Family Firm Heterogeneity and Governance: 
A Configuration Approach

Family involvement in ownership and management of business varies significantly within family firms. Although the literature recognizes the diversity in family firms, it remains unclear what governance mechanisms are most appropriate to achieve prioritized performance goals of different types of family firms. By combining two established categorizations of family involvement in firm ownership and management, nine types of family firms are identified. Drawing on the configuration approach, we theorize the governance mechanisms likely to most efficiently address the incentive systems, authority relations, and norms of legitimization in each of these types of family firms.

Introduction

Creation of efficient governance is a central task in all organizations. This task involves building and sustaining a set of structures and processes that enable owners to prioritize, articulate and achieve their shared objectives amidst the realities of changing external and internal environment (Gedajlovic, Lubatkin & Schulze, 2004; Lansberg, 2009). The literature is clear that the governance needs of family firms are quite different from those of non-family enterprises due to a combination of multiplicity of pursued goals by these firms and the evolving role of family in business (e.g., Bettinelli, 2011; Davis, 2008). Through recent comprehensive reviews on family business governance (Gersick & Neliu, 2014; Goel, Jussila & Ikäheimonen, 2014), it becomes evident that significant efforts have been devoted to advance practice and theory on distinctions between family and non-family governance. Progress has been made by employing different theoretical perspectives such as: agency theory (e.g. Schulze et al. 2001; 2003), stewardship theory (e.g. Corbetta & Salvato, 2004b; Miller & Le Breton-Miller, 2006), resource based view (e.g. Sirmon & Hitt, 2003), and socio-emotional wealth (e.g. Gomez-Mejia et al., 2011). However, as observed in these reviews, the literature tends to downplay the heterogeneity within family firms and consequently to understand the most appropriate governance bodies in different
types of family enterprises. A more nuanced approach is needed. This article is an attempt to tackle this pending yet important task.

We build on previous research that suggests that varying levels of family involvement in management and in ownership of a firm impact the firm’s governance needs and performance goals (e.g., Melin & Nordqvist, 2007; Sharma & Nordqvist, 2013). An underlying assumption in our approach is that fit between a particular combination of family involvement in business and the adopted governance bodies have positive implications for the prioritized performance objectives on financial and/or non-financial dimensions (Sharma & Nordqvist, 2008). Research undertaken from the agency and stewardship perspectives has been helpful to understand the role of incentive systems in the effectiveness of chosen governance mechanisms. This article attempts to extend this discussion by incorporating the role of authority structures and the prevailing norms of accountability in governance of different types of family firms (Carney & Gedajlovic, 2003; Goel et al., 2014).

Corporate governance scholars have observed that firms have an array of governance mechanisms to choose from (e.g., Daily, Dalton & Cannella, 2003; Dalton, Daily, Ellstrand & Johnson, 1998). Configuration theorists remind us that coherence between organizational characteristics and adopted structures and systems enables performance advantages (e.g., Meyer, Tsui, and Hinings, 1993). Family business scholars have observed that a well-configured balance between priorities (e.g. controlling family’s ideology) and practices (such as pursued strategies or firm culture) distinguishes high from low performing family firms (e.g., Miller & Le-Breton Miller, 2005; Ward, 1987). Drawing inspiration from this research we identify nine broad types of family firms based on the extent and nature of family involvement in ownership and management of a firm. Then, relying on configurational approach we theorize the different governance needs of each category of firm. Looking at the array of governance structures and
mechanisms that have been developed in the field over the past thirty years or so (Gersick & Feliu, 2014), we try to decipher what internal governance systems are likely to most effectively enable the controlling owners to deal with issues of incentive alignment between owners and managers of a firm, while incorporating the prevailing norms and authority structures of the controlling family.

This article responds to the calls in the literature to focus on building an understanding of the causes and consequences of family firm heterogeneity (e.g., Chua, Chrisman, Steier, Rau, 2012; Gersick & Feliu, 2014; Goel et al., 2014). We theorize how family firm heterogeneity based on different levels of family involvement in ownership and management influences the most appropriate governance choices that can help to drive strategic development and performance. By adopting a configuration approach and relying on the notion of governance as embodying not just incentives, but also authority relations and norms of legitimacy, we contribute by adding nuances to the scholarly conversations on family firm governance.

The next section introduces our usage of the configuration approach. As our core interest lies in understanding what governance mechanisms are useful for different types of family firms, the subsequent section briefly discusses the governance mechanisms that have been employed in family firms. Thereafter, we elaborate on the relationship between the core of our configuration – the relationship between nine types of family firms based on family involvement in ownership and management and governance mechanisms most likely to be the best fit for each type. The practical and research implications are shared in the concluding section.

**Configuration Approach**

Meyer, Tsui and Hinings (1993: 1175) define configuration as “any multidimensional constellation of conceptually distinct characteristics that commonly occur together.” Each ‘ideal
type’ of constellation is a gestalt of multiple, interlinked and mutually reinforcing organizational and structural characteristics that fit with each other and enable the achievement of preferred performance objectives of a firm (e.g., Greenwood & Hinings, 1996; Miller & Friesen, 1984). In addition to the critical role of fit between parts, the configuration perspective is based on two core assumptions: (i) the idea of equifinality, that is, different gestalts can be equally effective, and (ii) while theoretically there can be an infinite number of combinations of structural and organizational factors, practically these characteristics have a tendency to fall into a few coherent patterns that change only intermittently. In the words of Meyer et al (1993: p.1176), ‘the upshot is that just a fraction of the theoretically conceivable configurations are viable and apt to be observed empirically’. Miller (1996) notes the distinction between and the complementary nature of two approaches to identify configurations - conceptually derived typologies and empirically based taxonomies. Taking a holistic stance, in addition to developing theoretical typologies, configuration theorists often design empirical studies to identify multiple ideal types of organization that maximize fit and effectiveness over time (e.g., Doty, Glick & Huber, 1993; Meyer et al., 1993).

Over the last few years, family business researchers have used both these approaches to distinguish between family firm types and understand the consequences of an internal fit between organizational and structural characteristics. Pioneering family business scholars like Dyer Jr. (1987) and Ward (1987) observed family firms were of different types based on their prevailing culture or ideology. More recently, Lubatkin, Durand, and Ling (2007) use the idea of fit to theorize the correspondence between various types of parental altruism and governance efficiencies. Parallel to this conceptual or theoretical work, flows the empirical stream of works using configuration approach. For example, Miller and Le Breton-Miller (2005) observe that in comparison to others firms those with coherence between their driving mission and adopted
strategies enjoy significant competitive advantages over generations of industry and leadership life cycles. Later, these scholars found that also in smaller family firms, the extent of alignment between desired objectives and resource allocation decisions distinguishes better performers from others (Miller & Le Breton-Miller, 2006a). Similarly, Chirico, Sirmon, Sciascia and Mazzola (2011) found that a configuration between entrepreneurial orientation, generational involvement, and participative strategy is a pathway to highest performance outcomes. Finally, focusing on three types of family firms proposed by Ward (1987) – family-first, business-first, and family-enterprise-first, Basco & Pérez Rodríguez’s (2011) study reveals that family firms can achieve successful business results by using a combination of family and business orientations in their decision making.

This article is another step in the theoretical research stream using the idea of internal fit in organizational and structural features of a family enterprise. The notion of configuration is used to theorize what governance mechanisms are likely to lead to high financial or non-financial performance in firms with varied levels of family involvement in ownership and in management. The next section outlines our perspective on governance of family firms and discusses the main mechanisms available to govern these firms.

**Family Firm Governance**

Family firms have a theoretically distinct form of governance largely due to the alignment of management, ownership, and control (e.g., Goel et al., 2014; Schulze et al. 2001). Family business governance researchers have largely focused on understanding the distinctions between family and non-family firms. For example, comparing family firms with two other governance types – managerial and alliance – Carney (2005) suggests that family firms are more conducive to three organizational propensities of personalism (few internal or external constraints),
particularism (idiosyncratic behaviour), and parsimony (prudence with money). In turn, these propensities influence the extent to which a family firm is competitive in its environment.

In terms of theoretical perspective adopted, agency theory has by far dominated thinking on governance of family firms (Goel et al., 2014). In comparing family and non-family firms, governance research has dealt primarily with governance as only a matter of incentives structures (Bammens et al., 2011; Chua et al., 2012). By underplaying the role of socio-political embeddedness of owners and managers, scholars have observed that this tendency “seriously under-specified what organizations and their actors are about” (Gedajlovic et al. 2004: 901). Accordingly, it has been suggested that governance deals not just with incentive structures that enable executives “to pursue options that they perceive as ‘first best’ in terms of their personal (subjective) utility” but also with norms of legitimacy and authority relations which apply to both individuals and groups of actors/stakeholders who participate in the organization1 (Gedajlovic et al. 2004: 902; Carney & Gedajlovic, 2003). Norms of legitimacy refer to the rules that guide the allocation of resources and accountability within an organization, while authority refers to the distribution of power among people and positions in an organisation.

Embracing the three elements of authority, legitimacy and incentives as the core of governance indicates that an organization’s value creating and destroying attributes can be seen as embedded in its structures and policies. Conceptually, clear authority relations within an organization supports efficiency by minimizing conflicts and making the internal rules of the game more explicit, both of which should support fast decision-making. Well-defined norms of legitimacy should also assist in making an organization efficient by lowering opportunity costs of resources and information. Finally, clear incentive systems help to minimize potential divergent

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1 We thank an anonymous reviewer for this comment.
interests and thus agency costs between principal and agent, or between principal and principal (Chrisman, Chua, & Litz, 2004; Chua, Steier, & Chrisman, 2006).

However, family firms are heterogeneous as they differ in terms of the extent and mode of family involvement in ownership and management (e.g., Melin & Nordqvist, 2007). For effective governance, organizations need to develop structures and processes that routinely help to understand the needs and concerns of different internal and external stakeholders (e.g., Sharma & Nordqvist, 2008; Gersick & Feliu, 2014). We posit that a critical task to achieve the prioritized financial and non-financial performance goals of a family firm is to develop a governance system appropriate for a firm based on the extent and nature of family and business overlap at a time. The nature of family involvement in firm’s ownership and management is likely to influence the incentives, authority structure and norms of legitimacy. As family involvement in ownership and management differs between family firms, and may change over time, the best-fit governance characteristics can be expected to vary across family firms at a point in time, and in a firm over time. Next, we briefly discuss the most frequently used governance bodies in family firms.

**Family Business Governance Bodies**

In their work on the relationship of governance mechanisms to performance, Coles, McWilliams, and Sen (2001:23) conclude that: “the most critical issue still to examine is the ability of firms to choose among a number of different governance bodies to create the appropriate structure for that firm, given the environment in which it operates”. While these authors focus on external environmental fit of governance mechanisms, we argue that the internal fit between extent of family involvement in business and the governance bodies likely to lead to the fulfillment of desired performance objectives is equally important.
The most frequently mentioned governance bodies in the literature are those associated with controlling family, owners, and managers (e.g., Hoy & Sharma, 2010). Efforts have been made to understand the role and characteristics of governance structures such as the family meeting, family council, shareholder’s assembly, board of directors, and top management teams. (for recent comprehensive reviews, see Gersick & Feliu, 2014 and Goel et al., 2014). Below, we briefly discuss these structures that are used in our configuration later in this article.

The *family meeting* is an informal get-together that may occur more or less frequently depending on the age, size and generations involved in the firm, and the related ownership structure (Neubauer & Lank, 1998). As such, it is the simplest and most common form of governance that helps busy families to stay connected and agile. The *family council* is a formal type of family meeting to discuss issues in relation to the governance of the family and its relationship to the firm. The council is usually established once the family and the firm reach a critical size.

*The shareholders’ assembly* is a body that deals with issues required by the law. Examples include, appointing or removing board members and CEO. Typically a shareholders’ meeting is held once a year although its formality and activities vary among family firms. The *board of directors* is a central governance body for the business and perhaps the most researched of all governance structures. The three most common roles attributed to the board are - strategic or service role, reviewing and evaluating ideas of top management; a monitoring role including performance evaluation of the CEO and watching over the interests of the shareholders and other key stakeholders; and a resource dependence role, helping top management to link to and/or acquire crucial resources and gain legitimacy (see Bammens et al., 2011; Zahra & Pearce II, 1989). In family firms, the close relation between the ownership and a family may create other roles for the board such as supporting the generational succession (e.g., Corbetta & Salvato,
Younger and smaller family firms have been found to voluntarily use a less formal version of this governance mechanism – *Advisory Board* – to reap the insight, resource and accountability advantages accorded by a formal board of advisors while avoiding the formalities and legalities such as the directors insurance and compensation (Gersick & Feliu, 2014; Ward, 1987). The *top management team* (TMT) is a body that meets regularly to discuss the developments and strategies to achieve the objectives of the firm. In family firms with a mix of family and non-family managers, this structure is especially significant as family members are more likely to meet in social gatherings. The presence of family members in the *TMT* (and/or in the position as CEO) reflects the family involvement in the daily life of a family firm. Anderson and Reeb (2003) remark that this allows the family to more directly align the firm’s interests with those of the owners, which in turn have impact on governance.

Although the reviews by Gersick & Feliu (2014) and Goel et al. (2014) show that one or more of these governance bodies have been found useful in family firms, it is not clear which governance bodies are more suitable to achieve performance goals in firms with varied levels of family involvement in business. Furthermore, it remains unclear how the governance mechanisms change as the nature of involvement of the controlling family and/or the business itself changes over time. In fact, the family firm governance research is built on two inherent limiting assumptions – (i) of uniformity, that is the best fit governance mechanisms for all family firms are the same; and (ii) of an enduring fit of governance mechanisms over the life cycles of a firm (Corbetta & Salvato, 2004a; Melin & Nordqvist, 2007). While prescriptions such as the positive impact of a ‘Board of directors with outsiders’ or ‘Family Councils’ prevail in the practitioner literature, and scholarly efforts are under way to empirically test their validity (e.g., Bettinelli, 2011), an understanding of inherent variance in family firms has prompted researchers to question whether the same governance bodies are useful in all family firms (Sharma &
The core thesis of this article is that the most appropriate governance bodies vary based on the extent and nature of family involvement in ownership and management of a firm. This is the focus of next section.

**Family Involvement in Business**

A distinguishing feature of family firms from other organizational forms is the overlap between the family and business systems leading to their hybrid-identity (Davis & Tagiuri, 1989; Sundaramurthy & Kreiner, 2008). A desire to understand the opportunities and challenges brought about by the hybrid-identity of family firms has lead researchers to develop models and frameworks to capture the varying degrees of family involvement in firm’s ownership and management. One such earlier effort lead to the three-circle model that has met with acceptance as it helps distinguish family from non-family firms, and to identify different internal stakeholders in family firms (Davis, 1982). While this model is static and overemphasizes the similarities between family firms while underplaying the differences (Habbershon, Williams, McMillan, 2003; Melin & Nordqvist, 2007), its continuing appeal is evident. Sharma and Nordqvist (2008) review the changes in the model over time. For instance, Gersick et al.’s (1997) ‘developmental model’ captures the evolution in ownership, management, and family as the business evolves over time (Schulze et al., 2003). Most recently, Le-Breton Miller and Miller (2013) employ it to theorize the fit between goals, priorities, board characteristics, and firm survival. Based on this research stream, the most common patterns of family involvement in the ownership and management of a firm are discussed below.

**Family involvement in ownership:** Ownership in family firms tends to get dispersed in an episodic and stepwise mode over time as each generation of family gets involved with the firm. Gersick et al (1997) described three basic forms of family ownership of business - controlling
owner, sibling partnership, and cousin consortium. Lansberg (1999) further argued that family firms may vary in terms of whether over time they choose to recycle through the same ownership form, move to the next form, or revert back to the previous form. Although ownership may also be dispersed among family and non-family members in private or publicly traded firms (Schulze et al., 2003), in this article we retain our focus on the three family ownership forms – controlling ownership, sibling partnership, and cousin consortium - suggested by Gersick et al (1997). The choice and consequences of each ownership form has distinct features that are impacted by and influence the incentive structures, norms of authority and legitimacy prevailing in a family firm. In turn, these features create a unique context in which certain governance mechanisms are likely to be more effective than others to achieve the prioritized goals of a firm (Sharma & Nordqvist, 2013).

In the controlling ownership form the coupling of ownership and control in the firm gives rise to a specific organizational propensities (Carney, 2005). The prevailing norms of authority favor ‘one sibling over the others’ as s/he is the controlling owner and is granted the legitimate right to guide the resource allocation and accountability decisions in an enterprise. This ownership stage is assumed in the traditional notion of family business’s agency theory based treatment (e.g., Jensen & Meckling, 1976), though in more successful firms the controlling owner takes on the role of a steward moving the enterprise from one generation to the next (e.g., Miller & Le-Breton Miller, 2005).

In the sibling partnership form, siblings share the ownership of the firm. Typically, in this stage, the second generation joins the business and the controlling ownership is held within the nuclear family of founder or his/her descendants. The number of family owners in the business depends on the size of the family, the guiding ideology of the firm (family firm, business first, or family enterprise first), and the operating norms of intra- and inter-generational authority and
legitimacy (cf. Sharma & Manikutty, 2005; Ward, 1987). Firms with a family-first orientation are more likely to follow the norms of equality in sibling partnerships, whereas those following business-first are likely to rely on market competence based factors to decide which sibling/s are granted authority and legitimacy to control the firm as owners (Ward, 1987).

In controlling families with egalitarian norms wherein all siblings are considered equal, ownership is more likely to be dispersed evenly among siblings leading to all sibling partners enjoying equal authority and legitimacy in resource allocation decisions (Sharma & Manikutty, 2005; Todd, 1985). On the other hand, in families wherein one or a few siblings are considered ‘more equal’ than others, these chosen ones may receive preferential shares and responsibilities. Regarding inter-generation ownership issues, if the prevailing norms accord higher authority to the senior generation based on its higher positioning in the family system, the shares may reside with this generation for much longer than in firms where adult family members of senior and junior generation are considered equals. Furthermore, the legitimate right of resource allocation decisions may stay with the senior generation despite the transfer of shares to the next generation (cf. Sharma & Manikutty, 2005).

The cousin consortium is a dispersed ownership structure typically found in later generations of family firm ownership (e.g., Magretta, 1998). Typically, in cousin consortium stage, there are a large number of owners. Familial norms of equality are likely to evolve into a cousin consortium, while forms of inequality are likely to cycle back to the controlling owner stage. Whether non-blood relatives such as in-laws or adopted family qualify for share ownership will likely depend on the prevailing family boundaries and inter-generational norms (Santiago, 2011). Under the most inclusive and open family systems, several different categories of owners may co-exist in this organizational form thereby significantly influencing the governance mechanisms necessary to ensure a fair voice to different types of owners (Gersick & Feliu, 2014).
Family involvement in management: The management dimension elaborated by Gersick et al (1997) uses three stages of a business: start-up, extension/formalization, and maturity. At each life cycle stage, varied levels of family involvement in management are possible. Our focus is on management roles that have a significant influence on the governance of a firm. Typically family involvement in management becomes less intense and non-family involvement in management more common as family businesses move from the start-up phase towards expansion and maturation (Salvato, Minichilli & Piccarreta, 2012). Davis (2008) observes that such distancing of family from management of the firm can occur when family’s identification with the business is low. Size matters as well. Small firms tend to have higher family involvement in management (Carney, 2005).

Firms fully owned and lead by a founding family member CEO are the most prevalent of all family firm types. However, with passage of time and growth of family and of business many family firms seek non-family members to lead the family business (e.g., Hall & Nordqvist, 2008). Thus, in family firms, two key dimensions influence the nature of incentive systems and thereby the best fit governance mechanisms for a firm. These are: (i) whether the CEO of the firm is a family or a non-family member; and (ii) what proportion of the top management team is family vs. non-family members (Ensley & Pearson, 2005; Minichilli et al. 2010).

Based on family involvement in business, Davis (2008) distinguished between family operator firms, family supervisor firms, and family investor firms. Family involvement and the impact of familial norms of authority and legitimacy are most evident in family operated firms wherein the family CEO dominates management and runs the day-to-day operations. In family supervisor firms, while family members retain oversight of the firm, their involvement in the top management team is more diluted than in the family operated firms with a large presence of non-family members. Family investor firms treat the enterprise as an investment (Habbershon &
Pistrui, 2002). Family members take on the role of asset managers, often focused on buying and selling companies rather than running any specific firm. The impact of familial norms of authority and legitimacy is likely to be minimal in these firms. In turn, the most appropriate governance mechanisms for such firms may differ from the previous two categories; and a non-family CEO is often appointed.

In short, we posit that the nature of family involvement in ownership and management of a firm is influenced by, and in turn reinforces, the prevailing norms of authority and legitimacy in an enterprise. Moreover, this involvement determines the potency of incentive alignment needed in a firm. Together these organizational and structural characteristics determine the governance mechanisms better suited to achieve the prioritized performance objectives.

**Configurations of Family Involvement: Implications for Governance**

The nature and extent of family involvement in business drastically changes the features of a family firm and its ability to make prompt strategic decisions to reach the desired performance goals (Sharma & Nordqvist, 2013). To this end, appropriate governance bodies must be established to overcome the potential disadvantages and support the advantages of each configuration. Integrating the considerations above with regard to family involvement in ownership and management, we derive a typology of configurations of family involvement in the business presented in Figure 1. This typology serves as a starting point to understand the appropriate governance mechanisms for each type of family firms and the role played by the prevailing norms of authority, legitimacy, and incentive systems in the governance choices.

- Insert Figure 1 about here –

**Cell 1 - Controlling owner-family operator:** In family businesses with unification of family ownership and management, there are strong incentives for efficiency in operations and
parsimony in the use of capital due to the lack of sharing of control (Carney & Gedajlovic, 2003) and the fact that the owner-manager makes strategic decisions with his/her personal wealth as reference point (Carney, 2005). On the other hand, there may be poor incentives to grow the firm if this would lead to loss of family control (Gómez-Mejia et al., 2007). Authority is centralized and personalized in one family member who enjoys significant discretion to decide the extent to which s/he wants to share authority with other family or non-family members. Regarding norms of legitimacy, owner-manager is free from the pressures of outside stakeholders and monitors who may demand accountability, transparency and disclosure of information (Carney, 2005).

The family business in Cell 1 do not use or need formalized governance mechanisms to avoid the burden on time and resources of the owner operator (Greiner, 1972). Market results are the control signals. The personification of the business means that the owner-manager has the authority, legitimacy and incentives to run the firm as s/he pleases. There is no immediate or formalized need of elaborated governance mechanisms such as family council, board of directors, or top management teams. However, there is an opportunity for the owner-manager to sow the governance seeds by using informal mechanisms such as an advisory board and family meetings to discuss business and family issues (Ward, 1987).

**Cell 2- Sibling partners-family operator/s:** In this configuration of family involvement, the business is owned by two or more siblings, and managed by one or more family operators. Compared to Cell 1, there are still rather strong incentives for parsimony in the use of resources as the owner group is small (Carney, 2005). Incentives to grow the firm are determined jointly by the priorities of the sibling owners. However, there is generally a reluctance to lose control (Ward, 1987). Authority is still centralized and personalized in a small group of siblings. The governance dimension that perhaps changes most notably between Cell 1 and Cell 2 is the norm of legitimacy. In Cell 2, there is typically a stronger demand of accountability from other owners
In this configuration of family involvement because of the presence of more than one sibling owner, there is a need for a forum for owners – shareholders’ assembly - to voice views and opinions about the firm. In addition, family meetings are likely to become a useful governance mechanism given the relatively simple family ownership and management structures. For family businesses in Cell 2, the extent of influence of a board of directors or advisory board depends on the controlling owners’ preferences. However, these governance bodies have been found valuable in dealing with conflicts that may arise among owners or operators (Corbetta & Salvato, 2004a).

Cell 3 – Cousin consortium – family operator/s: Here, the ownership group is broadened while management is still within the hands of one or a few family member operator/s. The broader ownership group means that more family members from different generations and family branches have a vested interest in the business as owners (Gersick & Feliu, 2014). It is more likely to have external non-family owners in this configuration than in the family businesses located in Cell 1 or 2. The incentive structure in this type of family business depends on the type of owners. If the owners are still closely associated with the family business and its operators and there is agreement on the firm’s strategic agenda, parsimony over resources can still be exercised. However, if the owners are not in agreement regarding the future vision and growth strategies the incentive structure changes notably. Authority is still personified in the family operator/s, although the bigger ownership group may limit his/her authority. In the cousin consortium, the norms of legitimacy are moving even further towards a greater demand for accountability, transparency and disclosure of information, particularly if there are non-family owners (Schulze et al., 2003).
The governance situation for family businesses located in cell 3 requires a more structured organisation of the ownership and family influence. The role of the board of directors becomes more important than in cells 1 or 2 but varies based on the nature of the diffusion of ownership. For example, in the case of non-family members present, the board would be more important as a forum for advice, monitoring and control than if there are only family owners (Bammens et al., 2011). A shareholders’ assembly emerges though like the board, its effectiveness and formality may vary significantly based on the ownership form and the extent of alignment between owners and operators. A family council replaces the more informal family meetings in order to facilitate more efficient governance.

Cell 4 - Controlling owner-family supervisor: In this type of family business, a family member is the controlling owner and supervisor (CEO) of the firm. However, salaried non-family managers play important roles in the day-to-day operations of a firm as part of the top management team. Agency costs creep up as ownership is distanced from the operations, thereby altering the incentive structures. Prioritization of resource allocation and business development varies, as the authority relations are more invested and diffused in a team of managers rather than in a particular individual (Gedajlovic et al., 2004). Thus, non-family managers need to “justify their decisions in terms of their impact on the welfare of others” to a greater extent than family member operators needed to do (Gedajlovic et al., 2004:902).

The need for internal governance bodies is contingent upon a few factors – (i) whether the controlling owner is also the family supervisor or not, (ii) the size of the top management team. Informal interactions and discussions may be enough to secure efficient governance when the family operator and controlling owner are the same individual, and when size of the top management team is small (Bammens et al., 2008; Hall & Nordqvist, 2008). Otherwise, a board of directors becomes necessary for advice, monitoring and control functions. And, a top
management team is needed as a result of the changed incentive structure and authority relations when the controlling owner is not present in the daily management. Family meetings are likely to be helpful to keep the family informed and engaged in the enterprise, though the degree of formality of these meetings may vary considerably depending on the number of potential family member owners or operators.

**Cell 5 – Sibling partners – family supervisor:** Here, the authority relations, incentive systems and norms of legitimacy are similar to those in Cell 4 as there is a dominance of non-family managers in the daily operations of the family business. However, the main difference is that the controlling owner is not the only supervisor to whom the non-family management must report. Instead, a greater number of family members are involved as owners. This makes it highly unlikely to provide voice to the owners, family supervisor, and family and non-family operators. Governance efficiencies are needed (Schulze et al., 2003). In addition to the shareholders’ assembly, a need for more formalized arena for discussions between owners and managers becomes necessary. Often, the board of directors with a mix of internal and external members serves as this governance arena (Bammens et al., 2011). Regular board meetings allow the non-family management to report to and seek input from the owners, leading to accountability towards the bigger ownership group. In the presence of a large number of managers and/or a mix of family and non-family managers, a top management team can play a significant role toward developing a shared incentive structure and coherent authority relations throughout the organization (Minichilli et al., 2010). Family meetings continue to provide a venue for engaging family members by understanding their desires and concerns; and keeping them informed of the developments in the firm. Disagreements can be voiced and discussed with an aim to build on the collective dream and vision for the family firm (Lansberg, 1999). As differences in opinions can
emerge leading to high valence of emotions, an external facilitator is likely to be an efficient addition to the family meetings.

**Cell 6 - Cousin consortium-family supervisor:** The greater involvement of family owners in the configuration in Cell 6 leads to a more complex situation in terms of incentive structures, authority relations and norms of legitimacy. For instance, whereas it may be relatively easy for a limited number of siblings to agree on an incentive model for a family CEO, such consensus may be harder to reach in the context of dispersed ownership (Gomez-Mejia et al., 2011). From the perspective of the management, the norms of legitimacy are also likely to be more complex. Unless there are is a clear alignment and communication of the vision of the firm and expectations from the more diverse ownership group, the family business may move in directions not desired by some of the owners (Hall & Nordqvist, 2008).

The increased need for disclosure of information and openness from the non-family management means that the board of directors with a mix of family and non-family members, and the shareholders assembly become important bodies for efficient governance in this type of family business (Schulze et al., 2003). The top management team anchored by the family CEO can help executives to arrive at a shared view in lieu of the direction expressed by the owners. A family council can facilitate the discussion within the family towards shared priorities and goals (Gersick & Feliu, 2014).

**Cell 7–Controlling owner – family investor:** In family businesses located in this cell, the separation of ownership and control is clear, as both the CEO and top management team are formed of non-family managers. While family views the enterprise as an investment, the interests of the owners and managers are likely to diverge (Habbershon & Pistrui, 2002). Governance in this type of family firms resembles a managerial governance model (Gedajlovic & Carney, 2003). Authority in the daily operations rests with the non-family managers. The incentive system is
based on financial features such as bonuses and stock options that are aimed to align the interest of the controlling principal owner and non-family agents (Gedajlovic et al., 2004). Because there is a clear controlling family owner with an investors’ mind-set, s/he carries the legitimate authority to make decisions related to reporting systems and resource allocation. The non-family executives are mainly accountable to this controlling owner.

In terms of internal governance bodies, we expect an active board of directors to be appropriate in this type of family business as this is the forum for the controlling owner to exercise his/her influence either in person or through representatives (Davis, 2008). The controlling owner may use the board to set the strategic direction of this type of family firm and guide the non-family managers making the top management team (Carney & Gedajlovic, 2003). The family meetings are an important means to coalesce a family and its vision for the business. In cases ownership is shared between the controlling owner and other minority family owners, family meetings, facilitated by an external member, can prove useful to voice and understand the investing priorities of shareholders (Neubauer & Lank, 1998).

**Cell 8 – Sibling partners – family investor:** In this cell, the authority relations and incentive systems are similar to those in Cell 7 as there is a separation of ownership and control. Non-family members dominate top management. The owning family views the firm as an investment and remain distant from the daily operations (Schulze et al., 2003). However, a critical difference is the existence of two or more siblings as equally dominant owners, thereby altering the norms of legitimacy as compared to firms in Cell 7 with a controlling owner. Despite the limited number of owners, performance expectations and preferences for strategic direction of the firm may vary amongst sibling owners. In turn, this diversity of opinions and desires is likely to impact the best way to guide, monitor and evaluate the performance of the non-family CEO, top management team, and the firm (Stewart & Hitt, 2012).
Further, the risk of both principal-agent and principal-principal conflicts exists in this type of family business (e.g. Chrisman et al, 2004), making board of directors with a mix of family and non-family members to be a useful governance mechanism. A top management team and a the shareholders’ assembly are a necessity More formality is brought into family meetings that often take the form of a family council with a formally appointed chair, minutes, and regular meetings. Sibling owners often rotate the key positions among themselves and engage the next generation members to introduce them to the operations of their investment.

Cell 9 – Cousin consortium – family investor: In this type of family business, there is an increased diversity among family owners who come from different generations and family branches. The risk for principal-principal conflicts in this type of family firm is even greater than for firms in Cell 8 as all owners take an investor approach to the firm. However the desire to influence the operations of the firm may vary between owners (Davis, 2008; Magretta, 1998). Governance of the firm might be further complicated with the involvement of non-family owners, which is often the case in these later generation firms. Although dispersed, the ownership control lies within the family, while the non-family executives run the operations. Thus, the authority structure and incentive systems remain similar to firms in cells 7 and 8. However, the norms of legitimacy change as we move from ownership between siblings to cousins. Coming to an agreement on the legitimate frame and vision to guide the direction of the firm and within which the non-family executives must operate is a challenge in this type of family firm (Schulze et al., 2003). Thus, similar to firms in Cell 6, if the expectations and the performance evaluation criteria may not clear to the top management due to conflicts within the ownership group, the operations of a firm suffer.

The increased risk of ‘principal-agent’ and ‘principal-principal’ conflicts calls for a clear incentive systems for top managers (e.g., Chrisman et al., 2004). The need to disclose
information to a wider and more diverse set of owners means that we can expect the board of
directors with a diversity and balance of family and non-family members, from within and
outside the firm, to be an important governance body (Schulze et al., 2003). Moreover, the
owners’ investor approach entails that the shareholder’s assembly becomes an important event to
voice and listen to different perspectives and make key decisions such as the composition and
membership of the board of directors. The need to maintain coherence amongst non-involved
owners becomes necessary. A family council gets more formal at this stage with the development
of a family constitution that governs the degree and nature of family involvement in the business.
This is because the family ownership group is large and diverse and family members view the
firm as a financial investment, rather than as a means for employment or career path (Gersick &
Feliu, 2014). Similar to firms in Cell 7 and 8, a top management team can help the executives to
arrive at a shared view based on the guidance from board of directors.

**Discussion**

Despite a surge in research on governance in family businesses, there is still a need for
studies that go beyond comparisons between family and non-family businesses and focus on the
heterogeneous nature of family firms (Chua et al., 2012; Melin & Nordqvist, 2007). We set out to
distinguish between various types of family firms based on the extent of family involvement in
business and theorize on the relative efficiency of internal governance bodies in different family
firms. Following a configuration approach (e.g. Miller, 1981; Miller & Friesen, 1984;
Greenwood & Hinings, 1996), and the notion of governance as dealing with authority relations,
incentive systems, and norms of legitimation (Carney, 2005; Gedajlovic et al., 2004), we argue
that the configuration of family involvement in ownership and management determines the
governance bodies appropriate for reaching the desired performance goals.
Viewing family firms through the configuration approach allowed us to gain a more holistic understanding of how a family firm is organized and performs from the interaction of its constituent elements taken as a whole, rather than as separate elements (Basco & Pérez Rodríguez, 2011). Accordingly, the family firm can be seen as a complex system where the constituent elements hold together in mutual dependence. It is the self-reinforcing effect of mutual dependence factors in management and ownership coupled with different appropriate governance bodies, aimed at supporting the positive or overcoming the negative effects of family involvement in business, that contribute to the family-firm performance.

Regarding the family firm performance we have assumed that the outcome is related to the prioritized performance goals of each family firm. Most family firms emphasize non-financial goals in addition to financial goals like profitability and growth (Gomez-Mejia et al., 2007, p. 106). Although the pursuit of a mix of non-financial and financial performance goals may be (and often is) an advantage by promoting behaviours that enable the firm to emphasize and invest for the long run (Miller & LeBreton-Miller, 2005) it can also lead to path dependent and risk adverse behaviours that stifle performance outcomes (Chirico et al., 2011). Thus, the challenge is to find the right governance mechanisms that help a firm to maximize the potential advantages and overcome the disadvantages resulting from different degrees of family involvement in business.

Our aim was not to identify one ‘ideal configuration’ that maximizes performance or suggest that family firms with a closer adherence to a specific configuration will exhibit the strongest outcomes. Rather following the notion of equifinality from configuration theories (e.g. Fiss, 2007), our proposition is that the presence of varying configurations of family involvement in ownership and management varies the incentive system, norms of legitimacy and authority structures across family firms. For each configuration some governance mechanisms are more suitable than others. In other words, we do not argue that one configuration is, or may be, better
than another one. Rather, different configurations can lead to high level of performance outcomes if the appropriate governance bodies are adopted by an organization. Furthermore as the configuration of family involvement in firm’s management and ownership changes, a different combination of governance bodies are likely to be useful to achieve desired performance objectives.

The fundamental reason for setting up governance bodies is to enable voicing the perspectives of stakeholders with varying degrees of current and expected future involvement in the ownership and management of a firm (Goel et al., 2014). Either too much or little support from governance bodies is likely to hinder the achievement of organizational objectives (Sharma & Nordqvist, 2008). In general, the higher the variance of involvement in ownership and managerial roles, the greater will be the need of different governance bodies so as to ensure the legitimate perspectives of stakeholders are taken into consideration while creating incentives that support the making of strategic decisions that reach the desired performance goals.

We propose that when a family firm has a diversity of family and non-family members involved in its ownership and management, governance bodies such as board of directors and top management team can prove to be adequate supporting mechanisms leading to the determination of prioritized objectives and their achievement. These governance bodies ensure coherence between the incentive structures, authority relations and norms of legitimacy and the prioritized performance outcomes. In the absence of such bodies these stakeholders are likely to use their pathways of influence to express themselves and follow their preferred goals (cf. Frooman, 1999). On the other hand, when a firm has a simple ownership and management structure, with a centralized authority system, simple incentive structure and the norms of legitimacy are directed toward a single family owner-manager, too much formality and many governance bodies are
likely to consume unnecessary resources leading to inefficiencies and perhaps frustrating those responsible for achieving the desired performance goals.

Sometimes in a firm with high degree of family involvement in ownership and management, some external influence is necessary to counter the potential liability of familiness and path dependency that comes with too much family involvement (Sciascia, Mazzola & Chirico, 2013). Accordingly, the composition of the board or the choice of CEO may reflect the need to benefit from additional experience and points of view provided by board members and/or top management team outside the family (Bammens et al., 2011). When a family’s resources and capabilities are not enough to provide efficient governance, securing the influence of non-family advisors in the governance can also provide a balance of continuity and fresh insights, even in a family business where a family member is both controlling owner and family operator as in Cell 1 in Figure 1.

However, it should be noted that while authority may remain with a family member, the development towards more external, non-family influence in the governance of family firms is likely to lead to a change of the incentive structures and norms of legitimacy (Gedajolovic et al., 2004). This is because the motivators for family versus non-family members may differ. In the context of a combination of family and non-family owners and managers, the need for information disclosure and accountability is heightened, necessitating more complex governance structures.

The approach we have taken in this article rests on the assumption that a fit between configurations of family involvement in the business and adopted governance body will drive positive performance of the firm. As mentioned, high performance refers to achievement of goals both along financial business dimensions such as growth, profitability, etc., and non-financial and family dimensions such as family employment, reputation, family harmony etc. (McKenny,
Short, Zachary, Payne, 2013). The simultaneous pursuit of financial and non-financial performance goals in family firms have implications for the incentive structures, authority systems and norms of legitimacy that constitutes governance (Carney, 2005). For instance, incentive structures cannot be built to only motivate managers striving for financial success. Moreover, the norms of legitimacy means that accountability should be secured with reference to the family’s preferred non-financial goals as well. We did not focus on the specific mix of financial and non-financial goals as a part of the relationship between the configuration of family involvement in business and the appropriate governance bodies. Instead, we assumed that the outcome is a desired mix of different performance goals in each family firm. Future research that more explicitly include the goals in the configurations should be encouraged (c.f. Kotlar & DeMassis, 2013).

Our theory has other limitations such as lack of empirical verification. Both our conceptual derivation of the nine types of family businesses depicted in Figure 1 and the proposed appropriate governance bodies for efficient functioning of family enterprises needs to be tested with data. A combination of qualitative and quantitative approaches is likely to generate a rich understanding of the linkages between family involvement and governance bodies. Since our key idea based on configuration theory is that the nature of family involvement in ownership and management determines the appropriate governance bodies for achieving the espoused goals and performance objectives in a particular family firm, we encourage researchers to first focus on the determinants of family involvement. In particular, research could look at how family relations and values may guide the involvement of family members in both ownership and management (c.f. Sharma & Manikutty, 2005). Detailed and in-depth case studies represent an appropriate research methodology to capture these complex processes. Such a research strategy is also appropriate to address the more specific research question regarding the extent to which the fit
between values, family involvement and governance bodies is a deliberate versus an emergent process over time.

Future studies may also explore the financing sources useful for high performance of different types of family enterprises\(^2\). For example, might some types of family firms be more inclined to use external financial resources than others? Does this preference influence financial performance, growth, or sustainability of these enterprises? Such studies can preferably use survey data drawn from large and representative samples of family firms. Basco & Pérez Rodríguez (2011) study on horizontal fit between family and business decisions and the relationship with family business performance is a recent good example of a study that addresses family firm heterogeneity by using a large-scale survey data. Their study is conducted in Spain. It would be interesting to see comparative studies using data from different countries to examine to what extent family involvement in business, governance and performance outcomes varies across cultures.

Detailed empirical studies of the forces and pressures that act upon family firms to move towards fit or, indeed, out of fit, between their configuration of family involvement and governance bodies would also enhance our understanding of the performance of different types of family firms. Because even if family firms achieve a good fit between family involvement in business, and adopted governance bodies, with passage of time, modifications may be needed as the fit between components becomes lose due to external or internal factors.

Another limitation is the nature of literature on family involvement in business and on governance bodies upon which we rely. Although some of this literature is well accepted in academia, others is normative in character and is mainly written for educators and practitioners.

\(^2\) We thank our reviewers for pointing us to these possibilities for future research.
While we are aware of this limitation of some of our references, we see immense value in using practitioner-oriented literature as a route towards a greater interaction between research and practice in professional disciplines such as Management (c.f. Bartunek, 2007). We are also confident in our use of books and articles considered classics in the field and highly cited by family business, entrepreneurship and management scholars; and valued by practitioners as well (e.g., Gersick et al., 1997; Lansberg, 2009; Ward, 1987).

A third limitation of note is that in some family firms, informal relations and interaction between family and non-family members substitute more formal governance mechanisms (Mustakallio et al., 2002). Usage of these informal relation-based governance practices is likely to create flexible governance arrangements rendering the formal governance structures less crucial than the informal processes (Calabró & Mussolino, 2011). While we have treated informal interaction between family members as a key feature of family meetings as a governance body, informal interactions also occur between actors involved in other governance bodies such as boards, shareholders assemblies or top management teams. Herein lie an important opportunity for future theorizing to focus more specifically on the actual relations between family and non-family members and how these relations influence the incentive systems, authority relations, and norms of legitimization in family enterprises.

Additionally, the presentation of nine different types of family businesses, and their respective governance bodies, seems to imply that they represent mutually exclusive configurations. It is possible, however, that there are more configurations and that there are hybrid arrangements representing complementary configurations whose combination may increase family-firm outcomes.

**Implications for Theory and Practice**
We have argued that varying configurations of family involvement in ownership and management that can be observed among family firms imply that the incentive system, norms of legitimacy and authority structures differ between family firms. Our conceptual logic suggests that the nature of family involvement in business determines which governance bodies are most suited to achieve the desired goals and performance objectives of a particular family firm. Building on the work of Carney (2005) and Gedajlovic et al. (2004), our article provides an extended understanding of family business governance that takes into account different types of family business, and not only the owner-managed family business where ownership and management are coupled. Thus, we extend knowledge on the governance consequences of the heterogeneity of family business (e.g. Chua et al., 2012; Melin & Nordqvist, 2007; Sharma, 2004; Westhead & Howorth, 2007).

Using a configuration approach and combining two established typologies of family involvement in ownership and management respectively, we derive a new way of classifying family businesses. The nine types of family businesses exhibited in Figure 1 acknowledge the inherent diversity of family firms enabling researchers to approach different topics in new ways. Although we have focused on governance, we believe the developed typology can be used to examine other important phenomena of interest to family business scholars such as succession, new venture creation, strategy making and financial planning.

The ideas presented in this article have implications for practicing family firm owners and managers by highlighting the heterogeneity of family firms and the importance of fit between the nature of family involvement in business and governance bodies needed. It is hoped that this understanding will enable practitioners to distinguish between their family firms and others so that it becomes easier to understand whether findings of a research study or advice from a consultant or management book apply to their context or not. In particular, our theorizing
provides guidance on the governance bodies that are more likely to contribute to their preferred performance goals, given the particular configuration of family involvement in business.

The ideas developed here can be a helpful tool for teaching at different levels. Understanding the characteristics of governance in different types of family firms should be a part of a course curriculum as natural as learning about the differences between family and non-family firms. Such an understanding is likely to support students’ learning and prepare them to become effective managers, owners and/or consultants to family firms. In sum, the ideas presented in this article have implications for scholars, practitioners and educators that hopefully enable the development of a richer understanding of the broad spectrum of organizations referred to as family firm.
REFERENCES


Figure 1: Configurations of Family Involvement in Ownership and Management

<table>
<thead>
<tr>
<th>Family Involvement in Ownership</th>
<th>Controlling owner</th>
<th>Sibling partnership</th>
<th>Cousin Consortium</th>
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</thead>
<tbody>
<tr>
<td><strong>Family operator/s</strong></td>
<td>1 Controlling owner – Family operator</td>
<td>2 Sibling partners – Family operator/s</td>
<td>3 Cousin consortium – Family operator/s</td>
</tr>
<tr>
<td></td>
<td>Advisory Board; Family Meetings</td>
<td>Board of Directors /Advisory board; Shareholders’ Assembly; Family Meetings</td>
<td>Board of Directors; Shareholders’ Assembly; Family Council</td>
</tr>
<tr>
<td><strong>Family supervisor</strong></td>
<td>4 Controlling owner – Family supervisor</td>
<td>5 Sibling partners – Family supervisor</td>
<td>6 Cousin consortium – Family supervisor</td>
</tr>
<tr>
<td></td>
<td>Board of Directors; Top Management Team; Family Meetings</td>
<td>Board of Directors (w. external members); Top Management Team; Shareholders’ Assembly; Family Meetings (w. a facilitator)</td>
<td>Board of Directors (w. external members); Top Management Team; Shareholders Assembly; Family Council</td>
</tr>
<tr>
<td><strong>Family investor</strong></td>
<td>7 Controlling owner – Family investor</td>
<td>8 Sibling partners – Family investor</td>
<td>9 Cousin consortium – Family investor</td>
</tr>
<tr>
<td></td>
<td>Board of Directors; Top Management Team; Family Meetings (w. a facilitator)</td>
<td>Board of Directors (w. external members); Top Management Team; Shareholders’ Assembly; Family Council</td>
<td>Board of Directors (w. external members); Top Management Team; Shareholders’ Assembly; Family Council / Family Constitution</td>
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