Department of Business Administration

Doctoral Thesis

Family Governance Mechanisms:

Relevance and Heterogeneity

Rocio Arteaga Pérez

Under the supervision of:

Dra. Susana Menéndez Requejo

Programme in Business and Economics

2021

Contents

Acknowledgements 2

PART I: Summary Report 3

1. Introduction 4

2. Objectives 10

3. Theoretical framework and hypotheses 12

4. Findings 19

5. General conclusions 28

6. References 32

PART II: Article Collection 36

7. Collection of papers 37

7.1. Family Constitution and Business Performance: Moderating Factors 38

7.2. Heterogeneity in Family Firms: Contextualizing the adoption of family governance mechanisms. 69

7.3. Managing Conflict in Family Firms: The Narrative of Family Business History 92

8. Appendix 110

Contribution of the author to the published work 110

9. Impact factor of scientific publications 111

To the memory of my father *Professor Luis Arteaga* and my mother *Professor Irma Pérez.*

Acknowledgements

Undertaking this PhD has been a truly life-changing experience for me, and it would not have been possible to do without the support and guidance that I received from many people.

I would like to first say a very big thank you to my supervisor Prof. Susana Menendez Requejo for all the support and encouragement she gave me, during both the long months I spent in Spain and also the time I spent in Sweden. Without her patience, motivation, guidance and constant feedback this PhD would not have been achievable. I could not have imagined having a better supervisor for my Ph.D research.

My research visits abroad to Jönköping University and Kristianstad University in Sweden have provided me new perspectives. I would particularly like to single out Dr. Mattias Nordqvist and Dr. Francesco Chirico who warmly welcomed me at the Center for Family Enterprise Ownership (CeFEO) at Jonkoping University. You supported me greatly and were always willing to help me. My stay at CeFEO was a wonderful gift.

My warm thanks also go to Dr. Giuseppe Grossi for their kind invitation and for very kindly hosting me at Kristianstad University. And Dr. Daniela Argento, who provided me an opportunity to join their research team Governance, Regulation, Internationalization and Performance (GRIP) that greatly enriched my academic vision.

Last but not the least, I would like to thank my family, for always believing in me and encouraging me to follow my dreams. To Ruben, who has been by my side throughout this PhD, living every single minute of it, and without whom, I would not have had the courage to embark on this journey in the first place. And to my beloved daughter Carlota for being such a good girl always cheering me up. I cannot find the right words to express all the feelings and gratitude I have for you two. All those times, all those places where you have supported me to make this possible. I will never forget. Gracias!

PART I: Summary Report

1. Introduction

This doctoral thesis is a compilation of three research articles and focuses on the relevance of family governance as an essential structure beside corporate governance in family firms. Family firms represent the most common type of business in the world (Sharma, Chrisman, & Gersick, 2012; Zahra, 2004). Between 65 and 90 percent of all companies worldwide are family firms, including more than one-third of the Fortune and S&P 500 firms (Gedajlovic, Carney, Chrisman, & Kellermanns, 2012; Salvato, Chirico, Melin, & Seidl, 2019). Family businesses' governance differs from their non-family counterparts because of the overlap of three intertwined institutions, the family, the business, and the ownership, which makes family firms a ripe context for misunderstandings and conflict (Carlock & Ward, 2001; Jehn & Mannix, 2001; Villalonga, Amit, Trujillo, & Guzmán, 2015). The implementation of family governance mechanisms, which support corporate governance, is an effective way of dealing with the complexity that these three overlapping systems generate within family firms (Gimeno, Baulenas, & Coma-Cros, 2010).

Family governance consists of "*voluntary mechanisms established by the business family with the primary aim of governing and strengthening relations between the family and the business, as well as the relationships between the members of the business family itself*" (Suess, 2014). These mechanisms, primarily referring to family constitutions (also called family protocols), family councils, and family meetings, safeguard firm continuity, avoiding harmful family interference (Mustakallio, Autio, & Zahra, 2002; Nordqvist, 2012; Suáre & Santana-Martín, 2004; Suess, 2014).

A family constitution is a "document in action", usually developed and agreed by most of the family members, which addresses the family firm's history and the future vision of the firm. It includes norms and rules for family members regarding their incorporation into the business, succession planning, and shareholder agreements (transfer of shares, dividends, firm valuation), and also develops governance bodies (board of directors, family councils) and promotes family meetings (Carlock & Ward, 2001; Nordqvist, 2012; Suess, 2014). The family constitution's main objective is to manage potential conflicts in the family firm to ensure the firm's continuity (Brenes, Madrigal, & Requena, 2001; Uhlaner, Berent-Braun, Jeurissen, & de Wit, 2012). The family council is a family governance mechanism that serves as a formal forum to discuss and decide about the interests of the family and the business (Davis et al., 1997). It includes a select group of family members, multiple branches and different generations (Uhlaner et al., 2012) and its aim is to protect the family's and business's long-term interests. Family meetings are the simplest and most common form of family governance, and they help families to stay connected (Aronoff, Ward, & Astrachan, 1996).

There has been a tendency to suggest there is uniformity in family business governance (Corbetta & Salvato, 2004) and a "propensity to prescribe and implement general governance structures in family firms as part of the institutionalisation of the field" (Melin & Nordqvist, 2007). However, family firms are highly heterogeneous (Westhead & Howorth, 2007) and they vary across institutional, geographical, historical, and cultural contexts (Basco & Pérez Rodríguez, 2011; Basco & Suwala, 2020). This variation among family firms and across countries influences organisational decisions (Jaskiewicz, Block, Wagner, Carney, & Hansen, 2021). Therefore, each type of family firm adapts its governance mechanisms over time to its heterogeneity in terms of the characteristics of

the family (i.e. family involvement in ownership and management, and generation) or the business (i.e. company size) and their institutional context (Nordqvist et al., 2014).

Even though family governance mechanisms have been highly recommended by academics, consultants, and professional associations (Melin & Nordqvist, 2007) there is a lack of research on how the implementation of family governance mechanisms improves the financial and non-financial goals of family firms (Gersick & Feliu, 2014). This doctoral thesis aims to cover this gap by studying the adoption and usefulness of family governance mechanisms in family firms (i.e. family constitutions, family councils, and family meetings).

This thesis aims to make both theoretical and empirical contributions to the field of family firm research. First, it contributes to the literature regarding the agency theory and corporate governance of family firms by considering understudied agency conflicts such as family blockholder conflict and family owners vs. extended family conflict (Villalonga et al., 2015) and exploring the usefulness of family governance mechanisms to mitigate these issues. Starting from agency theory, this thesis also extends literature regarding family firm heterogeneity (Chua, Chrisman, & Steier, 2003; Sharma, 2004) by highlighting the importance of understanding the family firm diversity in terms of family involvement factors (i.e. family involvement in ownership and in management), family features and firm characteristics (i.e. generation in control and company size, respectively) as well as their variation across institutional, geographical, historical, and cultural contexts (Basco & Pérez Rodríguez, 2011; Basco & Suwala, 2020) that shape the family businesses' governance structures (Nordqvist & Melin, 2002). Second, this thesis responds to the calls in the family firm literature to apply more holistic theories to family governance research (Suess, 2014). We highlight the instrumentality of the social system theory (Frank et al., 2010) in understanding the choices made by family firms regarding

communication needs and the adoption of family governance mechanisms. Third, this research extends the literature on socioemotional wealth by showing that the implementation of family governance mechanisms helps firms to minimise conflicts associated with the desire to preserve socioemotional wealth in family firms. This thesis also contributes to current literature by exploring privately held family firms, which are more common but less extensively investigated than listed family firms (Campopiano, De Massis, & Chirico, 2014; Salvato & Moores, 2010). Additionally, the findings of this thesis have implications for practitioners and consultants by highlighting the usefulness of family governance mechanisms in different institutional and cultural contexts.

This thesis builds on mixed-method research regarding qualitative and quantitative approaches. Firstly, the thesis performs multivariate regression analysis to examine the positive influence of the family constitution on firm performance by testing a sample of 265 Spanish family firms that adopted a family constitution during the period 2003-2013. The research defines a control group by using an exhaustive matching procedure (265 family firms that did not adopt a family constitution) to control for potential sample selection bias and the effect of the global financial crisis. Secondly, the thesis uses a classificatory method, a two-step cluster approach, to test a different sample of 490 Spanish family firms to determine how family business heterogeneity (i.e. family involvement in ownership and management, generation in control, and company size) shapes and promotes the adoption of different family governance mechanisms. Thirdly, qualitative narrative analysis is performed to shed light on how in a different institutional, geographical, historical, and cultural environment, namely the Swedish context, family governance is also linked to conflict management strategies fostering family socioemotional wealth preservation.

The empirical findings of this thesis show that, in a cultural context characterised by a low conflict aversion, like in Spain, the adoption of family governance mechanisms, particularly a family constitution, positively influence the family firm's performance. This positive relationship is stronger when the firm has a non-family CEO, has non-concentrated family ownership, and later generations control the firm. The research also shows that family business heterogeneity influences the implementation of family governance mechanisms. The findings show that family firms adopt family councils and family constitutions depending on their heterogeneity. Larger and older (second-generation or more) family firms are more likely to implement family governance mechanisms. Family firms with fewer dominant shareholders and a low involvement of family members in managerial positions (non-family CEO) are more likely to adopt family councils. While family firms with high family involvement in management (family CEO) are more likely to adopt family constitutions. Conversely, in a cultural context characterised by a high conflict aversion, like the Swedish context, family governance mechanisms are also considered valuable and useful tools for handling and resolving family business conflicts. Family firms in this context create a hybrid arena between informal and formal family meetings, which mitigates conflicts caused by the desire to preserve the family firm's socioemotional wealth.

The remainder of this doctoral thesis is structured as follows. Part 1 (Summary report) describes the overall objectives of the doctoral thesis, the theoretical framework, summarises the research findings and presents the main conclusions. Part 2 (Article collection – three research articles) presents the core of the scientific output of the doctoral thesis. The articles are as follows:

> Arteaga, R., & Menéndez-Requejo, S. (2017). Family Constitution and Business Performance: Moderating Factors. *Family Business Review*, 30 (4), 320-338. DOI: 10.1177/0894486517732438.

Arteaga, R., & Escribá-Esteve, A. (2020). Heterogeneity in family firms: Contextualising the adoption of family governance mechanisms. *Journal of Family Business Management,* Vol. ahead-of-print, No. ahead-of-print DOI 10.1108/JFBM-10-2019-0068.

Arteaga, R., & Uman, T. (2020). Managing Family Business Tensions: The Narrative of Family History. *Baltic Journal of Management*, 15 (5), 669-686. DOI 10.1108/BJM-01-2020-0008.

2. Objectives

This doctoral thesis focuses on the relevance of family governance as a valuable structure to support the corporate governance of family firms. More specifically it focuses on family governance mechanisms, primarily referring to family constitutions, family councils and family meetings (Suess, 2014). This is an important topic because family governance plays a particularly important role to the success of family firms, since it depends on the alignment of family, ownership, and business systems.

The thesis aims to answer the following research questions: *Does the implementation of family governance mechanisms positively influence the performance of family firms? Does family firm heterogeneity determine the adoption of family governance mechanisms? Are family governance mechanisms useful for mitigating conflict in family firms in a high conflict aversion context?*

The thesis considers that family firms are not homogeneous entities as they differ in terms of family involvement in ownership and management, generation, and size of the business, all of which vary significantly in family firms (Westhead & Howorth, 2007). In addition, this thesis takes a context-sensitive perspective. In particular, it studies two opposing institutional, geographical, historical, and cultural contexts, Spain and Sweden. Spain is an institutional context characterised by an above-average implementation of family governance mechanisms (Casillas-Bueno, López-Fernández, Merono-Cerdán, & Corona-Ramón, 2017). More than 50 percent of Spanish family firms celebrate family meetings (Suáre & Santana-Martín, 2004), more than 25 percent have a family council, 11 percent of the family firms in Spain have a written family constitution and more than 25 percent have definite plans for its implementation in the coming years (Casillas-Bueno et al., 2017; www.iefamiliar.org). Moreover, the Spanish cultural context is characterised

by low conflict aversion, typical of Latin collectivistic societies (Franke, Hofstede, & Bond, 1991; Hofstede, 2001). On the other hand, the Swedish institutional context is characterised by a below-average implementation of family governance mechanisms (PwC, 2016). Less than five percent of Swedish family firms have a family council, less than two percent have a family constitution and only eight percent consider family constitutions useful (PwC, 2016). The reasons for the low family constitution implementation in Swedish family firms may be associated with the perception that these constitutions are too expensive and/or stressful, according to the Swedish Entrepreneurship and Small Business Research Institute (*Institutet för Entreprenörskaps och Småföretagsforskning*, www.esbri.se). Moreover, individuals in Scandinavian cultures are more likely to try to avoid conflict (Hofstede, 1991). Scandinavian culture, like Swedish culture, shows high conflict aversion and better tolerance of conflict than Latin cultures, such as Spanish culture (Polley, 1989).

3. Theoretical framework and hypotheses

This doctoral thesis takes several theoretical perspectives to ground the hypotheses. Particularly, it builds on the theoretical perspectives of agency, social systems, and socioemotional wealth theories. Family firms may be faced with specific agency conflicts that can erode firm performance because of the overlap of family, business, and ownership. Family firms generally have fewer principal-agent conflicts compared with their non-family counterparts, because of their prevalent ownership concentration and family involvement in management (Anderson & Reeb, 2003; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). The presence of a family CEO aligns the interests of managers and owners, mitigates agency conflicts, and improves corporate governance, which is expected to enhance firm performance (Anderson & Reeb, 2003; Villalonga et al., 2015). Nevertheless, principal-agent agency costs may also be incurred (incentives and monitoring) in the case of non-family CEOs because of their intrinsic potential opportunism (Schulze et al., 2003). Family firms also face agency conflicts that arise from principal-principal agency relationships, such as those arising from majority-minority-owner conflicts that negatively affect performance (Lubatkin, Schulze, Lin, & Dino, 2005; Zellweger & Kammerlander, 2015). Majority family shareholders may take advantage of their superior position and knowledge of the firm to appropriate private benefits of control at the expense of the business and minority shareholders and may even engage in "tunnelling" (transferring some assets and profits out of the business) (Johnson, La Porta, Lopez-de-Silanes, Shleifer, 2000). Additionally, conflicts between family blockholders may arise as the complexity of family ownership increases and heterogeneous financial and non-financial interests arise (Zellweger & Kammerlander, 2015). Furthermore, family firms may suffer from intra-family agency conflicts of

interest that are caused by principal-“super-principal” relationships, which represent conflicts of interest of family owners with the remainder of the extended family (non-shareholders, non-managers, and non-board members) (Villalonga et al., 2015). While family firms’ long-term orientation and conservative investments of family owners usually lessen agency conflicts with creditors (Anderson & Reeb, 2003).

This thesis hypothesises that family governance mechanisms improve business performance. Family constitution, the most inclusive of the specific family governance mechanisms, promotes the professionalisation of the firm, includes shareholder agreements, and encourages communication and transparency between family members. Therefore, family constitution is expected to minimise agency conflicts, which subsequently will improve firm performance. The main hypothesis states that a family constitution improves future family business performance. Hence,

Hypothesis 1: The implementation of a family constitution is positively related to future family business performance.

In addition, the thesis takes into account that family firms are not homogeneous entities (Westhead & Howorth, 2007). The first article in this thesis, Arteaga and Menéndez-Requejo (2017), analyses the relevance of family involvement in management (moderating principal-agent conflicts), family ownership structure (moderating principal-principal conflicts) and family firm generation (moderating principal-“super-principal” conflicts), as moderating factors determining the influence of family constitution implementation on firm performance.

Family constitutions agree rules regarding the incorporation of family members into the firm. Non-family CEOs will have fewer free-riding opportunities and incentives for opportunism, due to improvements in firm professionalisation and monitoring by family

owners that the family constitution promotes, which is all expected to improve performance. Therefore, this thesis proposes that a strong and positive relationship will exist between family constitution implementation and future firm performance in cases where the firm has a non-family CEO. Thus,

Hypothesis 2: The positive relationship between the implementation of a family constitution and future firm performance is stronger when the firm has a non-family CEO rather than a family CEO.

Family constitutions also address shareholder agreements, which protect minority shareholders and prevent blockholder conflicts. Therefore, the family constitution is expected to have a more positive effect on firm performance when there are multiple family shareholders, and hence greater potential conflicts between them. Thus,

Hypothesis 3: The positive relationship between the implementation of a family constitution and future firm performance is stronger when the firm has multiple family owners rather than concentrated ownership.

Conflicts may also arise as new generations and extended family join the firm. First-generation firms usually have highly centralised authority that is vested in the founder, which is a unique position that minimises agency conflicts (Miller & Le Breton-Miller, 2006; Naldi, Chirico, Kellermanns, & Campopiano, 2015). Second-generation firms are often organised as sibling partnerships and suffer from conflicts that arise because of different values and interests (Davis et al., 1997; Lubatkin et al., 2005; Powell & Eddleston, 2013). Agency problems increase when there is a consortium of cousins, which is typical for third and beyond generation firms (Gersick et al., 1997; Jafee & Lane, 2004). Passive family shareholders and different branches generally become involved in the firm, altruistic attitudes decline, and the extended family influence business decisions.

Therefore, the usefulness of implementing a family constitution could vary depending on the generation that controls the family business. The strongest positive effects are expected for the third generation firms, weaker, but positive effects for second-generation firms, and the weakest but still positive effects for first-generation firms. Thus,

Hypothesis 4: The positive relationship between the implementation of a family constitution and future firm performance is stronger for later-generation firms when compared to earlier-generation firms.

Once the positive effect of the family constitution on firm performance has been verified, the second article of this thesis, Arteaga and Escribá-Esteve, (2020) examines the differences between family firms in the implementation of family governance mechanisms, taking the social systems theory (also called the new system theory) as the main theoretical framework (Frank et al., 2010). Social systems theory is a branch of the systems theory (Habbershon, Williams, & MacMillan, 2003; Swartz, 1989) dealing with the communication systems that underlie the structures of the family and business (Frank, Kessler, Rush, Suess-Reyes, & Weismeier-Sammer, 2017). From this perspective, family firms represent a unique communication system incorporating the decision premises shaped by three coupled systems, family, business, and ownership (Frank et al., 2017; von Schlippe & Frank, 2013). This theory assumes that family firms emerge from the sequence of intertwined communication decisions (Frank et al., 2017; von Schlippe & Frank, 2013). Communication is the constitutive element of a family business and it can make the family business efficient in adopting different governance mechanisms. From a social systems-theoretical point of view, implementing family governance is a unique communication process for each family firm, which starts with unplanned discussions directed by a few simple rules and develops into formalised guided discussion (Frank et al., 2017).

Family councils are systematic communication forums that promote cohesion among shareholders, thus reducing information asymmetry, increasing social interaction and ensuring the effective continuity of the core business (Jaffe & Lane, 2004; Siebels & Zu Knyphausen-Aufseß, 2012). In light of social systems theory and based on the family communication typology by Fitzpatrick & Ritchie (1994), treating the orientation to conversation and formalisation as communication constructs, this thesis assumes that family firms with family councils may be highly oriented toward conversation while firms with family constitutions may be highly oriented toward formalisation.

In family firms with a unique owner (higher family involvement in ownership) and a family CEO (higher family involvement in management) communication could be constrained (Hall, Melin, & Nordqvist, 2001; Voordeckers, Van Gils, & Van Den Heuvel, 2007). Such firms may not need to regulate the communication between family and business through family councils. However, when a new generation takes over (later generation in control) and the organisation grows (larger company size), the communication system becomes more complicated, and family councils will be more helpful. The hypotheses to be tested are summarised in the following one:

Hypothesis 5. The implementation of a family council will be more likely in family firms with lower family involvement in ownership, lower family involvement in management, a later generation in control, and a larger company size.

Family constitutions formalise communication processes, strengthening a shared commitment to the same norms and values (Neubauer & Lank, 2016; Uhlaner et al., 2012). If a firm is dominated by a unique and powerful family member (higher family involvement in ownership), frequently he or she is inclined to interact with others through informal communications processes, and considers the adoption of family constitutions unnecessary. Firms with a family CEO (higher involvement in management) will be more

inclined to formalise rules, norms, and agreements through family constitutions. As the ownership of the firm turns over from one generation to the following one (later generation in control) and the company grows (larger company size), social interactions and knowledge about the business may naturally decline. Accordingly, the need for making norms, rules, or procedures explicit may increase the adoption of family constitutions. Thus:

Hypothesis 6. The adoption of family constitutions will be more likely in family firms characterised by a lower family involvement in ownership, higher levels of family involvement in management, a later generation in control, and a larger company size.

After the research on the adoption of family governance mechanisms, considering family business heterogeneity, the third article in this thesis, Arteaga and Umans (2020), analyses whether differences in cultural and institutional contexts influence the usefulness of family governance mechanisms. Family governance mechanisms reduce interference among family, business, and ownership by reinforcing the positive aspects of socioemotional wealth (Suess, 2014). However, family owners' desire to preserve socioemotional wealth may generate conflict in family business systems (Samara et al., 2018). One of the cultural dimensions that have the greatest impact on the family firm conflict concerns collectivism *vs* individualism (Powell, Francesco, & Ling, 2009). Managers in individualistic countries such as Sweden tend to avoid conflict to a greater extent than managers in collectivistic countries, such as Spain (Wang, Lawler, Walumbwa, & Shi, 2004). Anyway, the family owners' desire to preserve socioemotional wealth (Gomez-Mejia, Haynes, Núnez-Nickel, Jacobson, & Moyano-Fuentes, 2007) influences family firms' welfare both positively and negatively, generating conflict in family firms (Samara, Jamali, Sierra, & Parada, 2018). Non-economic goals, the aim of perpetuation of the family dynasty, the preservation of binding social ties among family

members, and the preservation of the family business reputation have been considered the most important socioemotional wealth features of a family firm's essence (Berrone et al., 2010), as well as a potential source of family business conflict (Samara et al., 2018). The challenge for these organisations is to manage conflict in order to minimise its negative consequences. Thus, this thesis proposes:

Hypothesis 7. Family governance mechanisms can also be useful to mitigate conflict in family firms in a high conflict aversion context.

4. Findings

The first research question, *Does the implementation of family governance mechanisms positively influence the performance of family firms?,* was first addressed by performing in-depth interviews with consultants specialised in the adoption of family constitutions in Spain, in order to get a broad, realistic, and detailed understanding of the characteristics of family constitutions and their main agreements. In the consultants' experience, one of the primary components of a family constitution is the development of family governance, by shaping family councils and promoting family meetings. The consultants concurred that the main objective of family constitutions is to avoid conflicts that may occur due to overlaps between family, ownership and/or management interests. Subsequently, the research analysed the influence of the implementation of a family constitution on firm performance. The database included 530 Spanish family firms, of which 265 adopted a family constitution during the period 2003-2013, and a control group of 265 family firms that did not implement a family constitution. A multivariate analysis was performed to control spurious relationships and consider the potential moderating factors that the hypotheses raised propose. The regression equation was estimated as follows:

$$\Delta ROA_{it+2} = \alpha_i + \beta_{1i} FamilyProtocol_{it} + \beta_{2i} FamilyProtocol_{it} * Non\text{-}FamilyCEO_{it} + \beta_{3i} Non\text{-}FamilyCEO_{it} + \beta_{4i} FamilyProtocol_{it} * MultipleFamilyOwners_{it} + \beta_{5i} MultipleFamilyOwners_{it} + \beta_{6i} FamilyProtocol_{it} * Generation_{it} + \beta_{7i} Generation_{it} + \beta_{8i}\ \Delta ROAsector_{it+2} + \beta_{9i}\ ROA_{it-1} + \beta_{10i} FirmSize_{it} + \beta_{11i} Leverage_{it} + \beta_{12i} IndustryVariables_{it} + \varepsilon_{it}$$

where i represents the firm, t represents time, and ε_{it} denotes the error term. The dependent variable is growth in ROA, defined two years after the implementation of a family

constitution for each firm, which is calculated as (ROA_{t+2} - ROA_t) divided by ROA_t. ROA was preferred to ROE because it is the root of firm performance and allows better isolation of the effect of leverage decisions. A delay of two years was incorporated to allow time for the effects of the family constitution. Family constitution is a dummy variable that takes the value of 1 if the firm has implemented a family constitution in any year during the period 2003-2013, and zero otherwise. The moderating role of the family firm heterogeneity in the influence of the implementation of a family constitution on the future firm performance is measured by (1) the variable non-family CEO, coded as 1 when a firm has a non-family CEO, and zero otherwise (family involvement in management). Greater usefulness of family constitutions is expected when agent-principal conflicts are greater, thus when the firm has a non-family CEO (Hypothesis 2). (2) The multiple family owners variable is defined as a dummy variable that takes the value of 1 if the firm has more than one family shareholder, and zero otherwise (family involvement in ownership). Family constitutions are expected to be more useful when there are multiple family shareholders and therefore potential conflicts between them (Hypothesis 3). (3) Generation is defined as a dummy variable that takes the value of 1 for first-generation firms (founders), the value of 2 for second-generation firms, and the value of 3 for third and beyond generation firms. It is expected that family constitutions will be more useful when conflicts between principals and the extended family exist, which will increase with the generations (Hypothesis 4). Control variables are: (1) Growth in industry ROA two years after the implementation of a family constitution (ΔROAsectort+2), which isolates the effect of external factors that are linked to the economy and industry evolution. (2) ROA one year prior to the implementation of a family protocol (ROA_{t-1}). This was included in the regressions to control the endogeneity. (3) Size, which is measured as the logarithm of the number of employees (logEMP) (4). Leverage, which is defined as total

liabilities divided by total liabilities plus net equity. (5) Industry, which is defined as three dummy variables for the manufacturing, services, and retail industry sectors, according to the primary activity of the company (two-digit NACE code).

The results show that firms that dedicated the time and effort to developing a family constitution achieved greater growth in firm performance (Table 1). The findings support Hypothesis 1, stating that the implementation of a family constitution is positively related to future family firm performance (Model 2). Moreover, that relationship depends on family involvement in management and ownership and on family complexity (Models 3 and 4). The positive relationship between the implementation of a family constitution and firm performance growth is stronger when the firm has a non-family CEO, and therefore conflicts with family owners are more likely (Hypothesis 2). Multiple family owners also increase the usefulness of the family constitution in improving firm performance, in accordance with the mitigation of conflicts between shareholders (Hypothesis 3). And finally, later-generation family firms that implemented a family constitution also showed higher performance growth, consistent with principal-super-principal conflict mitigation (Hypothesis 4).

Table 1. Regression analysis: growth in ROA two years after implementing a family constitution.

	Model 1	Model 2	Model 3	Model 4
Family Constitution		0.102	0.123	
		(2.313)**	(0.867)	
Non-family CEO	0.044	0.027	0.030	
	(0.993)	(0.612)	(0.684)	
Multiple family owners	0.085	0.086	0.094	0.089
	(1.938)*	(1.964)**	(2.165)**	(2.082)**
Generation	0.020	0.019	0.007	
	(0.469)	(0.430)	(0.164)	
FConstitution*Non-family CEO			0.127	0.114
			(2.240)**	(2.055)**
FConstitution*Multiple family owners			0.309	0.184
			(2.085)**	(3.308)***
FConstitution*Generation			0.089	0.095
			(2.034)**	(2.221)**
ΔROAsector	-0.001	-0.005	-0.012	
	(-0.024)	(-0.099)	(-0.246)	
ROA(t-1)	0.099	0.101	0.107	0.104
	(2.272)**	(2.330)**	(2.480)**	(2.428)**
Firm size	0.039	0.053	0.064	
	(0.867)	(1.171)	1.394	
Leverage	0.041	0.035	0.025	
	(0.930)	(0.797)	(0.580)	
DummyIND (Manufact.)	0.024	0.024	0.028	
	(0.471)	(0.469)	(0.548)	
DummyIND (Retail)	-0.013	-0.014	-0.010	
	(-0.290)	(-0.308)	(-0.227)	
R-squared	0.023	0.033	0.055	0.048
F-test	1.346	1.756	2.299	5.261
t-test (Sig.)	0.210	0.066	0.006	0.000
Durbin-Watson	1.317	1.333	1.323	1.314

Note: The sample comprises 530 family businesses, including 265 family businesses that implemented a Family Constitution during 2003-2013 and a control group of 265 family businesses that do not have a Family Constitution.
Standardized coefficients (t-value in parentheses).
*, ** and *** indicate significance at the 10%, 5% and 1% levels, respectively.

After having established the relevance and effectiveness of family constitutions on a family firm's performance, and taking into account the relatively low implementation of family governance mechanisms in practice, the second research question was: *Does*

family firm heterogeneity determine the adoption of family governance mechanisms? The methodology to test the hypothesis is a two-step cluster analysis (Chiu, fang, Chen, Wang, & Jeris, 2001) used to develop a family firm typology, which shows different firm types associated with the implementation of the most relevant and prescribed family governance mechanisms, namely family councils and family constitutions (Suess, 2014; Uhlaner et al., 2012). The database is a sample of 490 Spanish family firms. The dependent variable is the adoption of formal family governance mechanisms regarding family councils and/or family constitutions. The independent variables are: (1) family involvement in management (FIM), defined as a binary variable that equals 1 if the CEO is a member of the owning family and 0 otherwise (Voordeckers et al., 2007); (2) Family involvement in ownership (FIO), proxied by the share percentage of the major family owner (Kowalewski, Talavera, & Stetsyuk, 2010); (3) Generation in control (GC), measured as a dummy variable that takes the value of 1 for first-generation firms (founders), and the value of 2 for second and later generations (Westhead & Howorth, 2007); (4) Firm size (Size), measured by the logarithm of the number of employees (Zahra, 2003).

The results of the two-step cluster analysis identify four types of family firms, grouped on the basis of different levels of family involvement in ownership and management, generation in control, and firm size: *founder-centric, protective, consensual, and business-evolved family* firms. A post hoc analysis using pairwise comparisons confirms significant differences between the four clusters regarding their family governance, supporting the proposed hypotheses. The findings show that small and young family firms with family ownership and unified management (*founder-centric firms*) do not implement family councils and family constitutions (Table 2). Small firms controlled by the second or later generations and with a family CEO (*protective firms*) do not implement family

councils (none have a family council), but some of them formalise a family constitution (14% have family constitutions). Large firms controlled by the first generation and with a non-family CEO (*consensual firms*) show a structured family governance system. These firms foster family councils (100% have a family council) and almost one-third of the firms have a family constitution (30.5% have a family constitution). Finally, large firms controlled by second and later generations and with a non-family CEO (*business-evolved firms*) have a family council (22.5% have a family council), but only a few of them implement a family constitution (2.8% have a family constitution). These findings support the view that family business heterogeneity, in terms of family involvement in ownership and management, generation in control, and firm size, determines the use of specific family governance mechanisms (i.e. family councils and family constitutions). The adoption of family governance mechanisms in family firms is closely associated with the necessity of establishing communication bridges among family, business, and ownership systems. The results show that the family council is more present in family firms more oriented towards conversation, and characterised by a lower family involvement in management, lower family involvement in ownership, a later generation in control, and a larger company size (Hypothesis 5). The implementation of a family constitution is more likely in family firms more oriented towards formalisation of communication processes and characterised by higher levels of family involvement in management and a lower family involvement in ownership, a later generation in control, and a larger company size (Hypothesis 6). Therefore, the findings are consistent with the hypothesis above proposing that family business heterogeneity influences the implementation of family governance mechanisms.

Table 2. Typology of family firms in Spain according to family governance mechanisms

	Cluster 1 Founder-centric	Cluster 2 Protective	Cluster 3 Consensual	Cluster 4 Business-evolved	Combined		
	n= 120	n= 165	n= 131	n= 71	n= 487	F*	Post Hoc Tests **
	24.6%	33.9%	26.9%	14.6%	100%	(Sig)	
Family council [n (%)]						1172.119	1,2:4
Yes	0 (0)	0 (0)	131 (89.1)	16 (10.9)	147 (100)	(0.000)	1,2:3
No	120 (35.3)	165 (48.5)	0 (0)	55 (16.2)	340 (100)		
Family constitution [n (%)]						22.108	1,4:2
Yes	0 (0)	23 (35.4)	40 (61.5)	2 (3.1)	65 (100)	(0.000)	1,4:3
No	120 (28.4)	142 (33.6)	91 (21.6)	69 (16.4)	422 (100)		
Family council and constitution [n (%)]						51.733	1,2,4:3
Yes	0 (0)	0 (0)	40 (100)	0 (0)	40 (100)	(0.000)	
No	120 (26.8)	165 (36.9)	91 (20.4)	71 (15.9)	447 (100)		

*Denotes overall comparison among clusters using the Kruskal-Wallis test or chi-square test at p<.05.

**Post hoc comparisons (using Sheffe tests) indicate which profile means differ significantly at p < .05

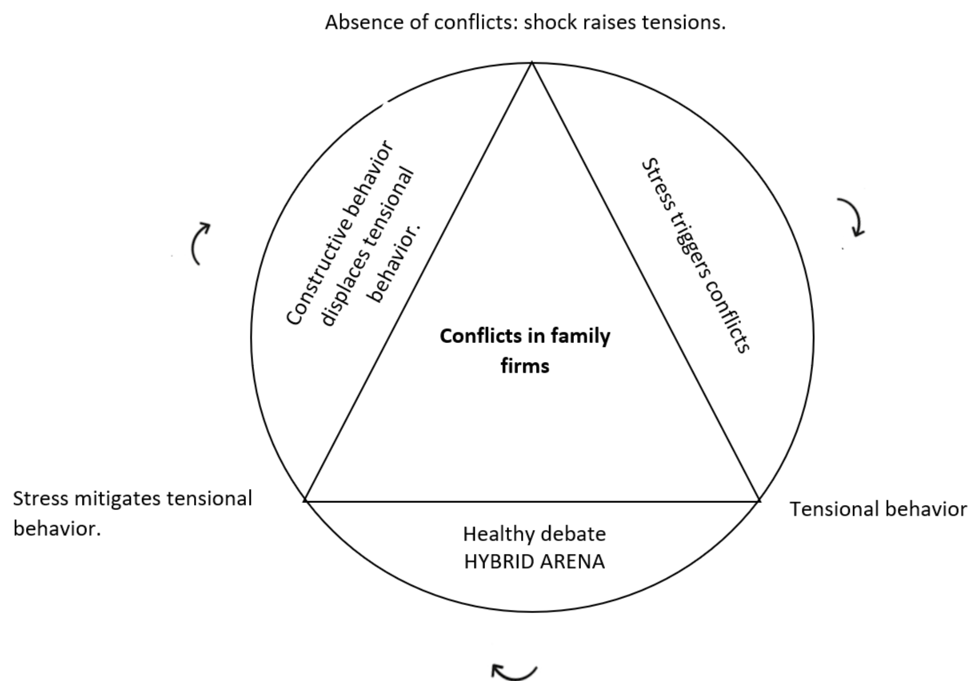
Finally, the thesis investigates the relevance of institutional and cultural context in explaining previous findings regarding family governance implementation and its usefulness. The research question is: *Are family governance mechanisms useful to mitigate conflict in family firms in a high conflict aversion context?* The thesis follows a qualitative approach performing a narrative analysis. Narrative analysis is recognised as a credible source of knowledge for family business researchers (Larty & Hamilton, 2011). It allows a close connection to empirical realities and develops precise and accurate knowledge of everyday family firm events (Dawson & Hjorth, 2012). Furthermore, the relevance of privacy in family firms, especially in individualistic cultures as exist in Sweden, makes narratives an effective way to research family firm conflict. Narratives were obtained separately from several family members from different generations in each business in order to reflect different storyteller perspectives. Nine family members representing three selected Swedish family firms that had at least two generations in

control were interviewed. The firms varied by industry, including a company that specialised in the extraction of natural resources, a wholesale sports equipment company, and a wholesale plastic cleaning products firm. Each family member was guided to think of a major historical event that had disrupted the normal day-to-day decision-making within the firm and the level of conflict experienced during the course of making the decision. Narrative material was analysed by performing a paradigmatic analysis in three stages: *explication* – what the stories told us about conflict, *exploration* – how each narrator constructed his or her plot to tell a story from his or her own perspective, and *explanation* – which hidden conflict aspects in the narratives help to identify focal points (Aristotle, 1984; Gertsen & Søderberg, 2011; Larty & Hamilton, 2011). Then, a cross-narrative analysis was performed to discuss similarities and differences across the narratives and determine if family governance mechanisms are useful to mitigate conflict in Swedish family firms.

The findings of the thesis show that in a cultural and institutional context characterised by high conflict avoidance and a low-average implementation of family governance mechanisms, like the Swedish context, non-economic goals are associated with family business conflict, in particular, the perpetuation of the family dynasty, the preservation of binding social ties among family members, and the preservation of the family business reputation. The findings show that in Swedish family firms, conflict associated with the preservation of the family firm's socioemotional wealth are managed through the creation of a hybrid family governance system, composed of informal family meetings (e.g., dinner table conversations, small talk, casual conversations, get-togethers) and formal family meetings (Hypothesis 7). This hybrid system facilitates open debate among family members, which mitigates conflict. In this context, family firms follow a circular escalation and de-escalation pattern of conflict (Figure 1). Apprehensions and stress arise

among family members and trigger family firm conflict due to natural shocks. Then, informal family meetings emerge spontaneously, and formal constructive behaviour increases among family members, reducing disruptive behaviour. The findings show that a combination of formal and informal family governance and family meetings are ceremonially adopted by family members, creating a family governance system that helps family members to reach solutions to complex decisions, and actively mitigates family business conflict, also in this high conflict avoidance context.

Figure 1. Managing family business conflict



5. General conclusions

Family firms are the most common form of business organisation in the world (Anderson & Reeb, 2003). Family governance, together with corporate governance, is one effective way of dealing with the complexity generated by the closely intertwined systems at the core of a family business (i.e. family, business, and ownership) (Suess, 2014).

Despite a recognition of its importance, family governance knowledge (family constitutions, family councils, and family meetings) is at an early stage of understanding (Kenyon-Rouvinez, et al., 2005; Suess, 2014). Moreover, family governance has been frequently characterised by assumptions about its homogeneity (Jaffe & Lane, 2004; Melin & Nordqvist, 2007). This doctoral thesis researches the adoption and usefulness of family governance mechanisms, considering family business heterogeneity and taking into account the institutional and cultural context.

Family constitutions enhance firm professionalisation (mitigating principal-agent conflicts), limit conflict between shareholders (mitigating principal-principal conflicts) and reduce the negative interference of family in the firm (mitigating principal-"super-principal" conflicts). The findings of this thesis show that a family constitution improves firm performance in Spain, which is a cultural and institutional context characterised by low conflict aversion and a high-average implementation of family governance mechanisms. This positive relationship is stronger when the firm has a non-family CEO, has non-concentrated family ownership, and later generations control the firm.

Family constitutions and family councils are the two most relevant and prescribed family governance mechanisms in the Spanish context (www.iefamiliar.org). They represent different communication arenas in which family business members discuss and formalise

family and business matters (Nordqvist, 2012). Family constitution and family council implementation depend on family business heterogeneity and on the establishment of communication bridges among business, family, and ownership systems. Differences in family involvement (i.e. family involvement in ownership and family involvement in management) and the singular complexity of the family or the organisation (i.e. the generation in control and company size) have a significant influence on the decision to adopt a family constitution and a family council. Family firms with fewer dominant shareholders and a family CEO are more likely to adopt family constitutions, while family firms with a non-family CEO are more likely to adopt family councils.

This thesis also finds that family governance mechanisms prevent family business conflict in different contexts. In a cultural and institutional environment characterised by high conflict aversion and a low-average implementation of family governance mechanisms, such as the Swedish context, family governance mechanisms are also useful in handling and solving family business conflict. Family firms in this context create a hybrid arena between informal and formal family meetings where conflicts associated with the aim of preserving a family firm's socioemotional wealth are mitigated.

This thesis contributes to theory and extant family business literature in four ways. First, it contributes to agency theory by considering the usefulness of a family constitution for improving firm performance, by mitigating agency conflicts, including the under-studied family blockholder conflicts and the family owners vs. family-at-large agency conflict (Zellweger and Kammerlander, 2015; Villalonga et al., 2015). This thesis takes into consideration the influence of the family business heterogeneity by highlighting the moderating roles of family involvement in management and ownership and the family generation. Second, it contributes to systems theory (Habbershon, et al., 2003; Swartz, 1989), in particular, to social systems theory (von Schlippe & Frank, 2013), by

highlighting its instrumentality for understanding how family business heterogeneity influences the implementation of family governance mechanisms. In general, the higher implementation of family governance mechanisms corresponds to higher family involvement in management and ownership, as well as higher firm and family complexity. Third, it contributes to the socioemotional wealth perspective (Berrone, et al., 2010) by highlighting that family owners' desire to preserve socioemotional wealth generates conflict in family firms (Samara et al., 2018). The thesis takes into consideration the relevance of institutional and cultural context (Basco & Suwala, 2020; Westhead & Howorth, 2007) on the usefulness of family governance mechanisms. It does so by showing that governance mechanisms are useful tools for mitigating family business conflict in the Spanish context characterised by an above-average implementation of family governance mechanisms and a high conflict avoidance context, as well as in the Swedish context characterised by a below-average implementation of family governance mechanisms and low conflict avoidance. Finally, this thesis contributes to extant literature regarding family firms by focusing specifically on the relationship between the implementation of family governance and the financial and non-financial goals of family firms, employing both quantitative and qualitative methods. Furthermore, the thesis explores privately held family firms, which have been far less studied compared to publicly listed family firms (Mazzi, 2011).

This doctoral thesis is not without limitations, but these offer future research opportunities. First, this research is limited to a sample of two institutional and cultural environments: family firms from Spain and Sweden. Future studies may expand knowledge by studying other institutional contexts. Second, although this research expands on the theoretical conceptualisation of family governance by considering agency theory (Jensen & Meckling, 1976), social systems approach (Frank et al., 2010), and

socioemotional theory (Berrone et al., 2010), other theoretical approaches could complement the framework. One interesting extension could be to investigate the influence that institutions exert on the family governance mechanisms (Nordqvist & Melin, 2002). In this regard, institutional theory (DiMaggio & Powell, 1983) could offer an appropriate framework. Moreover, family firms receive advice from formal advisers (Strike, 2012), organisations, networks (Melin & Nordqvist, 2007), and professional associations (Parada, Nordqvist, & Gimeno, 2010) that prescribe the best corporate governance practices (Parada et al., 2010). Thus, it could be of interest to conduct research on the influence of the differences in regulatory or normative arrangements on the implementation or usefulness of family governance mechanisms. That kind of research could also be of interest to policymakers and institutions. Nonetheless, family governance is a relevant topic that still merits much more attention in family business research (Suess, 2014). Research in other disciplines such as psychology or law may also provide insights into family governance research.

6. References

Anderson, R. C., & Reeb, D. M. (2003). Founding-family ownership and firm performance: evidence from the S&P 500. *The journal of finance*, *58*(3), 1301-1328. Aristotle, P. (1984). The Complete Works of Aristotle. 2 vols. Ed. Jonathan Barnes.

Aronoff, C. E., Astrachan, J. H., & Ward, J. L. (1996). Family business sourcebook II. Marietta. *GA: Business Owner Resources*, 559.

Arteaga, R., & Escribá-Esteve, A. (2020). Heterogeneity in family firms: contextualising the adoption of family governance mechanisms. *Journal of Family Business Management.* Vol. ahead-of-print, No. ahead-of-print.

Arteaga, R., & Menéndez-Requejo, S. (2017). Family constitution and business performance: Moderating factors. *Family Business Review*, *30*(4), 320-338.

Arteaga, R., & Uman, T. (2020). Managing family business tensions: the narrative of family history. *Baltic Journal of Management*, 15 (5), 669-686

Basco, R., & Rodríguez, M. J. P. (2011). Ideal types of family business management: Horizontal fit between family and business decisions and the relationship with family business performance. *Journal of Family Business Strategy*, *2*(3), 151-165.

Basco, R., & Suwala, L. (2020). Spatial familiness: a bridge between family business and economic geography. In *A Research Agenda for Family Business*. Edward Elgar Publishing.

Berrone, P., Cruz, C., Gomez-Mejia, L. R., & Larraza-Kintana, M. (2010). Socioemotional wealth and corporate responses to institutional pressures: Do family-controlled firms pollute less?. *Administrative science quarterly*, *55*(1), 82-113.

Brenes, E. R., Madrigal, K., & Requena, B. (2011). Corporate governance and family business performance. *Journal of Business Research*, *64*(3), 280-285.

Campopiano, G., De Massis, A., & Chirico, F. (2014). Firm philanthropy in small-and medium-sized family firms: The effects of family involvement in ownership and management. *Family Business Review*, *27*(3), 244-258.

Carlock, R. S., & Ward, J. L. (2001). Strategic Planning for the Family Business. In Strategic Planning for the Family Business. Palgrave Macmillan UK.

Carney, M., Van Essen, M., Gedajlovic, E. R., & Heugens, P.P.M.A.R. (2015). What Do We Know About Private Family Firms? A Meta-Analytical Review. *Entrepreneurship Theory and Practice*, *39*(3), 513–544.

Casillas-Bueno, J. C., López-Fernández, M. C., Meroño-Cerdán, A., & Corona-Ramón, J. (2017). Evolution of Research into the Management of Family Businesses that are Part of the Instituto de la Empresa Familiar Network of Chairs (1992-2016). *Journal of Evolutionary Studies in Business*, *2*(2), 70-96.

Chiu, T., Fang, D. P., Chen, J., Wang, Y., & Jeris, C. (2001). A robust and scalable clustering algorithm for mixed type attributes in large database environment. *Proceedings of the Seventh ACM SIGKDD International Conference on Knowledge Discovery and Data Mining*, 263–268.

Corbetta, G., & Salvato, C. A. (2004). The Board of Directors in Family Firms: One Size Fits All? Family Business Review, 17(2), 119–134.

Chua, J. H., Chrisman, J. J., & Steier, L. P. (2003). Extending the theoretical horizons of family business research. *Entrepreneurship Theory and Practice*, *27*(4), 331-338.

Davis, J. A., Hampton, M. M., & Lansberg, I. (1997). *Generation to generation: Life cycles of the family business*. Harvard Business Press.

Dawson, A., & Hjorth, D. (2012). Advancing Family Business Research Through Narrative Analysis. *Family Business Review*, 25(3), 339–355.

DiMaggio, P. J., & Powell, W. W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, 48(2), 147.

Fitzpatrick, M. A., & Ritchie, L. D. (1994). Communication schemata within the family: Multiple perspectives on family interaction. *Human Communication Research*, *20*(3), 275–301.

Frank, H., Kessler, A., Rusch, T., Suess-Reyes, J., & Weismeier-Sammer, D. (2017). Capturing the Familiness of Family Businesses: Development of the Family Influence Familiness Scale (FIFS). *Entrepreneurship Theory and Practice*, 41(5), 709–742.

Frank, H., Lueger, M., Nosé, L., & Suchy, D. (2010). The concept of "Familiness". Literature review and systems theory-based reflections. *Journal of Family Business Strategy*, 1(3), 119–130.

Franke, R. H., Hofstede, G., & Bond, M. H. (1991). Cultural roots of economic performance: A research noteA. *Strategic Management Journal*, 12(1 S), 165–173.

Gedajlovic, E., Carney, M., Chrisman, J. J., & Kellermanns, F. W. (2012). The Adolescence of Family Firm Research. *Journal of Management*, 38(4), 1010–1037.

Gersick, K. E., & Feliu, N. (2014). Governing the family enterprise: Practices, performance, and research. *The SAGE handbook of family business*, 196-225.

Gersick, K. E., Lansberg, I., Desjardins, M., & Dunn, B. (1999). Stages and transitions: Managing change in the family business. *Family Business Review*, 12(4), 287–297.

Gertsen, M. C., & Søderberg, A. M. (2011). Intercultural collaboration stories: On narrative inquiry and analysis as tools for research in international business. *Journal of International Business Studies*, 42(6), 787–804.

Gimeno, A., Baulenas, G., Coma-Cros, J., Gimeno, A., Baulenas, G., & Coma-Cros, J. (2010). Family business models. In Family business models (pp. 57–77). Palgrave Macmillan UK.

Greene, J. C., Caracelli, V. J., & Graham, W. F. (1989). Toward a Conceptual Framework for Mixed-Method Evaluation Designs. *Educational Evaluation and Policy Analysis*, 11(3), 255–274.

Habbershon, T. G., & Astrachan, J. H. (1997). Research Note: Perceptions Are Reality: How Family Meetings Lead to Collective Action. *Family Business Review*, *10*(1), 37–52.

Habbershon, T. G., Nordqvist, M., & Zellweger, T. (2010). Transgenerational entrepreneurship. *Transgenerational entrepreneurship: Exploring growth and performance in family firms across generations*, 1-38.

Habbershon, T. G., Williams, M., & MacMillan, I. C. (2003). A unified systems perspective of family firm performance. *Journal of business venturing*, *18*(4), 451-465.

Hall, A., Melin, L., & Nordqvist, M. (2001). Entrepreneurship as Radical Change in the Family Business: Exploring the Role of Cultural Patterns. *Family Business Review*, 14(3), 193–208.

Hofstede, G. (2001). *Culture's consequences: Comparing values, behaviors, institutions and organizations across nations*. Sage publications.

Jaffe, D. T., & Lane, S. H. (2004). Sustaining a Family Dynasty: Key Issues Facing Complex Multigenerational Business- and Investment-Owning Families. *Family Business Review*, 17(1), 81–98.

Jaskiewicz, P., Block, J., Wagner, D., Carney, M., & Hansen, C. (2021). How do cross-country differences in institutional trust and trust in family explain the mixed performance effects of family management? A meta-analysis. *Journal of World Business*, *56*(5), 101196.

Jehn, K. A., & Mannix, E. A. (2001). The Dynamic Nature of Conflict: A Longitudinal Study of Intragroup Conflict and Group Performance. *Academy of Management Journal*, 44(2), 238–251.

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

Johnson, S., La Porta, R. L., Lopez-de-Silanes, F., & Shleifer, A. (2000). Tunneling. *American Economic*

Review, 90(2), 22–27.

Johnson, S., La Porta, R. L., Lopez-de-Silanes, F., & Shleifer, A. (2000). Tunneling. *American Economic Review*, *90*(2), 22–27.

Kenyon-Rouvinez, D., Ward, J. L., Gallo, M. A., & Kenyon-Rouvinez, D. (2005). The Importance of Family and Business Governance. In Family Business (pp. 45–57). Palgrave Macmillan UK.

Kowalewski, O., Talavera, O., & Stetsyuk, I. (2010). Influence of Family Involvement in Management and Ownership on Firm Performance: Evidence From Poland. *Family Business Review*, 23(1), 45–59.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R. W. R., & Porta, R. La. (2000). Investor protection and corporate governance : Origins, Consequences, Reform. *Journal of Financial Economics*, 58(1–2), 3–27.

Larty, J., & Hamilton, E. (2011). Structural approaches to narrative analysis in entrepreneurship research: Exemplars from two researchers. *International Small Business Journal*, *29*(3), 220-237.

Lubatkin, M. H., Schulze, W. S., Ling, Y., & Dino, R. N. (2005). The effects of parental altruism on the governance of family-managed firms. *Journal of Organizational Behavior*, 26(3), 313–330.

Mazzi, Ch. (2011). Family business and financial performance: Current state of knowledge and future research challenges. *Journal of Family Business Strategy*, *2*, 166-181.

Melin, L., & Nordqvist, M. (2007). The reflexive dynamics of institutionalization: the case of the family business. *Strategic Organization*, 5(3), 321–333.

Miller, D., & Le Breton-Miller, I. (2006). Family Governance and Firm Performance: Agency, Stewardship, and Capabilities. *Family Business Review*, 19(1), 73–87.

Mustakallio, M., Autio, E., & Zahra, S. A. (2002). Relational and Contractual Governance in Family Firms: Effects on Strategic Decision Making. *Family Business Review*, 15(3), 205–222.

Naldi, L., Chirico, F., Kellermanns, F. W., & Campopiano, G. (2015). All in the family? An exploratory study of family member advisors and firm performance. *Family Business Review*, *28*(3), 227-242. 28(3), 227–242.

Neubauer, F., & Lank, A. G. (2016). *The family business: Its governance for sustainability*. Springer.

Nordqvist, M. (2012). Understanding strategy processes in family firms: Exploring the roles of actors and arenas. *International Small Business Journal*, 30(1), 24-40.

Nordqvist, M., & Melin, L. (2002). 6 The dynamics of family firms. *Understanding the Small Family Business*, *8*, 94.

Nordqvist, M., Sharma, P., & Chirico, F. (2014). Family firm heterogeneity and governance: A configuration approach. *Journal of Small Business Management*, 52(2), 192–209.

Parada, M. J., Nordqvist, M., & Gimeno, A. (2010). Institutionalizing the family business: The role of professional associations in fostering a change of values. *Family business review*, *23*(4), 355-372.

Polley, R. B. (1989). Coalition, mediation, and scapegoating: General principles and cultural variation. *International Journal of Intercultural Relations*, 13(2), 165–181.

Powell, G.N., Francesco, A.M., & Ling, Y. (2009). Towards culture-sensitive theories of the work–family interface. *Journal of Organizational Behavior*, 30, 597–616.

Powell, G. N., & Eddleston, K. A. (2013). Linking family-to-business enrichment and support to entrepreneurial success: Do female and male entrepreneurs experience different outcomes? *Journal of Business Venturing*, 28(2), 261–280.

PWC PricewaterhouseCoopers (2016), "*The family business sector in 2016: success and succession*", available at: www.pwc.com/gx/en/services/family-business/family-business-survey-2016/succession.html)

Salvato, C., & Moores, K. (n.d.). Research on Accounting in Family Firms: Past Accomplishments and Future Challenges. Guest Editorial *Family Business Review*, 23(3), 193–215.

Salvato, C., Chirico, F., Melin, L., & Seidl, D. (2019). Coupling Family Business Research with Organization Studies: Interpretations, Issues and Insights. *Organization Studies*, 40(6), 775–791.

Samara, G., & Paul, K. (2019). Justice versus fairness in the family business workplace: A socioemotional wealth approach. *Business Ethics: A European Review*, *28*(2), 175-184.

Schulze, W. S., Lubatkin, M. H., & Dino, R. N. (2003). Exploring the Agency Consequences of Ownership Dispersion Among The Directors of Private Family Firms. *Academy of Management Journal*, 46(2), 179–194.

Sharma, P. (2004). An Overview of the Field of Family Business Studies: Current Status and Directions for the Future. *Family Business Review*, 17(1), 1–36.

Sharma, P., Chrisman, J. J., & Gersick, K. E. (2012). 25 Years of Family Business Review: Reflections on the Past and Perspectives for the Future. *Family Business Review*, 25(1), 5–15).

Siebels, J. F., & Zu Knyphausen-Aufseß, D. (2012). A Review of Theory in Family Business Research: The Implications for Corporate Governance. International *Journal of Management Reviews*, 14(3), 280–304.

Strike V. M. (2012). Advising the family firm: Reviewing the past to build the future. *Family Business Review*, *25*, 156-177.

Suáre, K. C., & Santana-Martín, D. J. (2004). Governance in Spanish family business. *International Journal of Entrepreneurial Behaviour & Research*, 10, 141–163.

Suess, J. (2014). Family governance - Literature review and the development of a conceptual model. *Journal of Family Business Strategy*, 5(2), 138–155.

Swartz, S. (1989). The challenges of multidisciplinary consulting to family-owned businesses. *Family Business Review*, *2*(4), 329-331.

Tashakkori, A., & Creswell, J. (2007). Exploring the nature of research questions in mixed methods research. *Journal of Mixed Methods Research*, *1*(3), 207–211.

Uhlaner, L. M., Berent-Braun, M. M., Jeurissen, R. J. M., & de Wit, G. (2012). Beyond Size: Predicting Engagement in Environmental Management Practices of Dutch SMEs. *Journal of Business Ethics*, 109(4), 411–429.

Villalonga, B., Amit, R., Trujillo, M.-A., & Guzmán, A. (2015). Governance of Family Firms. *Annual Review of Financial Economics*, 7(1), 635–654.

von Schlippe, A., & Frank, H. (2013). The Theory of Social Systems as a Framework for Understanding Family Businesses. *Family Relations*, 62(3), 384–398.

Voordeckers, W., Van Gils, A., & Van Den Heuvel, J. (2007). Board composition in small and medium-sized family firms. *Journal of Small Business Management*, 45(1), 137–156.

Wang, P., Lawler, J. J., Walumbwa, F. O., & Shi, K. (2004). Work-family conflict and job withdrawal intentions: The moderating effect of cultural differences. *International journal of stress management*, *11*(4), 392.

Westhead, P., & Howorth, C. (2007a). 'Types' of private family firms: an exploratory conceptual and empirical analysis. *Entrepreneurship & Regional Development*, 19(5), 405–431.

Westhead, P., & Howorth, C. (2007b). 'Types' of private family firms: an exploratory conceptual and empirical analysis. *Entrepreneurship & Regional Development*, 19(5), 405–431.

Zahra, S. A. (2003). International expansion of U.S. manufacturing family businesses: The effect of ownership and involvement. *Journal of Business Venturing*, 18(4), 495–512.

Zahra, S. A., & Sharma, P. (2004). Family business research: A strategic reflection. *Family business review*, *17*(4), 331-346.

Zellweger, T., & Kammerlander, N. (2015). Family, Wealth, and Governance: An Agency Account. *Entrepreneurship Theory and Practice*, 39(6), 1281–1303.

PART II: Article Collection

7. Collection of papers

Paper 1

Family Constitution and Business Performance: Moderating Factors

Rocio Arteaga and Susana Menéndez-Requejo

Published in *Family Business Review*, 30 (4), 320-338. First Published September 27, 2017

Paper 2

Heterogeneity in Family Firms: Contextualizing the adoption of family governance mechanisms

Rocio Arteaga and Alejandro Escribá-Esteve

Published in *Journal of Family Business Management*, Vol. ahead-of-print, No. ahead-of-print. DOI 10.1108/JFBM-10-2019-0068. First Published April 29, 2020

Paper 3

Managing Tensions in Family Firms: The Narrative of Family Business History

Rocio Arteaga and Timur Uman

Published in *Baltic Journal Management*, 15 (5), 669-686. First Published July 16, 2020

Family Constitution and Business Performance: Moderating Factors

Rocío Arteaga and Susana Menéndez-Requejo[1]

Family Business Review, 2017, vol. 30(4), pag. 320-338
DOI 10.1177/0894486517732438
http://journals.sagepub.com/home/fbr

Abstract

This study analyzes the relationship between implementing a Family Constitution (Protocol) and future family business performance. We analyze a unique sample of 530 Spanish family businesses. Half of these firms received financial aid from the government to implement a Family Protocol during 2003-2013. The analysis reveals that family businesses that implemented a Family Constitution had significantly improved performance within two years after the implementation. The positive relationship between the implementation of a Family Constitution and future firm performance is stronger for firms that had a non-family CEO, had multiple family owners or were controlled by later generations.

Keywords: Family Constitution; Family Protocol; performance; family firm heterogeneity; agency theory

Introduction

A *Family Protocol* (this term was coined by Gallo & Ward, 1991 and is also referred to as a "Family Constitution", a "Family Creed" or "Family Agreement") is the result of a process of communication and agreements among owners of a family business that are collated in a written document that includes a set of rules and procedures for governing family business relationships and is signed and ratified by each family member (Carlock & Ward, 2001; Gallo & Tomaselli, 2006; Montemerlo & Ward, 2005; Tapies & Ceja, 2011). As detailed in the following text, family business consultants agree that, at least in Spain, Family Constitutions address the firm history, the future vision of the family firm, include norms and rules for family members regarding their incorporation into the business, succession planning, shareholder agreements (transfer of shares, dividends, firm valuation), and develop power

[1] University of Oviedo, Spain

Corresponding Author:
Susana Menéndez-Requejo, University of Oviedo, Avda. Del Cristo s/n, Oviedo, 33071, Spain.
E-mail: srequejo@uniovi.es

structures in the firm and the family in regard to the company (Board of Directors, Family Council).

Although a Family Constitution is a relevant instrument that is used in practice for facilitating the continuity of family businesses, few academic studies have focused on this topic (Gallo & Tomaselli, 2006). No formal studies have been conducted to aggregate governance provisions from a large sample of Family Constitutions or determine the impact of family agreements on governance or family firm performance (Gersick & Feliu, 2014, p.212; Zellweger & Kammerlander, 2015). To address this research gap, the aim of this study is to analyze the relationship between implementing a Family Constitution and future performance of family businesses.

Because prior studies have not analyzed the effect of Family Protocols on firm performance, a complete and realistic theoretical grounding has not yet been established. This lack of theoretical background motivates our interest in developing a mixed method approach (Kidder & Fine, 1987) that begins with exploratory interviews to guide theoretical proposals, which will ultimately be tested by conducting a quantitative analysis. We perform in-depth interviews with expert consultants to explore and support theoretical proposals, that are primarily linked to the ability of Family Constitutions to reduce conflict. In addition, we consider alternative explanations and validate popular assumptions regarding the general features and expected effects of Family Constitutions in practice.

Based on agency theory, we posit possible explanations for the proposed positive relationship between Family Constitutions and future firm performance that include the following: an improvement in monitoring managers and firm professionalization that Family Constitutions facilitate (mitigates principal-agent conflicts); an improved alignment between firm owners that shareholder agreements entail (mitigates principal-principal conflicts); and the communication and transparency between family members that Family Constitutions foster (mitigates principal-“super-principal” conflicts). In addition, we explore nuances in the utility of Family Constitutions depending on the relevance of agency conflicts for each firm and expect that this utility will be enhanced by non-family management, multiple family owners, and later-generation control of the firm. We argue that Family Constitution agreements reduce interferences between family, ownership and management and reinforce the positive aspects of socioemotional wealth (SEW) without harming financial performance.

We test our hypotheses on a sample of 530 Spanish family businesses during 2003-2013, including 265 family businesses that received financial aid to implement a Family

Constitution and a corresponding control group of family businesses that did not implement Family Protocols during this time period.

This study contributes to the extant literature regarding family businesses. First, we contribute to the literature regarding the agency theory and corporate governance of family firms by considering understudied agency costs that are caused by family blockholder conflicts and conflicts that arise from the relationships among family owners and other members of the family. This study responds to a call for research regarding appropriated family governance mechanisms (Nordqvist, Sharma, & Chirico, 2014; Villalonga, Amit, Trujillo, & Guzman, 2015; Zellweger & Kammerlander, 2015). Second, we add to extant literature regarding family firm heterogeneity (Cruz & Nordqvist, 2012; Eddleston, Kellermanns, Floyd, Crittenden, & Crittenden, 2013; Ling & Kellermanns, 2010) by analyzing the moderating role of family involvement in management, ownership structure and the generation that controls the firm. Third, this study offers an empirical basis for and elaborates on a currently unexplored research question (Gersick & Feliu, 2014) regarding whether a Family Constitution adds value to family firms. In addition, we extend literature regarding family firms (Chrisman, Chua, & Sharma, 2005; O'Boyle, Pollack, & Rutherford, 2012) by showing that the implementation of a Family Constitution moderates the relationship between family involvement and firm performance. Finally, we contribute to current literature by exploring privately held family firms, which Mazzi (2011) recognized needed additional analysis. In addition to these contributions to extant literature, the results of this study have implications for practitioners by highlighting the usefulness of Family Constitutions.

The remainder of this paper is structured as follows. The next section presents the exploratory approach used to analyze Family Constitution characteristics. Next, we develop a theoretical framework and propose research hypotheses. Subsequent sections describe the database, the methodology used for the quantitative study and the results of the statistical analyses. Discussion and conclusions are provided in the final section.

Exploratory interviews

We have been unable to locate any prior studies that analyze the influence of Family Constitutions on firm performance. In general, the topic of Family Protocols has attracted little attention in the literature regarding family businesses (Gallo & Tomaselli, 2006), despite its relevance for family business in practice. We assume that this research gap may be due to

the difficulty in obtaining pertinent information at both the aggregate and company levels. It is our goal to contribute to extant literature on this topic.

To define a realistic and comprehensive theoretical framework and considering that the topic of Family Constitutions is a novel focus for research, we previously conduct exploratory interviews. We performed in-depth interviews with consultants who specialize in Family Constitutions in Spain. Spain is characterized by an above-average implementation of Family Protocols and the prominent development of institutions that are linked to family businesses. The Family Business Institute of Spain (www.iefamiliar.com) is an important international leader regarding initiatives such as the Network of Family Business Chairs that exists throughout the Spanish university system and the Family Business Regional Associations that are present and active in every region in Spain. As a result of the work that has been performed by these institutions, public authorities in Spain have occasionally provided support to family businesses to promote continuity and more specifically, to facilitate the implementation of Family Constitutions. We interviewed six consultants who are experts regarding Family Protocols, one consultant for each region (Asturias, Castilla and León, Castilla-La Mancha, La Rioja, The Basque Country and Valencia)[2] that has provided public funding to support Family Constitutions and we located recipient firms. Rather than using a firm survey, we used in-depth interviews to obtain a broader understanding regarding the characteristics of Family Constitutions and to better grasp the different perceptions of individual family members in each firm (active vs. passive shareholders, family managers, extended family, various generations and ages, family branches).

We noted a great similarity in the consultants' experience and perspectives. The consultants agree that the main objectives of the Protocol are to avoid conflicts in the family business and ensure family control of the firm. Rules and agreements are defined to avoid conflicts that may occur due to overlaps between family, ownership and/or management interests (the classic three-circle model of Tagiuri & Davis, 1996). In addition, the consultants agree on the primary components of a Family Constitution, which are as follows:

---

[2] We greatly appreciate the valuable, interesting and generous collaboration of the following family business consultant experts: Mr. Pablo Alvarez de Linera (GTA Villamagna, Asturias), Mr. José Fernando de la Fuente (JFF Abogados, Castilla-León), Mr. Diego Garrido (O-Kyaku Europe Consulting, La Rioja), Mrs. Elena López Saralegui (Avanza Asesoría, País Vasco), Mr. Juan Ignacio de Mesa (Abaco Auditores, Castilla-La Mancha), and Mr. Alejandro Ríos (Broseta Abogados, Valencia). These consultants also work in Madrid, other regions, and in other countries. Thank you for your availability and kindness.

We established our first contact with the consultants through the Directors of Family Business University Chairs and the Directors of Family Business Associations in each region. We greatly appreciate their kind and effective mediation.

A) *A preamble* includes the history, principles, values and vision of the family firm. This section reflects on and clarifies the company's strategy, growth and financing policies.

B) *Agreements regarding family in management* address management succession and terms for incorporating family members in the firm (training, professional experience, and formal positions) to avoid nepotism. These are key issues when the firm considers incorporating new generations (training activities often occur). The Protocol fosters a family reflection on the need to enhance the firm's professionalization. Although the top manager is generally a family member, the Family Constitution enhances the professionalization of the company by improving its organization and reducing litigation.

C) *Agreements regarding ownership* regulate share transfers, reinforced majority voting, and succession of ownership. Shareholders of a family-owned business, including minority owners, often have emotional ties to the firm. The consultants agree that a Family Protocol protects the position of minority shareholders (drag-along and tag-along rights, dividend policy, buyout agreements). In addition to the advantages of specifying the economic rights of minority shareholders, a Protocol ensures that new rules apply equally to all owners, such as the hiring of relatives. Furthermore, in the infrequent case of non-family minority shareholders, they are generally incorporated into the Protocol process and agreements (or are offered the opportunity to sell their share). The agreement protects the interests of non-family minority shareholders in addition to the interests of the firm, by agreeing to share repurchases when obtained through labor bonds and preventing minority shareholders from hindering the company's progress. Generally, blockholder conflicts are reduced.

D) *Agreements regarding governance* shape the Family Council and limit the interference of family members in the operation of the business. In regard to the Board of Directors, generally independent members are included. Moreover, it is also an opportunity to take advantage of the participation of qualified minority shareholders. Although clauses relating to arbitration procedures are often included, to elucidate future conflicts between family members, generally, these clauses are broad and not highly detailed.

Consultants report that Family Constitutions contribute to improving the coexistence and cohesion of family generations that are linked to the firm. Protocols improve and channel communication, information (also prior to decision-making) and transparency among family members who are in some manner linked to the firm and guide future generations. A Family Constitution is even more important when families are complex (size and interrelationships)

regardless of company characteristics. In addition, consultants also noted that most Family Protocols are developed by second generation family firms.

Most Family Constitutions include a minimum of 20-25 pages and a maximum of 70 pages (including appendices) when the content is more juridical and the family is more complex. Creating a Family Constitution generally requires a communication and work process of 6 to 8 months. It takes time for a consultant to gather information and understand the company. In addition, multiple individual and joint meetings must be held with various members of the family, aligning their professional agendas. In addition, it takes time for family members to agree and commit to the Family Constitution. Often, when the Protocol process takes a long time, it reflects difficulties in reaching agreements and it is never signed. Likewise, the Family Constitution is generally not completed when the family has significant departure conflicts. It is advisable to begin the Protocol process when significant tensions are not present in the family business. Generally, the Protocol includes all the family branches. All relatives who are involved in the firm usually participate in the process and sign the agreement, with the exception of in-laws. The Family Constitution is of no use unless all stakeholders sign the agreement. Generally, in-laws are prevented from working in the company and are excluded from ownership of the firm. However, spouses have a key influence in practice and this should be properly integrated into the agreement. It is advisable to inform in-laws and consider their opinions during the process of developing the Protocol.

Theoretical Framework and Hypotheses

Considering the previously discussed qualitative information and based on the agency theory, we propose that the implementation of a Family Constitution is positively related to future firm performance. Family Constitutions generally address firm professionalization, promote shareholder agreements and develop structures that promote family communication and cohesion. We argue that addressing these issues reduces agency conflicts and limits the negative interference of SEW aims, which we expect to improve firm performance.

Agency theory

Prior studies suggest that family firms have distinct corporate governance and are characterized by a significant alignment of management, ownership and control (Fama & Jensen, 1983; Schulze, Lubatkin, Dino, & Buchholtz, 2001). Family businesses generally have fewer principal-agent conflicts (shareholders vs. managers) when compared to dispersed ownership firms, because of their prevalent ownership concentration and family participation

in the top management team (TMT) (Anderson & Reeb, 2003; La Porta, López de Silanes, & Shleifer, 1999; Le Breton-Miller & Miller, 2009). The presence of a family CEO aligns the interests of managers and owners, mitigates agency conflicts and improves corporate governance, which will enhance firm performance (Anderson & Reeb, 2003; Minichilli, Corbetta, & MacMillan, 2010; Villalonga & Amit, 2006). Nevertheless, principal-agent agency costs may be incurred (incentives and monitoring) in the case of family CEOs because of free-riding opportunities that family altruism may provide for family agents and damages derived from nepotism (Van den Berghe & Carchon, 2003; Zellweger & Kammerlander, 2015).

Other agency costs may be incurred by family businesses because of principal-principal relationships, such as those arising from majority-minority-owner conflicts or family blockholder conflicts (Morck, Wolfenzon, & Bernard, 2005; Shleifer & Vishny, 1997; Zellweger & Kammerlander, 2015) that negatively will affect performance (Lubatkin, Schulze, Ling, & Dino, 2005; Sciascia & Mazzola, 2008). Controlling family shareholders and other family members on the board of directors or on the TMT may take advantage of their superior position and knowledge of the firm to appropriate private benefits of control at the expense of the business and minority shareholders and may even engage in "tunneling" (transferring some assets and profits out of firm) (Grossman & Hart, 1980; Hoffman, Wulf, & Stubner, 2014; Johnson, La Porta, Lopez de Silanes, & Shleifer, 2000; Morck et al., 2005). In the case of non-family minority owners, conflicts may arise when family owners pursue non-economic goals that minority shareholders consider harmful to their interests, such as appointing unqualified family members to key positions, non-merit based compensation, or strategic decisions that destroy firm value but secure family control (Cruz, Becerra, & Gomez-Mejia, 2010; Martin, Gomez-Mejia, Berrone, & Makri, 2016). Additionally, blockholder conflicts may arise within a family blockholder group as the complexity of family ownership increases over time because of possible heterogeneous financial and nonfinancial interests (Gersick, Davis, Hampton, & Lansberg, 1997; Zellweger & Kammerlander, 2015). Aligning heterogeneous interests among family blockholders generates agency costs.

Furthermore, family firms may suffer from intra-family agency conflicts of interest that are caused by principal-"super-principal" relationships, which represent conflicts of interest of family owners with the remainder of the family at large (non-shareholders, non-managers, and non-board members) (Villalonga et al., 2015). Family businesses may be faced with specific agency conflicts that can erode firm performance because of the overlap of family, business and ownership. Relatives who do not participate in ownership, management or governance

and who do not have formal authority in the firm, but have close family relationships with owners and managers, may impede family business decisions and strategies by promoting the recruitment of unqualified family members, supporting suboptimal investments and less risky capital structures, or interfering with family feuds. This unique agency conflict for family firms is more pronounced for second or later generation family firms (Eddleston, Kellermanns, Floyd, Crittenden, & Crittenden, 2013; Gersick et al., 1997; Lubatkin et al., 2005).

Considering that superior corporate governance is expected to foster improved firm performance (Coles, McWilliams, & Sen, 2001; Gedajlovic, Lubaktin, & Schulze, 2004; Nordqvist et al., 2014), we hypothesize that family firms that have established a Family Constitution will experience improved firm performance. Family firms must utilize governance mechanisms to minimize agency costs and subsequently improve firm performance. We propose that a Family Constitution is an appropriate mechanism to reduce agency conflicts. A Family Constitution is the most inclusive of specific family governance mechanisms because it promotes or includes other mechanisms, such as a Family Assembly, a Family Council, shareholders' agreements, and enhances effective communication within and between the family and the firm. A Family Constitution as a rule improves managers' monitoring and promotes the professionalization of the firm because it strengthens corporate governance mechanisms and includes rules for incorporating family members into the company and improves promotional opportunities for non-family agents, all of which are expected to reduce principal-agent conflicts. In addition, a Family Constitution includes shareholder agreements that regulate the execution of voting rights or the transfer of shares within and outside the family and specifies procedures to resolve disputes and provide for arbitration (Chemla, Habib, & Ljungqvist, 2007; Zellweger & Kammerlander, 2015). Shareholder agreements for privately held firms (put and call options, rights of first refusal, tag-along rights, drag-along rights, lockout clauses, buyout agreements, and others) constrain renegotiation and maintain the parties' incentives to make the first-best ex ante investments in the firm and precludes ex post transfers from the firm (Chemla et al., 2007). It is expected that these shareholder agreements reduce majority-minority-owners and family blockholder conflicts. Furthermore, a Family Constitution generally promotes communication and transparency between family members and develops governance instruments such as a Family Council, where employed and non-employed family members discuss and agree on corporate and family issues (Van den Berghe & Carchon, 2003) without introducing new agent tiers and the consequent agency costs (Carney, Gedajlovic, & Strike, 2014; Child & Rodrigues, 2003;

Zellweger & Kammerlander, 2015). Typical Family Constitution agreements regarding family member employment and family governance limit nepotism, family feuds and the interference of unqualified family members in the business, which will reduce agency conflicts among family owners and family outsiders.

Therefore, based on the above arguments, we propose and test the following hypothesis:

Hypothesis 1: The implementation of a Family Constitution is positively related to future family business performance.

Although the goal of this study is to explore the relationship between implementing a Family Constitution and future firm performance, we are aware that family firms may also pursue family-centered nonfinancial outcomes linked to their SEW (e.g., Berrone, Cruz, & Gomez-Mejia, 2012; Chrisman, Chua, & Zahra, 2003; Gomez-Mejia, Haynes, Nuñez, Jacobson, & Moyano, 2007; Holt, Pearson, Carr, & Barnett, 2017) that could impact the achievement of the financial goals. However, the negative aspects of SEW, including managerial entrenchment, succession conflicts and dysfunctional relationships (Berrone et al., 2012), are generally addressed in Family Constitutions. We also expect that typical Family Constitution agreements that promote the professionalization of the firm and limit nepotism minimize potential conflicts that arise from preserving internal versus external SEW (Cruz, Larraza-Kintana, Garcés-Galdeano, & Berrone, 2014; Vardaman & Gondo, 2014). Shareholder agreements and family cohesion are promoted by Family Constitutions and are expected to help maintain family control and their influence on day-today operations (internal SEW) as well as to preserve the firm's reputation and image (external SEW) (Vardaman & Gondo, 2014). However, future studies regarding this topic are needed.

Family firm heterogeneity

Besides agency conflicts proposals, we consider that family firms are not homogeneous entities (García-Álvarez & López-Sintas, 2001; Westhead & Howorth, 2007) and explore the moderating factors of the relationship between implementing a Family Constitution and future firm performance. We contemplate that differences among family firms may affect the effectiveness of Family Constitutions. We propose that positive relationship between Family Constitutions and future firm performance will be stronger when the family is more complex. Specifically, we explore family involvement in management (moderating principal-agent conflicts), family ownership structure (moderating principal-principal conflicts) and family firm generation (moderating principal-"super-principal" conflicts).

Family firms are heterogeneous and differ in terms of family involvement in ownership and management of the business, which varies significantly in family firms (Chua, Chrisman, Steier, & Rau, 2012; García-Álvarez & López-Sintas, 2001; Melin & Nordqvist, 2007; Westhead & Howorth, 2007). As family involvement in management and ownership evolves, corporate governance requires more formal control systems and structures (Cruz & Nordqvist, 2012; Nordqvist et al., 2014). In regards to family management involvement, more principal-agent conflicts are expected when the firm has a non-family CEO because of their intrinsic potential opportunism that is exacerbated in the case of family nepotism. However, as previously discussed, Family Constitutions generally enhance corporate governance and rules regarding the incorporation of family members, limiting manager opportunism and promoting firm professionalization, which are all expected to improve performance. Non-family CEOs will have fewer free-riding opportunities and incentives for opportunism, due to improvements in firm professionalization and monitoring by family owners that Family Constitution promotes. In addition, feelings of "distributive injustice", which may arise if less competent family agents are promoted (Van den Berghe & Carchon, 2003), will be reduced. Therefore, we propose that a strong positive relationship exists between Family Constitutions implementation and future firm performance in cases where the firm has a non-family CEO. In regards to the involvement of family ownership, we consider that multiple family owners likely differ in their financial and nonfinancial interests, which potentially leads to family feuds and conflicts (Bertrand, Johnson, Samphantharak, & Schoar, 2008; Eddleston & Kellermanns, 2007; Zellweger & Kammerlander, 2015) that harm firm performance. However, shareholder agreements are typically addressed in Family Constitutions, which protect minority shareholders and prevent blockholder conflicts. Therefore, we expect Family Constitutions to have a more positive effect on performance when family ownership is not concentrated. Hypotheses 2 and 3 specify these proposals:

Hypothesis 2: The positive relationship between the implementation of a Family Constitution and future firm performance is stronger when the firm has a non-family CEO rather than a family CEO.

Hypothesis 3: The positive relationship between the implementation of a Family Constitution and future firm performance is stronger when the firm has multiple family owners rather than concentrated ownership.

In addition, we expect that more complex families (more principal-"super-principal" conflicts) will experience greater utility of implementing a Family Constitution. Specifically,

we consider that the generational stage of a family firm may influence the potential degree of conflicts and may increase as new generations and extended family join the firm. Founder-managed firms (first generation) tend to have highly centralized authority that is vested in the founder, which is a unique position that minimizes potential agency problems (Miller & Le Breton-Miller, 2006; Gedajlovic et al., 2004; Naldi, Chirico, Kellermanns, & Campopiano, 2015). Second-generation firms are often organized as sibling partnerships and suffer from conflicts that arise because of different values and interests (Eddleston et al., 2013; Gersick et al., 1997; Lubatkin et al., 2005). Formalized governance mechanisms help control potential siblings' power struggles within a family firm. Agency problems increase when there is a consortium of cousins, which is typical for third and beyond generation firms (Gersick et al., 1997; Jafee & Lane, 2004) because passive family shareholders and different branches generally become involved in the firm, altruistic attitudes decline and extended family influences decisions regarding the firm. Therefore, we expect that the relative usefulness of implementing a Family Constitution may vary depending on the generation that controls the family business. We expect that the positive effects of implementing a Family Constitution are strongest for third generation and beyond family firms, moderate (weaker, but positive) for second-generation firms, and lowest (although positive) for first generation firms. This hypothesis is formally stated as follows:

> **Hypothesis 4:** The positive relationship between the implementation of a Family Constitution and future firm performance is stronger for later-generation firms when compared to earlier-generation firms.

Sample and Sources

The difficulty of identifying firms that have implemented a Family Constitution presents an obstacle to conducting studies regarding this topic. However, during 2003-2014, certain regions in Spain established support plans for family businesses and provided economic aid specifically for developing Family Constitutions. This financial support typically covers between 30% and 50% of the consulting cost and is widely publicized among companies, their associations and consultants. We believe that nearly all of the companies that implemented a Family Constitution in regions that offered public financial support requested this assistance because of its economic relevance and publicity by both regional governments and business consultants.

After conducting exhaustive searches and requesting formal information from the appropriate authorities, we obtained an annual list of family firms that operate in Spain and received government support to implement a Family Constitution. The database that was used to test the proposed hypotheses includes 265[3] family businesses that implemented a Family Protocol in Spain during 2003-2013.

Sample companies implemented Family Constitutions during 2003-2013. To analyze performance changes of the sample firms, it is necessary to control for this temporal heterogeneity because of the onset of the global financial crisis in Spain in 2007-2008. In addition, high performing firms could be overrepresented in the sample of firms that implemented a Family Constitution. Therefore, to control for potential sample selection bias and the effect of the global financial crisis, we define a control group by using an exhaustive matching procedure. For each of the 265 firms that implemented a Family Constitution, we conducted a manual thorough search for a corresponding family firm in the SABI[4] database for a firm that was the most similar in terms of region (to isolate institutional influences), industry, size (number of employees), age (firm foundation date), return on assets and leverage at the beginning of the year that the Family Constitution was implemented. To ensure that the paired company was a family firm, we conducted an exhaustive comparison of the surnames of shareholders, managers and board members for each firm (Spanish individuals use two surnames, the first one name is from their father and the second name is from their mother). We consider that a firm is a family business when the majority of shares are held by relatives who also have a significant presence on the management team and/or board of directors. Finally, we manually verified that a Family Constitution did not exist for the control firms based on three conditions: (1) the firm did not receive any public aid to develop a Family Constitution; (2) the firm is not affiliated with any Family Business Regional Association (all regions have an association); and (3) a lack of any public reference to having a Family Constitution, primarily through the Corporate Web or public registration in the Spanish Public Commercial Register[5].

[3] We previously eliminated 27 companies from the database that received public support in 2014 because the necessary financial data had not been published (two years after the Protocol implementation). We also eliminated 5 companies because we were unable to find a similar control firm in the matching procedure.

[4] SABI (Iberian System of Balance Analysis) is analogous to the European Amadeus database.

[5] It is noteworthy to highlight a law that was passed in Spain in the same year that our database begins (Royal Decree 7/2003), which establishes three optional levels for publicizing Family Constitutions, from simply indicating that a firm has a Family Constitution, to registering its content.

Table 1 summarizes a comparison of the family firms that implemented a Family Constitution and the control group to show that both groups are comparable. Family firms that implemented a Family Constitution represent 50.0 percent of our sample and are equally distributed by region and industry when compared to the firms that did not implement a Family Constitution (control group). There are no statistically significant differences between the company groups by size or age (nor in terms of prior ROA, ROE and leverage as is indicated in Table 2). In addition, family generation distribution is comparable between both groups of firms (we consider 25 years for each generation following Gersick et al., 1997).

Table 1. Descriptive statistics of family firms with Family Constitutions and the control group.

	Family Firms with Family Constitution	Family Firms without a Family Constitution	*t*-statistic
Number of firms	265[1]	265[1]	-
Panel A (% of firms)			
Family CEO	71.2	73.1	(0.636)
Controlling shareholder >50%	74.08	77.09	(0.539)
First generation firms	32.8	34.7	(-0.980)
Second generation firms	65.2	63.3	(0.301)
Third generation firms	1.9	1.9	(0.426)
Micro firms	36	36	(0.276)
Small firms	46	47	(0.475)
Medium-sized firms	13	12	(0.334)
Large firms	5	5	(0.296)
Manufacturing industry firms	34	34	(-0.518)
Service industry firms	20	20	(0.625)
Retail industry firms	46	46	(-0.585)
Panel B (Median)			
Firm size (no. employees)	9.67	10.65	(1.627)
Firm age	11.13	12.14	(1.112)
Total assets (thousand €)	1,257	862	(1.040)
Leverage	0.57	0.63	(0.644)

Note: The sample includes 530 family businesses, including 265 family businesses that implemented a Family Constitution during 2003-2013 and a control group of 265 family businesses that do not have a Family Constitution.

Firms by size: micro firms (less than 10 employees), small firms (10-49 employees), medium-sized firms (50-249 employees) and large firms (more than 250 employees).

[1]Number of firms by region: 126 in Asturias, 16 in Castilla-La Mancha, 32 in Castilla and Leon, 25 in La Rioja, 53 in Valencia and 13 in Basque Country.

Table 2. Performance and Leverage.

Panel A: ROA (%)

Year	Firms With Family Constitution			Firms Without a Family Constitution			Significance test	
	Median	Mean	Deviation	Median	Mean	Deviation	t-test	W-Wilcoxon
t-2	3.14	8.09	13.27	3.12	5.54	6.75	(0.452)	(0.838)
t-1	3.15	4.53	12.74	3.20	5.23	7.22	(0.584)	(0.354)
t	3.08	3.89	14.6	3.08	4.91	8.05	(0.949)	(0.217)
t+1	1.74	2.59	5.08	1.71	1.56	6.92	(0.022)**	(0.000)***
t+2	1.26	0.40	6.38	1.23	0.69	7.45	(0.556)	(0.001)**
t+3	1.88	2.47	11.32	1.33	2.73	8.42	(0.998)	(0.727)
t+4	1.51	1.85	8.80	1.24	3.44	8.18	(0.280)	(0.490)
t+5	1.42	0.93	11.02	1.22	0.91	7.03	(0.223)	(0.258)

Panel B: ROE (%)

Year	Firms With Family Constitution			Firms Without a Family Constitution			Significance test	
	Median	Mean	Deviation	Median	Mean	Deviation	t-test	W-Wilcoxon
t-2	6.27	7.96	13.61	4.83	8.10	14.72	(0.514)	(0.223)
t-1	7.50	11.30	14.49	6.83	10.16	15.82	(0.444)	(0.653)
t	7.30	10.88	16.03	5.45	8.25	14.45	(0.002)***	(0.001)***
t+1	8.03	9.70	41.25	4.16	6.68	13.41	(0.431)	(0.001)***
t+2	7.42	9.98	19.18	3.45	5.45	13.51	(0.013)***	(0.001)***
t+3	3.86	5.17	17.61	2.91	1.17	20.21	(0.578)	(0.727)
t+4	3.47	3.35	18.43	1.98	1.06	9.22	(0.280)	(0.490)
t+5	4.36	6.02	40.85	3.20	2.74	15.39	(0.510)	(0.258)

Panel C: Leverage

Year	Firms With Family Constitution			Firms Without a Family Constitution			Significance test	
	Median	Mean	Deviation	Median	Mean	Deviation	t-test	W-Wilcoxon
t-2	0.53	0.57	0.31	0.46	0.43	0.31	(0.247)	(0.328)
t-1	0.57	0.55	0.31	0.63	0.61	0.32	(0.644)	(0.376)
t	0.54	0.52	0.27	0.59	0.56	0.33	(0.367)	(0.617)
t+1	0.55	0.52	0.30	0.51	0.53	0.34	(0.041)**	(0.070)***
t+2	0.53	0.51	0.28	0.49	0.51	0.36	(0.033)**	(0.043)*
t+3	0.51	0.49	0.29	0.45	0.49	0.35	(0.030)**	(0.087)*
t+4	0.49	0.54	0.56	0.43	0.49	0.37	(0.250)	(0.423)
t+5	0.48	0.47	0.27	0.39	0.49	0.52	(0.866)	(0.093)*

Note: t = year the Family Constitution was implemented. For year t-2 to t+2, the sample includes 530 family businesses, including 265 family businesses that implemented a Family Constitution during 2003-2013 and a control group of 265 family businesses that did not implement a Family Constitution. For year t+3 the sample includes 438 firms, 432 firms for year t+4 and 410 firms for year t+5 (half of these firms implemented a Family Constitution and the other half do not have a Family Constitution).

*, ** and *** indicate significance at the 10%, 5% and 1% levels, respectively.

Table 2 describes the performance of the companies that implemented a Family Constitution and the control group including ROA, ROE and leverage[6] using data from two years prior to the implementation of the Protocol to five years after the implementation. None of the companies in our sample are listed on the stock market, which is the case for the majority of Spanish companies; therefore, market value measures are not included in the study. In addition, we conducted a statistical analysis of sub-samples based on the differences between medians and means (non-parametric W-Wilcoxon median test and t-test of equal means for related samples). We also conducted a matched-pair analysis. According to the design of the control group, there are no significant differences in ROA, ROE or leverage for both groups of firms prior to the implementation of the Family Constitutions. This preliminary analysis indicates that family firms that implement a Family Protocol achieve significantly higher ROA one year and two years after the implementation than firms in the control group (firms that did not implement a Family Protocol). In addition, ROE is higher for family firms after they implemented a Family Constitution. The matched-pair analysis reached the same conclusion. Next, we performed a multivariate analysis to control spurious relationships and consider potential moderating factors.

Multivariate Analysis

Methodology

To test the proposed hypotheses regarding the positive relationship between the implementation of a Family Constitution and future firm performance, while considering the moderating role of family management, family ownership and the generation in control, we estimate multivariate regression models and control for firm-specific variables. The regression equation that we test is calculated as follows:

$$\Delta ROA_{it+2} = \alpha_i + \beta_{1i}FamilyConstitution_{it} + \beta_{2i}FamilyConstitution_{it}*Non\text{-}FamilyCEO_{it} + \beta_{3i}Non\text{-}FamilyCEO_{it} + \beta_{4i}FamilyConstitution_{it}*MultipleFamilyOwners_{it} + \beta_{5i}MultipleFamilyOwners_{it} + \beta_{6i}FamilyConstitution_{it}*Generation_{it} + \beta_{7i}Generation_{it} + \beta_{8i}\,\Delta ROAsector_{it+2} + \beta_{9i}\,ROA_{it-1} + \beta_{10i}FirmSize_{it} + \beta_{11i}Leverage_{it} + \beta_{12i}IndustryVariables_{it} + \varepsilon_{it}$$

where *i* represents the firm, *t* represents time, and ε_{it} denotes the error term. We control autocorrelation using the Durbin-Watson statistic test. To mitigate concerns regarding

[6] *ROA* is defined as earnings before interest, tax, depreciation, and amortization (EBITDA), divided by total assets; *ROE* is defined as net profit divided by equity; and *Leverage* is defined as total liabilities divided by total assets.

multicollinearity, all interactions were entered separately into the regression equation. All hypotheses were tested using hierarchical regression analysis.

Dependent variable

Δ*ROA*. To test the potential positive relationship between the implementation of a Family Constitution and future firm performance, we define growth in ROA two years after the implementation of a Family Constitution for each firm as the dependent variable, which is calculated as (ROA_{t+2} - ROA_t) divided by ROA_t. ROA is preferred to ROE because it is the root of firm performance and allows better isolation of the effect of leverage decisions. We incorporated a delay of two years to allow time for the effects of the Protocol to occur, but not too long for other relevant facts to affect the analysis (in addition to losing observations in our database).

Family Constitution and moderating variables

Family Constitution is the key explanatory variable that is tested in our study[7]. Family Constitution is defined as a dummy variable that takes the value of 1 if the firm has implemented a Family Constitution in any year during the period 2003-2013 and zero otherwise. Hypothesis 1 proposes that a positive relationship exists between the implementation of a Family Constitution and future firm performance.

In addition, we included the following variables and their multiplicative with the *Family Constitution* variable to test their potential moderating effects on the implementation of a Family Constitution as proposed in Hypotheses 2 through 4:

Non-family CEO. We expect greater utility of the Family Constitution when agent-principal conflicts are greater, thus when the firm has a non-family CEO (Hypothesis 2). To identify the existence of a CEO that is a member of the family in each sample firm, we

[7] To explore the characteristics and similarity of the Family Constitutions, a postal survey was mailed to the 265 firms in the database that implemented Family Constitutions (29 firms responded, which resulted in a 10.9% response rate after a second mailing). Firms confirm that their Family Constitutions address agreements regarding management, ownership and the governance of the company. It highlights that 96% of the Family Protocols address the organization of a Family Council and the professionalization of the company, 93% address the incorporation of family members into the company and include clauses regarding the transfer of shares and 89% of the Protocols address the succession of management. They emphasize the ability of the implementation of the Protocol to maintain control of the firm, favor its continuity, improve the transparency between the firm and the family and also acknowledge its ability to reduce conflicts between family members.

The median number of pages of a Family Constitution is 41 (minimum 19 and maximum 63), the median number of signers is 5 (minimum 2 and maximum 21), the average time for completion of the document is 10 months, all family members over 18 years of age sign these agreements and a family member was only slightly involved in the process for 37% of the cases. In 44% of the cases, firms are between the first and the second generation, in 96% of the cases a family member is CEO of the firm and on average the majority shareholder owns 51% of the firm.

manually check managers' board composition and match their surnames with the surnames of the group of family owners. The variable *Non-family CEO* was coded as 1 when a firm has a non-family CEO and 0 for firms that hired a CEO who is a member of the owning family.

Multiple family owners. We expect that Family Constitutions are more useful when family shareholders conflicts exist (Hypothesis 3). We defined a dummy variable that takes the value of 1 if more than one family shareholder exists and 0 otherwise (one majority shareholder owns 100% of the firm).

Generation. We consider the moderating role of the generation that controls the firm in the relationship between the implementation of a Family Constitution and future firm performance because of the expectation of increased conflicts between the principals and the remainder of the family in later generations (Hypothesis 4). We define the dummy variable *Generation*, which takes the value of 1 for first-generation firms (founders), the value of 2 for second-generation firms and the value of 3 for third and beyond generation firms. In addition, we consider alternative definitions such as the logarithm of firm age.

Control variables

Δ*ROAsector*. We included an explanatory variable, growth in industry ROA two years after the implementation of a Family Constitution (t+2), to isolate the effect of external factors that are linked to the economy and industry evolution on firm performance growth. Family firms in our database implemented their Family Constitutions in different years during 2003-2013. This time frame includes the economic crisis started in 2007-2008. For each firm, we calculated the ratio ($ROAsector_{t+2}$ - $ROAsector_t$) divided by $ROAsector_t$. ROAsector is measured each year as the median return on assets of firms that have the same two-digit NACE code.

ROA_{t-1}. To refine the data after the matching procedure, we included ROA one year prior to the implementation of a Family Constitution (t-1) in the regressions to control for prior firm performance, which could influence the decision to execute a Family Constitution.

Firm size. The resource-based view indicates that less formalized and poor professional practices occur in small firms (De Kok, Uhlaner, & Thurik, 2006; Penrose, 1959). Potential greater benefits of implementing a Family Constitution are controlled for small companies. We measured size as the logarithm of the number of employees (*logEMP*) (to reduce heteroscedasticity concerns because of the highly skewed distribution of this variable). We consider alternative variables, such as the logarithm of total assets and dummy variables with different cut-offs of employment level.

Leverage. Debt may act as a device to discipline managers by positively influencing performance (Jensen, 1986). We included firm leverage, which is defined as total liabilities divided by total liabilities plus net equity.

Industry. We grouped sample firms into three industry groups, manufacturing, services and retail (Chrisman, Kellermanns, Chan, & Liano, 2010; Hoffman et al., 2014), according to the primary activity of the company (two-digit NACE code). We define three dummy variables, one for each sector, and include two of these variables in the regression analysis (manufacturing and retail).

Table 3 provides the correlation matrix, mean and standard deviation of the variables that are included in the regression analyses.

Results

We tested the proposed hypotheses by conducting a hierarchical regression analysis. The results are provided in Table 4. Model 1 only included the control variables, Model 2 added the *Family Constitution* variable, Model 3 tested the moderating effects with the multiplicative variables of *Family Constitution* and Model 4 only included the significant explanatory variables from the prior models. We include the standardized beta coefficients (this is why no coefficient is obtained for the constant term) to allow comparisons of the explanatory power of different variables.

Hypothesis 1 proposes that the implementation of a Family Constitution is positively related to future family firm performance. The results of the estimated Model 2 support Hypothesis 1 because the dummy variable that indicates that the family firm implemented a Family Constitution is statistically significant as a determinant of firm performance growth with a positive sign (β=0.102). Firms that dedicated the time and effort to develop a Family Constitution achieved greater firm performance growth. We observe having several family shareholders (*MultipleFamilyOwners*), rather than having a single majority owner, has a positive influence on firm performance growth (β=0.086). Prior return on assets (ROA_{t-1}) is also positive and significant (β=0.101) in all the models but is not correlated with the other explanatory variables. The remaining control variables are not statistically significant. In this regard and considering the model explanatory power tests, we again note that the dependent variable is ROA growth, which is calculated for different times during the 2003-2013 period, depending on the year that the Family Constitution was implemented.

Table 3. Correlation Matrix, means and standard deviation.

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1. ΔROA	2.24	3.67											
2. Family Constitution	0.50	0.50	0.104*										
3. Non-family CEO	0.16	0.37	0.051	0.151**									
4. Multiple family owners	0.76	0.42	0.083	-0.007	-0.008								
5. Generation	1.72	0.48	0.017	0.013	0.035	-0.014							
6. ΔROAsector	0.20	0.83	0.019	0.027	0.129**	-0.082	0.021						
7. ROA(t-1)	4.88	9.98	0.098*	-0.018	-0.014	0.023	-0.063	0.033					
8. Firm size	2.96	1.20	0.040	-0.108*	0.144**	-0.032	0.081	0.187**	-0.035				
9. Leverage	0.56	0.35	0.030	0.070	0.051	-0.055	-0.021	-0.061	-0.009	-0.045			
10. DummyIND (Manufact.)	0.25	0.43	0.026	0.017	0.008	-0.063	-0.000	0.442**	0.053	-0.017	-0.102*		
11. DummyIND (Services)	0.24	0.42	-0.066	-0.040	-0.062	-0.060	-0.153**	-0.522**	0.044	-0.136**	0.116**	-0.333**	
12. DummyIND (Retail)	0.15	0.36	-0.019	0.002	-0.081	0.056	0.015	-0.132**	-0.019	-0.063	0.092*	-0.255**	-0.246**

Note: The sample comprises 530 family businesses, including 265 family businesses that implemented a Family Constitution during 2003-2013 and a control group of 265 family businesses that do not have a Family Constitution.
*, and ** indicate correlations significance at p<.05 and p<.01, respectively.

Model 3 illustrates the nuances of the relationship between implementing a Family Constitution and firm performance growth. We included the multiplicative variables of implementing a Family Constitution and having a non-Family CEO, multiple family owners, and older generations, to test Hypothesis 2 through 4, respectively. We observe that the positive relationship between the implementation of a Family Constitution and firm performance growth depends on family involvement in management and ownership and on family complexity. In accordance with Hypotheses 2, the variable *FConstitution*Non-FamilyCEO* is statistically significant and positive (β=0.127), which indicates that the positive relationship between the implementation of a Family Constitution and firm performance growth is stronger when the firm has a non-family CEO and conflicts with family owners are more likely. The positive and statistically significance of the multiplicative variable *FConstitution*MultipleFamilyOwners* (β=0.309) is in agreement with Hypotheses 3, in accordance with a greater utility of a Family Constitution for firm performance improvement when multiple family shareholders exist rather than one unique owner and blockholder conflicts may occur. This multiplicative variable has the highest standardized beta coefficient. The multiplicative variable *FConstitution*Generation* is also positive and significant (β=0.089) and indicates that later-generation family firms (more complex family) that implement a Family Constitution experience higher growth in firm performance. These results support Hypotheses 2, 3 and 4 regarding the greater utility of the Family Constitution for performance improvement when a family firm has a non-family CEO, when multiple family owners exist and when later generations control the firm.

The F-statistic that is associated with the set of covariates is significant at the .10 level in model 2 and significant at the 0.01 level in models 3 and 4. A Durbin-Watson test was conducted to detect the presence of autocorrelation in the residuals (1.3). Multicollinearity is not a concern in the regression analysis. Model 4 provides the statistically significant explanatory variables.

Table 4. Regression analysis: growth in ROA two years after implementing a Family Constitution.

	Model 1	Model 2	Model 3	Model 4
Family Constitution		0.102	0.123	
		(2.313)**	(0.867)	
Non-family CEO	0.044	0.027	0.030	
	(0.993)	(0.612)	(0.684)	
Multiple family owners	0.085	0.086	0.094	0.089
	(1.938)*	(1.964)**	(2.165)**	(2.082)**
Generation	0.020	0.019	0.007	
	(0.469)	(0.430)	(0.164)	
FConstitution*Non-family CEO			0.127	0.114
			(2.240)**	(2.055)**
FConstitution*Multiple family owners			0.309	0.184
			(2.085)**	(3.308)***
FConstitution*Generation			0.089	0.095
			(2.034)**	(2.221)**
ΔROAsector	-0.001	-0.005	-0.012	
	(-0.024)	(-0.099)	(-0.246)	
ROA(t-1)	0.099	0.101	0.107	0.104
	(2.272)**	(2.330)**	(2.480)**	(2.428)**
Firm size	0.039	0.053	0.064	
	(0.867)	(1.171)	1.394	
Leverage	0.041	0.035	0.025	
	(0.930)	(0.797)	(0.580)	
DummyIND (Manufact.)	0.024	0.024	0.028	
	(0.471)	(0.469)	(0.548)	
DummyIND (Retail)	-0.013	-0.014	-0.010	
	(-0.290)	(-0.308)	(-0.227)	
R-squared	0.023	0.033	0.055	0.048
F-test	1.346	1.756	2.299	5.261
t-test (Sig.)	0.210	0.066	0.006	0.000
Durbin-Watson	1.317	1.333	1.323	1.314

Note: The sample comprises 530 family businesses, including 265 family businesses that implemented a Family Constitution during 2003-2013 and a control group of 265 family businesses that do not have a Family Constitution.
Standardized coefficients (t-value in parentheses).
*, ** and *** indicate significance at the 10%, 5% and 1% levels, respectively.

Conclusion and Discussion

It is challenging for family firms to find the right governance mechanisms to maximize potential advantages and overcome disadvantages that result from different degrees of family involvement in the business (Nordqvist et al., 2014). Although the corporate governance structures of family businesses have been thoroughly analyzed, particularly the board of directors (Bammens, Voodeckers, & Van Gils, 2011), the same has not occurred for parallel corporate governance processes including norms of legitimacy and authority relationships (Nordqvist et al., 2014). Proper family governance affects the success of a family business (Kammerlander, Sieger, Voordeckers, & Zellweger, 2015). We contribute to the study of this topic by examining the Family Constitution, which has rarely been empirically studied, despite its importance in consultancy. A Family Constitution (or Protocol) executes an internal communication process to formalize agreements among family members and delineate their relationships with the family firm.

Conclusions

Based on agency theory, we propose that the implementation of a Family Constitution is positively related to future firm performance. In-depth interviews that we conducted with specialized family firm consultants confirmed that generally, a Family Constitution develops norms and agreements to avoid conflicts that may be caused by overlap between family members, ownership and/or management interests. A Family Constitution addresses terms regarding family members incorporation into the firm, multiple family shareholders agreements and shapes the Family Council. We expect that these agreements enhance the management monitoring and firm professionalization (mitigating principal-agent conflicts), limit conflicts between shareholders (mitigating principal-principal conflicts) and reduce the negative interference of family in the management of the firm (mitigating principal-"super-principal" conflicts) (Carney et al., 2014; Child & Rodrigues, 2003; Zellweger & Kammerlander, 2015). To test these proposals, we compared a database of family businesses that operate in Spain and had established a Family Constitution during 2003-2013 to a control group of family businesses that did not implement a Family Protocol. Our results indicate that a positive relationship exists between the implementation of a Family Constitution and future firm performance, particularly when the family firm has a non-family CEO, when the firm has multiple family owners and when later generations control the firm.

Contributions

Our study contributes to theory and extant literature. First, we contribute to agency theory in general and corporate governance family firm research in particular by discussing understudied types of agency costs (Villalonga et al., 2015; Zellweger & Kammerlander, 2015), including the principal-agent conflict in family firms, family blockholder conflicts and family owners vs. family-at-large agency conflict. We respond to calls for research regarding family agency costs and corporate governance by Carney et al. (2014) and explore non-organizational solutions such as Family Constitutions to mitigate family blockholder conflicts that are suggested by Zellweger and Kammerlander (2015). In addition, we answer a call for research by Villalonga et al. (2015) regarding the conflict between family shareholders and the family at large about family governance mechanisms to mitigate agency problems. This study enhances our understanding of family business governance and the implications of the agency theory regarding formal corporate governance mechanisms by showing that a Family Constitution represents a relevant corporate governance mechanism. Although Family Constitutions are typical of family businesses, the usefulness of some of their components to mitigate principal-agent and principal-principal conflicts may be extended to non-family businesses. Business research in general should take into account that, in addition to the development of corporate governance, firm performance may also improve by promoting firm professionalization and shareholder agreements (such as put and call options, rights of first refusal, tag-along rights, drag-along rights, lockout clauses or buyout agreements).

Second, we contribute to relatively recent studies regarding family firm heterogeneity (Chua et al., 2012; Cruz & Nordqvist, 2012; García-Álvarez & López-Sintas, 2001; Westhead & Howorth, 2007). Appropriate governance mechanisms for achieving performance goals may vary among different types of family firms (Nordqvist et al., 2014). We note the moderating roles of family involvement in management and ownership and the family generation. The positive relationship between the implementation of a Family Constitution and future firm performance is stronger when the firm has non-family management, has non-concentrated family ownership and later generations control the firm.

Third, our research contributes to extant literature regarding family firms by being one of few studies to concentrate specifically on the Family Constitution and by being the only study, to our knowledge, regarding the relationship between a Family Constitution and firm performance (Gersick & Feliu, 2014, note this). We address this lack of empirical research by performing a quantitative analysis and conducting exploratory in-depth interviews, which

provide interesting data regarding the characteristics of Family Constitutions. Clearly, additional studies are needed. Nevertheless, our results provide an empirical base that highlights the interest in this line of research.

Fourth, this study contributes to family firm literature that examines family firm performance and moderating factors because it is the first empirical work to analyze the relationship between firm performance and the Family Constitution. Our results extend prior studies regarding family firm performance by showing that a positive relationship exists between Family Constitution agreements and future firm performance.

Finally, we contribute to extant literature by exploring privately held family firms. Mazzi (2011) recognized that this topic needed additional analysis. Studies regarding private family firms are relatively rare when compared to the large number of studies regarding publicly listed family firms (Mazzi, 2011). Empirical studies reporting that family firm performance declines after the founder's generation (Pérez-González, 2006; Villalonga & Amit, 2006) are based on samples of large and listed firms; therefore, survivor bias is inherent because analyzed first-generation family businesses are the very top performers among all first-generation family firms (Amit & Villalonga, 2014). We contribute by enhancing our understanding of family businesses by primarily focusing our empirical analysis on privately held small companies.

Practical implications

This study has practical implications for family businesses and their consultants. Specifically, our results highlight the importance of negotiations and communication that ultimately lead to the implementation of a Family Constitution. Even during times of economic crisis, we observed that companies that had implemented a Family Protocol reported higher levels of firm performance growth. By showing that the implementation of a Family Constitution is positively related to future firm performance, our study provides evidence for families to engage in this complex and lengthy communication and agreements process with determination. Furthermore, implementing a Family Constitution may be a positive signal that can be used by financial institutions, suppliers, customers and other stakeholders.

Limitations and future research

This study includes certain limitations, some of which provide insights for future research. First, the data we used for the multivariate analysis are quantitative in nature. This allowed us to analyze the impact of developing a Family Constitution on achieving firm goals in terms of

performance outcomes. However, a qualitative approach may generate a better understanding of the drivers and characteristics of successful Family Constitutions. We believe that case studies represent an appropriate research methodology to conduct in depth study regarding the complex process of developing Family Protocols. Furthermore, our results suggest that each generation of a family firm should be studied on its own terms with respect to the Family Constitution. This type of research may be of interest considering non-economic goals (Chrisman, et al., 2003) and SEW (Gomez-Mejia et al., 2007). In addition to financial outcomes, a Family Constitution may contribute to achieving family non-financial goals such as improving SEW. How does a Protocol impact the various dimensions of SEW? Measuring SEW dimensions is an outstanding challenge and requires research methodologies such as surveys, content analysis, laboratory experiments, and case studies (Berrone et al., 2012). In this regard, the measures that were proposed by Berrone et al. (2012) in the FIBER dimensions and the measure that were proposed by Holt et al. (2017) in their family firm outcomes (FFO) model can serve as a guide. In addition, future research could more comprehensively analyze the relative weight of the effects on principal-agent conflicts (professionalization), majority-minority conflicts, blockholder conflicts (shareholders agreements), principal-"super-principal" conflicts (Family Council) and the reinforcement of positive internal and external SEW for the firm. In addition, it would be of interest to investigate the potential advantage of Family Constitutions to avoid double-agency costs. Double-agency costs may emerge when families establish intermediate organizations such as a family office or a family trust to limit negative consequences of blockholder conflicts (Carney et al., 2014; Child & Rodrigues, 2003; Zellweger & Kammerlander, 2015). These organizational solutions generate agency costs to aligning the interests of intermediary agents who represent family owners and monitor other agents (firm managers) (Zellweger & Kammerlander, 2015). A Family Constitution may avoid the interposition of the above mentioned intermediate organizations.

Clearly, our analysis is limited to a sample of family firms from Spain and therefore, we only considered one institutional environment. Future studies may expand knowledge by studying other countries. An even more interesting extension may be to investigate the influence that institutions exert on the governance structures and processes of family firms (Leaptrott, 2005; Melin & Nordqvist, 2007; Nordqvist & Melin, 2002), particularly, the Family Constitution. In this regard, institutional theory offers an appropriate framework (Fiss, 2008; Nordqvist & Melin, 2002). The institutional context includes regulatory, normative and cultural arrangements that stimulate, enforce, and limit economic and social activities and the

actions of an organization (Berrone & Gomez-Mejia, 2009; Fang, Memeli, Chrisman, & Welsh, 2012). Family firms receive advice from formal advisors (Strike, 2012), organizations, networks (Melin & Nordqvist, 2007), and professional associations (Greenwood, Suddaby, & Hinings, 2002; Parada, Nordqvist, & Gimeno, 2010) that prescribe best corporate governance practices and foster specific family firm values (Parada et al., 2010). Do the differences in institutional environments determine the implementation, characteristics or usefulness of Family Constitutions? In addition to academics and practitioners, this type of research would be of interest to policymakers and institutions.

Our database includes a set of firms that received public funding to implement a Family Constitution. Although we conducted an exhaustive matching procedure to define the control group, we did not determine whether these firms were top performers compared to the entire population of family businesses in Spain. The matching procedure allowed us to control for this eventuality because the control group of firms that did not implement a Family Protocol had similar prior performance. However, future studies could consider research questions such as the following: What drives family businesses to develop a Family Constitution? Are these a special type of family businesses? How effective are different agreements that are included in Family Constitutions? In addition, eighty-two percent of our database is made up of micro and small businesses. This underrepresentation of large firms has hindered the analysis of additional hypotheses besides the potential reduction in agency conflicts, such as the potential positive effects for small family firms of implementing a Family Constitution. A Family Protocol generally promotes firm professionalization and thus “best performance practices”, through the use of business plans, managing structures and more formal decision-making (De Kok, Uhlaner, & Thurik, 2006; Penrose, 1959). Family Constitution implementation might therefore have a greater influence on firms that previously lacked such practices, which are likely to be small firms. The positive relationship between implementation of a Family Constitution and future firm performance might be stronger for smaller firms than for larger firms.

More longitudinal studies are also needed to better understand the long-term influence of Family Constitutions. Our multivariate analysis shows that family businesses that implemented a Family Constitution had significantly improved performance within two years after implementation. Nevertheless, although multiple factors should be controlled in the analyses, new research questions arise regarding the longer term. Is the positive relation between Family Constitution and firm performance maintained over time? Or does it decrease over the years, as the univariate analysis seems to point out? Which new institutions

established after implementation of the Family Constitution actually continue to function in later years? Moreover, it would be interesting to analyze the varied success of different Family Protocols in the long-term. For example, some families periodically celebrate their Family Protocol, while in other cases it never becomes effective. Again, studying the cases of firms whose Family Protocol is successful would be an interesting line of research.

Further research might find it interesting to examine more nuances of family heterogeneity (Jaskiewicz, Combs, Shanine & Kacmar, 2017) and of Family Constitutions. In the same way that research on family businesses has evolved from comparing family and non-family firms to focus on family business heterogeneity, this new research topic, in addition to comparing family firms with and without a Family Constitution, should also study the variability of Family Constitutions. Do all Family Constitutions include shareholder agreements, develop firm professionalization and a Family Council, and have a similar level of detail and similar length? Several aspects may be critical in the Family Constitution's influence on firm performance, such as the detail of the agreements, differences in family members' effective involvement in the Family Constitution process and their different perceptions of it, the number of owners, the number of family branches, and size and type of family. A qualitative research could consider the relevance of the various dimensions of families (structures, functions, interactions, and events), including family communication patterns, parenting styles, family life cycles, and others (Jaskiewicz & Dyer, 2017). Moreover, in contrast with an over-optimistic view of Family Constitution effects, it would also be interesting to analyze potential negative consequences and bad practices in the implementation of such a Constitution.

We believe that there is considerable scope for future research on this topic. More research is needed to better understand how to develop useful Family Constitutions for family businesses that are at different generational stages. We trust that this study will encourage family firm scholars to develop future studies regarding the topic of Family Constitutions.

Acknowledgments

We acknowledge the constructive comments and suggestions received from Prof. Francesco Chirico (JIBS), the associate editor of FBR, Justin W. Webb, and the three anonymous reviewers, which have greatly improved the article.

Declaration of Conflicting Interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The authors disclosed receipt of the following financial support for the research, authorship, and/or publication of this article: This work has received financial support from the Spanish Ministry of Economy and Competitiveness/FEDER (Project ECO2015-66184-R), the Spanish Economy Competitiveness Ministry (ECO2012-31772), and from the Family Business Chair of Oviedo University (supported by AEFAS, FADE, and IEF in Spain).

References

Amit, R., & Villalonga, B. (2014). Financial performance of family firms. In *The SAGE Handbook of Family Business American Economic Review*, ed. L. Melin, M. Nordqvist, P. Sharma, London: SAGE Publications Ltd., 157-178.

Anderson, R.C., & Reeb, D.M. (2003). Family funding ownership and firm performance: evidence from S&P 500. *Journal of Finance*, *58*(3), 1301-1327.

Bammens, Y., Voodeckers, W., & Van Gils, A. (2011). Board of directors in family businesses: a literature review and research agenda. *International Journal of Management Reviews, 13*, 134-152.

Berrone, P., Cruz, C., & Gómez-Mejía, L. (2012). Socioemotional Wealth in Family Firms: Theoretical Dimensions, Assessment Approaches, and Agenda for Future Research. *Family Business Review*, *25*(3), 258-279.

Berrone, P., & Gomez-Mejia, L. (2009). Environmental performance and executive compensation: An integrated agency-institutional perspective. *Academy of Management Journal, 52*, 103-126.

Bertrand, M., Johnson, S., Samphantharak, K., & Schoar, A. (2008). Mixing family with business: A study of Thai business groups and the families behind them. *Journal of Financial Economics*, *88*, 466-498.

Carlock, R.S., & Ward, J.L. (2001). Strategic planning for the family business: parallel planning to unite the family and business. *London: Palgrave*, MacMillan.

Carney, M., Gedajlovic, E., & Strike, V.M. (2014). Dead money: Inheritance law and the longevity of family firms. *Entrepreneurship Theory and Practice*, *38*(6), 1261-1283.

Chemla, G., Habib, M.A., & Ljungqvist, A. (2007). An analysis of shareholder agreements. *Journal of the European Economic Association*, *5*(1), 93-121.

Child, J., & Rodrigues, S.B. (2003). Corporate governance and new organizational forms: Issues of double and multiple agency. *Journal of Management and Governance*, *7*, 337-360.

Chrisman, J.J., Chua, J.H., & Sharma, P. (2005). Trends and directions in the development of a strategic management theory of the family firm. *Entrepreneurship Theory and Practice*, *29*, 555-575.

Chrisman, J.J., Chua, J.H., & Zahra, S.A. (2003). Creating wealth in family firms through managing resources: comments and extensions. *Entrepreneurship Theory and Practice*, *27*, 359-365.

Chrisman, J.J., Kellermanns, F.W., Chan, K.C., & Liano, K. (2010). Intellectual foundations of current research in family business: an identification and review of 25 influential articles. *Family Business Review, 23*(1), 9-26.

Chua, J.H., Chrisman, I.J., Steier, I.P., & Rau, S.B. (2012). Sources of heterogeneity in family firms: an introduction. *Entrepreneurship Theory and Practice, 36*, 1103-1113.

Coles, J. W., McWilliams, V. B., & Sen, N. (2001). An examination of the relationship of governance mechanisms to performance. *Journal of Management*, *27*, 23-50.

Cruz, C., Becerra, M., & Gomez-Mejia, L.R. (2010). Perceptions of benevolence and the design of agency contracts: CEO-TMT relationships in family firms. *Academy of Management Journal*, *53*, 69-89.

Cruz, C., Larraza-Kintana, M., Garcés-Galdeano, L., & Berrone, P. (2014). Are family firms really more responsible? *Entrepreneurship Theory and Practice*, *38*(6), 1295-1316.

Cruz, C., & Nordqvist, M. (2012). Entrepreneurial orientation in family firms: A generational perspective. *Small Business Economics*, *38*(1), 33-49.

De Kok, J.M.P. de, Uhlaner, L.M., & Thurik, A.R. (2006). Professional HRM practices in family owned-managed enterprises. *Journal of Small Business Management, 44*(3), 441-460.

Eddleston, K.A., & Kellermanns, F.W. (2007). Destructive and productive family relationships: A stewardship theory perspective. *Journal of Business Venturing*, *22*(4), 545-565.

Eddleston, K.A., Kellermanns, F.W., Floyd, S.W., Crittenden, V.L., & Crittenden, W F. (2013). Planning for growth: Life stage differences in family firms. *Entrepreneurship Theory and Practice*, *37*, 1177-1202.

Fama, E., & Jensen, M. (1983). Separation of ownership and control. *Journal of Law and Economics*, *26*, 301-325.

Fang, H., Memeli, E., Chrisman, J., & Welsh, D. (2012). Family firm's professionalization: institutional theory and resource-based view perspectives. *Small Business Institute*, *8*(2), 12-34.

Fiss, P. C. (2008). Institutions and corporate governance. In R. Greenwood, C. Oliver, K. Sahlin, and R. Suddaby. *The Sage Handbook of Organizational Institutionalism* (390-410). London: SAGE Publications Ltd.

Gallo, M., & Ward, J. (1991). Family Protocol. *Technical Note Research Division, IESE,* DGN-448, Barcelona.

Gallo, M.A., & Tomaselli, S. (2006). Formulating, implementing and maintaining family protocols, in *Handbook of Research on Family Business*, 298-316. Ed. Edward Elgar.

García-Álvarez, E., & López-Sintas, J. (2001). A taxonomy of founders based on values: the root of family business heterogeneity. *Family Business Review, 14*(3), 209-230.

Gedajlovic, E., Lubaktin, M. H., & Schulze, W. S. (2004). Crossing the threshold from founder management to professional management: a governance perspective. *Journal of Management Studies*, *41*(5), 899-912.

Gersick, K.E., Davis, J.A., Hampton, M.M., & Lansberg, I. (1997). Generation to generation: Life cycles of the family business. *Boston, MA*: Harvard Business School Press.

Gersick, K.E., & Feliu, N. (2014). Governing the family enterprise: practices, performance, and research, in *SAGE Handbook of Family Business*. Eds. L. Melin, M. Nordqvist and P. Sharma. Thousand Oaks, CA: SAGE, 196-225.

Gomez-Mejia, L.R., Haynes, K.T., Nuñez, M., Jacobson, K.J.L., & Moyano, H. (2007). Socioemotional wealth and business risk in family controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly*, *52*, 106-137.

Greenwood, R., Suddaby, R., & Hinings, C.R. (2002). Theorizing change: The role of professional associations in the transformation of institutionalized fields. *Academy of Management Journal, 45*(1), 58-80.

Grossman, S., & Hart, O. (1980). Takeover bids, the free-rider problem, and the theory of the corporation. *Rand Journal of Economics, 11*, 42-64.

Hoffmann, Ch., Wulf, T., & Stubner, S. (2014). Understanding the performance consequences of family involvement in the top management team: The role of long-term orientation. *International Small Business Journal*, *34*(3), 345-368.

Holt, D.T., Pearson, A.W., Carr, J.C., & Barnett, T. (2017). Family firm(s) outcomes model: structuring financial and nonfinancial outcomes across the family and firm. *Family Business Review*, *30*(2), 182-202.

Jaffe, D., & Lane, S. (2004). Sustaining a family dynasty: Key issues facing complex multigenerational business- and investment-owning families. *Family Business Review, 17*, 81-98.

Jaskiewicz, P., Combs, J., Shanine, K., & Kacmar, M. (2017). Introducing the family: A review of family science with implications for management. *Academy of Management Annals, 11*(1), 309-341.

Jaskiewicz, P., & Dyer, W.G. (2017). Addressing the elephant in the room: disentangling family heterogeneity to advance family business research. *Family Business Review, 30*(2), 111-118.

Jensen, M. (1986). Agency cost of free cash flow, corporate finance and takeovers. *American Economic Review Papers and Proceedings, 76*, 323-329.

Johnson, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2000). Tunneling. *American Economic Review, 90*, 22-7.

Kammerlander, N., Sieger, P., Voordeckers, W., & Zellweger, T. (2015). Value creation in family firms: A model of fit. *Journal of Family Business Strategy, 6*, 63-72.

Kidder, L.H., & Fine, M. (1987). Qualitative and quantitative methods: When stories converge. In *New Directions for Evaluation*, (35). Ed. Mark, M.M. & Shotland, R.L., 57-75.

La Porta, R., López de Silanes, F., & Shleifer, A. (1999). Corporate ownership around the world. *Journal of Finance*, *54*, 471-517.

Leaptrott, J. (2005). An institutional theory view of the family business. *Family Business Review, 18*(3), 215-228.

Le Breton-Miller, I., & Miller, D. (2009). Agency vs. stewardship in public family firms: A social embeddedness reconciliation. *Entrepreneurship Theory and Practice*, *33*, 1169-1191.

Ling, Y., & Kellermanns, F. (2010). The effects of family firm specific sources of TMT diversity: The moderating role of information exchange frequency. *Journal of Management Studies*, *47*, 322-344.

Lubatkin, M.H., Schulze, W.S., Ling, Y., & Dino, R.N. (2005). The effects of parental altruism on the governance of family-managed firms. *Journal of Organizational Behavior, 26*(3), 313-330.

Martin, G., Gomez-Mejia, L.R., Berrone, P., & Makri, M. (2016). Conflict between controlling family owners and minority shareholders: much ado about nothing? *Entrepreneurship Theory and Practice,* doi:10.1111/etap.12236.

Mazzi, Ch. (2011). Family business and financial performance: Current state of knowledge and future research challenges. *Journal of Family Business Strategy*, *2*, 166-181.

Melin, L., & Nordqvist, M. (2007). The Reflexive Dynamics of Institutionalization: The Case of the Family Business. *Strategic Organization*, *5*(4), 321-333.

Miller, D., & Le Breton-Miller, I. (2006). Family governance and firm performance: Agency, stewardship, and capabilities. *Family Business Review*, *19*, 73-87.

Minichilli, A., Corbetta, G., & MacMillan, I. (2010). Top management teams in family controlled companies: "Familiness", "Faultiness" and the impact on Financial performance. *Journal of Managerial Studies, 47*, 205-222.

Montemerlo, D., & Ward, J.L. (2005). The Family Constitution, Agreements to perpetuate your family and your business. (1st. ed.). Marietta, GA: Family Enterprise Publishers.

Morck, R., Wolfenzon, D., & Bernard, Y. (2005). Corporate governance, economic entrenchment, and growth. *Journal of Economic Literature, 43*(3), 655-720.

Naldi, L., Chirico, F., Kellermanns, F.W., & Campopiano, G. (2015). All in the family? an exploratory study of family member advisors and firm performance. *Family Business Review*, *28*(3), 227-242.

Nordqvist, M., & Melin, L. (2002). The dynamics of family firms: an institutional perspective on corporate governance and strategic change. In D. E. Fletcher, *Understanding the Small Family Business*, 94-110. New York: Routledge.

Nordqvist, M., Sharma, P., & Chirico, F. (2014). Family firm heterogeneity and governance: A configuration approach. *Journal of Small Business Management*, *52*(2), 192-209.

O'Boyle, E.H., Pollack, J.M., & Rutherford, M.W. (2012). Exploring the relation between family involvement and firms' financial performance: A meta-analysis of main and moderator effects. *Journal of Business Venturing*, *27*, 1-18.

Parada, M. J., Nordqvist, M., & Gimeno, A. (2010). Institutionalizing the family business: The role of professional associations in fostering the change of values. *Family Business Review*, *23*(4), 355-372.

Penrose, E.T. (1959). *The Theory of the Growth of the Firm.* New York: John Wiley.

Pérez-González, F. (2006). Inherited control and firm performance. *American Economic Review*, *96*(5), 1559-1588.
Schulze, W.S., Lubatkin, M.H., Dino, R.N., & Buchholtz, A.K. (2001). Agency relationships in family firms: Theory and evidence. *Organization Science*, *12*(2), 99-116.
Sciascia, S., & Mazzola, P. (2008). Family involvement in ownership and management: exploring nonlinear effects on performance. *Family Business Review, 21*(4), 331-344.
Shleifer, A., & Vishny, R. (1997). A survey of corporate governance. *The Journal of Finance*, *52*(2), 737-783.
Strike V. M. (2012). Advising the family firm: Reviewing the past to build the future. *Family Business Review*, *25*, 156-177.
Tagiuri, R, & Davis, J. (1996). Bivalent attributes of the family firm. *Family Business Review, 9*(2),199-208.
Tapies, J., & Ceja, L. (2011). Family Protocol: Better to agree and put it in writing. *IESE insight*.
Van den Berghe, L.A.A., & Carchon, S. (2003). Agency relations within the family business system: an exploratory approach. *Corporate Governance: An International Review, 11*(3), 171-179.
Vardaman, J.M., & Gondo, M.B. (2014). Socioemotional wealth conflict in family firms. *Entrepreneurship Theory and Practice, 38*(6), 1317-1322.
Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value? *Journal of Financial Economics*, *80*, 385-417.
Villalonga, B., Amit, R., Trujillo, M.A., & Guzman, A. (2015). Governance of family firms. *Annual Review of Financial Economics, 7*, 635-654.
Westhead, P., & Howorth, C. (2007). 'Types' of private family firm: An exploratory conceptual and empirical analysis. *Entrepreneurship & Regional Development*, *19*, 405-431.
Zellweger, T., & Kammerlander, N. (2015). Family, Wealth, and Governance: An Agency Account. *Entrepreneurship Theory and Practice, 39*(6), 1281-1303.

Author Biographies

Rocio Arteaga is a PhD candidate at the University of Oviedo in the Area of Economy. Her research interests include family firms, corporate governance, and strategic entrepreneurship.

Susana Menéndez-Requejo, PhD, is Full Professor in Finance at the University of Oviedo (Spain). She was the Director of the Family Business Chair at the same University and holds a Certificate in Family Business Advising from the Family Firm Institute. Her research interests are in the areas of Corporate Finance (capital structure, corporate governance, mergers and acquisitions) and Family Firms.

The current issue and full text archive of this journal is available on Emerald Insight at:
https://www.emerald.com/insight/2043-6238.htm

Heterogeneity in family firms: contextualising the adoption of family governance mechanisms

Rocío Arteaga
University of Oviedo, Oviedo-Asturias, Spain, and
Alejandro Escribá-Esteve
Department of Management, Universitat de València, Valencia, Spain

Received 20 October 2019
Revised 10 March 2020
Accepted 12 March 2020

Abstract

Purpose – This research is aimed to better understand what characteristics of family firms create a context in which family governance systems are more frequently adopted.

Design/methodology/approach – We analyse a sample of 490 Spanish family businesses using cluster analysis, and we identify four different types of family businesses whose characteristics are associated to the adoption of different family governance systems, i.e. family councils and family protocols. The comparison between clusters of the baseline parameters was performed using one-way analysis of variance (ANOVA) for parametric variables, the $\chi 2$ test for parametric variables and Kruskal-Wallis for nonparametric variables. By conducting between-profile analysis of covariance (ANCOVA), we tested for differences in the dependent variables (i.e. the existence of family councils and/or existence of family protocols) between the clusters, using cluster membership as the independent variable.

Findings – Taking into account the characteristics of family firms in terms of ownership structure, management involvement, and family and organizational complexity, we identify four different contexts that create different communication needs and are related to the use of different family governance mechanisms. We characterize the different contexts or types of family firms as: founder-centric, protective, consensual and business-evolved. Our findings show that family protocols are associated to contexts with high family involvement in management and family complexity, while family councils are more frequent when there is a separation of managerial and ownership roles and there is a high organizational and family complexity.

Research limitations/implications – The study highlights the value of social systems theory in order to explain the association between the characteristics of different firm types and contexts, and the use of family councils and family protocols to govern the relationship between the owner family and the business.

Practical implications – Family governance mechanisms are widely recommended by practitioners and scholars. However, they are usually adopted only by a small percentage of family firms. This study helps to better understand what family governance systems may be more appropriate in different contexts and relativize the necessity of these governance mechanisms in function of the communication needs created within each context.

Social implications – The improvement of family governance mechanisms helps to increase the likelihood of survival and durability of family firms. These firms contribute to more than 60% of employment in most developed countries. Consequently, good governance in family firms has social implications in terms of labour conditions and stability.

Originality/value – Most family firms don't use family protocols or family councils to govern the relationship between the owner family and the firm. However, little is known about the reasons for this lack of structuration of the family-firm relationship. Using social systems theory, our research contributes to better understand the conditions in which business families are more prone to use structured forms to manage this relationship, as well as the reasons that may be constraining their adoption.

Keywords Family business, Governance, Communication, Family protocol, Family council, Social system theory

Paper type Research paper

The authors appreciate the support of the Chair of Family Business of the University of Valencia and of "Instituto de Empresa Familiar (Spain)", as well as the financial help of the Spanish Ministry of Economy and Competitiveness (Research project ECO2016-80002-R).

Journal of Family Business Management
© Emerald Publishing Limited
2043-6238
DOI 10.1108/JFBM-10-2019-0068

Introduction

Family firms represent the most common type of organisation in historical and contemporary economies all over the world (Anderson and Reeb, 2003). Even though the label 'family firm' connotes a family's influence on a firm, ambiguities about the definition persist in the literature (Díaz-Moriana *et al.*, 2019). Traditionally, family involvement in ownership and management and the intention to pass firm ownership to the next generation have been considered the factors that distinguish family firms from non-family companies (Dibrell and Memili, 2019). Moving beyond factors towards a more theoretical approach, scholars seeking to define the concept have focused on the 'essence' of the family-firm approach (Chua *et al.*, 1999), its distinctiveness – *familiness* (Habbershon and Williams, 1999) – and the non-economic goals that family firms pursue (Gomez-Mejia *et al.*, 2007).

Corporate governance has been the primary topic of investigation in articles on family firms (Chrisman *et al.*, 2018; De Massis *et al.*, 2012). Governance structures in family firms support both the family and the business and seek to separate the roles of ownership from those of management (Gimeno *et al.*, 2010). The characteristics, processes and structures of company governance bodies, especially boards of directors, have been widely addressed (Bammens *et al.*, 2008). However, knowledge about family governance mechanisms remains in its infancy (Li and Daspit, 2016; Suess, 2014). Family governance differs slightly from mainstream corporate governance (Mustakallio *et al.*, 2002; Saidat *et al.*, 2019; Schulze *et al.*, 2001). Family governance mechanisms – informal meetings and family assemblies, councils and protocols – link a family and a business, creating opportunities for family members to discuss all related issues (Frank *et al.*, 2019; Mustakallio *et al.*, 2002). The main function of these systems is to maintain and increase family members' unity and communication among themselves (Gallo and Kenyon-Rouvinez, 2005). Although family governance mechanisms have proved useful, only a small percentage of family firms have adopted them (Gallo and Kenyon-Rouvinez, 2005; Sharma and Nordqvist, 2008). A recent study developed in Spain by the Instituto de la Empresa Familiar (Family Firms' Institute) showed that only 11.3% of family firms have a family council. Regarding family protocols, the study showed that 74.3% of companies do not think they need one, 6.3% do not know what one is and only 11.3% have developed a protocol to regulate the relationship between family and business.

While these figures may be a cause for concern, one limitation in the family firm governance literature is the assumption of homogeneity regarding the way that family firms should be governed (Jaffe and Lane, 2004; Melin and Nordqvist, 2007; Sharma and Nordqvist, 2008).

Despite the recognition of the importance of family governance (Gallo and Kenyon-Rouvinez, 2005), there is little research on the governance practices of distinct types of family firms (Nordqvist *et al.*, 2014). An emerging understanding of the heterogeneity of family firms has led to the development of family firm typologies (e.g. Stanley *et al.*, 2019; Westhead and Howorth, 2007); however, this development has primarily aimed at understanding the differences between family- and non-family firms and a single dimension, such as family involvement in ownership and management (Chua *et al.*, 2012; Neubaum *et al.*, 2019). To a lesser extent, this development has aimed at exploring governance-related typologies and the governance mechanisms distinguishing firms.

Given this research gap, the objective of this study is to develop a family firm typology based on distinguishing factors: family involvement in ownership and/or management, the generation in control and company size. Moreover, inspired by the social systems theory (Frank *et al.*, 2018; Frank *et al.*, 2017; Frank *et al.*, 2010), we use our typology to understand the association between firm types and the two most relevant and prescribed family governance mechanisms – family councils and family protocols (Berent-Braun and Uhlaner, 2012; Suess,

2014). We perform a two-step cluster analysis of a sample of 490 Spanish family firms and find four types of firms. We argue that the types of firms that emerge from our study have different levels of complexity and are characterised by the communication needs of the family, owner and managers. Consequently, they are differently associated with the development of a family council and/or a family protocol.

This study makes three contributions to knowledge about corporate governance in family firms. First, we develop a typology of family firms that combines family involvement and complexity and addresses heterogeneity. We focus on family involvement factors (i.e. family involvement in ownership and management), which capture the unique essence of a family business (Carney, 2005; Stanley *et al.*, 2019), and family and firm characteristics (i.e. generation in control and company size), which convey the complexity of the relationships within the organisation (Downing, 2005). These factors shape the differentiation of family firms and may determine the adoption of distinct family firm governance structures. They highlight the importance of understanding the family firm heterogeneity that influences family businesses' governance structures (Nordqvist and Melin, 2002). Second, this work responds to the calls in the family firm literature to apply more holistic theories to family governance research (Suess, 2014). We demonstrate the instrumentality of the social system theory (Frank *et al.*, 2010) in understanding the choices family firms make regarding their communication needs and adoption of family governance mechanisms. Third, this study applies classificatory methods to better understand the characteristics of family firms, illustrating how the two-step cluster approach can provide more detailed descriptions of family-firm features and their implications.

The rest of the paper is structured as follows. First, we provide a literature review on family firm typologies and present the factors that capture family firm heterogeneity. Next, we present the social systems theory as a useful perspective for exploring the adoption of family firms' respective governance mechanisms. Then, we present our data collection methodology and results. The paper concludes with a discussion of the research implications, limitations and future directions.

Family firm typology: identification of dimensions

Family firms are highly heterogeneous (Chua *et al.*, 2012), and such heterogeneity must be factored into the design of organisational initiatives (Westhead and Howorth, 2007). Thus, the identification of types of family firms can be useful in articulating the differences in organisational forms and understanding their outcomes (Gibb, 2006; Neubaum *et al.*, 2019). Typologies can explain variations among family firms (Chrisman *et al.*, 2004) and provide a starting point for understanding the appropriate governance mechanism for each type of family firm (Nordqvist *et al.*, 2014).

Various typologies of family firms have been proposed based on the level of family involvement in ownership and management (e.g. Gibb, 2006; Westhead and Howorth, 2007). Nordqvist *et al.* (2014) suggest that the nature of family involvement determines which governance mechanism is better suited to an organisation and its goals. According to the authors, 'in general, the higher the variance of involvement in ownership and managerial roles, the greater will be the need of different governance bodies' (Nordqvist *et al.*, 2014, p. 204). Recently, Diéguez-Soto *et al.* (2015), Barontini and Bozzi (2018) and Stanley *et al.* (2019) presented similar approaches, albeit with different links to important organisational outcomes (Neubaum *et al.*, 2019).

Following Nordqvist *et al.* (2014), we address family firm heterogeneity by identifying a typology that will consider family involvement variables (i.e. family involvement in ownership and management). We also consider sources of managerial and organisational

complexity as they pertain to the characteristics of the owner family (i.e. the generation in control) and firm size. The combination of these variables comprises the contexts and the level of managerial complexity. Below, we describe the dimensions of our typology in more detail.

Family involvement in ownership

Family involvement in ownership (FIO) has been included in many family firm typologies (e.g. Nordqvist *et al.*, 2014; Stanley *et al.*, 2019). Family firm researchers agree that FIO brings several benefits to the organisation (Sciascia and Mozzola, 2008). Among its positive effects are less managerial myopia, more valuable investments, better control of managers, long-lasting relationships with other stakeholders and high levels of internationalisation (Fama and Jensen, 1983; Zahra, 2003).

Variance in the family ownership of a firm creates an organisational context that may determine how owners communicate with one another and, consequently, the intensity of the communication system (Lansberg, 1988). When several family members hold the company capital, maintaining communication among them is necessary to set priorities and account for different sensibilities. However, when only one family shareholder holds 100% of the capital, or a dominant majority, the family member's priorities will likely overshadow the formation of the firm's objectives and priorities. Thus, family firms develop their own unique communications systems to facilitate the sharing of experiences, priorities and knowledge (Frank *et al.*, 2017). These systems influence the adoption of formal governance mechanisms that fit the patterns and complexity of the communication within the owner's family.

Family involvement in management

Family firms can be managed by family or non-family members, who determine the nature of family involvement in management (FIM) (Corbetta and Montemerlo, 1999). FIM is an important differentiation variable between family firms, and it can take different forms (Stanley *et al.*, 2019). Family members may serve on the top management team (TMT) in different authority positions, such as the CEO or as members of the board of directors (Zahra, 2003).

A family CEO confers a strong capacity to influence decision-making in the firm to the individual holding such a position or to his/her family branch. Several authors have hypothesised the positive effects of a family member (typically, a founder or founder descendant) being the CEO (e.g. Anderson and Reeb, 2003; Schulze *et al.*, 2001). Likewise, the presence of a family CEO can create a sense of psychological ownership among family members (Pierce *et al.*, 2003). However, in family firms, if the CEO is a family member, he or she may assume a dominating role, taking overall responsibility to lead the performance of the entire organisation, which may constrain communications with other family members and exacerbate tensions between them (Le Breton-Miller and Miller, 2006; Minichilli *et al.*, 2010). In addition, when family members assume leading managerial positions with psychological ownership, it may engender the expectation that the succession of the CEO position should remain within the family. In contrast, when the owner family delegates the managerial roles to non-family executives, the owner family can adopt a role that is more oriented towards control and establish a general strategy for the company. As a non-family CEO's tenure increases, he or she may develop a feeling of psychological possessiveness towards the family firm (Huybrechts *et al.*, 2013). The owner family may need to establish a communication system to set priorities and transmit them to the company. Consequently, FIM can significantly influence the implementation of different family governance mechanisms.

Generation in control

The generation in control (GC) leads the family firm and is a factor that introduces different levels of complexity in terms of personal and family relationships. It can determine the necessity of adopting family governance mechanisms and the decision about which one to adopt (Bammens *et al.*, 2008; Lubatkin *et al.*, 2005). Typically, younger family firms tend to prefer less formal governance structures, while mature firms tend to professionalise (Stanley *et al.*, 2019). In later generations, several categories of owners, including in-law relatives, coexist (Nordqvist *et al.*, 2014). Having different owner categories results in a higher need for frequent communication and induces more varied social interactions, which may impact the need to adopt governance mechanisms (Lubatkin *et al.*, 2005). However, when a new generation takes over, social interactions may decline, and family members' identification can decrease with the organisation (Mustakallio *et al.*, 2002).

Company size

Finally, it is important to consider company size as a factor in differentiating family firms (Stanley *et al.*, 2019). Company size can show the degree of division and complexity in a business (Corbetta, 1995). Company size is a factor that is closely related to the survival, investment activity and needs of the family firm (Nordqvist *et al.*, 2014). A larger size implies a greater availability of financial and managerial resources (Claver *et al.*, 2009). Larger family firms can provide incentive compensation systems to align the interests of managers with owners, reducing the risk of agency conflict (Fang *et al.*, 2016). Thus, size can decrease costs and increase the benefits of relying on non-family managers (Fang *et al.*, 2016). When an organisation grows, its complexity increases, its communication systems become more complicated, and more professional management practices may be required (Fiegener *et al.*, 2000). Some family firm researchers argue that the size of a family business grows in subsequent generations and that it is the size, rather than the generation, that influences the level of professionalism in a firm (e.g. Sonfield and Lussier, 2004). When firms grow larger, formal styles of management become more prevalent, reducing the likelihood of family firm favouritism (Fang *et al.*, 2016).

Family governance mechanisms in family firms: the social systems theory perspective

Social systems theory, also called the new system theory (Frank *et al.*, 2010), explains how organisations adopt a governance structure (Suess, 2014). Thus, social systems theory is appropriate for social science research on family firms because it focuses on communication structures as the foundation of social systems (Frank *et al.*, 2018; Von Schlippe and Frank, 2013). Previous family firm studies have employed a number of approaches, including agency theory (e.g. Lubatkin, 2007; Schulze *et al.*, 2001), stewardship theory (e.g. Eddleston and Kellermanns, 2007; Miller and Le Breton-Miller, 2005) and institutional theory (e.g. Melin and Nordqvist, 2007), to examine governance in family firms (Goel *et al.*, 2014; Melin and Nordqvist, 2007; Sundaramurthy and Lewis, 2003). In recent decades, social systems theory has become useful for family firm research (Frank *et al.*, 2018; Simon, 2012; Von Schlippe and Frank, 2013), especially for familiness (Frank *et al.*, 2010, 2017) and governance (Suess, 2014).

Social systems theory is a branch of systems theory dealing with the communication systems that underlie the structures of a family and a business (Frank *et al.*, 2017). From the perspective of social systems theory (Frank *et al.*, 2018; Von Schlippe and Frank, 2013), family firms represent a unique communication system that incorporates the decision premises shaped by a couple of systems: family and business (Weismeier-Sammer *et al.*, 2013). The two

systems use each other to build their structures (Von Schlippe and Frank, 2013). This theory assumes that family firms emerge through a sequence of intertwined communication decisions (Frank *et al.*, 2017). Therefore, communication is the constitutive element of a family business, and it can make the family business efficient in creating a meaningful and validated network of decisions (Frank *et al.*, 2017).

According to a systems approach (Donnelley, 1964; Tagiuri and Davis, 1982), the family governance system is shaped by forums that promote collaborative discussions to secure cohesion within the family (Gallo and Kenyon-Rouvinez, 2005; Soleimanof *et al.*, 2017). From a systems-theoretical point of view, implementing family governance is a unique communication process for each family firm. It starts with unplanned discussions directed by a few simple rules and develops into a formalised, guided conversation (Frank *et al.*, 2018). Family councils and protocols have been considered the two formal family governance mechanisms most relevant to facilitating communication in family firms (Berent-Braun and Uhlaner, 2012; Suess, 2014). Family firm consultants and associations frequently promote family councils and protocols as formal mechanisms for facilitating the communication process (Carlock and Ward, 2001; Melin and Nordqvist, 2007).

Family council

A family council is a governance mechanism that is unique to family firms (Siebels and zu Knyphausen-Aufseß, 2012). Governing communication and information, a family council provides a setting in which different voices are heard, consolidated and presented to the board and the TMT (Gallo and Kenyon- Rouvinez, 2005). The prime function of a family council is to voice shareholders' concerns formally and accommodate family members' preferences (Jaffe and Lane, 2004). A family council might promote cohesion among shareholders, thus reducing information asymmetry, increasing social interaction and ensuring the effective continuity and profitability of the core business (Jaffe and Lane, 2004; Siebels and zu Knyphausen-Aufseß, 2012). The adoption of a family council demands open communication between the business and the family (Brenes *et al.*, 2011; Mustakallio *et al.*, 2002) and may be critical for opening formal communication channels through which family members can discuss family and business issues together and in subgroups (Lansberg, 1988).

A family council is a systematic communication forum that grows and evolves with a family (Hutcheson *et al.*, 2003; Sundaramurthy, 2008). Considered the most important system of family governance, a family council often comprises representatives from different generations and family branches and should include in-laws and blood relatives (Gallo and Kenyon-Rouvinez, 2005). Based on family communication patterns, as suggested by Fitzpatrick and Ritchie (1994), and social systems theory, we assume that family firms with family councils may be highly oriented towards conversation. We argue that intensive communication systems generated by firms in which the main family investor owns a low ratio of shares (FIO) can create trust, which may encourage the implementation of family councils. However, when the power of a family CEO increases, a 'patriarchal aura' grows and can constrain communication (Voordeckers *et al.*, 2007). In this context, the need to adopt family councils may not be appreciated.

Furthermore, when a new generation (GC) takes over, and the organisation grows (company size), its communication system may become more complicated, and a family council may be required. Thus, the firm's family and business interests become more complex in terms of family involvement in ownership and management, the generation in control and company size. Family firms can develop stronger communication processes and may develop family councils. Hence:

H1. The adoption of family councils will be more likely in family firms characterised by high levels of complexity (i.e. later GC and larger company size) and no dominant actors (shared FIO and lower levels of FIM).

Family protocol

A family protocol or family constitution is a governance mechanism that formally describes the rules of interaction between family members and the business (Siebels and zu Knyphausen Aufseß, 2012). It is a collection of policies on how the family and business interact. They are highly heterogeneous but can contain some of the following issues: a description of family values; decisions about how the family firm should be governed and managed; rules about the participation of family members in the company (ownership and employment); agreements about succession and leadership; norms about the economic rights of the family members (liquidity, dividends, company valuation); orientations regarding conflict resolutions and the preservation of family harmony; the social responsibility of the family company; codes of conduct; and contingency plans (Gallo and Kenyon-Rouvinez, 2005). It is a formal, living, flexible document that enhances open and transparent communication within and between the family and the business (Berent-Braun and Uhlaner, 2012; Gimeno *et al.*, 2010). Family protocols formalise communication processes, strengthening a shared commitment to norms and values (Neubauer and Lank, 2016). Family protocols mostly revolve around anticipating potential conflicts related to succession processes and the incorporation of family members in managerial positions in the firm. They are intended to create policies to provide potential solutions to issues that may become conflictive, reducing family members' interference in ownership and management (Gallo and Kenyon-Rouvinez, 2005). Thus, the development of family protocols is meant to facilitate trust, goal alignment and family firm continuity (Berent-Braun and Uhlaner, 2012; Suess, 2014).

Drawing on social systems theory by Fitzpatrick and Ritchie (1994), we assume that family firms with high family involvement in management and a need to prevent potential succession problems will be more oriented towards formalising norms and agreements through protocols. However, if a unique, powerful family member (e.g. the founder, who holds the majority of the shares and is the CEO of the company) dominates the firms, he or she will be inclined to interact in person, through informal communication processes and consider the adoption of family protocols unnecessary.

When managerial functions are transferred to a non-family CEO, family members are likely to adopt a different role (control). Issues typically included in protocols, such as the incorporation of family members into firm managerial bodies, become less conflictive and problematic. In addition, the non-family CEO may also bring new ideas and skills to the family firm, which can help to clarify the roles of family firm owners, particularly in decisions that affect the family and the business systems (Huybrechts *et al.*, 2013; Sundaramurthy, 2008). According to Aronoff *et al.* (1996, p. 232), a non-family CEO helps owners see 'which hat they are wearing on a particular topic' (p. 232). In performing this task, the non-family CEO may build formal and informal bridges among family members, substituting the typical role of family protocols.

As the ownership of the firm passes from one generation to another and the company grows, a network of siblings or cousins will control a larger organisation, and some shareholders may not be actively involved in the organisation (Sundaramurthy, 2008). In this context, social interactions and knowledge about the business may naturally decline (Mustakallio *et al.*, 2002). Accordingly, the need to make norms, rules or procedures explicit may help family members understand what is acceptable in the firm, and consequently, the adoption of family protocols may increase. Thus:

H2. The adoption of family protocols will be more likely in family firms characterised by high levels of complexity (i.e. later GC and larger company size) and a need to regulate family members' access to managerial positions (higher levels of FIM).

Data and methodology

Data

Data collection was performed as part of a broader research project that started in 2017. The sample resulted from a combination of primary and secondary data collections. We obtained primary data from two surveys seeking to characterise Spanish family firms. The definitions of what constitutes a family firm vary widely (Díaz-Moriana *et al.*, 2019; Dibrell and Memili, 2019). For sample identification, we follow the circle model approach to define a family business; it is the most frequently applied method in both research and practice. We use the definition from the Institute of Family Business (2015) in Spain, which states that

A business, independently of its size, is considered a family business when it meets the following conditions: 1. Most of the votes are owned by the person or persons of the family that founded the company, or are owned by the individual who has acquired the social capital of the company, or are owned by their spouses, parents, descendant(s), or direct heirs of the descendant(s). 2. The required majority of votes can be achieved directly or indirectly. 3. At least one representative of the family or relative is involved in the management or governance of the company.

Both surveys asked questions about the adoption of different governance structures. In both cases, the sampling process began with the initial identification of a population of 87,345 businesses that could be clearly characterised as family firms from the SABI [1] database. The Spanish network of Chairs in Family Business, under the umbrella of the Spanish Institute of Family Business (Instituto de la Empresa Familiar, IEF), identified the population. One of the surveys was conducted through a questionnaire mailed to the CEOs of 1,200 Spanish family firms randomly selected from the identified population in SABI. It had a 10% response rate (120). The second survey of the same population was conducted using computer-assisted telephone interviewing (CATI). The researchers randomly approached family firms from the initial population and obtained 370 valid responses. Our final sample had a total of 490 valid responses. Secondary data on these firms were obtained from the SABI database.

With regard to the characteristics of the sample, 55.8% of the companies operate in service industries (distribution and retail; finance; hospitality; information and communication; professional, technical and scientific activities; energy and water supplies; transportation and logistics), and 44.2% operate in manufacturing industries (see Table 1).

The companies in the sample are mainly small and medium-sized. They have a turnover of EUR 7,869 million and 38 employees on average, with a median of EUR 2,942 million for turnover and 19 for employees, and a maximum of EUR 253 million and 800 employees, respectively. Regarding their governance structures, 40.2% of them have a formal board of directors, 84% of which are managed by a male CEO.

Industry	Valid percentage
Manufacturing	33.1
Construction	11.0
Distribution and retail	32.2
Transportation and Logistics	7.3
Other services	6.1
Hospitality	4.3
Professional and Scientific	3.5
Information and Communication	1.4
Finance	0.6
Supplies - energy and water	0.4
Total	100.0

Table 1.
Sample distribution

For both surveys, we adopted procedural remedies to minimise the potential effects of common method variance (Podsakoff *et al.*, 2003). First, we designed the questions so that respondents would provide only objective answers, and we combined primary and secondary data to avoid acquiescence or social desirability bias. We checked the consistency of our primary data sources by comparing the characteristics of the companies and found no significant differences in size or profitability within the samples.

Methodology

To identify the profiles in our sample, we conducted a two-step cluster analysis (Chiu *et al.*, 2001). Two-step cluster analysis involves two stages. First, original cases are grouped into pre-clusters by constructing a cluster feature tree (Okazaki, 2007). Second, the standard hierarchical clustering algorithm on the pre-clusters is applied (Norusis, 2011). These stages produce a range of solutions, which is then reduced to the best number of clusters based on Schwarz's Bayesian Information Criterion (BIC). This approach avoids the arbitrariness of traditional clustering techniques (Chiu *et al.*, 2001) and provides objectivity (Stanley *et al.*, 2017). This method uses log-likelihood distance measures and automatically determines the number of clusters based on the changes in a distance measure (Chiu *et al.*, 2001); thus, we did not have to predetermine the number of clusters. Two-step cluster analysis was the most appropriate technique for this study, because it can form clusters based on continuous and categorical data (Stanley *et al.*, 2017). Additionally, two-step cluster analysis allowed us to retain full information and provide a rich explanation of our family firm research process. The comparison between the clusters of the baseline parameters was performed using one-way analysis of variance (ANOVA) for parametric variables, the $\chi 2$ test for parametric variables and Kruskal-Wallis for nonparametric variables. In conducting a between-profile analysis of covariance (ANCOVA), we tested for differences in the dependent variables (i.e. the existence of family councils and/or family protocols) between the clusters, using cluster membership as the independent variable.

Measures

Dependent variable. The dependent variable is the adoption of formal family governance mechanisms, such as family councils and protocols. Family councils have been adopted as a measure of formal family governance mechanisms for an extensive period (Gersick *et al.*, 1997; Siebels and zu Knyphausen-Aufseß, 2012), whereas family protocols have only recently begun receive explicit consideration as a governance mechanism in the literature (Fleischer, 2018).

Independent variables. We treat proxy family involvement in ownership (FIO) as the percentage of capital share that belongs to the major family owner (Kowalewski *et al.*, 2010). When the main family shareholder holds the majority of the shares (concentrated FIO), it means that the power is concentrated in one person. In contrast, when the main shareholder has a lower percentage of the capital of the company (shared FIO), the power is shared among several family owners. We define FIM as a binary variable that equals 1 if the CEO belongs to the family and 0 otherwise (Voordeckers *et al.*, 2007). GC is measured by distinguishing family firms that are under the control of the first family generation from those that are controlled by second or later generations (Westhead and Howorth, 2007). Firms controlled by the first generation are measured using 1 = yes and 0 = no. Finally, company size is measured using the logarithm of the number of employees (Zahra, 2003).

Results

Means, standard deviations and correlations of the variables are presented in Table 2.

Table 2. Descriptive statistics and correlations among studied variables

Variable	Mean	SD	1	2	3	4	5	6	7
1. Existence of family council	0.30	0.46							
2. Existence of family protocol	0.13	0.34	0.272**						
3. Existence of family council and protocol	0.08	0.27	0.457**	0.766**					
4. FIO	0.69	0.29	−0.067	0.034	0.059				
5. FIM (Family CEO)	0.84	0.37	−0.01	−0.005	−0.049	−0.061			
6. Generation (First)	0.42	0.49	−0.044	−0.059	−0.02	0.128**	0.064		
7. Generation (Second+)	0.57	0.50	0.029	−0.36	−0.039	−0.098*	0.054	−0.210**	
8. Firm size (ln number employees)	2.94	1.17	0.054	0.084	0.144**	−0.110*	−0.254**	−0.021	0.024

Note(s): Number of firms by age group: 24.1% microenterprises (fewer than 10 employees), 54.9% small companies (between 10 and 50 employees), 17.6% medium enterprises (between 50 and 250 employees), and 3.5% large companies (more than 250 employees), * and ** indicate correlations significant at $p < 0.05$ and $p < 0.01$, respectively

Two-step cluster analysis results

The two-step cluster analysis results identified four clusters as the optimal solution, according to Schwarz's Bayesian Information Criterion (BIC = 1.054). The silhouette measure of cohesion and separation (0.4 > 0.0) suggested the validity of the distances within and between the clusters (Norusis, 2011). The results of the comparisons between the clusters indicate significant differences between the profiles in the independent variables. Of the 487 valid cases, 120 (24.6%) were assigned to the first cluster, 165 (33.9%) to the second, 131 (26.9%) to the third and 71 (14.6%) to the fourth (Table 3).

Cluster 1 comprises the smallest companies in terms of the number of employees (on average, 6). Companies within this cluster have their capital highly concentrated in the hands of the major shareholder (78%). All the family firms within Cluster 1 have a family CEO and are characterised as being run by their first generation. Cluster 2 constitutes the more frequent profile of family firms in our sample. Companies in Cluster 2 are larger than those in Cluster 1 but have fewer employees (on average, 17 employees) than companies in Cluster 4 (on average, 36 employees). In Cluster 2, the number of shares owned by the main family stockholder ranks between the number of shares of the other groups. Within Cluster 2, 100% of family firms have a family CEO and are controlled by a second or later generation. The size of the firms (on average, 18 employees) within Cluster 3 is similar to that of Cluster 2, and between that of the other groups. Family firms in Cluster 3 exhibit a lower ownership concentration (shared FIO). Most of the firms have a family CEO (93%) and are mainly characterised as being run by second or later generations (60%). Cluster 4, the smallest cluster in our sample, comprises the largest companies in terms of the number of employees (on average, 36 employees). In Cluster 4, the number of shares owned by the largest family investor is lower than in Cluster 1 but higher than in Clusters 2 and 3. Within this cluster, 100% of the family firms have a non-family CEO and are mainly characterised as being run by a second or later generation. Figure 1 displays the location of each cluster in the three-dimensional grid of the three variables (FIO, FIM, and GC) as well as cluster size.

Analysis of covariance to test differences in family firm governance

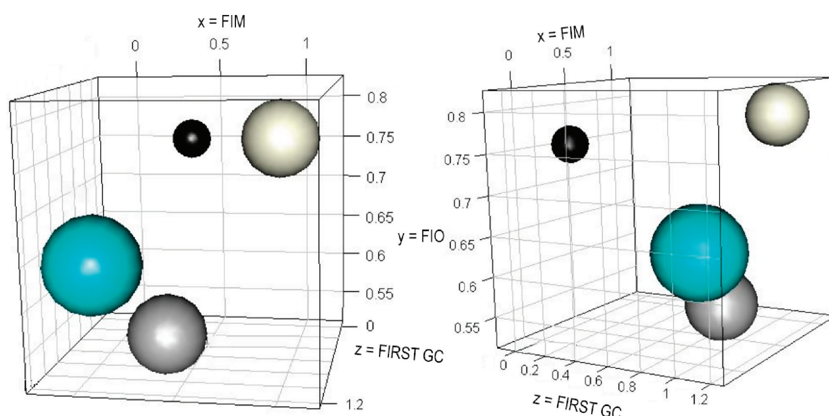
A post hoc analysis using pairwise comparisons (Scheffe Test), which is one of the most conservative post hoc tests (Winer, 1962), confirmed that the clusters vary significantly across the segmentation variables. The results also indicate that there are significant differences between the clusters regarding family firm corporate governance (Table 4). For the family council factor, post hoc analysis revealed significant differences between Clusters 1 and 3 ($p = 0.000$), 1 and 4 ($p = 0.000$), 2 and 3 ($p = 0.000$), 2 and 4 ($p = 0.000$) and 3 and 4 ($p = 0.000$). There was no significant difference between Clusters 1 and 2 ($p = 0.980$). Post hoc analysis for the family protocol factor showed significant differences between Clusters 1 and 2 ($p = 0.002$), 1 and 3 ($p = 0.000$), 2 and 1 ($p = 0.002$), 2 and 3 ($p = 0.000$), 2 and 4 ($p = 0.070$) and 3 and 4 ($p = 0.000$). There was no significant difference between Clusters 1 and 4 ($p = 0.951$). Finally, for the family council and protocol factors, post hoc analysis revealed no significant differences between Clusters 1, 2 and 4 ($p = 1.000$). There were significant differences between Clusters 1 and 3, 2 and 3 and 3 and 4 ($p = 0.000$). These results provide support for hypotheses 1 and 2, which generally suggest that types of family firms grouped according to family involvement and complexity will present significant differences in terms of family governance mechanisms. In the following section, we discuss these results in detail.

Names are typically assigned to clusters using quantitative differences and existing theories (Stanley *et al.*, 2017). We took into consideration the family firm communication needs, the adopting of family councils and protocols, and the family communication typology by Fitzpatrick and Ritchie (1994). Then, we labelled the resulting clusters as *founder-centric, protective, consensual* and *business-evolved* family firms. Table 4 summarises the distinctive family corporate governance styles of these archetypes.

Table 3. Results of two-step cluster analysis

		Cluster 1 $n = 120$ 24.6%	Cluster 2 $n = 165$ 33.9%	Cluster 3 $n = 131$ 26.9%	Cluster 4 $n = 71$ 14.6%	Combined $n = 487$ 100%	F* (Sig)	Post hoc Test **
FIO	Number of shares in hands of the main family owner [mean (SD)]	0.78 (0.27)	0.64 (0.30)	0.56 (0.30)	0.75 (0.27)	0.69 (0.29)	5.859 (0.001)	4.1:2.3
FIM	Family CEO [n (%)]						1123.252	1.2:4
	Yes	120 (29.5)	165 (40.5)	122 (30.0)	0 (0.0)	407 (100)	(0.000)	1.2:3
	No	0 (0)	0 (0)	9 (11.3)	71 (88.8)	80 (100)		
GC	Generation [n (%)]						3.341	4.3:2
	First	120 (58.5)	7 (3.4)	53 (25.9)	25 (12.2)	205 (100)	(0.019)	4.3:1
	Second or later	0 (0)	158 (56.0)	78 (27.7)	46 (16.3)	282 (100)		
Size	ln number employees [mean (SD)]	1.60 (1.13)	2.84 (1.07)	2.98 (1.11)	3.62 (1.26)	2.94 (1.17)	12.599 (0.000)	2,3,4:1

Note(s): (%) horizontal percentages, *Denotes overall comparison among clusters using the Kruskal-Wallis test or chi-square test at $p < 0.05$, **Post hoc comparisons (using Sheffe tests) indicate which profile means differ significantly at $p < 0.05$



Note(s): Black: Cluster 1; yellow: Cluster 2; grey: Cluster 3; blue: Cluster 4

Figure 1. 3D cluster visualisation

	Cluster 1 Founder-centric $n = 120$ 24.6%	Cluster 2 Protective $n = 165$ 33.9%	Cluster 3 Consensual $n = 131$ 26.9%	Cluster 4 Business-evolved $n = 71$ 14.6%	Combined $n = 487$ 100%	F* (Sig)	Post hoc Tests **
Family council [*n* (%)]						1172.119	1.2:4
Yes	0 (0)	0 (0)	131 (89.1)	16 (10.9)	147 (100)	(0.000)	1.2:3
No	120 (35.3)	165 (48.5)	0 (0)	55 (16.2)	340 (100)		
Family protocol [*n* (%)]						22.108	1.4:2
Yes	0 (0)	23 (35.4)	40 (61.5)	2 (3.1)	65 (100)	(0.000)	1.4:3
No	120 (28.4)	142 (33.6)	91 (21.6)	69 (16.4)	422 (100)		
Family council and protocol [*n* (%)]						51.733	1,2,4:3
Yes	0 (0)	0 (0)	40 (100)	0 (0)	40 (100)	(0.000)	
No	120 (26.8)	165 (36.9)	91 (20.4)	71 (15.9)	447 (100)		

Note(s): (%) horizontal percentages, *Denotes overall comparison among clusters using the Kruskal-Wallis test or chi-square test at $p < 0.05$, **Post hoc comparisons (using Sheffe tests) indicate which profile means differ significantly at $p < 0.05$

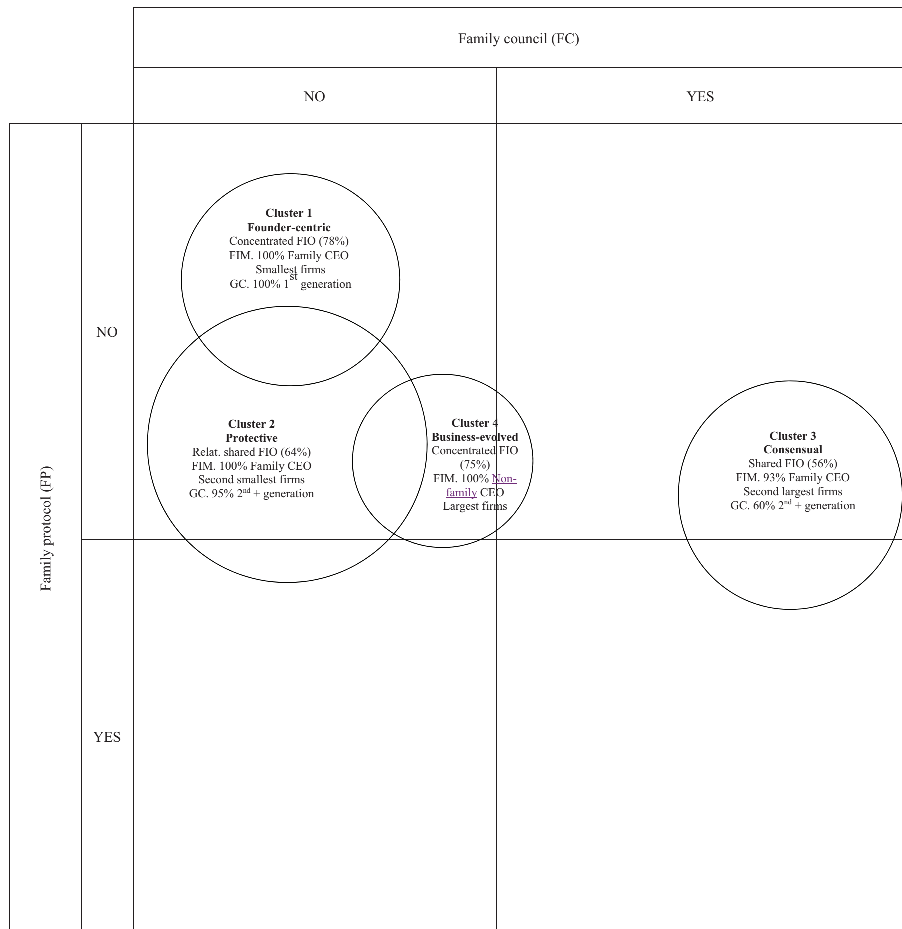
Table 4. Governance mechanisms associated with the four-cluster model

The results indicate that companies in Cluster 1, *founder-centric* firms, do not emphasise the adoption of family councils and protocols. None of the *founder-centric* firms has a family council or protocol. Cluster 2, *protective* firms, has a significantly large number of companies with no family councils (100%) and a low emphasis on the adoption of family protocols (14% have family protocols). Within Cluster 3, *consensual* firms, there is a heavy emphasis on family councils (100% have family councils), and almost one-third of the companies have family protocols (30.5%). Finally, 22.5% of companies in Cluster 4, *business-evolved* firms, have a family council, but only 2.8% have a family protocol. The core findings of our typology are summarised in Figure 2, which also shows which family governance systems are

preferred in different contexts and the characteristics of the four contexts identified in our study.

Discussion of results

Family governance structures are posited to effectively manage the complexity generated by the closely intertwined elements at the core of a family business (i.e. family and business; Gimeno *et al.*, 2010). However, knowledge about family governance is frequently characterised by assumptions about its homogeneity (Jaffe and Lane, 2004; Melin and Nordqvist, 2007). The present study aims to elucidate the antecedents of the adoption of family councils and protocols in different types of family firms. In testing our typology based on family involvement (i.e. FIO and FIM) and family and firm complexity (i.e. GC and company size), we find four types of firms. Our results show that firms belonging to Clusters 1



Note(s): Circle sizes indicate cluster size; GC = Generation in control
Between-cluster comparisons: Family Council: C3 > C1*, C2*; C4 > C1*, C2*.
Between-cluster comparisons: Family protocol: C2 > C1*, C4*; C3 > C1*, C2*, C4*.
* p-value < 0.05

Figure 2.
Family governance in Spanish family firms in the sample

(founder-centric) and 2 (protective) are not prone to the establishment of family councils. In contrast, all firms belonging to Cluster 3 (consensual) and 22.5% of those from Cluster 4 (business-evolved) are more inclined to adopt family councils.

As we anticipated in our first hypothesis, larger and relatively older (second-generation or later) family firms (i.e. Clusters 3 and 4) have more organisational and family complexity, which encourages the formalisation of family governance systems. Those companies evolving toward second or later generations, in which there are fewer dominant shareholders but still maintain a high involvement of family members in managerial positions (cluster 3), are more likely to adopt family councils. These results indicate that family ownership and control of the firm do not sufficiently capture the nuances of family influence. The complexities of a family and a firm are highly relevant to understanding family firm behaviour towards the adoption of governance mechanisms (Díaz-Moriana *et al.*, 2019).

The adoption of family protocols (H2) seems to be more frequent among second- or later-generation firms in which FIO is less concentrated and FIM is high (Clusters 2 and 3). Larger companies seem to be more prone to formalising their rules in a family protocol. However, the presence of non-family CEOs and, consequently, the adoption of a different role for family members (control instead of management), along with the concentration of power in terms of ownership (concentrated FIO) could moderate the need to make rules explicit in a family protocol (see Cluster 4). Our results show that the characteristics of the family (generation and involvement) and the firm (size, managerial or governance mechanisms) interact in shaping the adoption of distinct family governance systems.

Our hypotheses strongly accord with the results, which confirm that the context and typology of the family firm determine the use of different family governance mechanisms. They may respond to dissimilar needs, complementing or substituting each other in different contexts.

Almost 25% of family firms in the sample are *founder-centric* ($N = 120$). In these small and young firms, one family investor has the highest percentage of ownership, and all have family CEOs. *Founder-centric* family firms are oriented towards maintaining the status quo (cf. Le Breton-Miller and Miller, 2006). The majority of firms within this cluster do not perceive any need to regulate the relationships between family and business. These relationships are likely channelled through a unique family member who possesses the authority and legitimacy to run the organisation. These small and young companies, with unified family ownership and management, do not use family councils or protocols. This result may suggest negative attitudes towards formal communication and formalising governance structures in that they may represent an unnecessary use of time and resources in this context (cf. Nordqvist *et al.*, 2014).

Protective firms ($N = 165$) have family CEOs, and the number of shares owned by the main family investor ranks between the number of shares of the other groups. Most of these firms are controlled by a second or later generation, and they are the second smallest firms in the sample. *Protective* firms do not tend to use family councils, but some perceive the need to formalise the relationships between family and business through family protocols. In the high-risk context of potential conflicts in the future (shared FIO, high FIM, and second or later GC), the need to establish norms becomes important. Thus, while their FIO is the least concentrated, their size may constrain efforts to formalise their governance systems. They may opt for the protocol option. It is the more popular mechanism among practitioners, and it may seem easier to adopt with the help of experts or consultants. Family councils, in contrast, are less known, require more time to work properly, and demand high levels of orientation towards a conversation among family members. These concerns have been reinforced by recent institutional initiatives that have provided support to family firms to facilitate the adoption of family protocols. Thus, the development of family protocols in *protective* firms may be attributed to conformity to institutional pressures (cf. Parada, 2015).

Consensual family firms ($N = 131$) have the lowest percentage of ownership in the hands of one family investor. Even though the vast majority of *consensual* firms have a family CEO, there is a tendency of having a non-family member as a CEO. Second and later generations control more than half of these firms, and they are the second largest average size in the sample. Shared FIO, the involvement of second or later generations and a relatively high FIM necessitate more structured family governance systems. Indeed, family councils and protocols are frequently used in governance structures. All *consensual* firms use family councils, and 30.5% complement them by formalising their agreements through protocols or using protocols to regulate their family councils. These firms are similar to those of Cluster 2 (*protective*), but 40% of them are still in their first generation, and FIO is shared more often, which means a significant percentage of these firms may have begun as sibling or marital family firms. They appear to be more open to incorporating non-family members in key managerial positions. *Consensual* firms also seem more encouraging of open communication within the family and the firm (Koerner and Fitzpatrick, 1997) and formalising communication processes.

Business-evolved firms ($N = 71$) have a significantly high percentage of ownership in the hands of one investor (concentrated FIO). However, the CEO position tends to be delegated to a non-family member. Second and later generations manage almost two-thirds of these firms, and the average number of employees is higher than that of the other profiles. In this type of firm, the separation of ownership and control is clear, and the need for a formal forum for discussions between owners and managers is important (Nordqvist *et al.*, 2014). Approximately one-fourth of *business-evolved* firms have implemented family councils, but only a minority have family protocols. This trend may indicate an open attitude towards the arena of discussion represented by a council and less interest in the formalisation represented by family protocols. These results are consistent with the literature that emphasises that a non-family CEO gathers deep and intimate knowledge of the family, develops feelings of psychological ownership (Huybrechts *et al.*, 2013) and becomes a bridge between the family and the firm, mediating potential family conflicts of interest. The intervention of a non-family (neutral) CEO, who is highly committed to the firm, may decrease the need to develop a family protocol to govern the degree and nature of family involvement in the organisation. The evidence presented in our study shows that there are clear relationships between the variables related to the variance of family involvement (i.e. family involvement in ownership and management), sources of managerial and organisational complexity (i.e. the generation in control and family size) and the implementation of formal family governance mechanisms. Cluster analysis allowed us to differentiate the family firms with family councils and protocols from those without. Cluster 3, *consensual* firms are the only ones that use family councils, which are also relevant to the formalisation of agreements through protocols. The other three clusters present characteristics that warrant further investigation. Though clusters enable the exploration of what determines the adoption of formal family governance structures, we do not suggest that the four categories identified in this study represent a complete picture of our family firm typology.

Conclusion

This study supports the notion that family firms are not a homogeneous group. Further, all family firms do not have the same needs nor interests regarding the adoption of family governance mechanisms. In social systems theory, the basic elements of a family and a business system are acts of communication (Frank *et al.*, 2018). Drawing on this perspective, our results show that family firm types have differences in family involvement (i.e. in ownership and management), the complexity of the family and organisation (i.e. generation in control and company size), which influence the decision to adopt specific family governance mechanisms

(i.e. family councils and protocols). Understanding their behaviours requires considering the traditional dimensions of ownership and involvement and the complexity of the family and the company (Suess, 2014). The adoption of family governance mechanisms in family businesses is closely associated with the perception of key decision-makers regarding the need to anticipate problems and establish communication bridges among business, family and ownership systems (Brenes *et al.*, 2011; Jaffe and Lane, 2004). We rely on the literature that suggests that family councils and protocols represent different communication arenas in which members of a family firm can discuss and formalise matters (Poutziouris *et al.*, 2008). However, our results show that these mechanisms respond to distinct needs and may substitute or complement each other in different contexts. We argue that families may be more oriented towards conversation in contexts where family and organisational complexity imply potentially serious conflicts. However, the evolution of family members towards controlling roles (shared FIO in second or later generations or separation between control and management, i.e. Clusters 3 and 4) encourages the use of family councils. In contrast, complexity, combined with high FIM, necessitates the regulation of leadership succession, the incorporation of new family members in managerial positions and institutional pressures (normative and imitative), which may encourage the use of family protocols. Our results help to discriminate the type of involvement a family has in a firm (ownership and control vs. management) and discussions and worries revolving around issues. Families with exclusive ownership roles typically emphasise transferring values, developing interest and control capabilities to the next generations and managing the family legacy. In contrast, family members involved in managerial roles need to address issues, such as intergenerational succession, developing entrepreneurial spirit, identifying and cultivating leadership and establishing rules or conditions for family members to assume roles of responsibility in the company.

We have identified four types of family firms, namely, *founder-centric*, *protective*, *consensual and business-evolved*, which provide support for our hypotheses, which predicted that family firm types would show differences in the adoption of family governance systems. *Founder-centric* family firms rarely differentiate ownership and managerial roles, and the majority of them have not yet addressed family-related issues that may need to be governed. Most *protective* firms are in second or subsequent generations but remain dominated by family leaders. Some of them have begun to consider the succession and incorporation of family members and have implemented protocols to set rules about these issues. Cluster 3, *consensual* firms, shows the highest levels of family council and protocol existence. This cluster contains firms in which family ownership is less concentrated and combined with active family management (i.e. family CEO). They also have a size that provides resources and justifies adopting structures to govern ownership and managerial issues. In *business-evolved* firms, ownership is highly concentrated, which reduces the need to address ownership issues among several family members. Management is delegated to non-family CEOs, reducing the need to resolve the succession or access of family members to managerial positions. These results are consistent with literature that emphasises that the higher the variance of family, business and ownership factors, the greater the need for different types and levels of governance mechanisms (Nordqvist *et al.*, 2014; Stanley *et al.*, 2019).

Contributions and implications

This study fills a gap in the literature concerning evidence of the effect of family firm heterogeneity on the adoption of family governance mechanisms. This study offers three contributions. First, the study shows the heterogeneous nature of family firms through family, business and ownership dimensions and offers an empirically deduced typology. The detailed empirical classification fits previous theoretical configurations (e.g. Nordqvist, *et al.*, 2014), complementing them by providing a better understanding of the family governance

outcomes derived from those forms. Second, this study highlights the instrumentality of social system theory in understanding the choices family firms make regarding formal governance mechanisms. This theory is particularly applicable to family businesses (Frank *et al.*, 2010) as such firms can develop unique communication patterns because of the coupling of family and business systems (Weismeier-Sammer *et al.*, 2013) and the varying degrees of involvement in ownership.

Finally, we show that the two-step approach is an appropriate clustering method for family business research. It determines the number of clusters automatically based on changes in a distance measure, avoids the arbitrariness of traditional clustering techniques and provides objectivity and a rich description of clusters (Chiu *et al.*, 2001).

This study also has important practical implications. First, although there is no 'one size fits all' rule for family governance (Suess, 2014), the existence of different typologies of family firms helps to design tailored solutions based on specific needs (Arredondo and Cruz, 2019). The existence of typologies permits family firm owners, managers and advisors to better understand when governance mechanisms are appropriate and identify 'best governance practices' and recommendations based on firm- and family-specific characteristics. Second, it offers a better framework to assess whether family firms are using the appropriate mechanisms to prevent potential problems or conflicts in different contexts. It may offer a more accurate image of family business gaps in terms of the adoption of family councils and protocols. Different types of family firms have characteristics and contexts that figure into the convenience or necessity of adopting a family council or protocol.

Limitations and directions for future research

The results of this study have potential limitations. First, our sample is composed of small- and medium-sized family firms in Spain. Our definition of a family firm is based on ownership and current control by a family. It does not consider the intention to pass firm ownership to the next generation. Nevertheless, recent data from Spain of the STEP project (Escribá-Esteve *et al.*, 2020) show that only 27% of family firms declare that there is a high likelihood of passing the control of the firm to the next generation, while 16% state that the likelihood is low. These figures imply that the necessity of implementing family governance mechanisms in many family firms may be lower than typically assumed. There is consistent evidence that a low percentage of firms use family governance systems. Nevertheless, it is important to understand the heterogeneity of family firms in order to recognise the conditions that increase the necessity of such mechanisms. Future studies based on surveys should include questions about intentions to maintain firm ownership and governance under family control.

Variations in institutional environments can play a critical role in explaining differences in corporate governance mechanisms (Aguilera *et al.*, 2016). Spanish companies may have developed unique family governance structures because of national culture or institutional conditions. These circumstances may limit the generalisability of our findings to other countries. Analogous investigations should be conducted in other institutional contexts to increase the external validity of our results. Another limitation may lie within the level of analysis. Although we support our reliance on the family communication typology by Fitzpatrick and Ritchie (1994), which treats orientations towards conversation and formalisation as communication constructs, we do not directly measure those orientations among family members. Future research could take a different approach to explore more specific communication patterns in business families.

This study suggests potential avenues for researchers interested in theory building or empirical analysis. First, it highlights that family firms are not a homogeneous group (Westhead and Howorth, 2007). Further, different types of family firms do not show equal interest in adopting family councils and protocols. Future studies may consider other informal governance structures, such as family meetings. Qualitative studies could also be

conducted to uncover other governance mechanisms and explore why and how different types of families develop their firm governance structures. Future studies could examine whether there are patterns of evolution between firm types and family governance models, studying their outcomes in terms of results and long-term survival. Finally, two-step cluster analysis provides many benefits for management research in general (Tkaczynski, 2017) and family firms in particular. It has been successfully employed in various academic studies (e.g. Okazaki, 2006; Tkaczynski *et al.*, 2010), and we see many opportunities for future family firm research to apply this method.

Note

1. SABI Informa Database (Bureau Van Dijk) is the most important source of business, accounting and financial information in Spain.

References

Aguilera, R.V., Florackis, C. and Kim, H. (2016), "Advancing the corporate governance research agenda", *Corporate Governance: An International Review*, Vol. 24 No. 3, pp. 172-180.

Anderson, R.C. and Reeb, D.M. (2003), "Founding-family ownership and firm performance: evidence from the S&P 500", *The Journal of Finance*, Vol. 58 No. 3, pp. 1301-1328.

Aronoff, C.E., Ward, J.L. and Astrachan, J.H. (Eds) (1996), "Family business sourcebook II: a guide for families who own businesses and the professionals who serve them: covering succession planning, growth, financial issues, management, psychological issues, women in the family business, the younger generation, and other issues family owned businesses face", *Business Owner Resources*.

Arredondo, H. and Cruz, C. (2019), "How do owning families ensure the creation of value across generations? A "dual balance" approach" in, *The Palgrave Handbook of Heterogeneity Among Family Firms*, Palgrave Macmillan, Cham, pp. 791-819.

Bammens, Y., Voordeckers, W. and Van Gils, A. (2008), "Boards of directors in family firms: a generational perspective", *Small Business Economics*, Vol. 31 No. 2, pp. 163-180.

Barontini, R. and Bozzi, S. (2018), "Family firm heterogeneity and CEO compensation in Continental Europe", *Journal of Economics and Business*, Vol. 97, pp. 1-18.

Berent-Braun, M.M. and Uhlaner, L.M. (2012), "Family governance practices and team building: paradox of the enterprising family", *Small Business Economics*, Vol. 38 No. 1, pp. 103-119.

Brenes, E.R., Madrigal, K. and Requena, B. (2011), "Corporate governance and family business performance", *Journal of Business Research*, Vol. 64 No. 3, pp. 280-285.

Carlock, R.S. and Ward, J.L. (2001), *Strategic Planning for the Family Business*, Palgrave, New York.

Carney, M. (2005), "Corporate governance and competitive advantage in family-controlled firms", *Entrepreneurship: Theory and Practice*, Vol. 29 No. 3, pp. 249-265.

Chiu, T., Fang, D., Chen, J., Wang, Y. and Jeris, C. (2001), "A robust and scalable clustering algorithm for mixed type attributes in large database environment", *Proceedings of the 7th ACM SIGKDD International Conference on Knowledge Discovery and Data Mining*, 2001, pp. 263-268.

Chrisman, J.J., Chua, J.H. and Litz, R.A. (2004), "Comparing the agency costs of family and non-family firms: conceptual issues and exploratory evidence", *Entrepreneurship: Theory and Practice*, Vol. 28 No. 4, pp. 335-354.

Chrisman, J.J., Chua, J.H., Le Breton-Miller, I., Miller, D. and Steier, L.P. (2018), "Governance mechanisms and family firms", *Entrepreneurship Theory and Practice*, Vol. 42 No. 2, pp. 171-186.

Chua, J.H., Chrisman, J.J. and Sharma, P. (1999), "Defining the family business by behavior", *Entrepreneurship: Theory and Practice*, Vol. 23 No. 4, pp. 19-39.

Chua, J.H., Chrisman, J.J., Steier, L.P. and Rau, S.B. (2012), "Sources of heterogeneity in family firms: an introduction", *Entrepreneurship: Theory and Practice*, Vol. 36 No. 403, pp. 1103-1113.

Claver, E., Rienda, L. and Quer, D. (2009), "Family firms' international commitment: the influence of family-related factors", *Family Business Review*, Vol. 22 No. 2, pp. 125-135.

Corbetta, G. (1995), "Patterns of development of family businesses in Italy", *Family Business Review*, Vol. 8 No. 4, pp. 255-265.

Corbetta, G. and Montemerlo, D. (1999), "Ownership, governance, and management issues in small and medium-size family businesses: a comparison of Italy and the United States", *Family Business Review*, Vol. 12 No. 4, pp. 361-374.

De Massis, A., Sharma, P., Chua, J. and Chrisman, J. (2012), *Family Business Studies an Annotated Bibliography*, Edward Elgar Publishing, Northhampton.

Díaz-Moriana, E., Hogan, T., Clinton, E. and Brophy, M. (2019), "Defining family business: a closer look at definitional heterogeneity", in *The Palgrave Handbook of Heterogeneity Among Family Firms*, Palgrave Macmillan, Cham, pp. 1-15.

Dibrell, C. and Memili, E. (2019), "A brief history and a look to the future of family business heterogeneity: an introduction", in *The Palgrave Handbook of Heterogeneity Among Family Firms* Palgrave Macmillan, Cham, pp. 1-15.

Diéguez-Soto, J., López-Delgado, P. and Rojo-Ramírez, A. (2015), "Identifying and classifying family businesses", *Review of Managerial Science*, Vol. 9, pp. 603-634.

Donnelley, R. (1964), "The family business", *Harvard Business Review*, Vol. 42, pp. 93-105.

Downing, S. (2005), "The social construction of entrepreneurship: narrative and dramatic processes in the coproduction of organizations and identities", *Entrepreneurship: Theory and Practice*, Vol. 29 No. 2, pp. 185-204.

Eddleston, K.A. and Kellermanns, F.W. (2007), "Destructive and productive family relationships: a stewardship theory perspective", *Journal of Business Venturing*, Vol. 22 No. 4, pp. 545-565.

Escribá-Esteve, A. (Dir.), Álvarez, F., Barroso, A., Calabrò, A., Ruiz, C., Sanguino, R. and Valentino, A. (2020), *Las empresas familiares españolas ante el reto de la sucesión: Diferentes perspectivas generacionales*, KPMG, Madrid.

Fama, E.F. and Jensen, M.C. (1983), "Separation of ownership and control", *The Journal of Law and Economics*, Vol. 26 No. 2, pp. 301-325.

Fang, H.C., Randolph, R.V., Memili, E. and Chrisman, J.J. (2016), "Does size matter? The moderating effects of firm size on the employment of nonfamily managers in privately held family SMEs", *Entrepreneurship: Theory and Practice*, Vol. 40 No. 5, pp. 1017-1039.

Fiegener, M.K., Brown, B.M., Dreux, D.R.V. and Dennis, W.J.J. (2000), "The adoption of outside boards by small private us firms", *Entrepreneurship and Regional Development*, Vol. 12 No. 4, pp. 291-309.

Fitzpatrick, M.A. and Ritchie, L.D. (1994), "Communication schemata within the family: multiple perspectives on family interaction", *Human Communication Research*, Vol. 20 No. 3, pp. 275-301.

Fleischer, H. (2018), "Family firms and family constitutions: a legal primer", *European Company Law*, Vol. 15 No. 1, pp. 11-20.

Frank, H., Lueger, M., Nosé, L. and Suchy, D. (2010), "The concept of "Familiness": literature review and systems theory-based reflections", *Journal of Family Business Strategy*, Vol. 1 No. 3, pp. 119-130.

Frank, H., Kessler, A., Rusch, T., Suess-Reyes, J. and Weismeier-Sammer, D. (2017), "Capturing the familiness of family businesses: development of the family influence familiness scale (FIFS)", *Entrepreneurship: Theory and Practice*, Vol. 41 No. 5, pp. 709-742.

Frank, H., Suess-Reyes, J., Fuetsch, E. and Kessler, A. (2018), "Introducing the enterpriseness of business families: a research agenda", in Memili, E. and Dibrell, C. (Eds), *The Palgrave*

Handbook of Heterogeneity Among Family Firms, Cham, NY, Palgrave Macmillan, pp. 263-296).

Frank, H., Kessler, A., Bachner, C., Fuetsch, E. and Suess-Reyes, J. (2019), "Principles for innovation management in family firms: an analysis of long-term successful good practices with a practitioner validation of the principles", *Journal of Family Business Management*, Vol. 9 No. 3, pp. 319-348.

Gallo, M. and Kenyon-Rouvinez, D. (2005), "The importance of family and business governance", in Kenyon-Rouvinez, D. and Ward, J.L. (Eds), *Family Business: Key Issues*, Palgrave/Macmillan, Basingstoke, pp. 45-57.

Gersick, K., Davis, J.A., Hampton, M.M. and Lansberg, I. (1997), *Generation to Generation: Life Cycles of the Family Business,* Harvard Business School Press, Boston.

Gibb Dyer, W. Jr (2006), "Examining the 'family effect' on firm performance", *Family Business Review*, Vol. 19 No. 4, pp. 253-273.

Gimeno, A., Baulenas, G. and Coma-Cros, J. (2010), *Family Business Models: Practical Solutions for the Family Business*, Palgrave Macmillan, New York.

Goel, S., Jussila, I. and Ikäheimonen, T. (2014), "Governance in family firms: a review and research agenda", *The Sage Handbook of Family Business*, pp. 226-248.

Gómez-Mejía, L.R., Haynes, K.T., Núñez-Nickel, M., Jacobson, K.J. and Moyano-Fuentes, J. (2007), "Socioemotional wealth and business risks in family-controlled firms: evidence from Spanish olive oil mills", *Administrative Science Quarterly*, Vol. 52 No. 1, pp. 106-137.

Habbershon, T.G. and Williams, M.L. (1999), "A resource-based framework for assessing the strategic advantages of family firms", *Family Business Review*, Vol. 12 No. 1, pp. 1-25.

Hutcheson, J., Lane, S. and Jaffe, D. (2003), "The family dynasty: families that want to sustain their wealth over many generations need effective governance structures and aggressive asset building strategies", *Financial Planning*, Vol. 33 No. 8, p. 56.

Huybrechts, J., Voordeckers, W. and Lybaert, N. (2013), "Entrepreneurial risk taking of private family firms: the influence of a nonfamily CEO and the moderating effect of CEO tenure", *Family Business Review*, Vol. 26 No. 2, pp. 161-179.

Jaffe, D.T. and Lane, S.H. (2004), "Sustaining a family dynasty: key issues facing complex multigenerational business- and investment-owning families", *Family Business Review*, Vol. 17, pp. 81-98.

Koerner, A.F. and Fitzpatrick, M.A. (1997), "Family type and conflict: the impact of conversation orientation and conformity orientation on conflict in the family", *Communication Studies*, Vol. 48 No. 1, pp. 59-75.

Kowalewski, O., Talavera, O. and Stetsyuk, I. (2010), "Influence of family involvement in management and ownership on firm performance: evidence from Poland", *Family Business Review*, Vol. 23 No. 1, pp. 45-59.

Lansberg, I. (1988), "The succession conspiracy", *Family Business Review*, Vol. 1 No. 2, pp. 119-143.

Le Breton-Miller, I. and Miller, D. (2006), "Why do some family businesses out-compete? Governance, long-term orientations, and sustainable capability", *Entrepreneurship: Theory and Practice*, Vol. 30 No. 6, pp. 731-746.

Lubatkin, M. (2007), "One more time: what is a realistic theory of corporate governance?", *Journal of Organizational Behavior*, Vol. 28, pp. 59-67.

Li, Z. and Daspit, J. (2016), "Understanding family firm innovation heterogeneity: a typology of family governance and socioemotional wealth intentions", *Journal of Family Business Management*, Vol. 6 No. 2, pp. 103-121, doi: 10.1108/JFBM-02-2015-0010.

Lubatkin, M.H., Schulze, W.S., Ling, Y. and Dino, R.N. (2005), "The effects of parental altruism on the governance of family-managed firms", *Journal of Organizational Behavior*, Vol. 26 No. 3, pp. 313-330.

Melin, L. and Nordqvist, M. (2007), "The reflexive dynamics of institutionalization: the case of the family business", *Strategic Organization*, Vol. 5 No. 4, pp. 321-333.

Miller, D. and Le Breton-Miller, I. (2005), *Managing for the Long Run: Lessons in Competitive Advantage from Great Family Business*, Harvard Business School Press, Boston.

Minichilli, A., Corbetta, G. and MacMillan, I.C. (2010), "Top management teams in family-controlled companies: 'familiness','faultlines', and their impact on financial performance", *Journal of Management Studies*, Vol. 47 No. 2, pp. 205-222.

Mustakallio, M., Autio, E. and Zahra, S.A. (2002), "Relational and contractual governance in family firms: effects on strategic decision making", *Family Business Review*, Vol. 15 No. 3, pp. 205-222.

Neubauer, F. and Lank, A.G. (2016), *The Family Business: Its Governance for Sustainability*, Springer, New York.

Neubaum, D., Kammerlander, N. and Brigham, K. (2019), "Capturing family firm heterogeneity: how taxonomies and typologies can help the field move forward", *Family Business Review*, Vol. 32 No. 2, pp. 106-130.

Nordqvist, M. and Melin, L. (2002), "The dynamics of family firms: an institutional perspective on corporate governance and strategic change", in Fletcher, D.E. (Ed.), *Understanding the Small Family Business*, Routledge, New York, pp. 94-110.

Nordqvist, M., Sharma, P. and Chirico, F. (2014), "Family firm heterogeneity and governance: a configuration approach", *Journal of Small Business Management*, Vol. 52 No. 2, pp. 192-209.

Norusis, M.J. (2011), *IBM SPSS Statistics 19 Procedures Companion*, Addison-Wesley, Reading, MA.

Okazaki, S. (2006), "What do we know about mobile Internet adopters? A cluster analysis", *Information and Management*, Vol. 43 No. 2, pp. 127-141.

Okazaki, S. (2007), "Lessons learned from i-mode: what makes consumers click wireless banner ads?", *Computers in Human Behavior*, Vol. 23, pp. 1692-1719.

Parada, M.J. (2015), "Developing governance structures in the family firms: from adoption to institutionalization", (Doctoral Dissertation, Jönköping International Business School, Jönköping University, Jönköping.), available at: Diva-portal.org.

Pierce, J.L., Kostova, T. and Dirks, K.T. (2003), "The state of psychological ownership: integrating and extending a century of research", *Review of General Psychology*, Vol. 7 No. 1, p. 84.

Podsakoff, P.M., MacKenzie, S.B., Lee, J.Y. and Podsakoff, N.P. (2003), "Common method biases in behavioral research: a critical review of the literature and recommended remedies", *Journal of Applied Psychology*, Vol. 88 No. 5, p. 879.

Poutziouris, P., Smyrnios, K. and Klein, S. (Eds) (2008), *Handbook of Research on Family Business*, Edward Elgar Publishing, Cheltenham.

Saidat, Z., Silva, M. and Seaman, C. (2019), "The relationship between corporate governance and financial performance: evidence from Jordanian family and nonfamily firms", *Journal of Family Business Management*, Vol. 9 No. 1, pp. 54-78.

Schulze, W.S., Lubatkin, M.H., Dino, R.N. and Buchholtz, A.K. (2001), "Agency relationships in family firms: theory and evidence", *Organization Science*, Vol. 12 No. 2, pp. 99-116.

Sciascia, S. and Mazzola, P. (2008), "Family involvement in ownership and management: exploring nonlinear effects on performance", *Family Business Review*, Vol. 21 No. 4, pp. 331-345.

Sharma, P. and Nordqvist, M. (2008), "A classification scheme for family firms: from family values to effective governance to firm performance", in *Family Values and Value Creation*, Palgrave Macmillan, London, pp. 71-101.

Siebels, J.F. and zu Knyphausen-Aufseß, D. (2012), "A review of theory in family business research: the implications for corporate governance", *International Journal of Management Reviews*, Vol. 14 No. 3, pp. 280-304.

Simon, F.B. (2012), *Einfuhrung in die Theorie des Familienunternehmens [Introduction to Family Business Theory]*, CarlAuer, Heidelberg, DE.

Soleimanof, S., Rutherford, M.W. and Webb, J.W. (2017), "The intersection of family firms and institutional contexts: a review and agenda for future research", *Family Business Review*, Vol. 31 No. 1, pp. 32-53.

Sonfield, M.C. and Lussier, R.N. (2004), "First-, second-, and third-generation family firms: a comparison", *Family Business Review*, Vol. 17 No. 3, pp. 189-201.

Stanley, L., Kellermanns, F.W. and Zellweger, T.M. (2017), "Latent profile analysis: understanding family firm profiles", *Family Business Review*, Vol. 30 No. 1, pp. 84-102.

Stanley, L.J., Hernández-Linares, R., López-Fernández, M.C. and Kellermanns, F.W. (2019), "A typology of family firms: an investigation of entrepreneurial orientation and performance", *Family Business Review*, Vol. 32 No. 2, pp. 174-194, doi: 10.1177/0894486519838120.

Suess, J. (2014), "Family Governance - literature review and the development of a conceptual model", *Journal of Family Business Strategy*, Vol. 5, pp. 138-155.

Sundaramurthy, C. (2008), "Sustaining trust within family businesses", *Family Business Review*, Vol. 21 No. 1, pp. 89-102.

Sundaramurthy, C. and Lewis, M. (2003), "Control and collaboration: paradoxes of governance", *Academy of Management Review*, Vol. 28, pp. 397-415.

Tagiuri, R. and Davis, J.A. (1982), "The advantages and disadvantages of the family business", Research paper.

Tkaczynski, A. (2017), "Segmentation using two-step cluster analysis", in *Segmentation in Social Marketing*, Springer, pp. 109-125.

Tkaczynski, A., Rundle-Thiele, S. and Beaumont, N. (2010), "Destination segmentation: a recommended two-step approach", *Journal of Travel Research*, Vol. 49 No. 2, pp. 139-152.

Von Schlippe, A. and Frank, H. (2013), "The theory of social systems as a framework for understanding family businesses", *Family Relations*, Vol. 62 No. 3, pp. 384-398.

Voordeckers, W., Van Gils, A. and Van den Heuvel, J. (2007), "Board composition in small and medium-sized family firms", *Journal of Small Business Management*, Vol. 45 No. 1, pp. 137-156.

Weismeier-Sammer, D., Frank, H. and Von Schlippe, A. (2013), "Untangling 'familiness' A literature review and directions for future research", *The International Journal of Entrepreneurship and Innovation*, Vol. 14 No. 3, pp. 165-177.

Westhead, P. and Howorth, C. (2007), "Types of private family firms: an exploratory conceptual and empirical analysis", *Entrepreneurship and Regional Development*, Vol. 19, pp. 405-431.

Winer, B.J. (1962), *Statistical Principles in Experimental Design*, McGraw-Hill, New York.

Zahra, S.A. (2003), "International expansion of U.S. manufacturing family business: the effect of ownership and involvement", *Journal of Business Venturing*, Vol. 18 No. 4, pp. 495-512.

About the authors
Rocío Arteaga is a PhD candidate at the University of Oviedo in the Area of Economy. Her research interests include family firms, corporate governance, and strategic entrepreneurship.

Alejandro Escribá-Esteve is professor of strategic management at the University of Valencia (Spain). His research interests focus on the characteristics and processes of Top Management Teams, as well as the corporate governance and strategic management of SMEs and Family Firms. Alejandro Escribá-Esteve is the corresponding author and can be contacted at: alejandro.escriba@uv.es

For instructions on how to order reprints of this article, please visit our website:
www.emeraldgrouppublishing.com/licensing/reprints.htm
Or contact us for further details: **permissions@emeraldinsight.com**

The current issue and full text archive of this journal is available on Emerald Insight at:
https://www.emerald.com/insight/1746-5265.htm

Managing family business tensions: the narrative of family history

Rocio Arteaga
University of Oviedo, Oviedo, Spain and
Kristianstad University, Kristianstad, Sweden, and
Timur Uman
Jönköping International Business School, Jönköping University, Jönköping, Sweden

Received 5 January 2020
Revised 10 April 2020
4 June 2020
Accepted 28 June 2020

Abstract

Purpose – This study explores the family governance structures that family firms employ to manage family business tensions.

Design/methodology/approach – Building on socioemotional wealth perspective and adopting a narrative methodological approach, the study analyses nine unique narratives of representatives of three Swedish family firms.

Findings – The study illustrates how the hybrid arena created between formal and informal family meetings is used as a governance structure for mitigating tensions by reinforcing family relational ties.

Research limitations/implications – Based on the findings, this study suggests how reliance on hybrid arena informs the field of family business management and governance and suggests future research directions.

Practical implications – The findings of this study provide opportunities for family business practitioners, including owners, family members, family firm advisers and other stakeholders, to effectively manage family business tensions and foster socioemotional wealth.

Originality/value – In family firms, tensions can arise due to a desire for the preservation of socioemotional wealth. The authors show that these tensions may be managed by using informal and formal family meetings that create a hybrid arena where family members separate family and business issues and emotional and rational reactions, thereby avoiding negative emotions and creating a culture of harmony within the family.

Keywords Family tensions, Family meetings, Narrative analysis, Tension management, Socioemotional wealth

Paper type Research paper

Introduction

Conflicts are consistently considered as a central problem for family firms (Levinson, 1971; Kellermanns and Eddleston, 2004, 2007; Frank *et al.*, 2011). Family business conflict is not a static phenomenon; it varies based on the tensions operating in two subsystems (business and family) that overlap and interact within family firms (Sorenson, 1999; Danes, 2006).

The particularism of family firms has been explained through the non-economic goals that family firms pursue (Gomez-Mejia *et al.*, 2007). Non-economic goals such as the future aspirations of keeping the business in the family identity, and the business image have been considered the most important socioemotional wealth features of a family firm's essence but have also been associated with emotional costs and family business tensions (Berrone *et al.*, 2012; Kellermanns *et al.*, 2012).

Family business tensions are unique because many business relationships are consciously and/or unconsciously grounded in the history of family relationships (Sorenson, 2013). Tensions

Compliance with ethical standards: Informed consent was obtained from all individual participants involved in the study. All names used in the paper have been changed and are fictitious.

The authors declare that they have no conflict of interest.

Baltic Journal of Management
Vol. 15 No. 5, 2020
pp. 669-686
© Emerald Publishing Limited
1746-5265
DOI 10.1108/BJM-01-2020-0008

can arise within various domains of family firms. However, tension is more likely to occur among family members because of their emotional bonding (Chirico and Salvato, 2008). Even if it is not possible to eliminate tensions in family firms (Levinson, 1971), the challenge for these organisations is to manage the tensions in a way that minimises their negative consequences and thereby preserves the firms' socioemotional wealth (Friedman, 1991; Sharma *et al.*, 1997).

Although the existing research on tensions in family firms primarily focuses on the nature of those tensions, the interactions that occur around these tensions and the management of these tensions are rarely addressed in the literature (Sorenson, 2013; Xi *et al.*, 2015).

To address the void concerning family business tensions management in family firm research, this paper aims to explore how and which family governance structures are used to manage [1] tensions in family firms. Thus, this paper adopts a narrative approach. Narrative analysis is a method of qualitative research that uses stories told by individuals as data (Dawson and Hjorth, 2012). Adopting the narrative approach permits a deeper understanding of the decision-making processes within family firms. Furthermore, given family firms' predisposition towards privacy, it seems likely that multiple responses concerning tensions within these firms can be obtained more effectively via narratives.

Our study aims to provide both theoretical and empirical contributions to the field of family firm research. This study extends research on tensions in family firms, particularly tensions that arise from the pursuit of non-economic goals and contributes to the extant literature on family business by offering an empirical basis for a currently unexplored research question regarding tensions and their management in the family firm context (McKee *et al.*, 2014). Our study extends the literature on socioemotional wealth by assuming that the socioemotional dimensions may have a negative side that generates tensions among family members. Furthermore, our study shows that the use of hybrid (formal and informal) family governance mechanisms helps firms minimise tensions and thus fosters their socioemotional wealth. Finally, this study responds to the call for more exploratory qualitative research in the family firm field (Chrisman *et al.*, 2005), by applying a narrative approach in our empirical exploration; such an approach can provide a more nuanced understanding of the mechanisms through which tensions in family firms are managed.

The article is organised as follows. We first present a review of the literature on family business tensions from a socioemotional wealth perspective and discuss the relevance of family governance structures to family firm management. Next, we describe our methodological approach. In the subsequent section, we present an analysis of the narratives and a cross-case analysis. We then discuss our findings and main contributions and present their implications for research and practice.

Literature review

Tensions in family firms: socioemotional wealth perspective

Socioemotional wealth is defined as the "nonfinancial aspects of the firm that meet the family's affective needs, such as image, the ability to exercise family influence, and the perpetuation of the family dynasty" (Gomez-Mejia *et al.*, 2007, p. 106). This multidimensional construct includes the desire to preserve binding social ties and the emotional attachment of family members (Berrone *et al.*, 2012).

Family business researchers agree that the pursuit of socioemotional wealth in family firms may enhance the achievement of family-centred non-economic goals (Samara *et al.*, 2018). However, other studies associate the desire to preserve the family firm's socioemotional wealth with emotional costs that can negatively affect the firm's nonfinancial outcomes (e.g. Vardaman and Gondo, 2014; Kellermanns *et al.*, 2012).

Preserving socioemotional wealth—maintaining the family's control and influence, image and reputation—can have both a bright and a dark side (Samara and Paul, 2019). For example, a desire for family influence and control can suggest that family-owners count the

future benefits of control as part of their socioemotional wealth (Berrone *et al.*, 2012). However, when family-owners increase their overarching control, family business tensions and conflict increase as well (Van Kleef *et al.*, 2004). Preserving the firm's image and reputation can provide affective value to family members (Deephouse and Jaskiewicz, 2013). However, some actions that affect the firm's image and reputation, such as opportunistic behaviours or unethical actions that create a public scandal can result in a shock that increases the level of family business tension and conflict (Vardaman and Gondo, 2014).

Studies that explore conflict in family firms suggest that open communication among family members is especially relevant for family businesses in which the conversations are often emotionally rich and boundary-crossing (e.g. Kellermanns and Eddleston, 2004, 2007; Helin, 2011). Open communication is considered a key element in the establishment of family governance structures that range from informal arenas such as informal family meetings to formal arenas such as formal family meetings, family councils and family constitutions (Nordqvist, 2011; Parada Balderrama, 2015). Informal family meetings, for instance, dinner table conversations, small talk, casual conversations and get-togethers, are governance tools that facilitate social interactions based on consensus after informal discussion among the participants. Formal family meetings are formal forums that are ceremonially adopted by family firms and promote positive family relationships, cohesion and desired non-economic outcomes. Family members can also assume an active governance role by creating a family council wherein family members formally structure interactions regarding firm issues that coincide with family members' interests. Finally, a family constitution is a written document that articulates the family's rules, philosophies and values.

Family governance structures facilitate or constrain family power within family firms and therefore affect a family's ability to protect its socioemotional wealth (Berrone *et al.*, 2012). When family firms possess appropriate family governance structures that encourage open communication, tensions may be managed and socioemotional wealth preservation may be fostered (Alderson, 2015; Sorenson, 1999). By taking a socioemotional wealth approach, we suggest that family governance practices may decrease tensions related to the pursuit of non-economic goals by fostering constructive interactions among family members and regulating emotions (Gross, 1998), outcomes that would be more difficult to achieve in the absence of these forums.

Methodology

Narrative analysis is a method of qualitative research in which the data take the form of storied narratives (Pentland, 1999; Dawson and Hjorth, 2012). In our study, the narrative method was used because family firm members tend to be reluctant to discuss their tensions; the word "tension" is often perceived as having negative connotations and raising sensitive issues (Efendy, 2018).

In family businesses, stories highlight a cultural understanding of appropriate family firm behaviours (Hytti *et al.*, 2016). Stories are a basic and habitual tool that people use to communicate their ideas (Czarniawska and Sköldberg, 2003). They provide a close connection to empirical realities by developing precise and accurate knowledge of everyday family firm events (Dawson and Hjorth, 2012).

Narrative analysis is recognised as a credible source of knowledge for family business researchers (Larty and Hamilton, 2011). It has become increasingly prominent in the family firm literature (Sharma, 2002) and promises to remain a prominent contributor to theory building (Larty and Hamilton, 2011). Table 1 lists recent papers based on narrative analysis in family firms in chronological order by author, title, journal and year of publication.

In our research, narrative data were gathered from formal conversations about events that can cause tensions in family firms. The researchers did not use set scripts but rather acted as "non-directive listeners" (Thomson *et al.*, 1989). However, to "flow from the course of the dialogue" (Larty and Hamilton, 2011), the researchers included some guidance in the

Authors	Title of the paper	Journal	Year
Parada *et al.*	Prosperity over time and across generations: the role of values and virtues in family businesses	*Journal of Organisational Change Management*	2019
Mussolino *et al.*	Daughters' self-positioning in family business succession: a narrative enquiry	*Journal of Family Business Strategy*	2019
Smith	Reading liminal and temporal dimensionality in the Baxter family "public-narrative"	*International Small Business Journal: Researching Entrepreneurship*	2018
Hamilton *et al.*	Re-framing the status of narrative in family business research: towards an understanding of families in business	*Journal of Family Business Strategy*	2017
Hytti *et al.*	Navigating the family business: a gendered analysis of identity construction of daughters	*International Small Business Journal: Researching Entrepreneurship*	2017
Hjorth and Dawson	The burden of history in the family business organisation	*Organisation Studies*	2016
Jackson	A Tale of Two Legacies: Career Narratives of the Black Family Business	*Journal of Black Studies*	2015
Dawson and Hjorth	Advancing family business research through narrative analysis	*Family Business Review*	2012
McKenny *et al.*	Assessing espoused goals in private family firms using content analysis	*Family Business Review*	2012
Hamilton	Whose story is it anyway?	*International Small Business Journal: Researching Entrepreneurship*	2006
Barker *et al.*	Family business members' narrative perceptions: values, succession, and commitment	*Journal of Technical Writing and Communication*	2004

Note(s): Titles and abstracts were searched for the terms "Narrative", "Narrative Analysis", "Narrative Research" and "Family Firms" or "Family Business"

Table 1. Publications on narrative analysis in family firms

conversation to add some structure to the conversation. (Larty and Hamilton, 2011). Each family member was guided to think of a major historical event that had disrupted the normal day-to-day decision-making within the firm and the level of tensions experienced during the course of making the decision. Tension themes emerged, as the participants related their own narratives. Basic information on the family firms and the types of tensions identified is presented in Table 2.

We used the purposeful sampling strategy (Neergaard and Ulhøi, 2007) to ensure efficient and "information-rich" business selection. Although the selection process was primarily purposive, the decision about how many cases to include in the study was based on similar qualitative approaches (e.g. Stephens and Breheny, 2013; Hytti *et al.*, 2016).

We interviewed nine family members representing three Swedish family firms. The firms varied by industry; they included a company that specialised in the extraction of natural resources, a wholesale sports equipment company and a wholesale plastic cleaning products company. The firms were selected for their relevance and for their leadership positions within their industries. The founding dates of the companies ranged from 1866 to 1974. We obtained information separately from several family members from different generations at each business to reflect the perspectives of different storytellers (De Massis and Klotar, 2014). Linking the responses to a common event in this way reduces recollection bias (Podsakoff and Organ, 1986; Ensley, 2006). The selected businesses had at least two generations in control. The respondents consisted of three-/fourth-/fifth-generation family business owner-

Business	A: Engineering	B: Sports	C: Plastic
Industry	Natural resources extraction	Wholesale sports equipment	Wholesale plastic products
#of employees	90	21	11
Net sales	50 M Euros	6.75 M Euros	0.45 M Euros
% Family owned	100	100	100
Family members in management and ownership	5	4	3
#of owners from the nuclear family	5	5	4
#of family board members	4	4	3
External chair of the board	No	Yes	No
Family CEO	Yes	Yes	Yes
Generations in the business	Fourth/fifth	First/second	Fourth/fifth
Participants interviewed	3	3	3
Source of tensions	The perpetuation of the family dynasty	The preservation of binding social ties among family members	The preservation of the family firm's reputation

Table 2. An overview of the studied firms

managers, three first-/second-generation family owner-managers and three third-/fourth-generation family business owner-managers (Table 3).

Each interview lasted for between one and two hours, and the interviews were conducted in Swedish to capture the essence of the narratives. All the interviews were recorded and transcribed verbatim. The interviews were translated into English by the researchers, and the translations were checked for accuracy by an experienced bilingual proofreader. Secondary data were used to supplement the background information on the family firm participants. Each participant and company name was replaced with a pseudonym (alias) to ensure confidentiality and anonymity (Table 3).

Analysis of narratives

We performed a paradigmatic analysis of the narratives (Greimas, 1987). Paradigmatic analysis is a method that is used to reveal commonalties across the stories that comprise a

	Business	Alias	Position in family firm	Position in the board	Family member	Generation
1	Business 1: Engineering	A	Retired	Chairman	Father	Fourth
2	Business 1: Engineering	B	Current CEO	Member	Daughter	Fifth
3	Business 1: Engineering	C	Segment director	Member	Son	Fifth
4	Business 2: Sports	D	Sales director	Member	Father	First
5	Business 2: Sports	E	HR Director	Member	Mother	First
6	Business 2: Sports	F	Current CEO	Member	Son	Second
7	Business 3: Plastic	G	Current CEO	Member	Brother	Fourth
8	Business 3: Plastic	H	CFO	Chairman	Brother	Fourth
9	Business 3: Plastic	J	Accountant	Member	H's daughter	Fifth

Table 3. Interview participants: Storytellers

study's database (Ruth and Öberg, 1992). Moreover, paradigmatic analysis notes relationships among various aspects of the data, attempting to detect the covariance among them (Polkinghorne, 1995). Using the paradigmatic framework developed by Larty and Hamilton (2011), the narrative material was analysed in three stages: explication, exploration and explanation. In stage 1, explication, we proposed more than one version of a multivoiced narrative story (Pentland, 1999). In this stage, we looked at what the stories told us about critical conflicts and compared the three versions of the same series of events. In stage 2, explanation, we described and attempted to understand the uniqueness of the narratives (Dawson and Hjorth, 2011). We looked at how each narrator constructed his or her plot to tell a story from his or her own perspective and in his or her own voice (Gertsen and Soderberg, 2011). In stage 3, exploration, we drew on Aristotelian principles of reversal (*peripeteia*) and recognition (*anagnorisis*) (Aristotle, 1984). Examining reversals of intentions or the event's turning point and recognising hidden aspects of the event in the narratives helps identify focal points in our narrative analysis (Larty and Hamilton, 2011). Because we are interested in identifying how family firms mitigate tensions, we concentrated on stressor events that were narrated in more detail because the narrator typically perceived them as crucial events (Gertsen and Soderberg, 2011).

Narratives

Business 1 – Engineering

Socioemotional goal: The perpetuation of the family dynasty

Tension: Tensions resulted from perception of injustice created by parental favouritism

A's narrative in business 1: "Engineering". In 1903, the firm's founder handed over the management of the company to the youngest son. This son (second-generation) died in 1936. His son (third-generation) took control of the company from his father. This son (third-generation) was diagnosed with an incurable disease. His only son, A (fourth-generation) took over as CEO in 1973 (see "Engineering" family's genogram and ownership structure in Appendix 1).

The illness of A's father raised tensions about the need to address issues related to the company's future. From an early age, A acknowledged his father's reluctance to see A's sisters take over the firm:

> I was 14 years old when my dad passed away. My dad clearly communicated to me that I would take over the company from my sisters. We (my father and I) talked a lot. He died in September [. . .] So, my dad, he [. . .] he was awesome! However, sometimes I thought I had a lot of responsibility for my age. I have always worked since the age of 13! My sisters could have taken over the company instead of me, but my dad had decided that it was me who should take over the firm.

This excerpt shows the parent's favouritism to one of his children. Despite his young age, A accepted a CEO position. A said:

> My dad had planned how the company would work when he was not there. So, he knew he was going to die, and he made sure to teach me as much as possible about the firm [. . .] I did not have any conflict with my father, but I had friction with my sisters; they felt that this decision was unfair [. . .] But they (my sisters) finally took on the traditional female roles that existed at that time. My dad knew that I would take over the company instead of them.

Hence, A respected and accepted his father's decision. However, A, now father of B (daughter) and C (son) opposed this unfair scenario, constructing an arena for discussing the perpetuation of the family dynasty. A expressed a close connection with his daughter and claimed that he had more tensions with his son, who he thought was a very competitive person, like himself. A said:

> Around the kitchen table, I had discussed for a number of years with my children, B and C, that I wanted to leave the firm. When I turned 70, I said, "Now you will decide who should have my role". We three (myself and my two children) discussed who should take my place. However, I have always thought that my daughter, B, was ready to take my place and to continue running the firm.

B's and C's narrative in business 1: "Engineering". The sister and the brother, B and C, were interviewed separately. B wanted to become an architect and had no plans to engage with or take over the firm due to her self-expressed fear of the unknown. She had always thought that her brother would take over the firm. However, following a number of discussions during travels with her father and brother, she decided to start working at the firm. In November 2017, she became CEO of the company:

> Well, I [. . .] from the beginning, a long time ago, I had no intention of working in the family business. It was not my thing. It was my brother who would do it. So, I never thought about the family business. But after many family discussions, meetings, conversations, I thought to myself, I can try! So, I checked with my dad to see if there was any job available and I started working! Now, I am the CEO of the company!

C was a consultant before starting to work in the company. He joined the firm in 2005. C chose not to push for the CEO position, but instead opted for sales management. C accepted a subordinate position in which he attempted to balance being his sister's subordinate with being an equal member of the family in social settings, where he tried to assert his authority. C's reasoning for not assuming the CEO position is revealed when he talks about differences between himself and his sister.

> I and my sister, B, have different positions in the company. I think my sister has [. . .] I think she grew up in a different way. She released herself very early, going her own way. And maybe I was more closely connected to my family. The thing is [. . .] well, after many discussions at home, we decided she was the right person!

Through spontaneous family gatherings, the engineering family members appeared to renegotiate the historical parental unfairness of the CEO position. B talked about how they mitigated succession tensions:

> . . .there were many family discussions here and there, but both my brother and I felt that the CEO appointment decision was no big deal.

C expressed similar ideas about CEO succession:

> We (my father and my sister) discussed CEO succession for a very long time, but as I said, my dad was very fair, so he would not give one of us more than the other. For my father, it was very important that you do not treat one of your children in a different way. Meetings were always effective and positive!

Business 2 – Sports

Socioemotional goal: Preserving binding social ties among family members

Tension: Tensions arising because of goal differences

D's and E's narrative in business 2: "Sports". The company "Sports" was founded by D and E in 1974. D and E own 85% of the company, and their three children have five percent each (see "Sports" family's genogram and ownership structure in Appendix 1).

D's narrative reveals the tensions between different generations of family members and a non-family employee:

> . . . We have very strong family ties. This is the luck that we have. So, of course, there are problems [. . .] we have probably failed in recruitment. We grew too fast in a short time, and not all the people

> we hired were trained as they usually are. So, we have had some staff problems affecting the family, particularly with one employee [. . .]. It was a problematic time, and the younger generation does not understand the importance of this employee. We considered her (non-family employee) a key employee in the operation of the firm.

E shared the same tensions. Failure in recruitment, particularly the lost relationship with a non-family employee, raised apprehensions between E and D and their son F.

> . . . We do not have many conflicts. But we think a little differently about staff, for example. My husband and I always like working with the staff we have, trying to find what we think is good. And we have never had [. . .] what should I say; we have always been in agreement there. We probably have...well, my son F (current CEO) thinks differently than we do.

These tensions arising from differences regarding a non-family member were the reason for organising an annual formal family meeting in an attempt to bind social ties among family members and to encourage them to be honest and create a participative dialogue. D said:

> . . .we have a summer place on an island for resolving our private problems [. . .]; we bought it many years ago. And there, the whole family stays for between three and five weeks together. And that is where we try to resolve our differences!

The importance of formal family meetings in the summer house and more informal family meetings for managing tensions are also reflected in E's narrative:

> . . .we decided to buy a summer house on an island, where all my children, my husband and I spend four to five weeks a year. We discuss conflict issues during this time [. . .]; we feel like a family.

F's narrative in business 2: "Sports". F always wanted to work in the family firm. Now he is the company's CEO. The failures of a previous employee are also reflected in F's narrative. Here, he clearly opposed his parent's decision, exercising his power through his position:

> . . . there have been situations in the past where [. . .] well, there was an employee who had a key position within the firm. This employee had very strong emotional attachments, especially to my dad. She [the non-family employee] quit her job, and I thought that decision was very positive, while my parents thought it was really negative for the firm. . . we try to keep family issues apart, but it's not always easy [. . .]. So, family discussions occur . . . emotional matters occur, and so on.

F discussed his feelings about maintaining binding social ties among his family, something that did not always go smoothly.

> . . .It is difficult for the family to keep social ties among family members [. . .]. Keeping the peace among family members is a balancing act [. . .]. My parents decided to buy a summer cottage. There, we have four weeks only for family firm issues. It works; it has to work because our goal is that the next generation will continue in the business.

Business 3 – Plastic

Socioemotional goal: Preservation of the family firm's reputation

Tension: Tensions associated with risk asymmetries

H's and G's brother's narrative in business 3: "Plastic". The company "Plastic" was founded in 1871. H and G are the fourth-generation successors to the "Plastic" family firm. H is the chairman of the board, and G is the CEO (they have another brother who is a non-active owner) (see "Plastic" family's genogram and ownership structure in Appendix 1).

The brothers H and G were interviewed separately, but their narratives reflect each other's in many respects. H explained,

> When my father passed away, my grandmother and my mother fought for control of the company [. . .] Finally, my mother got the majority of the shares, so she gained control over the production. My

mom made her own decisions, she was focused on the growth of the company; she was a little dictatorial too! Of course, we have different views about things; we want the company to move forward.

G said,

> My mother had her way of working, and she wanted to decide everything herself and be involved in all the questions and small details and everything for managing the firm. She fought for the company [. . .] She had her way of working; she wants to grow the company.

While the previous generation aimed for growth, they feel that the family firm context has changed, and they are willing to take a large financial risk to prevent extensive losses to their reputation, as G's narrative suggested:

> Recently, we decided to invest in an automated machine. Discussions started by sitting around the table [. . .] Discussions took more than half a year, but in the end, we said "Why do not we do that?" And we did it! [. . .] These days, it is important that the company moves forward and that we build trust with our customers.

H shared the same idea about the undertaken high-risk investment:

> It took us two years before we made the order (for an automated assembly line)! It was a big decision. We discussed and discussed and finally everyone agreed. I discussed it with my mother of course, too. She thought it was too much money, so she could not understand why we would buy it. So [. . .], but it was necessary for the image of our firm.

It is important for both of the brothers to establish norms and routines for resolving tensions related to fear about the investment. G's and H's narratives convey that family members have the ability to pre-empt conflict through constructive dialogue performed in formal and informal arenas, through which tensions are reduced. G said:

> . . . since we have been working together, we have never really questioned each other's professional expertise. And we have also always tried to keep informed [. . .] It is clear that in a company we must all be integrated. We usually talk to each other [. . .]; this is important because each of us has his own personality [. . .], and for family issues, we talk face-to-face during Christmas, summer.

H said:

> . . . we are different families; my brothers have their families, and they live far away, and I have mine here. For family issues, we meet the whole family in summer, but for big decisions, like about this latest big and expensive machine we bought, we discuss it in more formal meetings here in the office.

J's narrative in business 3: "Plastic". J is the only fifth-generation family member involved in the firm. J started to work at the firm as a summer job; she is now completely integrated and involved with the firm. J acknowledged that the firm's goal has changed over the years. J spoke of the firm's past:

> I do not know very much about the details of the decisions of the past. I know there were some fights. The cousins, I think [. . .] some supported my grandmother, and some supported the other side. And then, she eventually got the shares [. . .] I know that my grandmother made her own decisions. She is quite [. . .] or she was [. . .] I mean, she made her own decisions. And, she was really engaged in growing the firm. She lived more for the work, honestly.

J highlighted the need to assume financial risk and to make the commitment to heavy borrowing to protect its reputation and image and the tensions that decision generated among family members. J said,

> . . .probably you have heard before, but for us the prices are really important, low prices, to maintain a good image, a good reputation for the firm [. . .] which means that we have to have robots and an

> effective or efficient production; so, my father and uncle decided to make a great investment in automating the firm.

J respected her father's and uncle's authority and the way in which her family ameliorates family tensions through formal meetings. J said,

> . . . right now, my father and his brothers make the important decisions. They hold formal meetings to discuss these issues. I agree with their decisions [. . .]; I mean, my father and his brothers know the market.

Cross-narrative analysis

In the following section, we discuss similarities and differences across the narratives and describe how family firms ameliorate tensions associated with the desire to preserve family firms' socioemotional wealth.

Although the three businesses are quite different because their histories vary within both the family and business contexts, the narratives enable us to show that in family firms, stress occurs naturally, raising tensions in all family firm systems. In family firm 1, "Engineering", the historical parental unfairness created shocks within the family business system. This parental favouritism generated tensions primarily characterised by the perception of injustice and unfair treatment among siblings (Kidwell *et al.*, 2012). In family firm 2, "Sports", the relations between family members and non-family members generated interpersonal differences within the family business system (Pieper *et al.*, 2015). In this family firm, the existence of goal asymmetries generated tensions among family members because of different perceptions of the role of an external employee. Family firm 3, "Plastic", took a large financial risk to prevent extensive losses of their socioemotional wealth, in particular, related to the firm's image and reputation (Kalm and Gomez-Mejia, 2016). This decision generated tensions among different generations due to differences in family members' attitudes to risk.

Family governance mechanisms, including informal get-togethers, formal family meetings, family councils and family constitutions, link the family and the firm by integrating the needs and interests of the family firm members (Mustakallio *et al.*, 2002). Although each of the analysed families manages tensions according to its own dynamic pattern, some features of that pattern are generic. The analysed firms use a hybrid governance system: informal family meetings (e.g. dinner table conversations, small talk, casual conversations, get-togethers) and formal family meetings to create a healthy debate among family members. These firms follow a circular escalation and de-escalation pattern of tensions. Thus, when a disruptive event occurs because of a natural shock, perception of injustice (in firm 1), goal asymmetries (in firm 2) and risk asymmetries (in firm 3), apprehensions arise among family members and stress appears and triggers family firm tensions. Informal family meetings emerge spontaneously, and formal family meetings are ceremonially adopted by family members, creating a hybrid arena within which a healthy debate cools down tensions. Then, constructive behaviour increases, displacing tensional behaviour. The core findings regarding the ways in which family firms manage tensions are summarised in Figure 1.

Family meetings, both informal and formal, provide opportunities to meet and discuss issues, leading to increased interactions among family members from diverse generations. The hybrid arena created by the combination of formal and informal family meetings actively mitigates the negative levels of tension and turns them into constructive levels of tension.

Discussion

This article focuses on the tensions that arise among family members caused by the desire to preserve family firm's socioemotional wealth, and shows how these tensions are managed

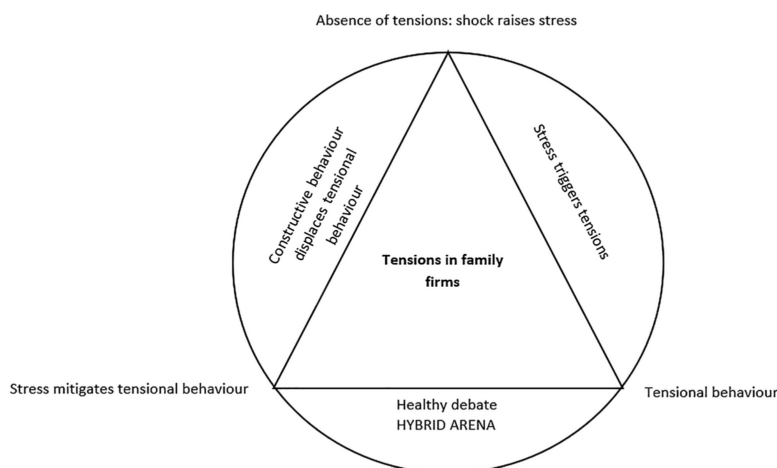


Figure 1.
Managing family business tensions

within family firms. The major factor that explains the differences in the behaviours of family and non-family firms is the family-owners' need to preserve socioemotional wealth (Gomez-Mejia *et al.*, 2007). Its preservation affects family firms' welfare both positively and negatively (Samara and Paul, 2018). On the one hand, family-owners derive utility from the non-economic aspects of the business (Gomez-Mejia *et al.*, 2007). On the other hand, socioemotional wealth preservation generates tensions in various family firm systems and subsystems.

Tensions in family firms may be perceived differently by individual family members especially when these tensions are matter of history (Sorenson, 2013; Rousseau *et al.*, 2018). Our findings suggest that the occurrence of tensions derives from the desire to maintain the family's control and influence; preserving binding social ties among family members and preserving image and reputation are at times rooted deeply in the history of the family business. However, when owners encourage open discussion, debate between different generations can result in the sharing of viewpoints and opinions, producing a positive effect on socioemotional well-being (Kellermanns and Eddleston, 2007; Alderson, 2015). Family-owners' desire to preserve socioemotional wealth means that family firms might, for instance, break very deeply rooted traditions, lay off key employees or take on projects that are financially less than optimal. These decisions might provide other benefits to the family firm, such as perpetuation of the family dynasty, the preservation of binding social ties among family members or improvement of the firm's reputation.

To preserve socioemotional wealth, family firms use a hybrid arena that includes informal and formal family governance mechanisms as a context in which tensions escalate and de-escalate and are thereby kept at bay (cf. Ponomareva *et al.*, 2019). The hybrid arena between formal and informal family meetings reinforces the idea of team-based work by focussing the efforts of family members on the success of the business and, by extension, preventing extensive loss of the family firm's socioemotional wealth. It is within this governance hybrid arena composed of formal and informal mechanisms that members of the family feel responsible for each other's welfare and for the firm's welfare by promoting positive relationships and constructive interactions, institutionalising family harmony.

Conclusions and implications

We have discussed how family-owners' desire to preserve socioemotional wealth generates tensions within family firms, and how these tensions are managed by family members.

Although these tensions can happen in both family and business systems, they are more likely to arise among family members because of their affective endowments (Chirico and Salvato, 2014). Even if it is not possible to eliminate these tensions in family firms, these organisations need to deal with them in order to minimise their negative consequences.

We advance the literature utilising the concept of socioemotional wealth. Although current socioemotional wealth literature implicitly assumes that the socioemotional dimensions are positive valued by family members (Kellermanns *et al.*, 2012), we propose that socioemotional wealth may have a dark side by generating tensions among family members. Facing tensions arising from socioemotional wealth dimensions, family members will be inclined to put more emphasis on the creation of hybrid arenas where tensions escalate and de-escalate following a dynamic and circular pattern.

Furthermore, our study contributes to the literature on management of family business tensions. First, we have identified three different tensions derived from the desire to preserve socioemotional wealth. These are tensions related to the family-owner's desire to perpetuate the family dynasty (Berrone *et al.*, 2012), to maintain social ties among family members (Gomez-Mejia *et al.*, 2007) and to perpetuate a positive image and reputation (Gomez-Mejia *et al.*, 2011). We show in detail how and why these tensions emerge, who experiences these tensions and how the tensions are managed.

This study also reveals how family governance mechanisms can ease the tensions that emerge by pursuing socioemotional wealth in a family firm. Thus, our study contributes to recent research on family governance in family firms as well (Umans *et al.*, 2020). Our findings show that managing tensions in family firms implies the challenge of balancing between informal and formal family governance mechanisms, creating a hybrid arena in which tensions are mitigated by a reliance on and reinforcement of family relational ties. It is in this hybrid arena where family members separate family and business issues (Nordqvist, 2011). As such, we suggest that the hybrid arena between informal and formal family meetings can synthesise emotional and rational reactions, avoiding negative emotions and creating a culture of harmony within the family. This study, therefore, offers the insight that managing tensions in family firms is handled by a combination of informal and formal family governance mechanisms that help family members to reach solutions to complex decisions.

Moreover, our study provides practical implications. We find that each family manages tensions following their own dynamic pattern. However, family-owners need to find a balance between informal and formal family governance mechanisms for reducing harmful tensions among family members. With this in mind, owner families should be aware that in addition to informal family governance mechanisms (e.g. dinner table conversations, small talk, casual conversations and get-togethers), they may implement formal family governance mechanisms (e.g. formal family meetings, family councils and family constitutions) that promote social interaction, supported by formality, legitimacy and trust. A hybrid family governance system (formal and informal) creates an arena of many and long discussions where family members are able to manage tensions, thereby reducing organisational disharmony (c.f. Collin, 2008).

Limitations and future directions

Our work has limitations. An organisation's approach to tension management depends in part on the cultural context (De Witt *et al.*, 2012). Differences in the ways in which family members respond to tensions might reflect differences in cultural dimensions, such as individualism versus collectivism, long-term versus short-term orientation and masculinity versus femininity (Hofstede, 2001). In addition, each country has its own institutional context for tension management. Thus, the national cultural context is probably a key moderator of the impact of tensions in organisations. Future studies could expand the knowledge of family business tensions and their management by studying other family firms in other countries.

In this article, we have shown how a narrative approach may deepen our understanding of complex and challenging family tensional situations. Narrative analysis offers family firm scholars additional perspectives on family and business realities and gives voice to a wide range of actors, and these actors' interpretations of events and their own and other actors' actions (Gertsen and Soderberg, 2011). Although we obtained narratives from several family members from different generations, it is important to interact with individuals other than the family members. Obtaining narratives from non-family members or from a more neutral third-party can make family business tensions more explicit and can help achieve a more accurate understanding of family business tensions.

Finally, we would encourage future studies of family firms to experience the opportunities of the narrative methodology. The differences and similarities among different stories provide different retrospective interpretations of the same series of events, highlighting individuals' heterogeneous attitudes, assumptions and expectations, and yielding insights that are not easily captured by other approaches. In addition, the findings of this study provide opportunities for family business practitioners, including owners, family members, family firm advisers and other stakeholders, to effectively manage family business tensions.

Note

1. In this paper, the terms "manage", "mitigate" and "ameliorate" are used interchangeably.

References

Alderson, K. (2015), "Conflict management and resolution in family-owned businesses", *Journal of Family Business Management*, Vol. 5 No. 2, pp. 140-156.

Aristotle (1984), "Rhetoric", in Barnes, J. (Ed.), *The Complete Works of Aristotle*, Vol. II, Princeton University Press, Princeton, NJ.

Barker, R.T., Rimler, G.W., Moreno, E. and Kaplan, T.E. (2004), "Family business members' narrative perceptions: values, succession, and commitment", *Journal of Technical Writing and Communication*, Vol. 34 No. 4, pp. 291-320.

Berrone, P., Cruz, C. and Gomez-Mejia, L.R. (2012), "Socioemotional wealth in family firms: theoretical dimensions, assessment approaches, and agenda for future research", *Family Business Review*, Vol. 25 No. 3, pp. 258-279.

Chirico, F. and Salvato, C. (2008), "Knowledge integration and dynamic organizational adaptation in family firms", *Family Business Review*, Vol. 21 No. 2, pp. 169-181.

Chirico, F. and Salvato, C. (2014), "Knowledge internalization and product development in family firms: when relational and affective factors matter", *Entrepreneurship Theory and Practice*, Vol. 40 No. 1, pp. 201-229.

Chrisman, J.J., Chua, J.H. and Sharma, P. (2005), "Trends and directions in the development of a strategic management theory of the family firm", *Entrepreneurship: Theory and Practice*, Vol. 29 No. 5, pp. 555-575.

Collin, S.O.Y. (2008), "The boards functional emphasis: a contingency approach", *Corporate Ownership and Control*, Vol. 6 No. 2, pp. 73-88.

Czarniawska, B. and Sköldberg, K. (2003), "Symbolism/narrative: tales of organizing", in Czarniawska, B. and Sevon, G. (Eds), *The Northern Lights: Organization Theory in Scandinavia*, Liber, Stockholm, pp. 337-56.

Danes, S.M. (2006), "Tensions within family business-owning couples over time", *Stress, Trauma, and Crisis*, Vol. 9 Nos 3-4, pp. 227-246.

Dawson, A. and Hjorth, D. (2012), "Advancing family business research through narrative analysis", *Family Business Review*, Vol. 25, pp. 339-355.

De Massis, A. and Kotlar, J. (2014), "The case study method in family business research: guidelines for qualitative scholarship", *Journal of Family Business Strategy*, Vol. 5 No. 1, pp. 15-29.

de Wit, F.R.C., Greer, L.L. and Jehn, K.A. (2012), "The paradox of intragroup conflict: a meta-analysis", *Journal of Applied Psychology*, Vol. 97 No. 2, pp. 360-390.

Deephouse, D.L. and Jaskiewicz, P. (2013), "Do family firms have better reputations than non-family firms? An integration of socioemotional wealth and social identity theories", *Journal of Management Studies*, Vol. 50 No. 3, pp. 337-360.

Efendy, K.I. (2018), *The Dynamics of Family Business Conflict: The Underlying Factors, Parties' Conflict Behavior, and Role of Non-family Executives in Indonesia*, Queensland University of Technology, Doctoral dissertation, Brisbane.

Ensley, M. (2006), "Family businesses can out–compete: as long as they are willing to question the chosen path", *Entrepreneurship: Theory and Practice*, Vol. 30 No. 6, pp. 747-754.

Frank, H., Kessler, A., Nosé, L. and Suchy, D. (2011), "Conflicts in family firms: state of the art and perspectives for future research", *Journal of Family Business Management*, Vol. 1 No. 2, pp. 130-153.

Friedman, S.D. (1991), "Sibling relationships and intergenerational succession in family firms", *Family Business Review*, Vol. 4 No. 1, pp. 3-20.

Gertsen, M.C. and Søderberg, A.M. (2011), "Intercultural collaboration stories: on narrative inquiry and analysis as tools for research in international business", *Journal of International Business Studies*, Vol. 42 No. 6, pp. 787-804.

Gomez-Mejia, L.R., Nunez-Nickel, M. and Gutierrez, I. (2001), "The role of family ties in agency contracts", *Academy of Management Journal*, Vol. 44 No. 1, pp. 81-95.

Gomez-Mejia, L.R., Cruz, C., Berrone, P. and De Castro, J. (2011), "The bind that ties: socioemotional wealth preservation in family firms", *The Academy of Management Annals*, Vol. 5 No. 1, pp. 653-707.

Gómez-Mejía, L.R., Haynes, K.T., Núñez-Nickel, M., Jacobson, K.J. and Moyano-Fuentes, J. (2007), "Socioemotional wealth and business risks in family-controlled firms: evidence from Spanish olive oil mills", *Administrative Science Quarterly*, Vol. 52 No. 1, pp. 106-137.

Greimas, A.J. (1987), "A problem of narrative semiotics: objects of value", in On Meaning: Selected Writings in Semiotic Theory, University of Minnesota Press, Minneapolis.

Gross, J.J. (1998), "The emerging field of emotion regulation: an integrative review", *Review of General Psychology*, Vol. 2 No. 3, pp. 271-299.

Hamilton, E. (2006), "Whose story is it anyway? Narrative accounts of the role of women in founding and establishing family businesses", *International Small Business Journal*, Vol. 24 No. 3, pp. 253-271.

Hamilton, E., Cruz, A.D. and Jack, S. (2017), "Re-framing the status of narrative in family business research: towards an understanding of families in business", *Journal of Family Business Strategy*, Vol. 8 No. 1, pp. 3-12.

Helin, J. (2011), *Living Moments in Family Meetings: A Process Study in the Family Business Context*, ARK Tryckaren AB, Doctoral dissertation, Jönköping.

Hjorth, D. and Dawson, A. (2016), "The burden of history in the family business organization", *Organization Studies*, Vol. 37 No. 8, pp. 1089-1111.

Hofstede, G. (2001), *Culture's Consequences: Comparing Values, Behaviors, Institutions and Organizations across Nations*, Sage Publications, London.

Hytti, U., Alsos, G.A., Heinonen, J. and Ljunggren, E. (2016), "A gendered analysis of identity construction of daughters", *International Small Business Journal*, Vol. 35 No. 6, pp. 665-686.

Jackson, P.R. (2016), "A tale of two legacies: career narratives of the black family business", *Journal of Black Studies*, Vol. 47 No. 1, pp. 53-72.

Kalm, M. and Gomez-Mejia, L.R. (2016), "Socioemotional wealth preservation in family firms", *Revista de Administração (São Paulo)*, Vol. 51 No. 4, pp. 409-411.

Kellermanns, F.W. and Eddleston, K.A. (2004), "Feuding families: when conflict does a family firm good", *Entrepreneurship: Theory and Practice*, Vol. 28 No. 3, pp. 209-228.

Kellermanns, F.W. and Eddleston, K.A. (2007), "A family perspective on when conflict benefits family firm performance", *Journal of Business Research*, Vol. 60 No. 10, pp. 1048-1057.

Kellermanns, F.W., Eddleston, K.A. and Zellweger, T.M. (2012), "Article commentary: extending the socioemotional wealth perspective: a look at the dark side", *Entrepreneurship: Theory and Practice*, Vol. 36 No. 6, pp. 1175-1182.

Kidwell, R.E., Kellermanns, F.W. and Eddleston, K.A. (2012), "Harmony, justice, confusion, and conflict in family firms: implications for ethical climate and the "fredo effect"", *Journal of Business Ethics*, Vol. 106 No. 4, pp. 503-517.

Larty, J. and Hamilton, E. (2011), "Structural approaches to narrative analysis in entrepreneurship research: exemplars from two researchers", *International Small Business Journal*, Vol. 29 No. 3, pp. 220-237.

Levinson, H. (1971), "Conflicts that plague the family business", *Harvard Business Review*, Vol. 49 No. 2, pp. 90-98.

McKee, D., Madden, T. and Kellermanns, F. (2014), "Conflicts in family firms: the good and the bad", in Nordqvist, L.M. and Sharma, P. (Eds), *The SAGE Handbook of Family Business*, SAGE Publications Ltd, London, pp. 514-528.

Mustakallio, M., Autio, E. and Zahra, S.A. (2002), "Relational and contractual governance in family firms: effects on strategic decision making", *Family Business Review*, Vol. 15 No. 3, pp. 205-222.

McKenny, A.F., Short, J.C., Zachary, M.A. and Payne, G.T. (2012), "Assessing espoused goals in private family firms using content analysis", *Family Business Review*, Vol. 25 No. 3, pp. 298-317.

Mussolino, D., Cicellin, M., Iacono, M.P., Consiglio, S. and Martinez, M. (2019), "Daughters' self-positioning in family business succession: a narrative inquiry", *Journal of Family Business Strategy*, Vol. 10 No. 2, pp. 72-86.

Neergaard, H. and Ulhøi, J.P. (2007), *Handbook of Qualitative Research Methods in Entrepreneurship*, Edward Elgar Publishing, Camberley.

Nordqvist, M. (2011), "Understanding strategy processes in family firms: exploring the roles of actors and arenas", *International Small Business Journal*, Vol. 30 No. 1, pp. 24-40.

Nordqvist, M., Sharma, P. and Chirico, F. (2014), "Family firm heterogeneity and governance: a configuration approach", *Journal of Small Business Management*, Vol. 52 No. 2, pp. 192-209.

Parada Balderrama, M.J. (2015), *Developing Governance Structures in Family Firms: From Adoption to Institutionalization*, Jönköping International Business School, Jönköping University, Doctoral dissertation, Jönköpingn.

Parada, M.J., Samara, G., Dawson, A. and Bonet, E. (2019), "Prosperity over time and across generations: the role of values and virtues in family businesses", *Journal of Organizational Change Management*, Online first, doi: 10.1108/JOCM-11-2018-0341.

Pentland, B.T. (1999), "Building process theory with narrative: from description to explanation", *Academy of Management Review*, Vol. 24 No. 4, pp. 711-724.

Pieper, T.M., Smith, A.D., Kudlats, J. and Astrachan, J.H. (2015), "Article commentary: the persistence of multifamily firms: founder imprinting, simple rules, and monitoring processes", *Entrepreneurship Theory and Practice*, Vol. 39 No. 6, pp. 1313-1337.

Podsakoff, P.M. and Organ, D.W. (1986), "Self-reports in organizational research: problems and prospects", *Journal of Management*, Vol. 12 No. 4, pp. 531-544.

Polkinghorne, D.E. (1995), "Narrative configuration in qualitative analysis", *International Journal of Qualitative Studies in Education*, Vol. 8 No. 1, pp. 5-23.

Ponomareva, Y., Nordqvist, M. and Umans, T. (2019), "Family firm identities and firm outcomes: a corporate governance bundles perspective", in *The Palgrave Handbook of Heterogeneity Among Family Firms*, Palgrave Macmillan, Cham, pp. 89-114.

Rousseau, M.B., Kellermanns, F., Zellweger, T. and Beck, T.E. (2018), "Relationship conflict, family name congruence, and socioemotional wealth in family firms", *Family Business Review*, Vol. 31 No. 4, pp. 397-416.

Ruth, J.E. and Öberg, P. (1992), *Expressions of Aggression in the Life Stories of Aged Women*, pp. 133-146.

Samara, G. and Paul, K. (2019), "Justice versus fairness in the family business workplace: a socioemotional wealth approach", *Business Ethics: A European Review*, Vol. 28 No. 2, pp. 175-184.

Samara, G., Jamali, D., Sierra, V. and Parada, M.J. (2018), "Who are the best performers? The environmental social performance of family firms", *Journal of Family Business Strategy*, Vol. 9 No. 1, pp. 33-43.

Sharma, P., Chrisman, J.J. and Chua, J.H. (1997), "Strategic management of the family business: past research and future challenges", *Family Business Review*, Vol. 10 No. 1, pp. 1-35.

Sharma, P. (2002), "Stakeholder mapping technique: toward the development of a family firm typology", in *Academy of Management Meetings*.

Sorenson, R. (1999), "Conflict management strategies used in successful family businesses", *Family Business Review*, Vol. 12, pp. 133-146.

Sorenson, R.L. (2013), *Family Business and Social Capital*, Edward Elgar Publishing, Cheltenham.

Smith, R. (2018), "Reading liminal and temporal dimensionality in the Baxter family 'public-narrative'", *International Small Business Journal*, Vol. 36 No. 1, pp. 41-59.

Stephens, C. and Breheny, M. (2013), "Narrative analysis in psychological research: an integrated approach to interpreting stories", *Qualitative Research in Psychology*, Vol. 10 No. 1, pp. 14-27.

Thompson, C.J., Locander, W.B. and Pollio, H.R. (1989), "Putting consumer experience back into consumer research: the philosophy and method of existential-phenomenology", *Journal of Consumer Research*, Vol. 16 No. 2, pp. 133-146.

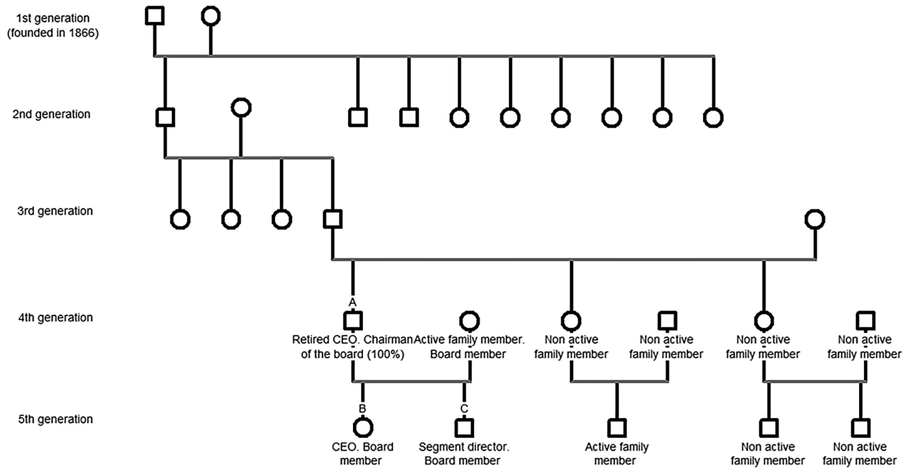
Umans, I., Lybaert, N., Steijvers, T. and Voordeckers, W. (2020), "Succession planning in family firms: family governance practices, board of directors, and emotions", *Small Business Economics*, Vol. 54 No. 1, pp. 189-207.

Van Kleef, G.A., De Dreu, C.K. and Manstead, A.S. (2004), "The interpersonal effects of emotions in negotiations: a motivated information processing approach", *Journal of Personality and Social Psychology*, Vol. 87 No. 4, p. 510.

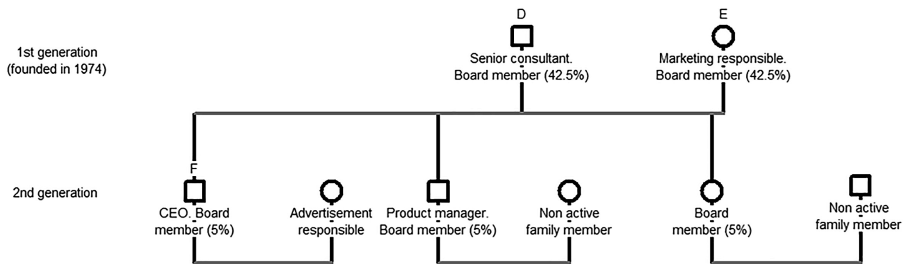
Vardaman, J.M. and Gondo, M.B. (2014), "Socioemotional wealth conflict in family firms", *Entrepreneurship: Theory and Practice*, Vol. 8 No. 6, pp. 1317-1322.

Xi, J.M., Kraus, S., Filser, M. and Kellermanns, F.W. (2015), "Mapping the field of family business research: past trends and future directions", *International Entrepreneurship and Management Journal*, Vol. 11 No. 1, pp. 113-132.

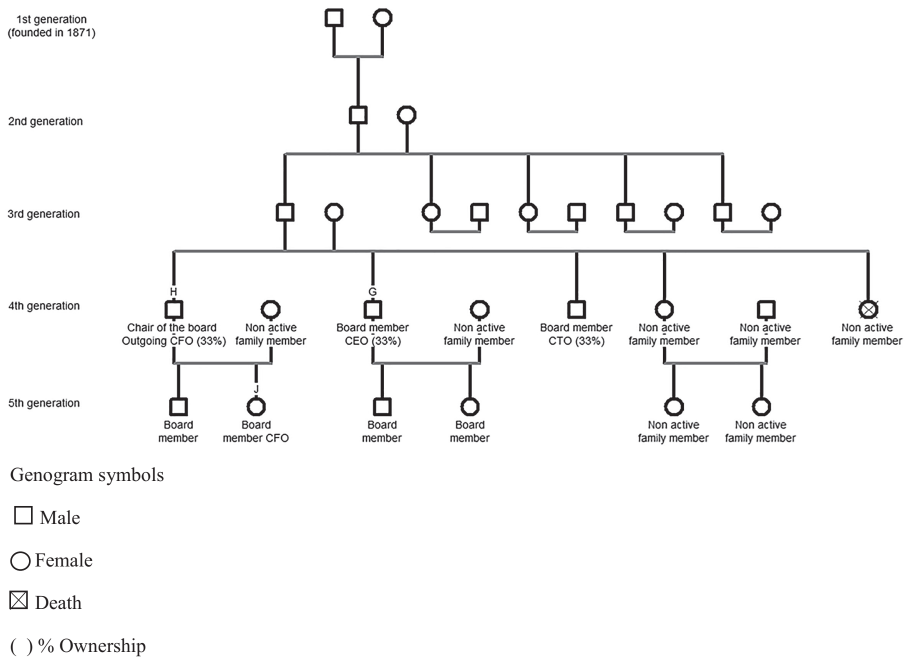
Appendix 1



Business 1. Engineering's genogram (simplified) and ownership structure (March 2019)



Business 2. Sports' genogram (simplified) and ownership structure (March 2019)



Business 3. Plastic's genogram (simplified) and ownership structure (March 2019)

About the authors

Rocio Arteaga is a Ph.D. candidate at University of Oviedo (Spain) and lecturer at Kristianstad University (Sweden). Rocio's research interests include corporate governance in family firms and entrepreneurship. Rocio's work has appeared in Family Business Review. Rocio Arteaga is the corresponding author and can be contacted at: uo233546@uniovi.es

Timur Uman is a Senior associate professor in Accounting and Management Control at Jönköping International Business School (Sweden). He has earned his Ph.D. in Business Administration at Lund University, Sweden. Timur's research interests include ownership, corporate governance and auditing. Timur's work has appeared in Public Management Review, International Review of Administrative Sciences, Corporate Governance: International Review and Accounting, Auditing and Accountability Journal

For instructions on how to order reprints of this article, please visit our website:
www.emeraldgrouppublishing.com/licensing/reprints.htm
Or contact us for further details: **permissions@emeraldinsight.com**

8. Appendix

Contribution of the author to the published work

The candidate declares the authorship of all the parts of this thesis, presented as a compendium of research articles. Part I (Introduction, Objectives, Theoretical framework and Hypotheses, Findings, and Conclusions) has been completely compiled by her. Part II comprises the published research articles. The research and drafting of the articles have also been conducted by the student under the supervision of Professor Dr. Susana Menéndez-Requejo and the other co-authors in each paper, Dr. Alejandro Escribá-Esteve, and Dr. Timur Uman.

9. Impact factor of scientific publications

Hereafter is reported the scientific impact factor of the articles in this doctoral thesis:

Article 1:

Arteaga, R., and Menéndez-Requejo, S., 2017. Family Constitution and Business Performance: Moderating Factors. *Family Business Review*, 30(4), 320-338. DOI: 10.1177/0894486517732438. Indexing:

- Social Sciences Citation Index (JIF 4.229, Q1 (22/152) in Business, 2017),
- Scopus (SJR 2.61, Q1 (1/81) in Business, Management and Accounting, CiteScore 8.9, Percentile 99%, 2017).

Article 2:

Arteaga, R., and Escribá-Esteve, A., 2020. Heterogeneity in family firms: contextualising the adoption of family governance mechanisms. *Journal of Family Business Management,* Vol. ahead-of-print, No. ahead-of-print. DOI 10.1108/JFBM-10-2019-0068.

- Scopus (SJR 0.52, Q1 (39/144) in Economics, Econometrics and Finance, CiteScore 2.0, Percentil 73%, 2019).
- Emerging Sources Citation Index (ESCI).

Article 3:

Arteaga, R., and Uman, T., 2020. Managing Family Business Tensions: The Narrative of Family History. *Baltic Journal of Management*, 15 (5), 669-686. DOI 10.1108/BJM-01-2020-0008

- Social Sciences Citation Index (JIF 1.719, Q3 (166/226) in Management, 2019).
- Scopus (SJR 0.49, Q2 (112/394) in Business and International Management, CiteScore 2.7, Percentil 71%, 2019).