareholders themselves will be active in the management. If that is the case, the board has to bridge the gap [between family and firm]," says the
chairman of the board. Regarding the mediation task of the board, he adds: "The task of the external directors or rather all directors is to mediate between the shareholders if differences occur. It depends on the kind of conflict, which director does this in the end.” Moreover, he considers it as vital that the board is really a platform for discussion, simply because the remaining NAS do not have the necessary information and competence to contribute in reaching the best outcome for the firm. Still, it is the responsibility of the family board members to integrate the other NAS in order to avoid alienation regarding the firm and its culture and values.

The shareholders' meeting gathers twice a year. The formal summit happens at the end of the financial year in May, another shareholder-meeting is usually scheduled for October and invites all 20 shareholder as well as all other family members above 16 years of age. Thus, the shareholders' meeting is an important body of communication offering the individual shareholders a platform to express their interests and perspectives. During these meetings "also a small shareholder can show a tremendous engagement and interest and place critical questions. Thus, his impact is virtually the same as of a shareholder with a larger stake," explains the chairman of the board. Still, if contrary interest exists, oftentimes the direct conversation is chosen before raising the issue in the shareholders' meeting. Apart from that, the shareholders' meeting in company E has also the basic tasks of electing the board, appointing the auditor and agreeing on the compensation of the managing directors.

**Roles and goals of active shareholders**

In his time as managing partner, the current chairman of the board followed one basic principle, which he considers to be common in many family firms. He explains: "The interests of the firm have priority over the interests of the family or individual interests."
Based on this principle he stresses his role and duties as a manager, trying to separate the family and business dimension. "The managing directors have to be able to lead the firm, they have to be able to decide and the board has to use its authority and work together with the managing directors. Shareholders must not interfere in this process," explains the former managing partner. Based on this attitude, he considers himself on the one hand as a passionate entrepreneur, but on the other hand also as a relationship manager regarding the family. In his view, it is important to respect the shareholders and to give them the feeling that they are taken seriously and that their needs and interests are taken seriously. In fact, he considers the management of the family as one of the most important challenges in family firms. Overall, his role-duality in family and firm has not been conflicting for him. Accordingly, he ranks his goals as (1) sustainment of the family freedom, as this is a necessary prerequisite for the survival of the firm, (2) growth and profitability of the company, (3) preservation of the firm in the long-run, (4) safeguarding the influence of the family and (5) internationalization, concentration on core competencies and the payment of a dividend. The employment of family members is not a stated goal for him. He explains: "If he or she [the family shareholder] joins the firm, then only if he or she has the potential, in the opinion of the board, to become managing partner. We do not want family members to be employed somewhere deep down in the organization."

**Roles and goals of non-active shareholders**

The shareholder structure in company E can be considered dispersed with 20 family shareholders holding equity stakes in the firm. While five NAS take board mandates, including the chairmanship, the remaining 15 are truly passive shareholders.

From the position as the chairman of the board the NAS still takes the role as co-entrepreneur. Moreover, he acts as an unofficial family manager bridging the gap between
family and company. In his current situation he reflects: "I believe that the management of the family is more important and more difficult than the management of the company." Out of his role, he tries to lead the family, which means for him that he takes every family member very serious, regardless of how foolish the question or request may be and that he invests a lot of time and patience to discuss and communicate each topic with the shareholders. For him, it is essential to maintain the interest of the family in the business since "the company is the catalyst for the family, which holds the family together like a magnet". His own interest and emotional attachment to the firm is very high, Thus his goal set has not changed and he still has the same goal priorities as during his time as managing partner. His primary goal is the (1) sustainment of the family freedom, which he now supports from his position as chairman of the board (2) growth and profitability of the company, (3) safeguarding the influence of the family, which becomes particularly important if no family member is active in the management (4) preservation of the firm in the long-run, as he considers it desirable to perpetuate the business to the upcoming generation and (5) internationalization, concentration on core competencies and the payment of a dividend, as financial interest of the shareholders might increase in the future.

Still, not all NAS share his passion, interest and identification with the company arriving at different goal-sets and priorities. One example is a cousin of the chairman of the board, who plans to sell his stake in order to build up a trust. As his share is relatively small this will not have severe effects on the firm. Another example is that of a younger family member, who wanted to work in the firm, but was rejected from the board arguing that it would be too early and that he would lack the necessary qualifications and experience. Furthermore, some NAS seem to have trouble identifying themselves with the company. Since they did not earn the shares themselves, they sometimes have a bad conscience against society because fate has treated them better than others, which affects
their feeling of self-worth. Moreover, the shares have not been inherited as free capital, but with the expectation of the decedent that the beneficiary (i.e. the NAS) integrates him/herself in the discipline of the company regardless of their own interest or attitude. As long as the emotional attachment to the firm is strong enough, NAS are likely to subject themselves to these unwritten rules. However, once the identification wanes this might lead to conflicting interests that have to be addressed.

Shareholder roles and goals – Competing or complementing?

Company E has identified the importance of actively managing the relationship with its shareholders. Although accentuating a business-first perspective the formerly active managing partner discovered already during his tenure as manager that the integration of the NAS is a necessary step to effectively follow this credo. When he changed sides and became chairman of the board he stuck to his goal-set but began to pay even more attention to the management of the family.

In fact, those of the NAS who take mandates on the board seem to have a closer relationship and more frequent touching points with the company. As a result, their goal-sets match and complement with the one of the managing partner. The interest of these NAS in the firm is relatively high and so is their level of information and understanding of the business and their comprehension why certain decisions are taken. Nonetheless, the interest and information level of the more distant NAS is lower. Thus, some NAS might lack appreciation for company related decisions. If these NAS react by trying to influence the business directly in order to support their own interests, conflicts with the responsible managers result. "Those conflicts exist, you have to solve them," states the chairman of the board. Consequently, it is important to provide enough space and structures which can be used by the family to express and discuss their interest. "If the goals of the firms are not
supported by the family, the firm will seize to exist," underlines the chairman. In summary, the goals and interests of the NAS in company E are heterogeneous and to some extent conflicting. Nevertheless, they are actively managed and mostly mitigated, if not resolved, by the chairman of board.
Case study F: Retail

Sources used:

- Interview with one member of the board (NAS), former family CEO
- Company information presented on the webpage (company profile, history, etc.);
  press research

Company history

Company F has a long tradition. The company was founded in 1875 as a specialized retail shop for shoes with only 14 square meters sales area. It took until 1938 until the second outlet opened. In the following years the expansion started Germany-wide. In 1970 an additional store concept targeted at younger customers was added. By 1975, 100 years after its foundation, company F operated 32 stores in 9 German cities. In the 1980s the firm was handed over to the third generation, who began to push the company forward. The first step was the establishment of a private label for shoes and accessories, which was a very proactive step at that time. Later on, an additional store concept (self-service) was established (1983), followed by an innovative customer retention program in form of a customer card offering special conditions and rebates (1995). In 2006 the firm started to internationalize and opened up the first outlet in Poland. In 2010 company F continued its growth strategy and acquired a competitor in Switzerland. Today, the company operates 280 stores in Germany, Austria, Poland and Switzerland as well as an online store. In 2010 the company generated sales of EUR 350 m and employed 3,800 people worldwide.
Shareholder structure and family

Company F has the legal form of a limited liability company (GmbH). The company is in its 3rd generation and 100% family-owned. At the end of 2010 the managing family director retired and took a mandate on the board of directors. Still, two family members work in the medium management of the firm. Although they do not own shares at the moment, they will become shareholders within this year. At the moment all shares are held by three brothers of whom one holds 44%, while the other two hold 28% each. Currently, the company is in a transition phase and the two elder brothers are preparing to convey their shares to their children of the 4th generation, of which each of them has three. Accordingly, in the future share sizes will range between 9% and 28%, being owned by 7 to 9 shareholders. Apart from that, one of the 3rd generation brothers takes the chairmanship of the board, while the third brother and the four children of the 4th generation have passive roles, not taking any official mandates in relation with the firm.

Corporate governance structure

Company F has the usual corporate governance bodies such as a board of directors and the shareholders' meeting in place. Additional structures directed at the governance of the family do not exist.

The board of directors was established in 1980 when the 2nd generation family manager retired. At that time the eldest of the three 3rd generation brothers took over the management duties. The NAS recalls: "It was the ambition of my brother to establish a board of directors. As a control body and as a sounding board," because he knew at that time that he would not be able to lead the company on his own and therefore had to recruit external management. Today, the board has in total five seats of which three have to be
occupied by external, independent directors. While initially installed with a strong focus on
the counseling task, today, "the board is as strong as an advisory board of a public
corporation," explains the NAS. Accordingly, the controlling task is much stronger
pronounced (e.g. the board has to approve all investment requests above EUR 1 m). Still,
the advice of the board is highly valued, making it important for the firm to have a certain
mixture of other family entrepreneurs and specialists on the board. "The advice that you
get is sometimes very different. One sees it from the perspective of a family manager and
the other from a pure management perspective," describes the NAS his own experience.
Nevertheless, he also admits: "You cannot decide completely rational in family firms,
because in a family firm there are always emotions involved." Because of that, he
considers it important that the board has certain decision rights and also takes the role as a
neutral mediator helping to resolve possible conflicts between shareholders.

The shareholders' meeting gathers once a year in company F. During the meeting
the formal acts of appointing the auditor and electing the board of directors are carried out.
Recently, the shareholders' meeting was expanded inviting also the 4\textsuperscript{th}
generation and their spouses in order to bring them closer to the firm and strengthen the emotional feeling of
affiliation. Having recognized the importance to nurture the interest of the shareholders in
the company, the expansion of the shareholders' meeting has been a first step to establish
more formal meetings and exchange platforms for the NAS and the family.

**Roles and goals of active shareholders**

During his time as managing partner, the currently non-active board member took a strict
business first perspective. He comments: "I feel like a shareholder only once a year, when
the board of directors was relieved, in that it played a role. Otherwise as a family
entrepreneur you are concentrated on the management of the business and that you do not
take decisions that endanger the firm." At that time his older brother, who was the managing partner before him, still attended the management meetings although he had retired. "We stopped this now," says the retiree because he considers it important to separate the shareholder and the management dimension. "The directors cannot constantly talk to the shareholders otherwise I could just have stayed in a management position," explains the now NAS. During his time as manager he clearly accentuated the management role considering himself responsible for the well-being and development of the company. Consequently, he did not consider himself in a role-duality because he had a clear view on which of his roles had priority. Based on this perception he ranks his goals as (1) the continuance of the business, (2) safeguarding the influence of the family, (3) integration of the shareholders, (4) growth and profitability and (5) payment of a dividend. From his perspective, the company value, in the sense of shareholder-value management, is not an important goal, as the company should not be sold. Moreover, he considers the succession from the family in the active management of the firm only as an indirect goal, which would be desirable but not mandatory as family members have to have the same qualifications and skills as external candidates. "The two sons of my brother work in the firm in the middle management. Still, it does not look like they will become part of the TMT in the future. They get a good salary here, but the chance to become top-managers equals zero," explains the NAS.

**Roles and goals of non-active shareholders**

Company F is currently in a transition phase. While the shares have been rather concentrated in the hands of the three brothers, they will become more dispersed in the 4th generation with 7 to 9 shareholders in total. As the brothers convey their share to their children the problem of "clan-formation" might occur. At the moment two of the NAS take
mandates in the board of directors, one being the chairman of the board and another being a "normal" member. Of the remaining prospective shareholders, two hold positions in the middle management, while the other NAS attend the shareholders' meeting without having formal positions.

From his perspective as a board member, the former managing partner perceives himself as a co-entrepreneur, but also as controller. He has still a close relation to the firm and access to all management information systems. Accordingly, he is well informed about the things going on in the firm. From this position his goal-set has not changed following his retirement as a managing partner. He still ranks his goals as (1) the continuance of the business, (2) safeguarding the influence of the family, (3) integration of the shareholders, (4) growth and profitability and (5) payment of a dividend as the importance of a dividend payment will increase in the future.

Nevertheless, he recognizes that the interests of the other NAS and the 4th generation might change. One example is a stronger emphasis on the financial component of being a shareholder. While the company did not pay dividends in the past, as the shareholders were compensated through their salary "it is foreseeable that the next [generation] shareholders, who are not active in the firm, will want to see a dividend someday," explains the member of the board. In addition the level of interest and information of the NAS is heterogeneous. The shareholders get a quarterly report about the firm and also an overview about the planned investments but "this process is not yet perfect, because we are in a transition phase right now," comments the NAS. Furthermore, the NAS working in the middle management might develop leadership aspirations as there is no family member in the top management anymore. Overall, it is foreseeable that certain interest of some NAS might develop in different directions. "We recognized this. We have to integrate these shareholders by sending them information, by inviting them, by binding
them to the firm, so they have an emotional relation to the firm," comments the member of the board, recognizing that the management of the family relations is already today of significant importance.

**Shareholder roles and goals – Competing or complementing?**

As described, Company F is in a transition phase and about to convey a large part of the shares to the 4th generation. The former managing partner, who is now member of the board of directors, has still the attitude of a family entrepreneur and puts the business first. Nevertheless, he observes that the interests and goals of the NAS might diverge from his own in the future. If not entirely, than at least regarding the prioritization of sub goals. At the moment a structured information process is lacking and the NAS receive different levels of information about the firm at different times. Obviously, this information asymmetry might lead to conflicts if some NAS feel that they are passed over or excluded. "That has to be organized somehow. [...] We have to ensure that everyone is informed at the same time," says the non-active board member. Furthermore, he explains that the handling of the dividend payment becomes more important. While in the past the dividend was of subordinate importance, as the 3rd generation shareholder received their salary in the firm, this is about to change. "It starts already with my nephews [who are active in the middle management], they get a good salary, but they are used to a high standard of living from their parents and if they want to keep this standard, the salary might not suffice."

Moreover, when the 3rd generation will retire from the board of directors within the next 5 to 7 years, the problem of succession and clan affiliation might arise. Overall, at the moment there are no open conflicts in company E. Nevertheless, the former managing director already identified first indications that the goals of the 4th generation shareholder might start to diverge.
Case study G: Consumer goods

Sources used:

- Interview with family CEO
- Company information presented on the webpage (company profile, etc.); press research

Company history

Company G was founded in 1889 as a small cookie factory employing 10 people. In 1891 the company introduced its first core product, a shortbread, which is still part of the assortment toady. A couple of years later (1904) a new innovative packaging system, which kept the cookies fresh over a longer time of storage, was introduced. Only one year later the firm improved its production setup and introduced the first conveyor-belt in Europe, even eight years before Henry Ford revolutionized the automobile production with this technique. In 1919 the founder of the company died. Two years later the second generation took over and expanded and grew the business. By 1956 the firm exported its products in 74 international countries, before in 1960 the first international subsidiaries in France and Italy were founded. Four years later the firm diversified into the snack business and began to produce potato chips. In the mid of the 1970s (1975) the 3rd generation entered the business and continued to develop the firm with international expansion to the U.S. (1980), Russia and Poland (1993) and the acquisition of smaller competitors (1994). In 1996 conflicts between the shareholders resulted in the buyout of one of the shareholders representing one family clan. Later on in 1999 the business was finally split up into three independent legal entities, being pastry-business, snack-business and a third (supportive) company which combined the real estate and financial services engagements
of the firm. Today, company G (pastry business) generates EUR 506 m sales and employs approximately 2,700 people worldwide.

**Shareholder structure and family**

Company G is a limited partnership with a limited liability company as general partner (GmbH & Co. KG). The company is 100% family owned and since 1975 lead by the 3rd generation. In 1993 the company was owned by two family factions of the 3rd generation and in total by four shareholders. The shareholder of the one family clan was actively managing the firm as CEO and owned 43% of the shares. The remaining three shareholders were cousins of the CEO and represented the second family clan, owning the remaining 57% of the firm. In 1992/93 a severe conflict between the two factions about the inclusion of external managers in the TMT became evident. In more detail it was a classical succession conflict, because the former generation had forgotten to define how the company should be lead in the future. The twenty year older cousin was managing the firm since 1975 as two of his younger cousins from the second family clan announced their leadership aspirations in the mid 1980s. However, the managing cousin and the board of directors preferred that a non-family member should take over the management of the entire group upon his retirement. In this situation the three siblings of the second family clan used their 57%-majority stake and won through on the issue forcing their cousin to follow his already contracted retirement. The situation escalated and the board of directors felt crossed over and stepped down. As a result, the older cousin gave up all his operating responsibility but remained personally liable shareholder, while his two younger cousins became or remained personally liable shareholders and took over the management of the firm. In the following, the company was restructured and one of the cousins took over the snack division, while the other became spokesman of the pastry-business and hired two
external managers who lead the operating pastry-business. Furthermore, a new board of directors was installed. Still, the "toppled" cousin remained displeased with the situation. Finally, in 1996 the three shareholders of the second family clan decided to settle the issue and bought the 43% of their older cousin out. He received a North American subsidiary, which has been acquired in 1980, some real estate property and an undisclosed monetary payment. Afterwards the two active brothers held 36% of the shares respectively, while their sister remained NAS owning 28% of the shares.

Nevertheless, company G found no peace and in 1998 the firm announced that the family would plan to withdraw from the management and decided to hand it over to external managers. Yet the two brothers could not agree on an external manager and finally the business was split up in three parts in 1999. One of the brothers received the snack-business, the other the pasty-business, which today is company G. The family of the sister, who died in late 1998, received subsidiaries in Austria and Switzerland and real estate property. From that time on, each of the brothers owned a separated completely independent company. Accordingly, company G has currently only 1 active shareholder. Still, the family CEO is about to convey its shares to his 4 children (4th generation) within the next couple of years. Upon his retirement as CEO, he is planning to take the chairmanship of the advisory board.

**Corporate governance structure**

Company G has the board of directors as a basic corporate governance element in place. The formal shareholders' meeting consists only of the active CEO. However, in order to introduce the 4th generation to their role as shareholders, the four children and prospective shareholders are also invited to participate in these meetings.
The board of directors has a long tradition in company G and was installed already in 1926 to counterbalance the influence of the family. At the moment the board consists of five external members, with no family representation. Thus in its current shape, the board can be considered as a pure sounding board providing advice to the CEO and the rest of the TMT (company G has four additional external general managers). "The board of directors has a very strong advisory function. If I would act differently from the opinion of the board in a fundamental question, the board would probably say 'In this case we retire, we don't support this decision,'" explains the family CEO. Still, once he retires from the operative management, he is planning to take a mandate in the board and as a result the board will develop stronger in the direction of a controlling body with similar authority to the ones defined in the corporation law. Nevertheless, the family CEO pronounces that already today, the board has also a mediating function if conflicting interests within the family and the prospective shareholder occur. "It is definitely the case that the board has to constitute an advising, but in the case of conflict, also a moderating element. Because of that, it is important that board members are characters that are considered competent and are accepted as authorities by the shareholders," explains the family CEO.

The shareholders' meeting in company G has the formal tasks of approving the annual report and electing the board of directors. Recently the shareholders' meeting has been expanded and now also includes the prospective shareholders of the 4th generation in order to strengthen their relationship with the business. Once the shares are conveyed to the next generation also the shape and role of the shareholders' meeting will probably change and develop in the direction of a more organized corporate governance body. Already today the meeting is chaired by the external chairman of the board to add a neutral and in case of conflicts, mediating element to the meeting. Accordingly, the shareholders' meeting already today fulfills the role as a discussion arena. As the complexity and
diversity of the shareholders will increase in the future, it is likely that this task will be pronounced even stronger in the future.

Roles and goals of active shareholders

At the moment the family CEO is the only shareholder active in the management of company G. It is unsure whether one of his children from the 4\textsuperscript{th} generation will take over a managing role in the firm.

In his position as the CEO of the firm, the active shareholder perceives himself as entrepreneur in the first place. Therefore, he directs the meetings of the management board, the strategy meetings and prepares the meeting of the board of directors. In his role as a shareholder he considers himself as a "relationship manager", who has the duty to bring the prospective shareholders close to the firm: "Within the family, I am the one who brings the shareholders closer to the firm and who explains what company G is and what we do." From his perspective, particularly the relationship management with the shareholders will become more important in the future and should have first priority. He explains: "If the relationships are not right, sooner or later there will be also problems in the business." Still, he does not see a conflict in the goal-sets derived from these different positions. "For me the direction was always business first. Insofar I was never in conflict. However, I was never a passive shareholder, but always an active shareholder and therefore I always saw the necessities of the business," explains the family CEO. Based on this role perception he ranks his goals as (1) continuance of the business and therefore limited risk regarding business decisions, (2) profitability and growth, (3) safeguarding the influence of the family, (4) harmony and relationship management with the family in order to avoid conflicts and in order to prepare the next generation for the shareholder role and (5) the payment of a dividend, which he considers already as subordinated goal. The employment
of family members is not a direct goal. Although desirable, the employment of family members is subject to the qualification of the candidate. Thus, each family member has to have the same qualification and experience as an external candidate. "The fundamental goal is that the business is managed professionally, it has no priority to place family members in the business as soon as possible," comments the CEO.

Still, he realizes that the interest of the upcoming generation might show different priorities. He explains: "The goal to maintain harmony [between the shareholders] means that I have to ensure that there is a certain consonance between the shareholders regarding the business." Consequently, he considers it worthwhile to transfer also the emotional aspect of being a family shareholder to the upcoming generation in order to avoid that some shareholders over-pronounce financial interests, while other consider themselves more as co-entrepreneurs accentuating the well-being of the business.

**Roles and goals of non-active shareholders**

Currently company G has no NAS. Nevertheless, the active CEO will convey his shares to the 4th generation in a few years, making all of them NAS. Having this in mind, he is already preparing himself and the company for this transition. The explanation for this proactive behavior can be found in the past of company G. Back in 1999 the company experienced what could be the result of diverging interests between shareholders.

At the moment, the CEO does not see diverging interests between the prospective shareholders, but he recalls: "I can conclude just from the last generation, that there are in fact diverging interests [between the shareholders]. Clearly, a family member that is not really anchored in the firm, but for whom the dividend is the material link to the firm, has a different interest, namely to receive a high dividend, compared to a family member who works in the firm, who sees that the firm has to invest, who also receives a salary from the
firm and who is therefore not so dependent on a dividend." And he goes on that the more distant the relationship between firm and shareholder is, the more the shareholders perceive their shares as financial investment. Accordingly, he tries to integrate the prospective shareholders through meetings and structured communication processes trying to avoid that such problems and situations emerge. From his perspective, the ideal shareholder is interested in the business, gets constructively involved through a mandate on the board or through participation in the shareholders' meeting and has apart form the financial interest also an emotional interest in the well-being and development of the firm, while valuing the latter above the pecuniary interests.

**Shareholder roles and goals – Competing or complementing?**

In the past, Company G experienced that diverging interests of shareholders can have severe repercussions on the business. Having the history of company G in mind, it is not surprising that the active CEO of company G is very aware of the conflict and different opinions that can emerge between shareholders. Especially, the struggles about leadership concepts, the inclusion of external management and the size of the dividend payment had serious impact on the firm, even threatening its continuity. In fact, these conflicts emerged at least to a certain degree, because there were no commonly accepted rules and adequate corporate governance elements in place. In the end, the conflicts between the shareholders could not be resolved and resulted in the split up of the firm. Although the shareholder structure in company G will remain relatively small in the near future, counting only four shareholders, it is still important to learn from the past and manage the relationship between the shareholders and between shareholders and firm. The history has shown that the emergence of conflicts is not necessarily a function of the number of shareholders and that also a relatively small number of four shareholders could lead to severe problems for
the firm. Therefore an open discussion about contrary goals and integration of the NAS is necessary to avoid that history repeats itself.
Interview guideline Part A

Interviewleitfaden
der Unternehmensbefragung
ezum Thema

Family Business Governance als Instrument zur Zielharmonisierung
zwischen aktiven und nicht-aktiven Gesellschaftern in
Familienunternehmen

Hauptteil 1: Strukturierte Fragen

Interviewpartner:

Unternehmen:

Ort, Datum:

Beginn: Ende:

Ansprechpartner:

Jan-F. Siebels, MBA, Bebelallee 3; 22299 Hamburg; Tel.: 0160-7446266; E-Mail: janfolke_siebels@de.rolandberger.com

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Vorbemerkungen


Berlin, 03.02.2011
Hauptteil I: Strukturiertes Gespräch


Angaben zum Interviewpartner und zum Unternehmen

1. Welche Funktion haben Sie in Ihrem Familienunternehmen?

2. In welcher Branche ist Ihr Unternehmen schwerpunktmäßig tätig?

3. Wie hoch ist der Jahresumsatz Ihres Unternehmens (2010)?

4. Wie viele Mitarbeiter beschäftigt Ihr Unternehmen?

5. Welche Rechtsform hat Ihr Unternehmen?

6. Wann wurde das Unternehmen gegründet? In welcher Generation befindet sich das Unternehmen?

7. Wie hoch ist der Anteil der Familie am Eigenkapital?
7a. Falls nicht 100%, wer hält die restlichen Anteile und in welcher Höhe?

☐ Management ca._______%
☐ Strategischer Investor ca._______%
☐ Finanzinvestor ca._______%
☐ Streubesitz (Börse) ca._______%

Gesellschafterstruktur

8. Wie viele (Familien-)Gesellschafter hat Ihr Unternehmen?

9. Wie viele Familiengesellschafter sind in der Geschäftsführung des Unternehmens aktiv?

10. Wie hoch ist die größte Einzelbeteiligung am Gesamtunternehmen und jeweils für aktive und nicht aktive Gesellschafter?
    
    Insgesamt ca._______%
    Aktiver Gesellschafter ca._______%
    Nichtaktiver Gesellschafter ca._______%

11. Wie hoch ist die kleinste Beteiligung am Gesamtunternehmen?
    
    Insgesamt ca._______%
    Aktiver Gesellschafter ca._______%
    Nichtaktiver Gesellschafter ca._______%

12. Nach welchem Prinzip wurden bisher die Anteile im Rahmen der Nachfolge übertragen?

☐ Strenger nach Erbhofprinzip (1 Person erbt 100%)
☐ Gemäßigt nach Erbhofprinzip (Mehrere Personen erben, 1 mehrheitlich)
☐ Nach Egalitätsprinzip
☐ Über die Generationen unterschiedlich
13. Gibt es Gruppierungen im Kreis der Familiengesellschaften?

☐ Ja  ☐ Nein

13a. Falls ja, in welcher Struktur?

☐ Stämme
☐ Werte/Unternehmensphilosophie, wie z.B.:

13b. Falls ja, sind diese Gruppierungen rechtlich organisiert?

☐ Nein
☐ Ja, und zwar in Form von:

13c. Falls eine rechtliche Organisation der Gruppierungen vorliegt, wie verhält sich unter diesen Umständen das Verhältnis zwischen der höchsten und niedrigsten Beteiligung am Unternehmen?

Höchste: _______%;  Aktiv?  ☐ Ja  ☐ Nein
Niedrigste _______%  Aktiv?  ☐ Ja  ☐ Nein

13d. Welchen Zweck erfüllt die rechtliche Organisation der Gruppierung?

☐ Pattmodell
☐ Sicherung der Mehrheit (> 50%)
☐ Sicherung einer qualifizierten Minderheit (>25%)
☐ Sicherung eines Minderheitseinflusses (<25%)

Corporate Governance

14. Wie stark ist die Familie in der Geschäftsführung vertreten?

☐ Reine Familiengeschäftsführung
☐ Familiendominierte Geschäftsführung
☐ Fremddominierte Geschäftsführung

15. Besteht ein Beirat/Aufsichtsrat in Ihrem Unternehmen?

☐ Ja  ☐ Nein (weiter mit Frage 16)
15a Wie stark ist die Familie im Beirat/Aufsichtsrat vertreten?

☐ Reiner Familienbeirat/Aufsichtsrat
☐ Familiendominierter Beirat/Aufsichtsrat
☐ Fremddominierter Beirat/Aufsichtsrat
☐ Reiner Fremdbeirat/Aufsichtsrat

15b. Wie viele Mitglieder hat der Beirat/Aufsichtsrat?

15c. Wie viele von den Beirats-/Aufsichtsrats-Mitglieder sind

(a) Familienmitglieder/Gesellschafter _____
(b) Fremdgesellschafter _____
(c) Unabhängige Mitglieder? _____
(d) Geschäftspartner (Rechstanwälte, Berater etc.) _____

15d. Bestehen finanzielle, geschäftliche, persönliche Beziehungen zwischen der Unternehmensführung/dem Unternehmen und den Beirat/Aufsichtsratsmitgliedern?

15e. Welche Funktion hat der Beirat/Aufsichtsrat aus Ihrer Sicht?

☐ Beratende Funktion
☐ Kontrollierende Funktion
☐ Sowohl beratend als auch kontrollierend
☐ Andere Funktion, nämlich:

15f. Gibt es eindeutige Regeln zur Rolle der Familie im Beirat/Aufsichtsrat?

☐ Nein, Beteiligungsverhältnisse entscheiden gemäß gesetzlicher Regelungen
☐ Ja, und zwar:

15g. Welche Kompetenzen hat der Beirat/Aufsichtsrat? (z.B. Personalkompetenz, Zustimmungspflichtige Geschäfte, Jahresabschluss, etc.)
15h Gibt es Ausschüsse, die sich mit besonderen Fragestellungen befassen (z.B. Audit Komitee, Vergütungskomitee etc.?)

☐ Nein
☐ Ja, und zwar:

16. Ist die Familie in irgendeiner Form organisiert?

☐ Nein
☐ Familienkonferenzen/formelle Familientreffen
☐ Familienrat
☐ Family Office
☐ Familienverfassung/Familienstrategie
☐ Sonstige, und zwar:

16a Falls ja, welche Funktion hat dieses Gremium aus Ihrer Sicht?

☐ Beratende Funktion
☐ Kontrollierende Funktion
☐ Sowohl beratend als auch kontrollierend
☐ Sonstige, und zwar:

16b. Falls ja, wie viele Mitglieder hat dieses Gremium? Wie viele davon sind gleichzeitig Beirats-/Aufsichtsratsmitglieder?

16c. Falls ja, wie oft finden "formelle" Treffen statt?

Vielen Dank für die Teilnahme
Interview guideline Part B

Interviewleitfaden der Unternehmensbefragung
zum Thema

Family Business Governance als Instrument zur Zielharmonisierung
zwischen aktiven und nicht-aktiven Gesellschaftern in
Familienunternehmen

Hauptteil 2: Freies Gespräch (Passiver Gesellschafter35)

Interviewpartner:

Unternehmen:

Ort, Datum:

Beginn: Ende:

Ansprechpartner:
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35The questions in Part B of the interview guideline have been slightly rephrased for the interviews with active shareholders or independent directors
Vorbemerkungen


Berlin, 03.02.2011
Hauptteil 2: Freies Gespräch

Rollen und Ziele der Gesellschafter

Im folgenden Abschnitt sollen Kernaussagen zu folgenden Themenbereichen generiert werden:

- Rollenwahrnehmung / Dualität von Rollen im Unternehmen und der Familie
- Ziele und Aufgaben in Bezug auf das Unternehmen
- Ziele und Aufgaben in Bezug auf die Familie
- Finanzielle und nichtfinanzielle Ziele
- Langfristige und kurzfristige Ziele
- Mögliche Zielkonflikte mit anderen Gesellschaftern
- Natur möglicher Konflikte (Sachkonflikte vs. Beziehungskonflikte)

Leitfragen:

Leitfragen in diesem Abschnitt lauten:

- Schildern Sie doch bitte – in groben Zügen – welche Rollen/Funktionen (z.B. Geschäftsführer, Aufsichtsrat, Vater, Vermittler, Investor, Kontrolleur etc.) Sie im Unternehmen und in Ihrer Familie wahrnehmen und wie sich diese voneinander unterscheiden

- Nennen Sie bitte wesentliche Ziele, die Sie in der Ausübung Ihrer Rollen/Funktionen verfolgen

- Welche Ziele stehen für Sie in Bezug auf das Unternehmen im Vordergrund? (z.B. Wachstum, Profitabilität, Stabilität, Steigerung des Unternehmenswertes, Sicherung des Fortbestands des Unternehmens, Sicherung des Familieneinflusses, Erhalt der Eigentümerstruktur etc.)

- Wenn Sie diese Unternehmensziele priorisieren müssten, welche Reihenfolge würden Sie wählen? Welche Ziele haben für Sie kurzfristig und langfristig Priorität?
• Welche Ziele stehen für Sie in Bezug auf die (gesamte) Familie im Vordergrund? (z.B. Harmonie, Versorgung der Familie ( regelmäßige Dividende), Fortbestand des Unternehmens, Beschäftigung von Familienmitgliedern, Erhalt des Familienvermögens, Nachfolgesicherung aus dem Kreis der Familie, Weitergabe an die nächste Generation, Sicherung von Ansehen und Reputation etc.)

• Wenn Sie diese Familienziele priorisieren müssten, welche Reihenfolge würden Sie wählen? Welche Ziele haben für Sie kurzfristig und langfristig Priorität?

• Ergeben sich aus Ihrer Sicht Zielkonflikte, die sich aus Ihren unterschiedlichen Rollen/Funktionen ableiten? Wenn ja, welche sind es und wie gehen Sie damit um?

• Würden Sie sagen, dass grundsätzlich eher Unternehmensziele ("Business First") oder Familienziele ("Family First") für Sie Priorität haben?

• Wie erfolgt die Umsetzung und Implementierung Ihrer Zielsetzungen?

• Gibt es bestimmte Voraussetzungen, die ein Familienmitglied erfüllen muss, um im Unternehmen zu arbeiten? (z.B. Ausbildung, Studium, praktische Erfahrung etc.)
Abschnitt für nicht-aktive Gesellschafter

- Welche Rollen und Funktionen sollten aus Ihrer Sicht die aktiven Gesellschafter übernehmen? Welche Voraussetzungen sollten diese dafür erfüllen?

- Welche Ziele verfolgen die aktiven Gesellschafter aus Ihrer Sicht?

- Wie würden Sie das Verhältnis bzw. die Zusammenarbeit mit den aktiven Gesellschaftern beschreiben?
  a) In der Geschäftsführung aktiv sind
  b) zusätzlich zur Geschäftsführung auch im Familienrat (falls vorhanden) aktiv sind

- Wie würden Sie die Kommunikation mit den aktiven Gesellschaftern beschreiben?

- Wie würden Sie Ihren Informationsstand in Bezug auf das Unternehmen beschreiben?

- In welche Entscheidungsprozesse werden Sie, als nichtaktiver Gesellschafter, eingebunden?

- Inwieweit sollten und sind Sie, als nichtaktiver Gesellschafter in der Lage sein, Einfluss auf unternehmensbezogene Entscheidungen zu nehmen? (z.B. die Einstellung von Familienmitgliedern und deren Vergütung, etc.)

- Falls Sie Konfliktsituation mit aktiven Gesellschaftern erfahren haben, handelte es sich dabei eher um sachbezogene Konflikte oder um Beziehungskonflikte (z.B. persönliche Konflikte)?

- Wie wirkt sich die Beziehung bzw. das Machtverhältnis zwischen aktiven und nicht-aktiven Gesellschaftern auf die Qualität und Geschwindigkeit von unternehmensbezogenen Entscheidungen aus?
• Haben Sie aus Ihrer Sicht ausreichend Einfluss, um Ihre Interessen zu vertreten?

• Denken Sie, dass Sie Ihre Interesse durch ein Mandat im Beirat/Aufsichtsrat bzw. durch Engagement im Familienrat (falls vorhanden) besser vertreten können?

• Haben aktive Familienmitglieder/-gesellschafter Vorteile (sog. Private Benefits) gegenüber den nicht-aktiven Gesellschaftern (z.B. Dienstwagen, Sekretariate, etc.)

• Sehen Sie Ihre Interessen durch die Geschäftsführung vertreten?

• Denken Sie, dass die Gesellschafterstruktur die unternehmerische Freiheit des Managements einschränkt?

• Gehen Sie neben Ihrer Funktion als Anteilseigner einer anderen professionellen Vollzeitbeschäftigung nach?
Family Business Governance und Organisation

Im folgenden Abschnitt sollen Kernaussagen zu folgenden Themenbereichen generiert werden:

- Organisation der Corporate Governance
- Funktionen der einzelnen Governance Elemente
- Eignung der Elemente um eventuelle Zielkonflikte zwischen aktiven und nichtaktiven Gesellschaftern zu adressieren und abzufedern
- Organisationsstruktur als Möglichkeit, um die Auswirkungen von Zielkonflikten zu verringern

Leitfragen:

Leitfragen in diesem Abschnitt lauten:

- Beschreiben Sie bitte – in groben Zügen – die Organisation der Corporate Governance in Ihrem Unternehmen (Welche Elemente gibt es, wie sind diese organisiert etc.)

- Welche Funktionen/Rollen und Aufgaben/Kompetenzen kommen aus Ihrer Sicht den einzelnen Gremien/Elementen (Beirat, Aufsichtsrat, Familienorganisation etc.) zu (z.B. Verbesserung der Kommunikation, Vertrauensbildung, Mediation etc.)?

- Wie erfolgt die Zusammenarbeit/Abstimmung zwischen Beirat/Aufsichtsrat und Familienrat und der Geschäftsführung? (z.B. vertrauensvoll, basierend auf gemeinsamen Werten, professionell etc.)

- Welche Bedeutung kommt aus Ihrer Sicht einer formale Organisation der Familie zu? Falls eine Familienverfassung/-strategie/-charta besteht, was wird in dieser geregelt? Halten Sie eine solche Familienverfassung für sinnvoll?

- Wie übt die Familienversammlung ihren Einfluss auf das Unternehmen aus bzw. wie sollte sie Einfluss ausüben? (z.B. Berufung des Aufsichtsrats/Beirats,
Mitbestimmung bei der strategischen Ausrichtung, Entscheidung über Nachfolgeregelungen etc.)

- Welche Kriterien waren für Sie bei der Einführung der Corporate Governance Struktur entscheidend? (z.B. Wachstumsschwelle musste gemeistert werden, Beratung durch Dritte in Bezug auf Nachfolge, Kontrolle des Top-Managements, Professionalisierung des Verhältnisses zwischen Familie und Unternehmen)

- Sind die genannten Corporate Governance Gremien aus Ihrer Sicht geeignet, um Zielkonflikte zwischen aktiven und nicht-aktiven Gesellschaftern abzufedern? Wenn ja, warum? Wenn nein, warum nicht? Welche der Gremien insbesondere?

- Welche Anforderungen (z.B. Größe, Zusammensetzung) sollten diese Gremien erfüllen, um zur Lösung von Zielkonflikten beizutragen?

- Wie würden Sie einer regelmäßigen Reorganisation der Anteile gegenüberstehen, um so die Anzahl der Gesellschafter zu begrenzen?

- Hat in Ihrem Unternehmen ein Gesellschafter die Möglichkeit zum Ausstieg? Wie ist dies geregelt (Bewertung von Anteilen, Interner Kapitalmarkt, Andienungspflichten, Auszahlungs-Schemata etc.)?

- Inwieweit eignet sich aus Ihrer Sicht eine Organisation als Holding oder Stiftung, um die Wechselwirkungen zwischen den Systemen Familie und Unternehmen zu minimieren? Welche Vor- und Nachteile sehen Sie darin?

- Welche anderen Alternativen wären aus Ihrer Sicht geeignet, um das Konfliktpotenzial zwischen aktiven und nicht-aktiven Gesellschaftern zu minimieren?

Vielen Dank für Ihre Teilnahme!
Appendix III: Chapter 4

Remarks:

The case studies used in Chapter 3 and 4 are based on the identical empirical sample. However, the case write-ups differ regarding the focus of the respective chapter. As the case-write ups are already presented in Appendix II, this appendix contains only the deviating part of the write-ups prepared for Chapter 4.

Case studies A-G in Chapter 4

Case study A: Chemical Industry

Sources used:

- Interview with the active family CEO
- Interview with non-active family shareholder (NAS)
- Company information presented on the webpage; press research

Company history

See Appendix II.

Shareholder structure and family

See Appendix II.

Corporate governance structure

See Appendix II.
Competing shareholder goals

The family CEO of company A belongs to the family clan who has the majority stake in the company. In his role as the managing director he acts relatively independent from the family and accentuates business-related goals such as continuance of the business, growth and profitability or safeguarding the influence of the family. The payment of a dividend is only of subordinate importance to him. Due to the fact that only one family member is also director on the board, the influence of the NAS is very limited. In addition, the family CEO mentions, that although the family director knows the different interests of the family he tries to fulfill his board task "professionally" without considering idiosyncratic interests. Accordingly, some NAS feel that their interests are not always sufficiently represented on the board and instead try to use informal channels such as personal discussions to influence the business.

Apart from that, one NAS accentuated that there is no active information policy from the company side and no earnest efforts to integrate him. When asked how he would rank his own level of information concerning the business, he rated himself a three out of six, adding that other NAS definitely have less information about the company. Nevertheless, being a stock corporation, company A is in a special situation because the company may not share information with the family members which is not shared with the minority shareholder. Before the buy back of the 30% minority stake, "this situation has been consciously used to sustain a certain degree of information asymmetry," comments one NAS and adds that for him this situation was one of the main reasons to support the buy back. For him transparency is simply necessary in order to be able to assess whether the family CEO also considers his value-oriented interests. From his perspective as an investor, he pronounces goals such as company value, payment of a dividend and growth and profitability. Insofar the goals of the active and NAS are to a certain extent competing
as they show different goal prioritizations. However, the group of NAS is heterogeneous in itself. In contrast to the investor-minded NAS, some of the local NAS derive a strong emotional value from being shareholders of the firm, which seems to compensate them for the missing integration and information. Nevertheless, other NAS may simply have resigned and adapted to the situation. Accordingly, the degree of involvement and identification with the company is relatively heterogeneous among the NAS in company A.

**Aligning corporate governance**

Recently one of the NAS, the brother of the CEO, identified the need of improving the family governance and started to call for a family charta in order to increase the family influence and in order to define cultural cornerstones regarding the relationship between family and firm. As the CEO said: "[…] for me, there has been no necessity [to develop a family charta] and also no time to do it, I mean there was no pressure to do it. Now someone comes saying: 'Listen, there are so many of us [family shareholders] outside and you rule relatively freely and independently. Now it is time to give it a structure.'" Consequently, the family CEO started to develop a first draft of a family charta. Although the initial impulse came from the NAS, he also perceives a family charta as an important instrument. In his view a consortium agreement and the articles of association are simply not sufficient and fail to consider all aspects (especially family related aspects) in which a common understanding is required in order create a solid foundation for the long-term survival of the firm. As the NAS comments: "This [family charta] is an essential cornerstone for me, because you can define borders and reference points for potential conflict situations before these conflicts emerge." In addition, the family charta should not only keep records regarding the goals of the family and the firm, but also serve as an orientation point for the younger shareholders in order to preserve family culture.
Looking forward, both active shareholders and NAS expect an increasing fragmentation of the shares. Having this in mind, the need to better inform and integrate the NAS has also become apparent. From the perspective of the family CEO a more formal organization of the family, possibly in form of a family council, will be necessary once the total number of shareholders grows to 15 to 20. This will be the case in the next generation in company A. In order to prepare itself, the company has started to initiate different activities aiming to counteract the threat of decreasing interest in the firm and strengthen the emotional component of being a family shareholder. First activities include two nonprofit foundations which support the local community. These foundations arrange different events and invite, among others, all shareholders to participate in these events. Internships for the shareholders’ children are additional means to give the younger generation the chance to get to know the company and to identify themselves with it. Still, the family CEO admits "we are just in the beginnings here".

The NAS goes further and calls for more periodic shareholder meetings and a more transparent reporting. From his perspective it is essential that the different levels of information requests within the shareholder community are satisfied. Also the idea of introducing a family office as an interface between shareholder and company is evaluated positively: "This is a very good thing," states the NAS because it increases the involvement of the shareholders with the firm and offers an additional non-monetary value for them. The family CEO agrees: "[A family office] makes a lot of sense." This is especially the case with an increasing number of NAS. He thinks that it is important to make oneself aware of the relevance that the shareholders actually have. Nevertheless, the form and tasks of a family office have to be clearly defined and depend on the size of the firm.

When asked which element of the corporate governance they would consider as a potential arena to solve conflicting goals, both mention the shareholders’ meeting and agree
that the advisory board has different tasks. Both cannot see a mediating task of the board arguing that mediation is always a very personal thing and cannot be institutionalized.
Case study B: Textile industry

Sources used:

- Interview with the active family CEO
- Interview with external chairman of the board of directors
- Company information presented on the webpage (company profile etc.); press research

Company history

See Appendix II.

Shareholder structure and family

See Appendix II.

Corporate governance structure

See Appendix II.

Competing shareholder goals

The dispersed shareholder structure of 130 shareholders in company B results in different goal functions and priorities of the NAS. "If you have 130 shareholder, you have yellow ones, green ones, blue ones, red ones, you have qualified ones and unqualified ones you have farmers and you have professors…,” describes the family CEO the situation. While some shareholders show high interest and a strong emotional attachment to the firm, others take a more abstract perspective and accentuate the financial performance of their ”investment”. Consequently the former prioritize emotional goals such as the preservation of the shareholder structure, the continuance of the business or the preservation the family influence. They derive a strong emotional value from their shareholder status and perceive
their shares as a symbol of belonging and affiliation. "Many decades ago, the company has been merged from two [family] firms, accordingly there is a very strong emotional binding," says the chairman of the board. On the other side the NAS who lost the strong emotional attachment, identification and interest in the firm due to insufficient information or distant residences, accentuate the financial performance of their shares. "[...] They see each other ones or twice a year and are happy if they get a high dividend," as the external chairman of the board describes their attitude. As long as the company performs well, they are satisfied. However, if the firm would struggle, "[...] I am not sure if one or the other shareholder would not step-up and loose some critical comments," says the chairman of the board.

In this situation the family-CEO tries to separate the management of the firm from the management of the shareholders, although regarding the latter as highly important. In his view the direct influence of NAS on the operative business should be restricted: "The more operative participation the shareholders have, the higher is the danger that conflicts ignite out of it." Accordingly, he follows a very restrictive information policy providing the NAS only with aggregated balance sheet numbers and parental developments of the financial result. However, he realizes the importance of his shareholders and perceives himself as kind of a relationship manager having the primary goals of creating harmony within the family and promoting interest and competence of the shareholders. He states: "Especially the long-term orientation of a family firm is only possible if the interest and emotional binding with the company is maintained. If everything becomes an unemotional, abstract activity the organization quickly evolves from a family firm to a capital market-driven structure."

In this situation the goals of active shareholder and NAS regarding the company may be conflicting. Nevertheless, so far the CEO pronounces his role as relationship
manager, thereby avoiding that different interest and goals escalate and result in severe conflicts.

**Aligning corporate governance**

"If you have 130 shareholders, you don’t have co-entrepreneurs anymore," states the family CEO. Accordingly, the corporate governance organization has to reflect this fact and the management of the family and the shareholders becomes exceptionally important. "My experience is that many firms start this transition process too late and find themselves getting in conflict," says the CEO. He points out that within the genesis of a family firm the necessary structures have to be established in a time, when every shareholder still thinks as a co-entrepreneur. Consequently, a resilient consensus is only possible as long as every shareholder, as a co-entrepreneur, comprehends what kind of problems and obstacles are lurking down the road if the distance, interest and competence of the NAS wane. In his own experience he sees this critical point somewhere between eight and 20 shareholders. In this phase there is still a need for participation, while the degree of expertise and qualification of the NAS already decreases. And in this situation conflict becomes emotional and threatening. With an increasing number of shareholder, "…the challenge is to structure the firm formally as incorporated company, while emotionally remaining a family firm," says the family CEO.

Reflecting these points, company B has established several instruments in its governance structure to operationalize these intentions. First of all, the board of directors is dominated by external and independent directors and has similar competencies as the advisory board in a corporation. Thus the board is respected as a proficient counselor as well as a controller. The family-CEO comments that if the company would perform below its prospects: "It would be fatal, if the board would not kick me out if it thinks that this would be necessary, only because I am a shareholder, because the board would not benefit
my own interests [as a shareholder] with such a behavior," explains the CEO. In addition, company B has started several initiatives to strengthen and support the proximity and emotional identification of their shareholders with the company. One example is the family weekend which takes place at least once a year. During this weekend the shareholders' meeting takes place and is framed by several social activities aiming to increase communication between the shareholders. Furthermore, this weekend comprises also an education program during which external trainer report about changing business-related topics such as how to read a balance sheet, important regulations of the inheritance law or similar topics. By doing so, company B tries to educate its shareholders putting them in the position to better understand the challenges and problems of the firm.

In order to further support these initiative, company B is currently developing a family charta. The main intention is to make the company culture more transparent and to give younger shareholders orientation points of what they can expect from the firm and what the firm expects of them. "Otherwise you have the problem that if the knowledge of culture is communicated only by the parents, everyone communicates it a little different, as he or she has perceived it," says the CEO. In the end this could lead to a dilution of the original values. Still, the charta is currently in a developmental stage in company B.

Another initiative which is aimed to improve the contact and exchange between firm and NAS is the family office. As described above, initially the office was founded with a different intention. However, today it serves as an important contact point. In this context the family CEO points out: "With this many shareholders you surely have the problem that conflicts, which are about to ignite are not always transparent from the beginning. The reason is simply that people do not dare to address their issues." One example would be the intention of a shareholder to sell his or her stake. In company B, and in most other family firms, this is not only an economic decision, but it would be seen as a
retirement from the family. Consequently, people fear to articulate their intentions leading to emotional frictions which affect in turn their behavior in other situations as well. The CEO explains that he gets sometimes all of a sudden curtain fire on topics, where he cannot tell the reason for it. In fact, in such cases oftentimes the reason is discontentment of some NAS with such a situations explains the CEO. Therefore, "It is important, and I see this as a task of the family office, to have some kind of confidentiality institution." Furthermore, company B had situations in which shareholders fell into the hand of a sect or senior-shareholders were suffering from dementia and the company had to ensure that attendants do not get influential positions. In sum, there are all kinds of human things where the company has to intervene or moderate in order to protect itself and its shareholders. So far the family office in the shape of a relationship management office has proven a useful tool to address such issues.
Case study C: Consumer goods industry

Sources used:

- Interview with the active family CEO
- Interview with a non-active shareholder (NAS)
- Company information presented on the webpage (company profile, annual report etc.); press research

Company history

See Appendix II.

Shareholder structure and family

See Appendix II.

Corporate governance structure

See Appendix II.

Competing shareholder goals

The ownership structure in company C is rather concentrated counting in total seven family shareholders. Nevertheless, already in this state the interest and proximity of the NAS seems to start to drift apart. "There are really four different shades," says the managing director. While one NAS gets prepared to take an active management position in the firm, he has been coined by the senior-managers and shares their goal-functions. Furthermore, another NAS, who is about to take a mandate in the board of directors in the future perceives herself as a co-entrepreneur, also sharing most of the goals and goal-priorities of the active shareholder, but demanding more influence and integration. Thus, she feels a strong emotional relation with the business and pronounces goals such as
continuance of the business, growth and profitability, safeguarding the influence of the family, harmony within the family and the payment of a dividend. Nevertheless, she does not feel sufficiently integrated. Besides the shareholders' meeting there are no structures that enable her or the other NAS to contribute and share their ideas. As a result, the remaining NAS already take more distant and abstract positions towards the family and the firm. As one of the NAS puts it: "The more distant the position of the shareholder to the company, the more remains the financial interest," indicating a stronger investor-minded role that is about to emerge. The managing director has already identified this problem and explains: "These conflicts do not exist at the moment but, I would have nearly said they are foreseeable, you have to expect them." Accordingly, he pronounces that it will become one of the key challenges and goals in the future to induce, nourish and strengthen a certain goal-congruence among the shareholders. Also the NAS recognize this challenge and point out that the firm needs dedicated and informed shareholders in the future. As one of the NAS comments: "If there are only so few [shareholders] as in our case, it becomes very difficult if they are not informed and if they don’t have a close relationship with the firm. This is the biggest conflict potential."

Company C experienced also emotional conflicts between the different family clans, which sometimes also affect the working-relationships in the firm. "Sometimes your cannot separate theses things," says the managing director. While there are certain unwritten rules within the management team which help to deal with these situations, such rules are missing in the relationship between the NAS. One of the NAS states that there are simply too few opportunities to work together and to get used to each other, which makes the relationship-building hard.
Aligning corporate governance

Company C is in the beginning of a transition phase. The 3rd generation is about to step back from their management duties, while the 4th generation is about to take over selected positions within the management and the board. As a result, the company will be transformed from an completely family-managed firm with the three actively managing family directors to an externally dominated TMT with only one managing family director. While the board of directors is currently a pure advisory institution, the role of the board will develop more and more to a controlling board with more comprehensive rights in the future.

The firm has already identified the need to improve the integration of the NAS and to establish certain relationship management structures. Both active and NAS reason that the formal organization of the family is of high importance. In this context especially the development of a family-charta is seen as an important project: "I think it [the family-charta] could be an element to strengthen a consistent perception of the firm, which exists today, but which is not recorded and signed-off by all shareholders," says the managing director. Also the NAS points out: "It is for sure worthwhile to give us certain rules that enable us to work professionally together despite these family connections which exist in the background." In this sense the family-charta would serve as cornerstone and orientation point for all shareholders. However, the managing director underlines that it is the process that really matters in the preparation of such a charta. Everyone has to get involved and to discuss. Insofar he sees it as a chance to increase the degree of goal-congruency as long as the number of shareholders is still manageable.

Apart from that, company C tries to counteract the alienation of the NAS by improving communication, information and strengthening the feeling of belonging. The emotional power that can be derived from the reputation of the company is not used
sufficiently thinks the NAS. As a first initiative, company C plans to implement two or three additional company-related meetings per year during which for example production sites are visited or some of the external managers can be met. From her perspective there has to be the possibility or the platform so see and interact with each other more often. "For us in the next generation it is even more important, because otherwise we don’t have sufficient contact points,” says the NAS.

The board of directors has currently limited decision-making authority and serves primarily as a sounding board. Accordingly, it is also used as a discussion arena: "It happens quite often that opinions collide during the meeting. Afterwards we split up and everyone thinks about it," says the managing director. This will also continue in the future because, "I have the problem that the shareholders' meeting will consist increasingly of people with completely different professions," says the NAS who is preparing for a board mandate. Overall, she judges that the formal organization of the family will become increasingly important and suggests to establish a family council in the medium term. Such a body could then take over the task of structuring discussions and different opinions of the shareholders. Furthermore she pronounces the importance to establish these structures early enough in order to motivate the other NAS to participate.

Overall company C, although being in an early stage, identifies the challenges that lie ahead and tries to establish sustainable governance structures as long as the shareholder structure is manageable and the goal priorities are still relatively homogeneous.
Case study D: Logistics

Sources used:

- Interview with the active family CEO
- Interview with a non-active shareholder (NAS)
- Company information presented on the webpage (company profile, etc.); press research

Company history

See Appendix II.

Shareholder structure and family

See Appendix II.

Corporate governance structure

See Appendix II.

Competing shareholder goals

The shareholder structure in company D is already dispersed counting 11 shareholders. In addition, some family members of the next generation are already in the loop and will become shareholders soon. In the past, the family had started to digress from the business, because they had not been integrated at all. As this trend became apparent, company D started to reorganize its bylaws and corporate governance structure counteracting this development and trying to avoid the emergence of conflicting interests among the shareholders. One of the core elements in this process was the development of a family charta, which took the company almost two years and was supported by an external
facilitator. The family CEO recalls: "I was very surprised how different everyone was thinking about the same thing." Therefore, it was important to get everyone involved during the development process and to consider all different points of views and interpretations. In the end the shareholders agreed on rules and goals that were understood and supported by everyone.

Overall, the goals of active shareholders and most NAS in company D are rather complementing than competing at the moment. Both accentuate goals such as preservation of the family wealth and shareholder structure, safeguarding the influence of the family, sustainable, long-term oriented growth and profitability, harmony within family and firm and payment of a dividend. Only the prioritization of the goals shows slight differences. Still, the family CEO foresees that with an increasing number of shareholders and generations, also the weight of the financial interests will increase: "The company has to be able to pay a minimum dividend, it has to be in the position to keep the pace of the growth of the family," and he adds: "We see that it is very important that the shareholders are not only dividend receivers, who see the firm as part of an investment portfolio, but that they recognize that it is much more." Still, the identification and proximity of the NAS differs in company D already today. While the two board members and the two NAS that take the family management positions are highly interested and emotionally attached to the firm, others take more distant positions relative to the firm. These shareholders had problems during the development of the family charta to find their individual roles. As one of the NAS puts it: "[…] Problems might occur once the identification [of the NAS] with the company drifts off". As a result, single shareholders might prefer to exit due to a lack of identification with the company goals. For example one of the NAS has a strong environmental awareness which somehow collides with the CO2-emission of the truck-fleet. Furthermore, the managing director describes the phenomenon that some
shareholders have problems identifying themselves with the firm, simply because they feel that they did not deserve the wealth and privileges that are connected with the shareholder role. Consequently, they perceive their shares more as a burden than a privilege. Both examples show that if the relationship between family and company is not professionally managed, conflicting interests and attitudes emerge, causing problems that need to be solved.

**Aligning corporate governance**

Company D has recognized that its shareholders play an important role impacting the long-term success and survival of the firm. Therefore, the company has developed a very comprehensive corporate governance structure aiming to achieve harmony, cohesion and common goal-sets within the firm. The DNA of the corporate governance structure strictly differentiates the business and family dimension. In this setup the board of directors becomes the nexus between both "worlds". Thus, the board has, besides its controlling and advisory task, also a defined mediation task. Still, this structure limits the direct impact that shareholders can have on the business. The family CEO explains: "We put strong emphasis on the point that formal topics are located with the governance bodies of board and TMT […] to ensure that we are capable of acting." Accordingly, the shareholders’ meeting has only limited decision-making authority, focusing primarily on the appointment of the auditor and the election of the board members. From this position, the fundamental role of the family and the NAS is not to influence the formal, operative management decisions of the firm, but more to understand why certain decision are taken and why the firm is lead the way it is lead. Nevertheless, the family and the shareholders are integrated through a structured communication process through which they can share their ideas and questions regarding the firm. "Today there are again many possibilities and arenas, in which family
can express itself, but without directly impacting the business processes," explains the family CEO.

One of the key elements to manage this communication process and the relationship with the NAS is the family management. The primary goal of the family management is to inform and educate the NAS and thereby increase their interest and emotional attachment to the firm. In order to implement these goals, company D has established different meetings throughout the year which serve as a platform for shareholders to meet and to exchange ideas. The main events are the shareholders’ meeting and a family meeting, while the latter coincides with the global leadership conference of company D offering the opportunity for the NAS to get also in touch with the firm’s external management. In addition, the family management offers bi-monthly telephone conferences during which current developments and topics are discussed. Especially these conference calls have proven to be useful as arenas for discussing contrary perspectives.

Furthermore, in order to enable the NAS to better understand company related issues, the family management offers a so-called family education program, during which once or twice a year external or internal specialists report about certain topics, such as sustainability in logistics, how to read a balance sheet or comparable topics. In addition, it is also possible for the shareholders to attend external seminars upon request. Still, the family education part of the family management is still in its "infancies" as the family CEO explains: "The basis [for the family management] was to work for two years on our family charta, which has to be inflated with life now. This is a difficult task." Once this has been achieved, company D thinks about expanding the family management: "My next project will be the introduction of a family office in the narrow sense, offering portfolio management to the shareholders," says one of the family managers. In order to complement the family management, company D has also evaluated some activities to
improve the emotional attachment of its shareholders and to integrate especially the part of NAS that have identification problems with the firm. One idea was to establish a charitable trust in which shareholders could get involved. "This trust should get company shares and should be a field where the family members, who are not active in the operating or family management, could self actualize themselves," explains one family manager. However, this project has been put on hold due to very different ideas concerning the field of action of the trust.

Overall, company D has recognized the necessity to align its corporate governance structure in order to integrate and manage its family dimension and NAS. Although structures and bodies are in place it will take some time until processes are established and family governance is really filled with life. One example in this regard is the clan association, which, although having been dismissed during the development of the family charta, is still in the head of some of the older NAS. Accordingly, it will take some time until all initiatives will unveil their potential.
Case study E: Direct sales

Sources used:

- Interview with the chairman of the board (NAS), former family CEO
- Company information presented on the webpage (company profile, annual report etc.)

Company history

See Appendix II.

Shareholder structure and family

See Appendix II.

Corporate governance structure

See Appendix II.

Competing shareholder goals

The ownership structure in company E is dispersed counting 20 family shareholders with different levels of identification and attachment to the firm. "The interest [in the firm] is different, some have more interest, others have less interest," describes the chairman of the board the situation. While the NAS that take board mandates are very interested, showing a high level of information and understanding for company-related topics, the remaining NAS take different positions and attitudes. "I think the management of the family is more important and also more difficult than the management of the company," describes the chairman of the board the challenge of managing the shareholder relations. While one of the more distant NAS plans to sell his shares, because he wants to build up a trust in order
to find a field for self-actualization, another NAS wanted to work in the company but was rejected by the board arguing that it was too early and that he would lack the necessary qualification and experience. Furthermore, some of the NAS seem to have trouble identifying themselves with the company. Since they did not earn the shares themselves, they sometimes have a bad conscience against society because fate has treated them better than others, which affects their feeling of self-worth. Moreover, an increasing alienation of the shareholders could lead to a stronger emphasis on pure financial interests of NAS.

"That would be conceivable," says the chairman of the board and adds, "but we have a basic argumentation for that." In company E the shares have not been inherited as free capital, but with the expectation of the descendent that the beneficiary (i.e. the NAS) integrates him/herself in the discipline of the company regardless of their own interest or attitude. As long as the NAS subjects him/herself to this unwritten law, such problems are solved. Still, once distance to the company increases, the emotional bonding to the values and rules of the firm decreases and the problem resurfaces. Overall, the goals and interests of the NAS in company E are heterogeneous and to some extend conflicting. Nevertheless, so far they are actively managed and mostly resolved or at least mitigated by the chairman of the board.

**Aligning corporate governance**

Company E has recognized that it is essential to address and integrate the shareholders of the firm. "You have to maintain the interest of the family in the company, in order to hold the firm together," says the chairman of the board. Already in his position as managing partner he followed this approach and now, as the chairman of the board, he takes the role as a family manager, whose responsibility is to bridge the gap between family and firm.

"To lead the family means that you have to take every family member very serious,
regardless of how foolish the interests or requests may be. You have to have a lot of patience," explains the chairman. In his opinion the times where a patriarch could keep the family in check just by his personality are over, as young people are much more self-aware and self-conscious today.

In order to maintain the interest of the shareholders, company E holds at least two official shareholders' meetings throughout the year. Every two years, the first meeting is held abroad at the location of one of the firm's affiliates. In the past the shareholders made joint-trips to e.g. China or Mexico. "This [trip] is a tremendous joint experience," says the chairman and adds: "We do this to come together, to stay together." Such events provide the necessary platforms to get to know each other and to communicate and exchange about company-related and family-related topics. By visiting affiliates of the firm, the NAS get also a better understanding of how the company works and why certain decisions are taken. "The family has to identify itself with the firm […]. But this means, the firm may not do things with which the shareholders have trouble to identify," states the chairman. This identification in turn affects also the feeling of self-worth of the shareholders and also their emotional attachment to the firm. "The self-respect of a shareholder is defined to a certain degree by the respect that the public gives him. And this [public] respect depends in turn on the respect that the company enjoys," elaborates the chairman. Accordingly, it is important that the company also nurtures the emotional value that shareholders derive from their affiliation to the firm. For example Company E has a non-profit trust, which engages in charitable projects. The NAS are involved by voting on the different projects that the trust should support and by doing so they derive an emotional value. This applies especially to the NAS that perceive their inheritance more as a burden than a privilege, as it is much easier for them to identify with a charitable activity as they use their wealth to give something back to society.
Nevertheless, conflicts occur in company E and most of them are emotional in their nature. In this context the firm sees it as the role of the board of directors and especially of the chairman to take a mediating role and to help to solve these conflicts. As such, the chairman has the opinion that "the board has to discuss very open about all kinds of topics. [...] It is important that the board really discusses, because the other family members do not have the necessary information and if the firm fails to integrate the other family members, the danger of alienation increases". Nevertheless, he also admits that one has to live with conflicts as in some cases emotionally charged issues cannot be resolved. "If that is done with respect toward each other, it may work out, if not, it may also fail," comments the chairman of the board.

Overall, the chairman agrees that with increasing size of company and number of shareholders, there has to be also a professionalization in the corporate governance structure. "Whether our structure is sufficient to keep the family involved, is a question that each generation has to answer for itself," says the chairman. Looking into the future he thinks that the establishment of a family council chairing the shareholders' meeting might be a useful addition to the corporate governance structure as it would give the chairman of the board more freedom to pay attention to his controlling and advisory task regarding the business.
Case study F: Retail

Sources used:

- Interview with one member of the board (NAS), former family CEO
- Company information presented on the webpage (company profile, history etc.);
  press research

Company history

See Appendix II.

Shareholder structure and family

See Appendix II.

Corporate governance structure

See Appendix II.

Competing shareholder goals

Company F is currently in a transition phase. Two of the three 3rd generation shareholders are about to convey their shares to the 4th generation. Accordingly, the shareholder structure will consist of 7 to 9 shareholders, of which two are already active in middle management, but not in the TMT of the firm.

While two of the three 3rd generation shareholders have mandates in the board of directors they take the roles of co-entrepreneurs, accentuating a strong business-first attitude and always placing the interest of the firm above the ones as a shareholder. Nonetheless, the NAS who just retired from his position as managing director already identifies different trends and potential for diverging interests in the 4th generation. While company F did not pay dividends in the past because shareholders were active in the
management and compensated through their salary, he explains that "it is foreseeable that the next [generation] shareholders that are not active in the firm, will want to see a dividend someday," and he adds:"It starts already with my nephews [who are active in the middle management], they get a good salary, but there are used to a high standard of living from their parents and if they want to keep this standard the salary might not suffice." Thus they might request additional dividend payments to keep up their standard of living. "You have to keep the shareholders calm. They don´t have to become rich, but they have to be satisfied," explains the member of the board. Furthermore, the descent of the shares to their children might create a clan-formation which in turn could affect the composition of the board once the 3rd generation brothers retire. Since the NAS thinks that his nephews have no potential to become members of TMT, they should not get a board mandate either, he comments "This [problem] is not resolved yet."

Despite the fact that no obvious conflicts exist at the moment, it is foreseeable that interest of the NAS in company F develop in different directions. "We recognized this. We have to integrate these shareholders by sending them information, by inviting them, by bonding them to the firm, so they have an emotional relation and bonding to the firm," comments the member of the board, recognizing that the management of the family relations will become even more important in the future.

**Aligning corporate governance**

Company F has realized that the firm is in a transition process and that it is important to create and adjust corporate governance and to improve the integration of the NAS. "Just electing the board once a year, will be too little, it will not bind them [the NAS] to the firm," says the family board member. A first initiative in this context was to expand the shareholders' meeting and invite also the spouses and other family members above 16
years of age. Additional meetings are planned in order to get the shareholders to know each other better and to provide additional platforms for discussion. As for now, the board member does not see the necessity to develop a family charta or something alike. However, if the distance of the shareholders would increase in the future he values a family charta as a useful instrument to document the values and goals of the company and give younger shareholders an orientation point.

Apart from this, the role of the board is about to change in the future. In order to prevent possible conflicts within the family from affecting the business, the board will become the nexus connecting the family and the business dimension. The board member explains: "In fact, the shareholder has not much to say, but since they elect the board of directors, they can exert pressure on the board. Still, they don´t have anything to say concerning the operating business." Moreover, there will probably be no family member in the TMT during the next years, leading to a stronger accentuation of the board´s controlling task. Finally, the mediation task of the board will be stronger pronounced in the future as the board is seen as the adequate arena for discussion: "You can never decide completely rational, because in a family firm, there are always emotions involved. Because of that, I consider it important that [a neutral] member of the board, who has certain decision-making authority, is present," says the NAS active in the board.

Overall, the NAS recognizes that it is important to establish the necessary structures as long as there is a common understanding of the rules and goals of the firm. However, being in a transition phase, company F is about to take the first step in this direction and endorsed the necessity to keep up the interest, proximity and emotional attachment of the shareholders in the firm. The establishment of more frequent meetings and interactions or the establishment of a structured information process ensuring that all NAS get the same information at the same time is only the first steps in this direction.
Case study G : Consumer goods

Sources used:

- Interview with family CEO
- Company information presented on the webpage (company profile, press research etc.); press research

Company history

See Appendix II.

Shareholder structure and family

See Appendix II.

Corporate governance structure

See Appendix II.

Competing shareholder goals

In the past, company G experienced that diverging interests of shareholders can have severe repercussion on the business. Having the history of the company G in mind, it is not surprising that the active CEO of company G is very aware of the potential conflicts that can emerge between shareholders. Especially the struggles about leadership concepts and the inclusion of external management had a serious impact on the firm, even threatening its continuity. In fact, these conflicts emerged at least to a certain degree, because there were no commonly accepted rules and adequate corporate governance elements in place. In the end, the conflicts between the shareholders could not be resolved and resulted in the split-up of the firm. Although the shareholder structure in company G will remain relatively concentrated in the near future, counting only four shareholders, it is still important to learn
from the past and to manage the relationship between the shareholders and the firm. The history has shown that the emergence of conflicts is not necessarily a function of the number of shareholders and that also a relatively small number of four shareholders could lead to severe problems for the firm. Therefore, an open discussion about contrary goals and integration of the NAS is necessary to avoid that history repeats itself.

**Aligning corporate governance**

Company G has quite some experience with diverging shareholder interests from the past. Although it is hard to say whether or not a different corporate governance structure would have avoided the negative repercussions and split-up of the business, company G has learned from the past and tries to align its governance structure accordingly.

Once the family CEO will retire and take the chairmanship of the board of directors, the role of this body will also change. If no family member follows in the active management of the firm, the board will become the nexus connecting the family and business dimension. But even in this scenario he would leave the majority on the board to external directors: "I think it is not good if the family has the majority, but externals should have the majority in order to ensure that there is no family policy conducted on the board. Business first should also hold for the board of directors," explains the family CEO his reasoning. Insofar the board functions as counterweight to the family and should avoid that family squabbles affect the operating business. Nevertheless, he adds: "I think that the board plays an advising role, but in certain cases also should play, could play or even must play a moderating, conflict-solving role, as it is the most neutral body." Still, in order to live up to these tasks, it is important to recruit the right personalities for the board. "Apart from professional competence they [the directors] must also have personal competence,
being able to talk sensibly with the shareholders, who may not be specialists, in order to be accepted by the shareholders," comments the family CEO.

Furthermore, company G recognized that one of the key elements in managing the relationship of the company and the shareholders is to keep the shareholders interested and informed about the firm. Accordingly, the family CEO considers it important, to convey the values of the firm and the emotional value that is derived from being a shareholder to the upcoming generations. In order to implement this goal he established regular family meetings and joint visits to production facilities and the like. "These meetings will become more important, because the shareholders have to learn to act responsible in their role as shareholders," explains the CEO. He also considers the development of a family charta as an important project. "I think it is very important to develop a family charta as the family grows. Simply to ensure that everyone knows very early, which rules apply. It is problematic to set such things up if conflicts already exist. You have to define early how to treat things." Moreover, these initiatives should also help to increase the emotional attachment of the shareholders to the firm: "I think it is important to try to maintain this emotional relation to the firm, because such emotions have an intrinsic value which goes beyond the financial interest." From this perspective especially an open and trustful communication culture is important. If different goals and interests occur, it is important to understand the reasons behind them. Once the family grows further, also the establishment of a family council is considered to be an option to improve the management of the family and its interests.

In summary, company G is in a transition phase. Based on the past experience the firm is about to establish corporate governance structures that enable the company to tackle the challenges that come with every generational change.
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